

CHARACTERISTICS AND TRENDS IN THE DEVELOPMENT OF LOCAL FOOTWEAR INDUSTRY

Angela Ghelbet

Technical University of Moldova

Light industry is a part of the processing industry of the Republic of Moldova. This branch includes following types of activities: textiles manufacture (preparation and spinning of fibers, fabrics, finishing fabrics and other textile items, including carpets, fitted carpets, ropes etc.), manufacture of clothing (clothing, leather clothing, underwear, fur clothing, knitted and crocheted wear, stockings and haberdashery), leather tanning and dressing, fur preparation and dyeing, leather goods and travel articles manufacture, harness and footwear. Starting from a short foray into the history of the footwear industry, we should shape the developing appearance of the footwear industry.

According to CEED I Report, Moldavian footwear industry has experienced three different development stages:

- 1st stage - development in the USSR period (1945 - 1991),
- 2nd stage - between 1992 and 2008, characterized by cooperation of CMT (cute, make & trim) and
- the present period (since 2009) when local manufacturers are forced to refocus their development policy, and searching strategies in order to diversify products, to balance export and local production, to increase local sales and to find niches for the export [1].

We remind about some distinct forms of activity of the entire branch, including the footwear sector, which depends on the business model:

- production under local trademark or brand for local market;
- Lohn production (inward processing regime);
- mixed activity (combination of previously forms).

According to the theory, the transition from Lohn activity to local trademark, involves a reorganization of production lines and distribution systems, together with the development of managerial capabilities and new investments. This migration is a signal of industrial modernization, which assures a higher benefit, a higher stability of the demand and wages, a higher enterprise's position in the local production chain.

An analysis of retrospective of the industry will form an overall picture of the situation of light industry at the national level.

The local footwear sector knows an ascent and modest development. The sector represents over 50 economic entities, of which two are large enterprises and offer almost 3000 jobs, with a share in GDP below 1 percent. Table 1 reveals the footwear industry's share in the main macroeconomic indicators:

Table 1. Footwear industry's share in the national economy of RM.

Criteria	2011	2012	2013	2014	1015*
Light industry's share in GDP, %	3,07	3,01	3,12	3,39	3,37
Footwear industry's share in the light industry, %	10,24	9,46	8,87	7,22	7,4
Footwear industry's share in GDP, %	0,31	0,28	0,27	0,24	0,24
Footwear industry's share in industrial production volume, %	0,8	0,7	0,7	0,6	0,66
The share of employees of the footwear industry in the economically active population, %	0,24	0,24	0,22	0,22	0,19
Share of footwear enterprises 'number in the enterprises 'number of light industry, %	11,74	12,63	13,96	14,02	-
Share of footwear enterprises 'number in the total number of industrial enterprises, %	0,86	0,96	1,12	1,11	1,02

* - at the time of the evaluation the data for 2015 are qualified as semifinal

Source: systematized and calculated by the author based on NBS of Moldova

- According to table 1 data, the share of the footwear industry in the light industry indicates an average of 8.2% and a rate of proportional change of 0.9219 points.
- The share of footwear industry in GDP is modest, registering an average of 0.268% for the analyzed period, and the proportional rate of decrease is within 0.9379. In 2012, when was reintroduced the income tax, this indicator decreased by 0.78% and the trend of decreasing continues.
- The share of footwear industry indicates the trend of proportional change of 0.953 points.
- The share of footwear industry's employees in the economically active population represents an average of 0.22 percentages, which has the trend of proportional change (decrease) of 0.9432 points.
- Each of the above positions has a tendency of decreasing, which indicates symptoms incompatible with the main objective of the research – the development of the industry. Though, the share of enterprises' number has a slight trend of growth.
- The overall condition and the prevailing atmosphere is evaluated based on key indicators.
- Main macroeconomic indicators of footwear industry are systematized in table 2.

Table 2. Main indicators of footwear industry in RM.

