

**WIIW INDUSTRY STUDIES**

**2001/1**

**Development and  
Prospects of the  
Leather and Leather  
Products Sector  
in the Central and  
Eastern European  
Countries**

## **WIIW INDUSTRY STUDIES**

*In this series, The Vienna Institute for International Economic Studies (WIIW) publishes results which stem from its research on structural developments in CEEC economies. In 1996/97 the WIIW started to build up its Industrial Database Eastern Europe which comprises time series for the Czech Republic, Hungary, Poland, Slovakia, Slovenia, Bulgaria and Romania.*

*Research results are published in the form of*

- **Structural Reports** (biannually) as well as
- **Industry Studies** (4-6 studies a year)

*The Industry Studies cover 14 individual branches:*

- *Food products; beverages and tobacco*
- *Textiles and textile products*
- *Leather and leather products*
- *Wood and wood products*
- *Pulp, paper & paper products, publishing & printing*
- *Coke, refined petroleum products & nuclear fuel*
- *Chemicals, chemical products and man-made fibres*
- *Rubber and plastic products*
- *Other non-metallic mineral products*
- *Basic metals and fabricated metal products*
- *Machinery and equipment n.e.c.*
- *Electrical and optical equipment*
- *Transport equipment*
- *Manufacturing n.e.c.*

*Each of these studies presents a detailed picture of the development and prospects of the particular industry in central and eastern Europe. The first part of each study concentrates on: the patterns of production and employment; international competitiveness and trade performance with the EU (productivity, labour costs, price and quality indicators, revealed comparative advantage, etc.); and foreign direct investment. The second part provides more detailed industry data and valuable information about the leading domestic firms and the foreign investors in the industry.*

*Michael Landesmann  
Research Director, WIIW*

*So far published:*

- *1999/1 Development and Prospects of the Mechanical Engineering Sector in the Central and Eastern European Countries (March 1999)*
- *1999/2 Development and Prospects of the Paper and Printing Sector in the Central and Eastern European Countries (May 1999)*
- *1999/3 Development and Prospects of the Wood and Wood Products Sector in the Central and Eastern European Countries (September 1999)*
- *1999/4 Development and Prospects of the Transport Equipment Sector in the Central and Eastern European Countries (December 1999)*
- *2000/1 Development and Prospects of the 'Other Non-metallic Mineral Products' Industry in the Central and Eastern European Countries (January 2000)*
- *2000/2 Development and Prospects of the Rubber and Plastic Products Sector in the Central and Eastern European Countries (March 2000)*
- *2000/3 Development and Prospects of the Food Products, Beverages and Tobacco Sector in the Central and Eastern European Countries (October 2000)*
- *2001/1 Development and Prospects of the Leather and Leather Products Sector in the Central and Eastern European Countries (January 2001)*

*For details concerning the **Industrial Subscription Service** and the **WIIW Industrial Database Eastern Europe** see the back of this report.*

February 2001

*Doris Hanzl*

**Development and  
Prospects of the  
Leather and Leather  
Products Sector  
in the Central and  
Eastern European  
Countries**

# Contents

<i>Executive Summary</i> .....	i
<b>Part I: INDUSTRY SURVEY</b> .....	<b>1</b>
1 Overview: Trends in growth and structure.....	2
2 International competitiveness .....	8
3 Trade performance with the EU.....	11
4 Foreign direct investment.....	21
5 Prospects.....	22
<b>PART II: COMPANY PROFILES</b> .....	<b>24</b>
Bulgaria .....	24
Czech Republic.....	24
Hungary.....	26
Poland.....	27
Romania.....	29
Slovakia.....	31
Slovenia.....	31
Conclusions for Part II.....	33
References .....	35
Appendix of Tables and Figures.....	37

## List of Tables and Figures

Table 1	Production shares of individual industries in total manufacturing (at current prices), 1999, in %.....	2
Table 2	Leather and leather products: Production shares (at constant prices 1996), in %, Manufacturing = 100.....	5
Table 3	Leather and leather products: Production growth (at constant prices 1996).....	5
Table 4	Leather and leather products: Employment shares in %, Manufacturing = 100.....	6
Table 5	Leather and leather products: Employment, thousand persons.....	6
Table 6	Leather and leather products: Average annual growth rates, 1993 – 1999, in %.....	8
Table 7	Leather and leather products: Average monthly gross wages, Manufacturing = 100.....	10
Table 8	Detailed export structure to the EU of the leather and leather products sector, 1998, 1993, 1998.....	13
Table 9	Detailed import structure from the EU of the leather and leather products sector, 1998, 1993, 1998.....	13
Table 10	Leather and leather products: Price/Quality gap indicator, Average import quality = 1.....	15
Table 11	Leather and leather products: CEECs' exports to the EU(12) in ECU million, market shares in %.....	16
Table 12	Leather and leather products: CEECs' exports to Austria in ECU million, market shares in %.....	17
Table 13	Leather and leather products: CEECs' imports from Austria in ECU million, market shares in %.....	18
Table 14	Leather and leather products RCAs.....	19
Table 15	Relative position of leather sector RCAs.....	19
Table 16	Detailed RCA structure of the leather and leather products sector, 1998.....	19
Table 17	Percentage shares of exports after outward processing in total exports to EU(15).....	20
Table 18	The largest Bulgarian leather and leather products companies, ranked by 1999 net sales.....	24

Table 19	Czech Republic: Sales revenues of the leather and leather products sector, CZK million, distribution in %.....	25
Table 20	Hungary: Value of gross production of the leather and leather products sector.....	27
Table 21	Poland: Sold production of the leather and leather products sector, PLN million, distribution in %.....	28
Table 22	Poland: Net profitability in the enterprise sector and real growth rates of investment outlays, in % .....	28
Table 23	Financial Indicators of the Romanian leather and leather products sector, 1998.....	30
Table 24	Slovenia: Employees and revenues of the leather and leather products sector, 1997.....	32
Table 25	The largest companies of the Slovenian leather and leather products sector, ranked by 1999 income.....	33
Table A1	Key data on total manufacturing.....	27
Table A2	Leather and leather products: Estimated ranges for Unit Labour Costs in 1999, Austria 1996 = 100 .....	29
Table A3	Structure of manufacturing exports to the EU(12), 1998, in %.....	29
Table A4	Percentage shares of CEECs in total imports after outward processing of EU(12): Footwear.....	30
Table A5	Percentage shares of exports after outward processing in total exports to the EU(12): Footwear .....	30
Table A6	Developments in GDP and gross industrial production, real change in % against preceding year.....	42
Figure 1	Leather and leather products: Production shares in total manufacturing (at constant prices) relative to CEEC-average, in percentage points .....	3
Figure 2	Leather and leather products: Industrial production index (at constant prices 1996, national currency), 1989 = 100 .....	5
Figure 3	Leather and leather products: Shares in production (at constant prices 1996) and employment in total manufacturing, in % .....	7

Figure 4	Leather and leather products: Wages (ECU), Austria 1996 = 100.....	9
	Productivity (PPP), Austria 1996 = 100.....	9
	Unit labour costs (ECU), Austria 1996 = 100.....	9
Figure 5	Leather and leather products: Export index EU(12), in ECU million, 1989 = 100 .....	11
Figure 6	Leather and leather products: A: Position of the sector in the distribution of foreign capital.....	21
	B: Foreign penetration of the sector .....	21
Figure A1	Leather and leather products: Shares of CEECs (at constant prices) relative to other countries .....	31
Figure A2	Leather and leather products: Shares in manufacturing exports to the EU(12), in %.....	32

## **Executive Summary**

*In Central and Eastern Europe, as in most other economies, the leather and leather products sector is a small part of manufacturing, shaped by globalization and easy relocation of production. It is considered a labour-intensive, low-skill and low-technology industry, producing basic necessity goods (shoes) but also luxury items (leather handbags, luggage etc.). In Central Europe, the sector was neglected during the former command economy and also faced hard times during transition.*

*The study investigates the development and prospects of the leather and leather products sector in the following countries:*

- Bulgaria*
- Czech Republic*
- Hungary*
- Poland*
- Romania*
- Slovakia*
- Slovenia*

*In size, the leather and leather products sector is the **smallest segment of manufacturing** in most CEECs today and contributes between 0.7% to manufacturing output in the Czech Republic and about 1.7% in Romania. Specialization on the sector continued in **Slovenia** and started later in **Bulgaria** and **Romania**.*

*In the first phase of transition, which lasted from 1989 to around 1992, a severe transformational recession hit the region, with the output of the leather and leather products sector declining even more than the rest of the economy. After 1993, production growth remained low (Hungary, Poland) or negative and thus the sector was **less successful and dynamic** in comparison to total manufacturing. This was mainly due to unfavourable trends in domestic production of footwear, the major component of the sector. Negative factors included stagnant demand due to an income elasticity of typically less than one for basic necessities and strong competition from other low-cost producers on domestic and export markets. Hence, production of the sector was significantly below the 1989 production level in all countries of the region in 1999.*

*Also as an employer, the leather and leather products sector holds a minor position, with shares ranging between 2% in the Czech Republic and Poland and 4% in Romania. During transition, the sector suffered from **drastic employment cuts**, which were the largest in total manufacturing in most countries.*

*As is typical for all CEECs and all sectors of manufacturing, wages, productivity and unit labour costs (exception: Slovenia) in the leather and leather products sector have generally been much lower than in West European countries, for which we use Austria as a point of*



reference. During transition, sectoral wages rose in all CEECs while productivity increased only in Hungary, Poland and Romania. Hence, unit labour costs remained constant only in these three countries and rose in the others. Nevertheless, the estimated unit labour costs remain at a much lower level than in Austria (except in Slovenia).

The range for CEECs' unit labour costs in the leather and leather products sector as a percentage of the Austrian level is:<sup>1</sup>

Bulgaria	29% - 66%	Romania	18% - 67%
Czech Republic	60% - 92%	Slovakia	51% - 83%
Hungary	52% - 79%	Slovenia	109% - 125%
Poland	37% - 51%		

In CEECs' manufacturing **exports** to the EU, the importance of the leather and leather products sector differs across country groups: While in Bulgaria and Romania the sector has a share of 6.6% and 13%(!) of total manufacturing exports, its role is smaller in the other CEECs, where it accounts for 1.4% to 3.5% of total exports. However, in all countries, the leather and leather products sector shows an above-average **export orientation**, with the main export products coming from the sub-branch 'footwear'.

In CEECs' manufacturing **imports** from the EU, leather and leather products also account for rather small shares, ranging from 1.3% in the Czech Republic to 2.4% in Hungary, again being somewhat larger for Bulgaria and Romania (4.7% and 7.7% respectively). Most import products came from the sub-branches 'tanning and dressing of leather' and from 'footwear'.

The leather and leather products sector was a **net exporter** in all CEECs between 1989 and 1995. Thereafter, however, some countries recorded sectoral trade deficits and only Bulgaria, Romania and Slovakia maintained their trade surpluses. Compared to total manufacturing, the sector still shows a **revealed comparative advantage**, although it declined during transition (except in Romania, to a lesser extent in Bulgaria).

On the **EU market**, in 1989, CEEC leather and leather products exports had a market share of about 4%, which increased to 12% in 1998 (all shares without intra-EU trade). This share lay somewhat above total manufacturing market shares (3% in 1989 and 8% in 1998). On the **Austrian market**, CEEC exports had a decisively larger share, accounting for 26% of Austria's non-EU imports of leather products in 1995, increasing to 35% in 1998. However, the CEECs are also a major export destination for Austrian leather exports

---

<sup>1</sup> The lower range is calculated by comparing output levels at purchasing power parities (PPPs) for GDP, the upper range at PPPs for fixed capital formation; figures are for 1999, the Austrian level is for 1996.

and absorbed about 44% of Austria's non-EU leather exports in 1998. Ultimately, the CEECs registered a **trade deficit with Austria**.

The leather and leather products sector is not a prominent target of foreign direct investment, due to its low rating and reputation, the prevalence of small and medium-sized enterprises, and the relatively **great importance of outward processing trade**, especially with Romania, Bulgaria and Hungary, which provides greater flexibility.

**Future prospects** of the sector are not very favourable, due to decreasing export competitiveness (declining comparative advantage, growing trade deficits, increasing wages in the long run, growing competition from low-cost countries) and increasing import competition on domestic markets with considerable growth potential. Hence it seems that the hard times for the leather and leather products sector in the CEECs are not over but will continue in the future.

## **Developments and Prospects of the Leather and Leather Products Sector in the Central and Eastern European Countries**

### **Part I: INDUSTRY SURVEY**

Throughout the world, the leather and leather products sector is a rather small sector of manufacturing. Together with the textile and clothing industry it belongs to the core of consumer and light industry. The sector is strongly shaped by globalization and easy relocation of production to low-cost countries, such as East-Asia and China. Procuring raw hides and skins from slaughtering houses, the leather and leather products sector converts these raw materials into leather – a process called ‘tanning and dressing of leather’ – and then manufactures a limited range of products for final consumption, which makes it highly sensitive to the business cycle. The product range includes basic necessity goods such as shoes, but also luxury articles such as leather handbags, luggage, briefcases etc., and a small number of products for technical application (belts). The leather and leather products sector is considered a labour-intensive, low-skilled and low-technology industry, with production taking place mostly in small and medium-sized enterprises (SMEs).

This study provides a thorough two-part picture of the leather and leather products sector in the Central and Eastern European Countries (CEECs). Part One gives a more macroeconomic survey of the developments and prospects of the sector, while Part Two presents further detailed information and selected company profiles. The first part consists of four sections: Section 1 deals with trends in growth and structure of the sector, including characteristics of production and employment. Section 2 analyses indicators of international competitiveness, in particular wage rates, productivity levels and unit labour costs. Section 3 examines various aspects of trade performance with the European Union, while section 4 takes a closer look at foreign direct investment in the sector. A concluding section provides a summary and outlook on future prospects, the appendix presents additional tables and figures.

In the NACE rev. 1 classification system (Statistical classification of economic activities in the European Community) the term ‘leather and leather products’ denotes the sub-section ‘DC’ (identical to division 19), which consists of the following groups:

- Tanning and dressing of leather (19.1)
- Manufacture of luggage, handbags and the like, saddlery and harness (19.2)
- Manufacture of footwear (19.2)

The following quantitative analysis is based on this classification, with the only exception of section 3, where the older NACE 1970 classification is used. Data come from the WIIW Industrial Database – Central and Eastern Europe (IDB-CEE), which currently covers Bulgaria, the Czech Republic, Hungary, Poland, Romania, Slovakia and Slovenia. Data on foreign direct investment originate from the WIIW Database on FIEs.

## 1 Overview: Trends in growth and structure

### *Minor position of the leather and leather products sector in the past and today*

In general, the leather and leather products sector is small compared to other sectors of manufacturing. In the CEECs, the sector was furthermore neglected during the command economy with the latter's pronounced bias towards heavy industry and towards production

Table 1

#### Production shares of individual industries in total manufacturing (at current prices), 1999, in %

	Czech			Slovak			
	Bulgaria <sup>1)</sup>	Republic <sup>2)</sup>	Hungary	Poland	Romania <sup>2)</sup>	Republic	Slovenia <sup>2)</sup>
D Manufacturing total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
DA Food products; beverages and tobacco	25.2	17.1	17.0	25.3	25.1	13.9	14.9
DB Textiles and textile products	6.7	4.6	3.6	4.6	7.2	4.2	7.5
<b>DC Leather and leather products</b>	<b>1.3</b>	<b>0.7</b>	<b>0.8</b>	<b>0.9</b>	<b>1.7</b>	<b>1.3</b>	<b>1.5</b>
DD Wood and wood products	1.5	2.4	1.2	3.5	2.5	3.4	3.3
DE Pulp, paper & paper products; publishing and printing	4.2	4.6	4.2	6.1	3.1	6.1	7.3
DF Coke, refined petroleum products & nuclear fuel	15.0	2.5	4.9	4.6	8.0	6.7	0.3
DG Chemicals, chemical products & man-made fibres	9.3	6.4	7.1	6.8	7.4	6.0	10.0
DH Rubber and plastic products	2.2	4.1	3.5	4.4	2.2	3.3	3.9
DI Other non-metallic mineral products	5.1	5.9	2.9	5.4	4.8	5.2	4.6
DJ Basic metals and fabricated metal products	10.3	18.4	8.1	10.6	16.3	17.0	11.3
DK Machinery and equipment n.e.c.	11.5	9.3	4.8	5.5	5.5	7.3	10.3
DL Electrical and optical equipment	4.3	7.3	23.5	7.2	5.0	8.4	9.1
DM Transport equipment	1.9	13.0	17.0	10.8	7.7	14.0	11.2
DN Manufacturing n.e.c.	1.5	3.7	1.2	4.3	3.6	3.2	4.8

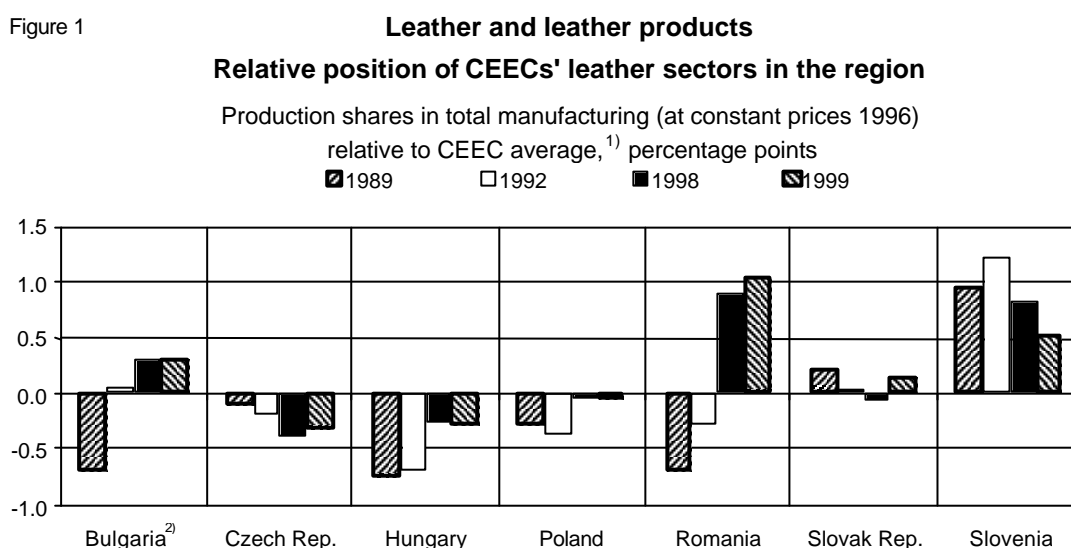
Notes: 1) Mechanical engineering includes fabricated metal products and casting of metals, normally included in the basic metals and fabricated metals sector (DJ). - 2) 1998.

Source: WIIW Industrial Database.

of raw materials and intermediate products. The manufacture of consumer goods, such as shoes, was usually paid less attention to and often the quantity and quality of products was unsatisfactory. Confronted with open markets, the loss of CMEA markets and declining purchasing power of the domestic population, the leather and leather products sector experienced a dramatic fall in production and a huge cut in employment. Unfavourable productivity developments in most countries and declining competitiveness on export markets pose serious problems and hence make further restructuring of the sector necessary.

Today, the leather and leather products sector plays only a minor role in the economies of the CEECs – ranging between 0.7% in the Czech Republic and 1.7% in Romania – and hence is the smallest segment in manufacturing in most countries (at current prices, see Table 1).

Figure 1



Notes: 1) The CEEC average includes the Czech Republic, Hungary, Poland, Slovakia and Slovenia. -

2) Bulgarian data are not consistent over the whole period. Data before 1996 can be compared with those for 1996 to 1998 only to a limited extent.

Source: WIIW Industrial Database.

In the region, Slovenia has always been specialized on the leather and leather products sector, with a production share (at constant prices 1996) well above the CEEC average due to a longstanding historical tradition (see Figure 1 and Table 2).<sup>2</sup> In Romania, and to a lesser extent in Bulgaria as well, specialization started later, in line with these countries' lower development level and thus higher concentration on the labour-intensive sectors of manufacturing. In Slovakia, specialization was less pronounced and fluctuated over time. In general, shares of the leather and leather products sector are however rather similar across all CEECs (ranging between 0.6% and 2% at constant prices 1996, see Table 2).

<sup>2</sup> Indeed, in the 1980s, former Yugoslavia belonged to the world leading producers of footwear and (on a lower rank than footwear) of leather and fur products. See UNIDO (1998).

When compared to the countries of the European Union, the leather and leather products sector of the CEECs shows an intermediate position, with a relative excess of leather and leather products compared to the more advanced countries of the 'EU-North' and a deficit compared to the less advanced countries of the 'EU-South'. This means that the CEECs have a larger leather and leather products sector than the former group of countries, including Austria, but a smaller share than the latter group (see Appendix, Figure A1). However, the largest manufacturer of leather and leather products in the European Union is Italy, which is not included in either of the two groups.

### ***Dramatic drop in production of leather and leather products***

During the first phase of transition, from 1989 to about 1992, all CEECs experienced a severe transformational recession and production of the leather and leather products declined as well – almost 20% per year (see Table 3). Indeed, the sector was much more affected than total manufacturing in most CEECs (except Romania) and the sector became what may be called a relative 'loser'<sup>3</sup> of this period (see Table 3, average annual changes relative to total manufacturing, 1990-1992). This is due to the fact that there were dramatic drops in real incomes leading to falls in the purchase of consumer goods, and due to import competition.

During the second transition period, from 1993 onwards, growth returned to the region, but the leather and leather products sector continued to suffer. Growth remained negative in almost all countries and did turn positive only in Poland and Hungary (see Table 3). Compared to manufacturing total, the sector remained less successful and has been a major 'loser' (again with the exception of Romania; see average annual changes relative to total manufacturing, 1993-1999). This development was mainly caused by the negative performance of the footwear sub-branch, which is the major producer and employer within the sector.<sup>4</sup> Domestic demand for shoes fell significantly and has not reached pre-transition levels yet. In the Czech Republic, for example, the consumption of shoes (pairs) per capita reached 4.7 in 1989, 3.2 in 1998 and only 2.9 in 1999. In Slovakia, consumption stood at 4.5 pairs per capita in 1990 and decreased to 1.5-2 pairs per capita in 1999. Shoes are regarded as basic necessity goods with an income elasticity less than one, so that when incomes rise, their share in private consumption declines. Thus industries supplying these goods can be expected to grow less than average.<sup>5</sup> In addition, domestic shoe producers face strong import competition from cheap shoe imports from China and other East-Asian

---

<sup>3</sup> 'Losers' of transition are here defined as industries that performed worse than total manufacturing in terms of production growth, 'winners' as those that performed better; see Urban (1999), p. 22.