Criteria	2011	2012	2013	2014	2015*
Number of enterprises, units	58	57	64	54	51
Income from sales, mln MDL	281,05	276,08	292,55	317,66	325,33
The value of output production, current prices, million	259,5	252,2	279,3	275,3	293,4
Number of employees, thousand persons	2,89	2,73	2,53	2,58	2,4
Industrial production volume, thousand pairs	2849	3053	2942	2866	1967
Labor productivity:					
a) pairs	986	1118	1163	1111	818
b) thousand MDL	89,79	92,28	110,13	106,33	121,99

* - at the time of the evaluation the data for 2015 are qualified as semifinal

Source: systematized and calculated by the author based on NBS of Moldova

- According to the information contained in table 2 we observe a decrease in the number of enterprises by 7 in 2015 towards 2011;
- Income from sales of footwear industry's entities indicates a positive trend, recording a growth rate of 1.0372, and the proportional growth of the manufactured production indicates an average of 1.0311;
- Number of employees indicates a decrease of 16.9% of hired staff in 2015 towards 2011. In 2014 there is an increase of 1.97% towards 2013. We highlight that the branch is labor intensive because of the specificity of the production process.
- The volume of industrial production recorded an increase of 7.16% in 2012 towards 2011, and a following decrease in the volume of industrial production, the largest gap is in 2015, with a decrease in the volume of 31.37% in 2015 towards 2014. This phenomenon is explained through the reduction of activities of foreign processing in Moldova. Proportional rate of change for 2011-2015 has the value of 0.9115. The phenomenon is shown in table 3.

Table 3. The structure of footwear delivery.

Referral period	Delivered				
	Total	Local market		Foreign market	
	Physical units	Physical units	Thousand lei	Physical units	Thousand lei
2011	2849063	1615202	109422	1209761	179443
2012	3055127	1903849	125895	1196665	133601
2013	2941194	1670243	130460	1192291	138342
2014	2866378	2111646	135065	772702	148077
2015	1967680	1510113	114125	457567	154819

Source: systematized by author based on Customs Service (operators' customs export and import declarations) and on the external trade statistics of the Directorates and services and infrastructure statistics of the NBS of Moldova [3, 4, 5].

The volume of industrial production registered in the sector is due to cooperation between local enterprises and foreign services providers. The further data confirms the estimated in CEED I production capacity [1], where is mentioned that the total capacity of production of the footwear industry indicates over 3 million pairs of shoes annually and the utilization of the market is 50-60%. Table 3 presents physical and value equivalent of volumes of products delivered to the domestic and foreign market (lohn services and export).

- From presented data, we may observe that the value of exported products dominates the value delivered in the local market, though the volume in physical units in the domestic market prevail the volume for the foreign market. This phenomenon is explained by the fact stated above and through the interest and desire of the local business environment to maintain relations with foreign partners, by accepting collaborative conditions vital to domestic entities, but less advantageous due to transfers in foreign currency;
- Supplies on the domestic market in 2015 is only 71.51% of the volume delivered in 2014. And supplies for the foreign market, especially lohn services registered 40.78% of the volume of production expressed in physical units;
- Generalized results reflecting production component, does not indicate the negative trend recorded in connection with the reintroduction of income tax on profit from 2012, on the contrary, this period has seen the largest representative volume of production, of 64.4% higher than in 2015. As regards the supplies on the domestic market, their highest physical volume is recorded in 2014, and supplies for the foreign market recorded its highest volume in 2011.

As regards exports, we recall that light industry kept its positive trade balance, due to the production of services, having the exportation of footwear geared towards European Union countries, dominated by Germany and Italy.

Geography of imports worldwide presents China as the leader, followed by the countries of the European Union with Italy as leader, Turkey, Ukraine, Romania and other States.

We can follow the panorama of the import and export of footwear in table 4.

Table 4. The dynamics of exports and imports of footwear industry in Moldova, \$ mln.