<sup>4</sup> 'Footwear' accounted for about 60% of sales in the leather sector in the Czech Republic (1998), for 76% in Hungary (1998), for 75% in Poland (1998), and for 47% in Slovenia (1997).

<sup>5</sup> On the other hand, leather products such as handbags or leather gloves are mostly luxury goods with an income elasticity greater than one.

countries. On the export markets, the export-oriented leather and leather products sector was first hit hard by the loss of the CMEA markets, then by the Russian crisis in 1998; it also faces heavy competition from other low-cost producers. Although in general EU market shares for the CEEC(6) increased steadily, some countries faced severe difficulties in trade reorientation and finding new markets (e.g. the Czech Republic). On the supply side, the decrease in the consumption of meat and meat products might have had a negative impact on the supply of raw materials, although hides and skins are internationally traded and hence increasingly imported (see section 3).

Table 2

**Leather and leather products**

Production shares (at constant prices 1996), in %  
Manufacturing = 100

	1989	1992	1997	1998	1999
EU-North <sup>1)</sup>	.	0.5 <sup>3)</sup>	0.4 <sup>4)</sup>	.	.
EU-South <sup>2)</sup>	.	2.3 <sup>3)</sup>	2.7 <sup>4)</sup>	.	.
Austria <sup>5)</sup>	1.1	1.0	0.8	0.8	.
Bulgaria	1.5	2.0	1.6	1.3	1.2
Czech Republic	2.1	1.7	0.9	0.6	0.6
Hungary	1.4	1.2	0.9	0.8	0.6
Poland	1.9	1.5	1.2	1.0	0.9
Romania	1.5	1.6	1.8	1.9	2.0
Slovak Republic	2.4	2.0	1.1	1.0	1.1
Slovenia	3.1	3.1	2.3	1.8	1.4

Notes: 1) 1992 including UK, France, Germany and Belgium; 1996 including Austria, Denmark, Finland, France, Germany, Ireland, the Netherlands, Sweden and the UK. - 2) Including Greece, Portugal and Spain. - 3) At constant prices 1989. - 4) 1996.- 5) 1989 and 1992 at 1993 prices.

Source: WIIW Industrial Database.

Table 3

**Leather and leather products**

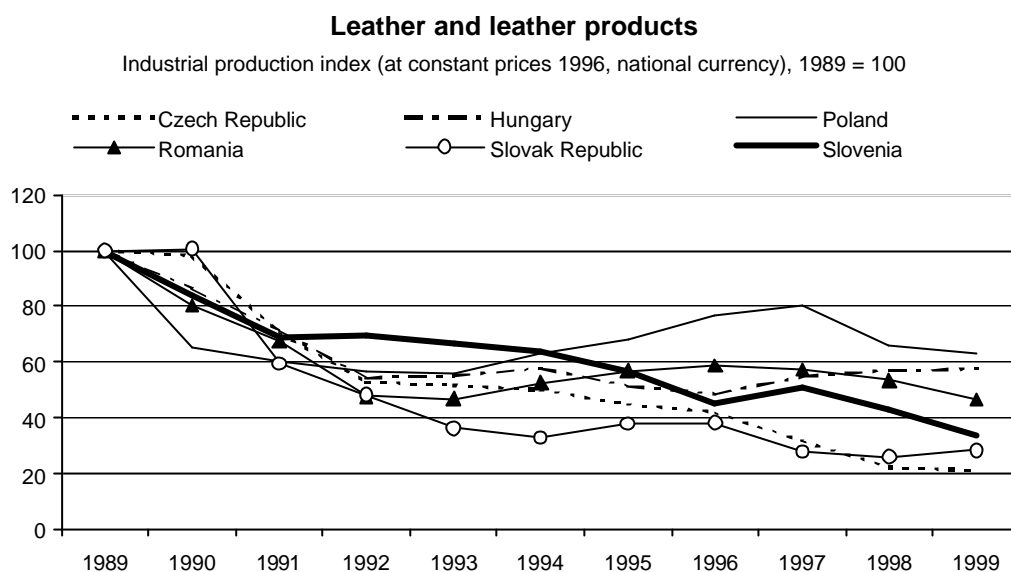
Production growth (at constant prices 1996)

	Average annual changes in %		Relative to total manufacturing, in percentage points		Index 1999=100
	1990-92	1993-99	1990-92	1993-99	
Czech Republic	-19.2	-12.3	-5.0	-14.2	21.0
Hungary	-18.4	0.8	-3.2	-9.6	57.4
Poland	-17.2	1.6	-6.1	-8.3	63.3
Romania	-21.8	-0.4	2.2	2.6	46.6
Slovak Republic	-21.6	-7.4	-5.7	-8.4	28.3
Slovenia	-11.4	-9.7	-0.1	-10.6	34.0

Source: WIIW Industrial Database.

The production of leather and leather products mostly declined over time – with some exceptions only – and hence lies below 1989 production levels in all countries (see Figure 2). The decline was most severe in the Czech Republic, Slovakia and Slovenia, where the production reached only 20% to 30% of the 1989 level in 1999. In Romania, the fall of leather and leather products output was stopped between 1994 and 1996, but declined again thereafter. By 1999, the production level had dropped to 50% of the 1989 level. In Hungary and especially Poland – the two best-performing countries in the region – the sector reached about 60% of the 1989 level in 1999.

Figure 2



Source: WIIW Industrial Database.

### **Minor role as an employer – large employment cuts**

In employment too, the leather and leather products sector plays a rather small role in total manufacturing, with shares ranging between 2% in the Czech Republic and Poland and

Table 4

#### **Leather and leather products**

Employment shares, in %  
Manufacturing = 100

	1989	1992	1997	1998	1999
EU-North <sup>1)</sup>	.	1.0	0.7 <sup>3)</sup>	.	.
EU-South <sup>2)</sup>	.	3.9	4.4 <sup>3)</sup>	.	.
Austria	1.8	1.5	1.2	1.2	.
Bulgaria	2.3	2.6	4.1	3.5	3.4
Czech Republic	2.9	2.8	2.3	2.1	2.0
Hungary	3.5	3.9	3.9	3.5	3.3
Poland	4.0	3.2	3.0	2.3	2.0
Romania	3.7 <sup>4)</sup>	3.7	4.1	4.4	3.9
Slovak Republic	.	4.7	4.4	3.4	3.3
Slovenia	4.1	4.3	3.7	3.6	3.3

Notes: 1) 1992 including UK, France, Germany and Belgium; 1996 including Austria, Denmark, Finland, France, Germany, Ireland, the Netherlands, Sweden and the UK. - 2) Including Greece, Portugal and Spain. - 3) 1996. - 4) 1990.

Source: WIIW Industrial Database.

Table 5

#### **Leather and leather products**

Employment  
thousand persons

	1989	1992	1997	1998	1999	1999 1989=100
Bulgaria	33	23	29	24	20	.
Czech Republic	49	33	27	24	21	43.9
Hungary	41	34	25	23	24	55.8
Poland	133	89	84	64	54	40.3
Romania	127 <sup>1)</sup>	105	83	83	66	52.1
Slovak Republic	.	25	19	18	17	.
Slovenia	15	12	9	8	7	.

Notes: 1) 1990. - 2) 1990=100. - 3) 1998.

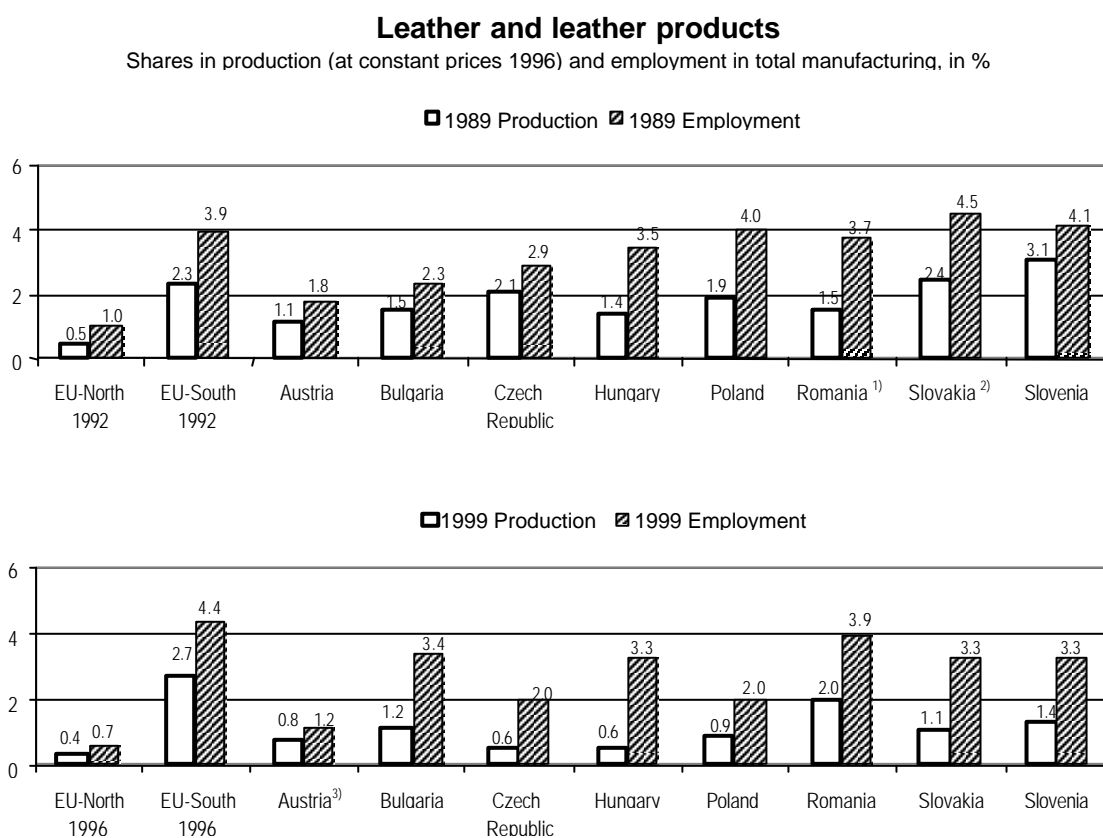
Source: WIIW Industrial Database.



4% in Romania in 1999 (see Table 4). During transition, employment was dramatically reduced – the number of employees dropped to about half or even less than half of the 1989 level – and the share of leather and leather products in total manufacturing employment fell (except in Bulgaria and Romania). Indeed, the sector experienced the relatively largest employment reduction of all manufacturing branches between 1993 and 1999 in most countries. Today, approximately 7000 persons are employed in the leather and leather products sector in Slovenia, about 20,000 in the smaller CEECs, 54,000 in Poland and 66,000 in Romania (see Table 5).

Comparing production and employment shares of the sector, the latter were higher in all countries both in 1989 and 1999, due the labour-intensive character of the leather and leather products sector (see Figure 3). During transition, the gap widened slightly, as production shares declined more than employment shares. The sector gained however importance in Romania and to a lesser extent in Bulgaria as well, reflecting these countries' stronger specialization, probably owing to their very low wage levels.