Criteria	2011	2012	2013	2014	2015
Export by section XII, chapter 64 (acc. NM RM)					
footwear	49,45	39,72	35,7	33,5	24,0
Import by section XII, chapter 64 (acc. NM RM)					
footwear	33,31	31,09	31,2	27,2	18,8
The coverage of imports with export, %	148,45	127,75	114,3	123,16	127,65

Source: systematized by the author based on Statistical yearbooks of Moldova and the quarterly Bulletin I-IV. (http://www.statistica.md/public/files/publicatii_electronice/Buletin_trimestrial/Buletin_IV_2015.pdf)

Based on data presented in the table we conclude that export is provided, in principle, by the services exported through the existing cooperation along with modest export of domain entities, thus maintaining a positive trade balance for footwear products. The lowest degree of the coverage of imports with export is in 2013, and the biggest in 2011. Proportional rate of change indicates the average of 0.8346 for the export and 0.8667 for the import. Import coverage with export is modest and is 127%. The modest import is due to low interest from the foreign retail chain, to low capacity of local market and low consumers' ability to purchase.

This trend is explained by several factors, such as economic globalization, membership of Moldova in WTO (World Trade Organisation), transition of the industry to manufacturing from clients' raw

materials, accessories and auxiliary materials and to the exports of services, and average competitiveness of products on the domestic market made from individually purchased materials, and changes in population's welfare. In this context, enterprises have the task to enhance the competitiveness of their products in order to substitute imported goods by increasing the share of manufactured products with complete cycle of production and by development of infrastructure of the footwear industry [2, p. 306].

Regarding the competitive advantage of domestic products, it is due to the low salary level alongside with inexperienced and non-transparent maneuvers.

Figure 1 shows through an histogram wages recorded in the footwear industry in comparison with average wages for the period 2011-2015.

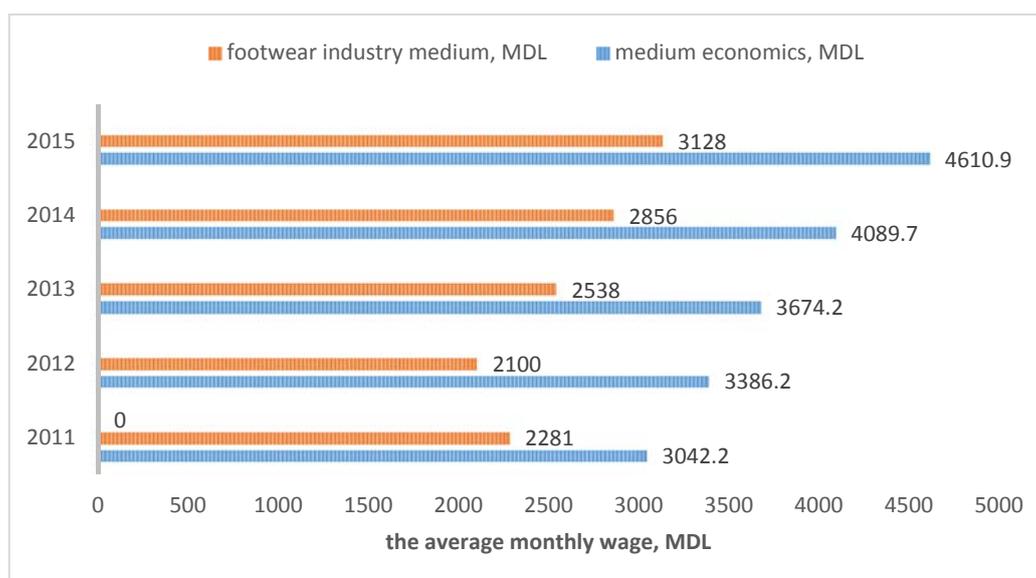


Figure 1. The level of wages in the footwear industry compared with average wages in the economy for 2011-2015

Source: elaborated by the author based on NBS of Moldova

From the chart we follow the existence of a gap between the salaries paid in the footwear industry in comparison with average wage gained per one employee from the national economy. The proportional rhythm of increasing of the average salary in the footwear industry is 1.0821 compared to 1.1095 recorded at the level of national economy, indicating a difference of 2.74 percent. The year 2012 at the level of the branch experienced a depreciation of 7.93% towards 2011. The general trend is a positive one that reflects an increase in the

average wage in the industry, but it remains lower than that of the national economy. The difference for the year 2015 achieve 32.16%, 2014 - 30.16%, the divergence reveals an upward trend, which is a negative aspect for sector's attractiveness and for the whole image. The salary indicator is considered important quantitative criteria compared to other indicators.