Figure 3



Notes: 1) Employment share 1990.- 2) Employment share 1991.- 3) 1998.

Source: WIIW Industrial Database.

## 2 International competitiveness

Major input costs for the leather and leather products sector are represented by material and labour, because of the labour-intensive character of the sector.<sup>6</sup> In the Hungarian leather and leather products sector, for example, materials and services accounted for 52% of total production costs in 1996, wages and salaries for 28.5%, as compared to 72% and 12% respectively in total manufacturing.<sup>7</sup> The high mobility of the leather and leather products sector, i.e. the easy relocation of production to the most favourable location, puts pressure on wages to stay low.

As is typical for all CEECs and their manufacturing industry, wages, productivity and unit labour costs in the leather and leather products sector have been generally lower than in Western countries (except Slovenia, see below). In 1999, nominal wage rates (per employee) in the leather and leather products sector hovered at around 10% of the Austrian level in most countries, but were even lower in Bulgaria and Romania with 4%, and somewhat higher in Slovenia with 35%. The productivity level ranged between 15% of the Austrian level in Bulgaria and 37% in Poland. Unit labour costs differ widely, again being lowest in Romania and Bulgaria (20% and 30% respectively of the Austrian level) and highest in Slovenia.<sup>8</sup> In 1999, Slovenian unit labour costs were even above Austrian

Table 6

**Leather and leather products**  
Average annual growth rates, 1993-1999  
in %

	Output	Employment	Productivity (ECU basis)	Wage rates (ECU basis)	Unit Labour Costs (ECU basis)	Exports to EU (ECU basis)
Czech Republic	-12.3	-8.7	-3.9	10.9	15.5	-0.7 <sup>1)</sup>
Hungary	0.8	-5.5	6.7	4.7	-1.8	5.5 <sup>2)</sup>
Poland <sup>2)</sup>	1.6	-6.9	9.1	9.0	-0.2	2.9 <sup>2)</sup>
Romania	-0.4	-6.4	6.4	7.4	0.9	40.8 <sup>2)</sup>
Slovak Republic	-7.4	-7.9	0.6	5.1	4.5	34.8 <sup>1)</sup>
Slovenia	-9.7	-7.8	-2.2	6.3	8.6	-5.6 <sup>1)</sup>

Notes: 1) 1994-1998. - 2) 1993-1999.

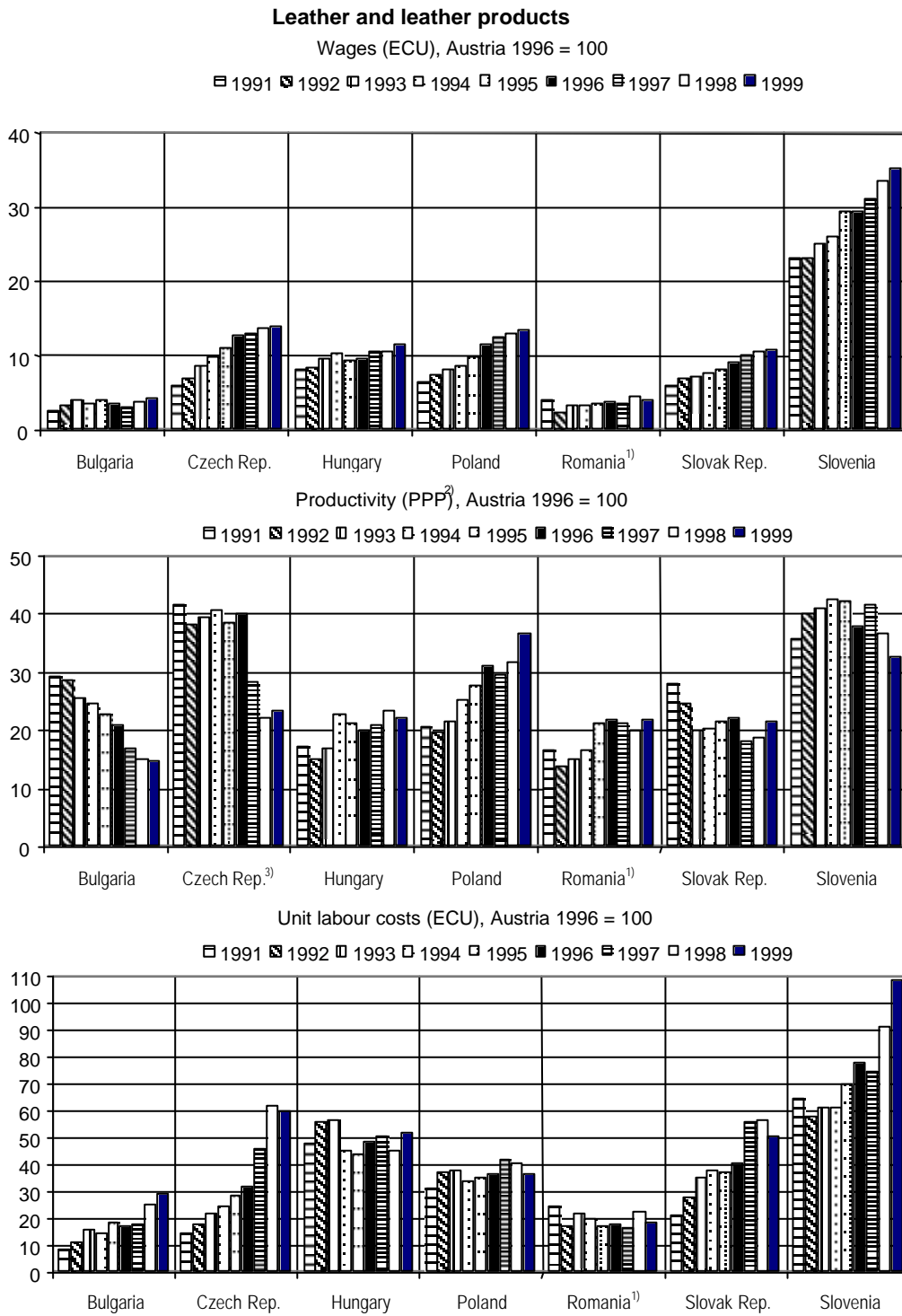
Source: WIIW Industrial Database.

<sup>6</sup> Apart from wage costs, other factors play a role for competitiveness as well: the proximity of major export markets, differences in labour productivity, differences in the type, quality and fashion content of products, marketing efforts and services offered, flexibility etc. See ILO (2000).

<sup>7</sup> In the leather and leather products sector, summing up to 100% includes 11% social security contributions, 2.5% depreciation and 6% other costs. In total manufacturing, 4.5% social security contributions, 5% depreciation and 7% other costs. See Statistical Yearbook of Hungary 1997 (1998), p. 310.

<sup>8</sup> Defined as wage rate divided by labour productivity.

Figure 4



Notes: 1) Net wages; all other countries gross wages. 1994-1998 productivity figures for Romania must be interpreted carefully due to some statistical problems regarding production data at constant prices. - 2) PPP = Purchasing Power Parities. - 3) Coverage of Czech industrial statistics had a break in 1996/97 due to the size of enterprises included.

Source: WIIW Industrial Database.

ones, reaching 110%. In the other CEECs, unit labour costs lay between 37% and 60% of the Austrian level (see Figure 4).<sup>9</sup>

During transition, wages in the leather and leather products sector grew throughout the region: In the Czech Republic, wages grew fastest and increased by about 11% annually between 1993 and 1999 (see Table 6). Productivity in the leather and leather products sector improved only in Hungary, Poland and Romania but declined in Bulgaria, the Czech Republic<sup>10</sup> and Slovenia. Hence ULCs stagnated only in the former countries and rose in the others (see Table 6 and Figure 4).

Looking at the wage level in the leather and leather products sector, wages lay significantly below manufacturing average and reached between 61% and 76% of manufacturing average in 1999 (see Table 7). Hence, workers in the leather and leather products sector were among the worst paid of all workers in total manufacturing. This is typical for jobs requiring little qualification and skills. The relative situation deteriorated significantly during transition as wage differentials increased strongly.

Table 7

<b>Leather and leather products</b>					
Average monthly gross wages					
Manufacturing = 100					
	<b>1992</b>	<b>1995</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>
Bulgaria	80.0	71.6	62.4	61.6	65.5
Czech Republic	86.1	76.6	71.1	69.4	67.8
Hungary	65.9	61.8	60.4	59.3	60.7
Poland	77.6	72.9	70.9	67.4	68.5
Romania	81.3	73.8	72.9	73.3	72.3
Slovak Republic	92.2	69.2	66.9	68.4	72.1
Slovenia	89.9	77.6	75.6	75.7	76.2

*Source:* WIIW Industrial Database.

<sup>9</sup> As these figures are however strongly affected by different productivity estimates, Table A2 in the Appendix shows the lower and upper ranges for estimated unit labour costs in 1999, using alternative productivity measures.

<sup>10</sup> Coverage of Czech industrial statistics has a break in 1996/97 due to the size of enterprises included.

### 3 Trade performance with the EU<sup>11</sup>

#### **Export orientation of the sector, export specialization in Bulgaria and Romania**

Looking at the share of leather and leather products exports in total manufacturing exports to the EU, the importance of the sector differs significantly between two country groups today. In the more advanced transition countries (Czech Republic, Hungary, Poland, Slovakia and Slovenia) leather and leather products exports account only for a small share in total manufacturing exports to the EU: in 1998, this share was 1.4% of total manufacturing exports to the EU in the Czech Republic and 3.5% in the Slovak Republic. However, in the less advanced countries Bulgaria and Romania, the leather and leather products sector is of major importance, accounting for 6.6% in Bulgaria and even 13% in Romania in 1998, and thus belongs to the largest exporters in these countries (see Appendix, Table A3). In general, export shares are larger than production shares throughout the region, reflecting the above-average export orientation of the leather and leather products sector and its importance for the economies of all CEECs.

Figure 5



Notes :1) Export data for the Czech and Slovak Republics and Slovenia since 1993, 1993=100.

Source: Eurostat, WIIW calculations

<sup>11</sup> Trade with the EU is investigated in detail because it plays an important role in the CEECs: After the collapse of the CMEA market, CEECs' trade became heavily reoriented towards EU markets. By 1998, 70% of Hungarian, Polish and Slovenian total exports went to the EU(15), for Romania and the Czech Republic the levels were above 60%, for the Slovak Republic somewhat below 60%, and for Bulgaria around 50%. On the import side, Slovenian and Polish imports from the EU(15) accounted for roughly 70% in the Czech Republic, Hungary and Romania EU(15) imports had a share of 60%, in Slovakia 50% and in Bulgaria somewhat less than 50%.

During transition, leather and leather products exports to the EU grew most dynamically in Bulgaria and Romania, reaching 1670% and 1370% of the 1989 level in 1998, although from a low basis, probably due to the relative importance of outward processing trade (see Figure 5). Only in these two countries were export shares in 1998 larger than in 1989 (see Appendix, Figure A2). In the Slovak Republic, exports increased faster than in the rest of the CEECs but export shares remained almost constant as compared to 1989. In Hungary and Poland, exports rose steadily, export shares increased first but fell again thereafter, reflecting above-average manufacturing export growth until 1992 and below-average manufacturing export growth afterwards. In the Czech Republic and Slovenia exports decreased constantly and export shares dropped.

Leather and leather products imports from the EU also account for a small share of CEECs' imports from the EU only: In 1998, shares ranged between 1.3% in the Czech Republic and 2.4% in Hungary. Bulgaria and Romania were again exceptions: here the shares were somewhat larger, accounting for 4.7% and 7.7% of EU imports respectively (see Appendix, Figure A2). During transition, import growth differed across country groups as well: Only in Bulgaria and Romania was import growth higher than in total manufacturing, so that import shares increased (for the relative importance of outward processing, see below), while in the other countries import growth was less than in total manufacturing and import shares stagnated (Czech Republic, Poland) or fell (Hungary, Slovakia, Slovenia). Within the region, imports of leather and leather products rose fastest in Romania, reaching 2600% of the 1989 level in 1998 (although from a low basis), followed by Poland (950%) and Bulgaria (630%). In the other countries, imports grew only slightly, and they stagnated in Slovenia.

In absolute terms, higher exports than imports in the leather and leather products sector led to a sectoral trade surplus in all countries from 1989 to 1995 (see Appendix, Figure A2). Only from 1996 did the Czech Republic and Poland register a sectoral trade deficit, Hungary and Slovenia in 1998. However, the sectoral trade deficit remained rather small; in Poland, where it reached the highest level, it was about ECU 144 million in 1998. In Bulgaria, Romania and Slovakia the leather and leather products sector maintained its sectoral trade surplus over the whole period; in Romania it increased to ECU 180 million by 1998.

### ***Increasing export specialization on footwear, diversifying import structure***

At a more detailed three-digit NACE level,<sup>12</sup> in 1998 the majority of leather and leather products exports from the CEECs to the EU was 'mass produced footwear' (see Table 8).

---

<sup>12</sup> NACE 1970 classification, codes 441, 442 and 451.

Table 8

**Detailed export structure to the EU of the leather  
and leather products sector, 1989, 1993 and 1998**

	Bulgaria	Czech Republic <sup>1)</sup>	Hungary	Poland	Romania	Slovak Republic	Slovenia
<b>1989, 1993<sup>2)</sup></b>							
441 Tanning and dressing of leather	10.3	0.8	13.2	4.9	0.7	17.4	25.5
442 Manufacture of products from leather and leather substitutes	38.1	34.9	16.9	18.8	15.3	0.0	5.1
451 Manufacture of mass produced footwear (excl. footwear completely of wood, rubber)	51.5	64.3	69.9	76.2	84.0	82.6	69.4
<b>DC Leather and leather products in ECU mn</b>	<b>100.0 7.5</b>	<b>100.0 51.3</b>	<b>100.0 108.5</b>	<b>100.0 75.3</b>	<b>100.0 42.3</b>	<b>100.0 34.0</b>	<b>100.0 114.7</b>
<b>1998</b>							
441 Tanning and dressing of leather	6.7	6.6	8.4	23.4	1.2	11.1	26.7
442 Manufacture of products from leather and leather substitutes	9.9	20.8	12.6	11.6	3.6	5.0	7.9
451 Manufacture of mass produced footwear (excl. footwear completely of wood, rubber)	83.5	72.6	79.0	65.0	95.2	83.9	65.4
<b>DC Leather and leather products in ECU mn</b>	<b>100.0 125.5</b>	<b>100.0 150.0</b>	<b>100.0 297.4</b>	<b>100.0 203.9</b>	<b>100.0 579.9</b>	<b>100.0 151.5</b>	<b>100.0 86.1</b>

Notes: 1) Until 1992 CSFR. - 2) 1993 data for Slovakia, Slovenia, all other countries 1989.

Source: Eurostat, WIIW calculations.

Table 9

**Detailed import structure from the EU of the leather  
and leather products sector, 1989, 1993 and 1998**

	Bulgaria	Czech Republic <sup>1)</sup>	Hungary	Poland	Romania	Slovak Republic	Slovenia
<b>1989, 1993<sup>2)</sup></b>							
441 Tanning and dressing of leather	21.7	27.7	70.5	38.4	75.1	43.7	52.5
442 Manufacture of products from leather and leather substitutes	3.0	6.7	3.0	4.9	7.8	6.9	4.7
451 Manufacture of mass produced footwear (excl. footwear completely of wood, rubber)	75.3	65.6	26.6	56.7	17.1	49.4	42.9
<b>DC Leather and leather products in ECU mn</b>	<b>100.0 13.9</b>	<b>100.0 15.9</b>	<b>100.0 84.5</b>	<b>100.0 36.7</b>	<b>100.0 15.2</b>	<b>100.0 28.9</b>	<b>100.0 85.2</b>
<b>1998</b>							
441 Tanning and dressing of leather	45.7	37.6	56.2	49.8	55.9	49.7	34.8
442 Manufacture of products from leather and leather substitutes	5.5	14.9	5.9	6.0	1.6	6.4	8.7
451 Manufacture of mass produced footwear (excl. footwear completely of wood, rubber)	48.8	47.5	37.9	44.1	42.5	43.9	56.5
<b>DC Leather and leather products in ECU mn</b>	<b>100.0 87.8</b>	<b>100.0 176.7</b>	<b>100.0 299.0</b>	<b>100.0 348.1</b>	<b>100.0 399.8</b>	<b>100.0 87.5</b>	<b>100.0 91.2</b>

Notes: 1) Until 1992 CSFR. - 2) 1993 data for Slovakia, Slovenia, all other countries 1989.

Source: Eurostat, WIIW calculations.

While for instance in Poland about 65% of the sector's exports came from this sub-branch, the share was much larger in Bulgaria, Slovakia and Romania, with 84% in the former two countries and 95% in the latter one. Exports of 'products from leather and leather substitutes' played some role in Bulgaria, the Czech Republic, Hungary and Poland (10-20%), exports from 'tanning and dressing of leather' in Poland, Slovakia and Slovenia (10-30%). At the beginning of transition, in 1989, 'mass produced footwear' already dominated the export structure of the leather and leather products sector – although to a lesser extent. Exports of 'products from leather and leather substitutes' were more important than in 1989 in Bulgaria, the former Czechoslovakia, Hungary, Poland and Romania (15-38%), while in Slovakia and Slovenia exports of 'tanning and dressing of leather' came second behind mass produced footwear in 1993 (17-26%).

On the import side, imports of 'tanning and dressing of leather' and 'mass produced footwear' each held about half of all leather and leather products imports from the EU in 1998, with some slight deviations (see Table 9). At the beginning of transition, imports were much more concentrated – in some countries on 'mass produced footwear' (Bulgaria, Czech Republic, Poland), in others on 'tanning and dressing of leather' (Hungary, Romania).

### ***Quality/prices of leather and leather products improving significantly over time***

In 1996, the quality (measured by export unit values, value per kg) of leather and leather products exported from the CEECs to the EU differed across branches; it was mostly lowest in 'footwear' confirming the picture of the CEECs as low-quality/low-price producers.<sup>13</sup> While the price/quality gap indicator reached EU average in almost all countries in 'tanning and dressing of leather' (except Romania),<sup>14</sup> this was the case only in four countries in 'luggage, handbags and the like', and only in three countries in 'footwear'. Slovenia was the only country where all three sub-branches showed above-average EU quality standards. Interestingly, Slovenian exports had the best quality in 'tanning and dressing of leather', Polish exports in 'luggage, handbags and the like' and Slovak exports in 'footwear'. The improvement of the price/quality gap indicators was dramatic over time, especially in the two leather branches (see Table 10).

---

<sup>13</sup> This is in contrast to 1989, when 'tanning and dressing of leather' showed the lowest price/quality gap indicator.

<sup>14</sup> In the Czech Republic, for example, only a small share of domestic hides was processed in the country, as price differences between imported leather coming mainly from Russia, Ukraine and South America (approx. 17 to 21 USD/m<sup>2</sup>) and prices realized on EU markets (approx. 24 USD/m<sup>2</sup>) made exports to the EU more profitable for primary processors. See Ministry of Industry and Trade (2000), p. 82.



Table 10

**Leather and leather products**Price/quality gap indicator<sup>1)</sup>Average import quality = 1<sup>2)</sup>

		Czech			Slovak			
		Bulgaria	Republic <sup>3)</sup>	Hungary	Poland	Romania	Republic	Slovenia <sup>4)</sup>
19.1 Tanning and dressing of leather <sup>5)</sup>	<b>1989</b>	0.195	0.204	0.513	0.306	0.000	.	0.869
	<b>1990</b>	0.208	0.302	0.877	0.532	0.557	.	1.070
	<b>1993</b>	0.905	0.913	1.375	0.919	0.766	1.024	1.429
	<b>1995</b>	0.797	1.015	1.134	1.013	0.942	1.185	1.408
	<b>1996</b>	1.008	1.005	1.328	1.003	0.848	1.050	1.439
19.2 Manufacturing of luggage, handbags and the like, saddlery and harness <sup>6)</sup>	<b>1989</b>	0.267	0.523	0.533	0.599	0.440	.	1.142
	<b>1990</b>	0.307	0.544	0.565	0.625	0.947	.	0.889
	<b>1993</b>	0.696	1.088	1.469	0.876	0.880	0.655	1.698
	<b>1995</b>	0.674	1.403	0.885	1.482	0.953	0.809	1.449
	<b>1996</b>	0.800	1.081	0.865	2.397	1.041	0.961	1.729
19.3 Manufacture of footwear <sup>7)</sup>	<b>1989</b>	0.373	0.414	0.667	0.627	0.457	.	0.813
	<b>1990</b>	0.254	0.438	0.924	0.468	0.459	.	0.997
	<b>1993</b>	0.613	0.662	1.129	0.722	0.585	0.680	1.172
	<b>1995</b>	0.672	0.846	1.193	0.884	0.753	1.071	1.203
	<b>1996</b>	0.736	0.931	1.231	0.866	0.784	1.412	1.181

Notes: 1) The industry-level weighted price/quality gap indicator is defined as:

$$Q_j^c = \sum_{i \in I(j)} (p_i^c / p_i^{EU}) * sx_i^c$$

$p_i^c$  is the price (per kg) at which country c sells exports of the product item i on EU markets (refers here to the EU-12 markets)

$p_i^{EU}$  is the average price of product item i in total EU 12 imports

$sx_i^c$  is the share of product item i in country c's exports to the EU 12 market and

$$\sum_{i \in I(j)} sx_i^c = 1$$

where I(j) is the set of product items i belonging to NACE industry j. See Landesmann and Burgstaller (1997). - 2) Average of total (extra + intra) EU imports. - 3) Until 1992 CSFR. - 4) Until 1990 Yugoslavia. - 5) 1989-1994 data from NACE 1970 411 Tanning and dressing of leather; 1995-1996 data from NACE rev. 1 19.1. - 6) 1989-1994 data from NACE 1970 412 Manufacture of products from leather and leather substitutes; 1995-1996 data from NACE rev. 1 19.2. - 7) 1989-1994 data from NACE 1970 451 Manufacture of mass produced footwear (excluding footwear made completely of wood or rubber); 1995-1996 data from NACE rev. 1 19.3.

Source: Calculations by J. Burgstaller, University of Linz for the WIIW.