In order to form an overall picture, as objective as possible, of the economic activity of the footwear industry we propose tables 5 and 6.

Table 5. Results of financial and economic activity of the local footwear industry (local market production and mixed activity).

Indicators	2011	2012	2013	2014	2015
Number of enterprises	46	47	55	43	41
Turnover, thousand lei	192101	182766	194531	194548	178034
Number of employees, persons	1714	1687	1584	1437	1266
Labor productivity, thousand lei/person	112	108	123	135	141
Cost of sales, thousand lei	135077	133193	139309	139067	105684
Gross profit, thousand lei	57024	49573	55222	55481	72350
Sales profitability, %	29,68	27,12	28,39	28,52	40,64
Annual costs, thousand lei	45482	56249	55227	59329	61795
Expenditures of the period, thousand lei	28,69	30,08	29,50	31,11	36,29
Profit tax, thousand lei	-447	1603	1220	679	1496
Financial result, thousand lei	33566	-4201	7301	3846	7775
Net profitability, %	17,47	-2,30	3,75	1,98	4,37

Source: totalized by author based on data provided by NBS statistical Infrastructure Department

Table 6. Results of financial and economic activity of the local footwear industry (processing).

Indicators	2011	2012	2013	2014	2015
Number of enterprises	12	10	9	10	10
Turnover, thousand lei	88945	93313	98020	121681	147293
Number of employees, persons	1176	1046	952	1152	1139
Number of enterprises	76	89	103	106	129
Turnover, thousand lei	64156	75758	77139	95115	115527
Number of employees, persons	24789	17555	20881	26566	31766
Sales profitability, %	27,87	18,81	21,30	21,83	21,57
Annual costs, thousand lei	18942	12000	16396	15904	16568
Expenditures of the period, thousand lei	23,86	14,13	17,71	13,99	12,22
Profit tax, thousand lei	0	1584	1522	1385	2437
Financial result, thousand lei	9569	8375	5453	8021	11682
Net profitability, %	10,76	8,98	5,56	6,59	7,93

Source: totalized by author based on data provided by NBS statistical Infrastructure Department

Tables 5 and 6 contain indicators of feasibility, cost-effectiveness and efficiency, which describes the financial and economic activity of entities separate for the domain of external processing activities and mixed activity, which formulate conclusions:

- The general activity of the branch is considered cost-effective;

- The branch maintained an average of 2500 occupied persons whose workplaces must be kept further, aiming to increase wages and labor productivity, in order to reduce the existing gap towards the average of the economy and ensure employees a decent standard of living;

- The comparative effect of lohn activity towards to the effect obtained from the entities focused on the local market focused and those who practice both business models is just with 10.74% smaller during the analyzed period.

- As regards to the contribution to budget through the income tax, the entities that produce for the local market or have mixed activities lost 52.23% towards the external processing system;

- The necessity for an efficient cost management (general and operational ones) is obvious, this fact will allow the raise and maintenance of the level of competitiveness of footwear manufactured by local producers;

- The apparent development, fueled by increasing turnover is due to increase in prices of footwear because of the rate of inflation registered during the period. This fact is confirmed by the decrease in the volume of physical production sometimes alerting, which recorded a fall of 55.21%

2015 towards 2013. At the same time, this effect is conducted by low demand from consumer, which directly depend on the purchasing power.

Identification of internal reserves and boosting the potential of development is the task for each company's management, since aggregate economic growth aimed at sustainable development.

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