### ***Favourable position on the European market***

In 1989, CEEC(6)<sup>15</sup> leather and leather products exports to the EU(12) had a market share of about 4% of all extra-EU imports, which increased steadily to 12% in 1998 (all shares without intra-EU trade). Hence, the sector's market share lay above that of total manufacturing, thus reflecting the relative importance of CEECs' leather and leather products exports (see Table 11). In 1998, the most important exporter was Romania (4.7%), followed by Hungary (2.4%). The other countries held a market share of approximately 1%.<sup>16</sup>

Table 11

<b>Leather and leather products</b>										
CEECs' exports to the EU(12) in ECU million, market shares in %										
	<b>EU(12)</b>		<b>Bulgaria</b>		<b>Czech Republic<sup>1)</sup></b>		<b>Hungary</b>		<b>Poland</b>	
	extra-EU imports		ECU mn	%	ECU mn	%	ECU mn	%	ECU mn	%
1989	6544.5		7.5	0.11	51.3	0.78	108.5	1.66	75.3	1.15
1992	8081.6		58.7	0.73	183.0	2.26	215.2	2.66	172.0	2.13
1995	9688.3		85.1	0.81	178.4	1.69	231.7	2.20	202.5	1.92
1996	10538.5		105.7	0.86	145.1	1.18	263.9	2.15	197.4	1.61
1997	12263.4		134.6	1.09	150.4	1.22	310.1	2.52	196.0	1.59
1998	12296.5		125.5	1.02	150.0	1.22	297.4	2.42	203.9	1.66
	<b>Romania</b>		<b>Slovak Republic</b>		<b>Slovenia</b>		<b>CEEC(6)<sup>2)</sup></b>		<b>Total Manufacturing CEEC(6)<sup>3)</sup></b>	
	ECU mn	%	ECU mn	%	ECU mn	%	ECU mn	%	ECU mn	%
1989	42.3	0.65	.	.	.	.	284.9	4.35	9243	2.83
1992	74.6	0.92	.	.	.	.	703.4	8.70	16586	4.48
1995	324.9	3.08	110.0	1.04	110.8	1.05	1132.6	10.75	30470	6.53
1996	391.3	3.19	133.5	1.09	102.2	0.83	1236.7	10.08	32157	6.61
1997	521.5	4.24	147.5	1.20	108.7	0.88	1460.2	11.87	39474	6.95
1998	579.9	4.72	151.5	1.23	86.1	0.70	1508.3	12.27	47074	7.66

Notes: 1) Until 1992 CSFR. - 2) Including Bulgaria, Czech Republic, Hungary, Poland, Romania and Slovak Republic. - 3) CEEC(6) total manufacturing exports to the EU and their market shares.

Source: Eurostat, WIIW calculations.

<sup>15</sup> Bulgaria, the Czech Republic, Hungary, Poland, Romania and the Slovak Republic. Data for Slovenia are available from 1993 only.

<sup>16</sup> In the EU and also in the Europe Agreements between the EU and the individual CEECs, footwear is considered as a sensitive branch and hence protected by trade restrictions.

### **Trade deficit with Austria in leather and leather products**

Imports from the CEEC(7)<sup>17</sup> had a decisively larger share on Austria's market than on the EU(12) market, accounting for 26% of Austria's non-EU leather and leather products imports in 1995 and rising to 35% in 1998. In 1998, the most important CEEC exporter of leather and leather products to Austria was Hungary, followed by Slovakia, the Czech Republic, Romania and Slovenia. Poland and Bulgaria exported only a very small amount of leather and leather products to Austria (see Table 12).

Table 12

<b>Leather and leather products</b>									
CEECs' exports to Austria in ECU mn, market shares in %									
	Austria Extra-EU(15) Imports ECU mn	Bulgaria		Czech Republic		Hungary		Poland	
		ECU mn	%	ECU mn	%	ECU mn	%	ECU mn	%
1995	182.1 <sup>1)</sup>	0.1	0.07	9.6	5.28	25.2	13.82	1.3	0.74
1996	257.3	0.5	0.20	11.6	4.50	39.0	15.16	3.9	1.51
1997	290.3	0.6	0.20	11.7	4.02	39.3	13.52	2.5	0.87
1998	290.8	0.1	0.02	15.5	5.34	41.7	14.33	2.5	0.85
		Romania		Slovak Republic		Slovenia		CEEC(7) <sup>2)</sup>	
		ECU mn	%	ECU mn	%	ECU mn	%	ECU mn	%
1995		0.5	0.26	3.1	1.71	6.7	3.66	46.5	25.53
1996		1.4	0.56	5.2	2.01	10.2	3.96	71.8	27.90
1997		7.7	2.66	9.6	3.30	11.8	4.08	83.2	28.66
1998		10.9	3.75	18.4	6.33	11.3	3.88	100.3	34.49

Notes: 1) 1995 data for Austria are not strictly comparable to 1996 and 1997 data. - 2) Including Bulgaria, the Czech Republic, Hungary, Poland, Romania, the Slovak Republic and Slovenia.

Source: Eurostat, WIIW calculations.

### **Leather and leather exports from Austria to the CEECs**

The CEEC(7) are also a major export destination of Austria's non-EU leather and leather products exports, accounting for about 31% of all extra-EU(15) leather and leather products exports in 1995 and 44% in 1998 (see Table 13). Among the CEECs, the most important leather importer from Austria was Hungary in 1998 (21% of Austrian exports, 67% of which came from 'tanning and dressing of leather'). The Czech Republic, Poland, Slovenia and Slovakia were somewhat smaller importers. In fact, CEEC(7) leather and leather products imports from Austria have been larger than exports, leading to a CEEC trade deficit of ECU 12 million in 1997, which shrank to ECU 5 million in 1998. In the last

<sup>17</sup> CEEC(6) plus Slovenia.

Table 13

### Leather and leather products

CEECs' imports from Austria in ECU million, market shares in %

	Austria Extra- EU(15) Exports ECU mn	Bulgaria		Czech Republic		Hungary		Poland	
		ECU mn	%	ECU mn	%	ECU mn	%	ECU mn	%
1995	154.5 <sup>1)</sup>	0.4	0.23	9.7	6.27	19.0	12.27	1.6	1.03
1996	219.7	0.6	0.27	12.9	5.89	47.3	21.54	3.4	1.54
1997	255.1	0.7	0.26	15.8	6.21	44.1	17.31	4.9	1.91
1998	238.3	0.5	0.21	15.2	6.36	50.5	21.19	12.4	5.22
		Romania		Slovak Republic		Slovenia		CEEC(7) <sup>2)</sup>	
		ECU mn	%	ECU mn	%	ECU mn	%	ECU mn	%
1995		1.6	1.05	2.8	1.80	12.4	8.05	47.5	30.72
1996		2.5	1.13	3.8	1.71	17.2	7.84	87.7	39.92
1997		2.0	0.79	6.1	2.37	22.0	8.62	95.6	37.46
1998		4.3	1.82	10.0	4.20	12.7	5.34	105.6	44.32

Notes: 1) 1995 data for Austria are not strictly comparable to 1996 and 1997 data. - 2) Including Bulgaria, the Czech Republic, Hungary, Poland, Romania, the Slovak Republic and Slovenia.

Source: Eurostat, WIIW calculations.

few years, only in the Czech Republic (1998), Romania (1997, 1998) and Slovakia (1995-1998) a trade surplus with Austria was recorded. Trade surpluses as well as trade deficits were rather small and ranged from ECU -10 million in Poland to ECU +8 million in Slovakia in 1998.

#### **Decreasing revealed compared advantage**

Revealed comparative advantage values (RCAs)<sup>18</sup> in relation to the EU have been positive in Bulgaria, Hungary, Romania and Slovakia during transition, reflecting the positive trade balance of the leather and leather products sector in these countries, while in the Czech Republic, Poland and Slovenia RCAs turned negative in the last few years (see Table 14). Also, when compared to manufacturing as a whole,<sup>19</sup> data indicated a comparative advantage – although decreasing – for the sector in all CEECs during transition. In 1998, the relative position of the sector was best in Slovakia and Romania, but also in Bulgaria. It was worst in Poland and the Czech Republic, where it became slightly negative in 1998, showing their declining competitiveness (see Table 15). Within the leather and leather products sector, it was mainly 'tanning and dressing of leather' that showed a negative

<sup>18</sup> Measured as  $RCA = (\text{exports} - \text{imports}) / (\text{exports} + \text{imports})$ .

<sup>19</sup> Measured as  $RCA(\text{leather and leather products}) - RCA(\text{total manufacturing})$ .

trade balance in 1998, while 'products from leather and leather substitutes' and 'mass produced footwear' generated a trade surplus (see Table 16).

Table 14

**Leather and leather products RCAs**

	1989	1992	1997	1998
Austria	-0.19	-0.20	-0.27	-0.23
Bulgaria	-0.30	0.29	0.24	0.18
Czech Republic	.	.	-0.09	-0.08
Hungary	0.12	0.14	0.07	0.00
Poland	0.34	0.28	-0.23	-0.26
Romania	0.47	0.15	0.21	0.18
Slovak Republic	.	.	0.26	0.27
Slovenia	.	.	0.05	-0.03
Greece	.	.	-0.85	-0.88
Portugal	.	.	0.45	0.39
Spain	.	.	0.31	0.28

Measured as:

RCA = (exports – imports) / (exports + imports).

Source: Eurostat, WIIW calculations.

Table 15

**Relative position of leather sector RCAs**

	1989	1992	1997	1998
Austria	-0.06	-0.10	-0.10	-0.08
Bulgaria	0.24	0.41	0.16	0.17
Czech Republic	.	.	0.06	-0.02
Hungary	0.23	0.17	0.13	0.04
Poland	0.42	0.36	0.03	-0.01
Romania	0.01	0.22	0.24	0.25
Slovak Republic	.	.	0.33	0.27
Slovenia	.	.	0.16	0.06
Greece	.	.	-0.24	-0.28
Portugal	.	.	0.67	0.60
Spain	.	.	0.45	0.41

Measured as:

RCA (leather sector) - RCA (total manufacturing)

Source: Eurostat, WIIW calculations

Table 16

**Detailed RCA structure of the leather and leather products sector, 1998**

	Czech			Slovak			
	Bulgaria	Republic	Hungary	Poland	Romania	Republic	Slovenia
441 Tanning and dressing of leather	-0.66	-0.74	-0.74	-0.57	-0.94	-0.44	-0.16
442 Manufacture of products from leather and leather substitutes	0.44	0.09	0.36	0.06	0.52	0.15	-0.08
451 Manufacture of mass produced footwear (excl. footwear completely of wood, rubber)	0.42	0.13	0.35	-0.07	0.53	0.54	0.04
<b>DC Leather and leather products</b>	<b>0.18</b>	<b>-0.08</b>	<b>0.00</b>	<b>-0.26</b>	<b>0.18</b>	<b>0.27</b>	<b>-0.03</b>

Measured as: RCA = (exports - imports) / (exports + imports).

Source: Eurostat, WIIW calculations.

**Important role of outward processing**

Outward processing (OP)<sup>20</sup> is playing an important role in the leather and leather products sector of the CEECs, particularly in footwear, and has hence accelerated the integration

<sup>20</sup> Outward processing (OP) is a form of international co-operation between independent firms from different countries on a contractual basis. The contractor delivers mainly semi-processed goods to the subcontractor, who refines, assembles or finishes the products that are then re-imported to the contractor's country (imports after outward processing). Hence trade conducted for the purpose of outward processing is called outward processing trade (OPT). See Naujoks and Schmidt (1995), p. 14.

into the international economy. The CEECs are a preferred target of West European producers due to low unit labour costs ('cost-saving OP'), close geographical location, a long-standing contracting tradition between former Yugoslavia, Hungary and Poland on the one side and Germany and Italy on the other, and formerly softer trade restrictions in outward processing than in normal trade. Both sides benefit from outward processing contracts.<sup>21</sup>

Imports after outward processing of footwear from the CEECs hold an important position among all EU imports after outward processing (see Appendix, Table A4): In 1989, CEEC(7) footwear exports after OP accounted for 90% of total EU outward processing imports. In 1992, the share was still at 91% but fell thereafter and reached about 60% in 1996, which was still relatively high.<sup>22</sup> Within the CEEC region, the significance of Slovenia (50% at the beginning of the 1990s) declined significantly during transition, while Hungary and Romania remained important. In 1996, the largest shares were achieved by Romanian exports, followed by Hungarian ones, the smallest shares came from Slovak and Slovenian exports.

Table 17

**Percentage shares of exports  
after outward processing in total exports to EU(15)**  
(CEEC exports after OP to the EU(15)/ total CEEC exports)\*100

		Bulgaria	Czech Republic	Hungary	Poland	Romania	Slovak Republic	Slovenia
19.1 Tanning and	1995	0.19	1.97	2.61	1.74	3.53	48.05	0.18
dressing of leather	1998	3.62	3.76	7.02	2.27	5.82	16.98	0.26
19.2 Luggage, handbags and the	1995	9.53	9.34	14.11	24.82	11.29	27.15	0.36
like, saddlery and harness	1998	30.15	5.33	5.55	24.51	10.05	13.87	5.61
19.3 Manufacture of	1995	26.86	27.73	28.87	32.33	18.54	5.28	18.07
footwear	1998	29.68	17.61	24.22	15.27	33.41	6.85	5.74

Sources: Eurostat, WIIW calculations.

The importance of outward processing for the individual countries is illustrated by the share of footwear exports after OP in total footwear exports of the CEECs (see Appendix A, Table A5): In 1989, outward processing exports played a major role in Hungarian, Romanian and Slovenian total footwear exports, with shares around 86%, 64% and 51% respectively. During transition these shares declined dramatically in all countries and in 1996 mostly ranged between 10% and 30%. In 1989, outward processing in footwear was still important in Romania, Bulgaria and Hungary (25% to 33%), followed by the Czech

<sup>21</sup> See Naujoks and Schmidt (1994).

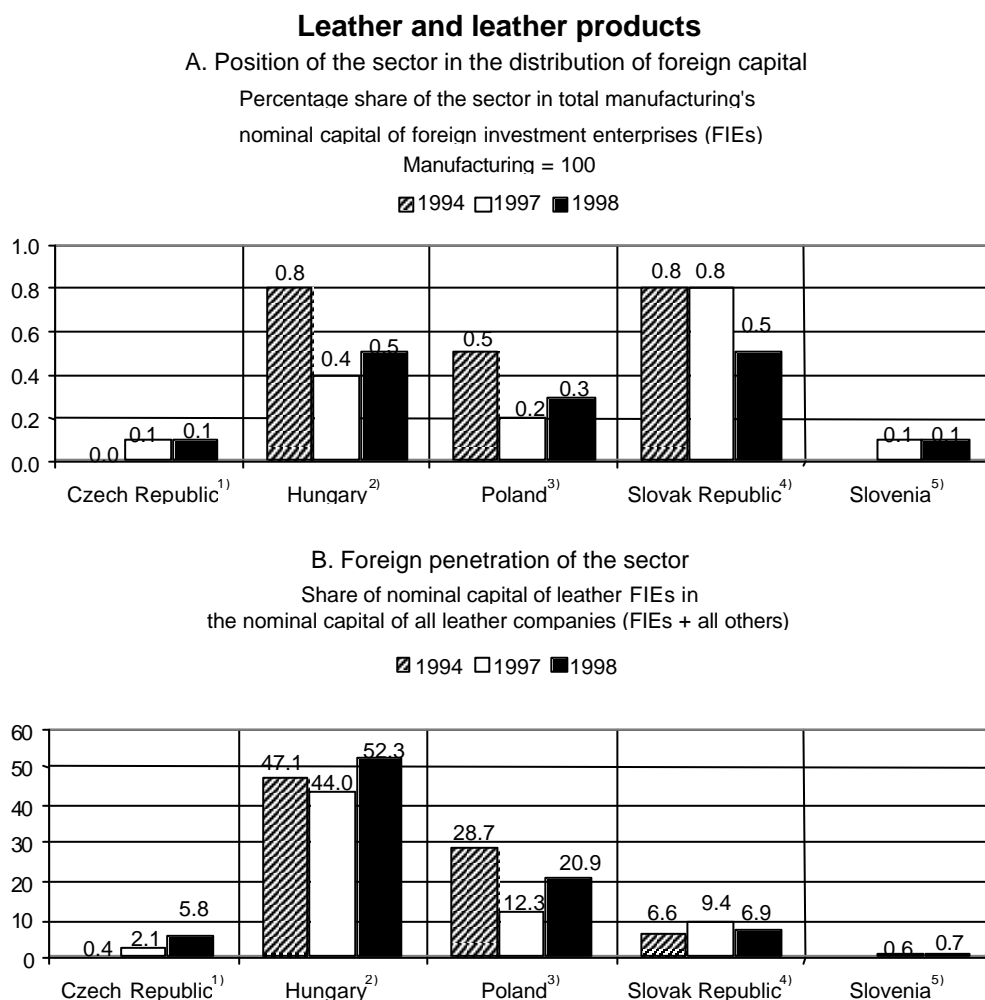
<sup>22</sup> 1996 is the last year for which data are available.

Republic and Poland (see Table 17). Compared to other branches of the leather and leather products sector, outward processing was mostly relevant for footwear, to a lesser extent also for other leather products, but not for tanning and dressing of leather (see Table 17).

#### 4 Foreign direct investment

The leather and leather products sector has not been a prominent target of foreign investors; compared to its production size it only attracted a smaller share of FDI. This might be due to the low rating and reputation of the sector, unfavourable future prospects, and also due to the prevalence of small and medium-size enterprises in this sector, for

Figure 6



Notes: 1) 1994 own capital, 1997-1998 equity capital.- 2) Nominal capital.- 3) Equity capital.- 4) Output of companies; 1995 data instead of 1997, 1996 data instead of 1998.- 5) Nominal capital; data for 1994 not stated due to confidentiality (industry with less than 3 FIEs).

Source: WIIW, FIE Database

whom FDI is difficult because of financial and budget constraints. In addition, the low inflows of FDI can also be explained by the increase of other forms of production integration, including subcontracting, outsourcing and outward processing providing greater flexibility. As the most important element, outward processing (OP) has held a substantial position in the leather and leather products sector (see section 3). When foreign direct investment took place, investors were mostly driven by cost-cutting strategies.

Looking at the shares of the leather and leather products sector in the distribution of the nominal capital of all foreign investment enterprises (FIEs)<sup>23</sup> in total manufacturing, these shares were very low in all countries, with figures between zero and 1% in all years observed (see Figure 6A). In Hungary and the Slovak Republic, where the share was actually the highest, it reached only 0.8% in 1994 and even declined over time.

Foreign penetration of the leather and leather products sector (as measured by the share of nominal capital of the sector's FIEs in the nominal capital of all leather companies) was below-average levels of foreign penetration for total manufacturing in all CEECs over the whole time period.<sup>24</sup> In 1998, the largest foreign penetration in the region was measured in Hungary (52%), followed by Poland (21%). In the other countries, it was rather low and reached 7% in the Slovak Republic, 6% in the Czech Republic and only 1% in Slovenia (see Figure 6B).

## 5 Prospects

In general, the leather and leather products sector in the Central and Eastern European countries has faced hard times during transition, not only due to the transformational recession but also due to import competition and a structural decline, including a dramatic fall in production, huge cuts in employment and thus decreasing importance. Only in **Bulgaria and Romania** has the sector experienced increasing specialization. Due to low wages and very low unit labour costs compared to West European countries, this labour-intensive sector enjoys a more favourable position in these two countries in production, employment and trade, helped by a relatively large share of outward processing.

In the region, the future prospects of the leather and leather products sector will be largely determined by demand developments on **external markets**, because of the strong export orientation of the sector. However, the current outlook is rather negative: In the last few years, the revealed comparative advantage of the sector declined in most countries (except Romania and Bulgaria) and sectoral trade deficits emerged or increased in trade with the European Union. In addition, competitiveness is mostly based on low cost/low

---

<sup>23</sup> Firms with any share of foreign ownership, including minority stakes.

<sup>24</sup> Only in Poland in 1994, foreign penetration of the leather and leather products sector was around manufacturing average.



wages rather than on product quality – illustrated in particular by a lower than average price/quality indicator in footwear. In the long run, however, the wage differentials to the EU will narrow and the advantage of low wages will thus fade. While Bulgaria and Romania still benefit from low wages, quality improvement and niche production may be a possible way for the other CEECs to improve the sector's performance. Moreover, competition from other low-cost producers in East Asia and China – which is already very strong – might increase, although the CEECs hold some locational advantage.

On the **domestic market**, growth potentials for the sector still exist because per capita shoe consumption is still below pre-transition levels. Largely influenced by business cycles, the leather and leather products sector also depends on developments in GDP and gross industrial production, for which forecasts are positive for all CEECs. Trends are most favourable in Hungary and least in Bulgaria and Romania, while growth forecasts for the Czech Republic, Poland, Slovakia and Slovenia fall in between (see most recent WIIW forecasts; Appendix Table A6). Despite these positive factors on the domestic market, it is questionable whether the CEECs' leather and leather products sector will be able to withstand the pressures from import competition. On the whole it seems that the hard times for the leather and leather products sector in the CEECs are not over but will rather continue in the future.

## **Part II: COMPANY PROFILES**

This second part sets out to describe a more detailed micro-analysis of the leather and leather products sector and contains the following information for each country, as far as available:<sup>25</sup>

- Structure of the sector and development trends
- Profitability and investment
- Number and size structure of companies
- Description of selected companies or a list of major companies

For Bulgaria, the only information available is about the major companies of the Bulgarian leather and leather products sector (see Table 18).

Table 18

### **The largest Bulgarian leather and leather products companies, ranked by 1999 net sales**

<b>Name, location</b>	<b>Net sales in ths. BGL</b>	<b>Net sales in ths. EUR<sup>1)</sup></b>	<b>Employees</b>	<b>Main activity</b>
Flavin, Sofia	18238	9324	.	Footwear
Flavia, Plodiv	11629	5945	1,743	Footwear
Kozharska fabrika Maya, Pleven	7621	3896	.	Leather industry
Record-Gabrovo	6492	3319	781	Footwear
Dobrich, Dobrich <sup>2)</sup>	6136	3137	500	Footwear
Kavaler, Sofia	5947	3040	699	Footwear
Prista-Rousse, Rousse	5388	2755	227	Leather industry
Ilyo Voyvoda, Kyustendil	5123	2619	563	Footwear

Notes: 1) Converted with average exchange rate Bulgarian lev BGL/EUR 1.956. - 2) Under procedure of insolvency.

Source: Bulgarian Enterprises Information System BEIS (<http://www.bic.bia-bg.com>)

## **Czech Republic**

At the beginning of the 20th century, the Czech footwear industry was known world-wide, thanks to the trade-mark Bata established in 1894. Tomáš Bata jr. transferred the business to Canada before World War II, the Czech company was nationalized later on (see below). Thus, in the former CSFR, about two thirds of the production of the leather and leather products sector was located in the Czech Republic (about 65% of the production in 1990)

<sup>25</sup> As the sector is very small, information sources are also rather limited and not all points are covered in every country. In addition, production statistics comprising only enterprises with more than 20 or 50 employees are problematic, as there are many small companies in the sector. Hence, production is underestimated and the structure not reported correctly. This is especially evident in Poland. Thus special attention should be paid to the different definitions of data.

and only one third in the former Slovak Republic. After the collapse of communism, the Czech footwear industry was hit hard by the dissolution of the COMECON and the disintegration of the former Soviet Union (more than half of the shoe production was sold there), the disintegration of the shoe sales network and the absence of trade-marks known on the EU market. After trade liberalization, cheap and often illegal imports from Asia, mostly China, took a large share of the domestic market. Today, Chinese shoes account for about 50% of the Czech shoe market, shoes from Slovakia, Poland, Italy and other West European countries account for about 37-40%, and only 10-13% are Czech shoes. Also, production in the sector declined for a number of reasons – mismanagement in several companies, excessive indebtedness of companies, insufficient financial means, and decreasing purchasing power of the domestic population.<sup>26</sup>

In the structure of the Czech leather and leather products sector, 'footwear' accounted for 61% of the sector's sales revenues in 1998, 'luggage, handbags and the like, saddlery and harness' for 28% and 'tanning and dressing of leather' for 12%. While 'luggage, handbags and the like, saddlery and harness' experienced the largest increase between 1994 and 1998 and its share grew dramatically (from 9% in 1994 to 28% in 1998), the other two sub-branches were less successful and their shares were shrinking (see Table 19). The adverse development in 'footwear' hence negatively influenced the whole sector.

Table 19

**Czech Republic: Sales revenues of the leather and leather products sector**

CZK million, distribution in %

	1994	1996	1998	1998	1998/94
	CZK million			share in %	growth
19.1 Tanning and dressing of leather	3412	3074	1151	11.7	33.7
19.2 Manufacturing of luggage, handbags and the like, Saddlery and harness	1498	1914	2717	27.7	181.4
19.3 Manufacture of footwear	10894	9852	5955	60.6	54.7
<b>DC Leather and leather products</b>	<b>15804</b>	<b>14570</b>	<b>9823</b>	<b>100.0</b>	<b>62.2</b>

Source: Ministry of Industry and Trade (2000).

The Czech leather and leather products sector is among the manufacturing branches with the lowest investment outlays in recent years, due to its poor reputation and the fact that banks grant only short-term loans. Investment in the sector totalled about Czech koruna (CZK) 400 million in 1999, representing only 3% of total manufacturing investment and ranking it last. However, the growth rate of investment in the sector in that year was 21%,

<sup>26</sup> Czech Business and Trade (2000), no. 3; Ministry of Industry and Trade (2000), p. 79.

more than in total manufacturing (6%).<sup>27</sup> In more detail, investment was concentrated in 'footwear', while in the other sub-branches it was very low. The leather and leather products sector registered losses in the last few years, reaching CZK 600 million in 1999 in companies with 100 or more employees.<sup>28</sup>

In 1999, there were about 160 companies with more than 20 employees operating in the Czech leather and leather products sector, of which 30% employed more than 100 persons (only one company had more than 2000 employees). The privatization of companies in the leather and leather products sector has been completed. Foreign direct investment was not prominent, again due to the low rating of the branch. Only some foreign investors came into the country, either as producers (e.g. Bata) or suppliers (Salamander, Gabor):

- Bata: The shoe company Bata was founded in 1894 in the Czech town Zlín and was one of the first true multinationals by 1938, comprising manufacturing and retailing stores in twenty countries. To save his family business, Tomáš Bata jr. travelled to Canada and established a shoe factory there. In 1945, the Czech Bata was nationalized and renamed to Svit. Bata Canada expanded continuously and today comprises some 60 manufacturing operations world-wide, over 4700 company-owned retail stores, employing more than 51,000 people around the world. In 1991, Tomáš Bata jr. bought 29 shoe-shops and a small factory in the Czech Republic. Instead of buying back the extensive operations of Svit, Bata concentrated on the retail market (well-known brand name!) and in shoe manufacturing sub-contracted labour-intensive processes to Svit.<sup>29</sup> Against Svit a.s. Zlín<sup>30</sup> (the only company with more than 2000 employees), bankruptcy proceedings were opened in September 2000.

## Hungary

In the structure of the Hungarian leather and leather products sector, 'footwear' played the major role with 76% of the sector's gross production in 1998. 'Luggage, handbags and the like, saddlery and harness' held a share of 13%, 'tanning and dressing of leather' another 11% (see Table 20). The sector developed relatively better than in other countries of the region, possibly due to higher foreign direct investment inflow (see Part I). Between 1993 and 1998, 'luggage, handbags and the like, saddlery and harness' grew most dynamically in the sector (data at current prices, hence including inflation) as did 'footwear'. 'Tanning and dressing' of leather was least successful.

---

<sup>27</sup> In more detail, investment into building and machinery declined while investment into other fixed assets increased.

<sup>28</sup> Ministry of Industry and Trade (2000a).

<sup>29</sup> Tisuanen (1997), p. 101.

<sup>30</sup> See Internet-Homepage <http://www.svit.cz>

In 1998 there were about 420 companies with legal entity active in the Hungarian leather and leather products sector, representing about 2% of all manufacturing corporations in Hungary. Of these, 55% had less than 11 employees, 41% employed between 11 and 300 persons, and 4% had more than 300 employees. In terms of legal form, 87% of all active corporations in the sector were private limited liability companies, just 3% were public limited liability companies (11 firms). The most and largest companies were located in 'footwear', including Sabona Cipoipari és Kereskedelmi Kft. (more than 1000 employees) and MSC Marc Shoe Corporation Hungary Cipogyártó Kft. (more than 1000 employees). Three companies employed between 500 and 999 people: Mary 2000 Cipogyár Rt., Sabaria-Siesta Cipogyártó és Kereskedo Kft. and Ipoly Cipogyár Termelo és Szolgáltató Kft.

Table 20

**Hungary: Value of gross production of the leather  
and leather products sector**

HUF million, distribution in %

Code <sup>1)</sup>	1993 <sup>2)</sup>	1996 <sup>3)</sup>	1998 <sup>3)</sup>	1993	1996	1998	1998/93
	HUF million			shares in %		growth	
1911 Tanning and dressing of leather	3490	3176	6274	16.0	9.5	11.4	179.8
1912 Manuf. of luggage, handbags, saddlery&harness	2517	4566	6859	11.6	13.6	12.5	272.5
191 Tanning and dressing of leather; Manuf. of luggage, handbags, saddlery&harness	6007	7742	13133	27.6	23.0	23.9	218.6
192 Manufacture of footwear	15775	25846	41751	72.4	77.0	76.1	264.7
<b>DC Leather and leather products</b>	<b>21782</b>	<b>33588</b>	<b>54884</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>252.0</b>

Notes: 1) Hungarian classification; some differences to NACE rev. 1. - 2) Economic organizations employing more than 20 persons. - 3) Economic organizations employing more than 10 persons.

Source: Yearbook of Industrial and Construction Statistics Hungary, various issues.

## Poland

In the structure of the Polish leather and leather products sector, 'footwear' accounted for 75% of the sector's sold production of companies with more than 50 employees in 1998. 'Tanning and dressing of leather' was the second largest sub-branch, with 19%, 'luggage, handbags and the like, saddlery and harness' was very small with only 6%. During transition, the importance of 'footwear' increased, that of 'tanning and dressing of leather' declined (see Table 21). Due to its size, the development and crisis in 'footwear' decisively shaped the whole sector. This sub-branch was severely hit by cheap footwear imports from China. In response, the Minister of Economy imposed extra import levies in March 1999,

which were to be reduced annually by one third. Customs duties are zero in trade with the EU and CEFTA countries.<sup>31</sup>

In the leather and leather products sector, net profitability was below that of total manufacturing between 1997 and 2000. While it was positive from 1995 to 1997, it turned negative thereafter. All sub-branches showed negative results in 1998, with 'tanning and dressing' affected most (-5.8%), 'footwear' less (-2.8%) and 'luggage, handbags and the like, saddlery and harness' the least (-2.8%). Investment growth was quite favourable in 1997 and 2000, but negative in the years in between, slowing down the process of restructuring and modernization (see Table 22). Foreign direct investment was only marginal in the sector, in terms of number of investors and size of investment.

Table 21

**Poland: Sold production of the leather and leather products sector<sup>1)</sup>**

PLN million, distribution in %

	1994	1996	1998	1994	1996	1998	98/94
	PLN million			shares in %			growth
19.1 Tanning and dressing of leather	318.5	457.0	431.7	24.7	20.3	19.0	135.5
19.2 Manufacturing of luggage, handbags and the like, saddlery and harness	71.4	90.7	129.5	5.5	4.0	5.7	181.4
19.3 Manufacture of footwear	901.7	1704.7	1705.7	69.8	75.7	75.2	189.2
<b>DC Leather and leather products</b>	<b>1291.6</b>	<b>2252.4</b>	<b>2266.9</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>175.5</b>

Note: 1) Companies with more than 50 employees.

Source: Polish Statistical Yearbook, Polish Industrial Yearbook, various issues.

Table 22

**Poland: Net profitability in the enterprise<sup>1)</sup> sector  
and real growth rates of investment outlays**

in %

	Net profitability <sup>2)</sup>				Investment growth			
	1997	1998	1999	2000	1997	1998	1999	2000
	I-VI				I-VI			
19 Leather and leather products	0.4	-3.3	-2.9	-0.1	41.2	-8.9	-2.4	76.7
D Total manufacturing	2.3	1.2	0.1	1.4	38.2	30.9	1.2	-6.2

Note: 1) Firms with 50 or more employees. - 2) Ratio of net profits to all revenue.

Source: Podkaminer (1998) and Central Statistical Office (1998, 1999, 2000).

<sup>31</sup> PAIZ (1999), p. 23.

In 1998 there were about 14,081 enterprises operating in the Polish leather and leather products sector, of which 91% employed less than five persons.<sup>32</sup> About 225 companies employed more than 50 persons,<sup>33</sup> of which only 52 companies more than 250 persons. Most companies were located in 'footwear' (74% of all companies with more than 50 employees), the rest was in 'luggage, handbags and the like, saddlery and harness' (15%) and in 'tanning and dressing of leather' (11%). The largest companies in the leather industry include Asko Tanning Plant in Nysa; Brzeg Tanning Plant in Brzeg; Tanning Plants in Leszno Górne; Skotan Tanning Plant in Skoczów, Polesie Tanning Plants in Wlodawa. The largest footwear enterprises with more than 500 employees include Southern Leather Plants Chelmek in Chelmek, Befado in Bielsko-Biala, But-S in Konstancin Łódzki, Neptun in Starograd Gdanski, Polonia in Gniezno, Primus in Prudnik and Alka in Slupsk.<sup>34</sup>

## Romania

The privatization of the Romanian leather and leather products sector has nearly been completed: in 1998, about 26% of the sector's fixed assets were in state hands, 60% were already private and 14% foreign-owned. This is a relatively high share of foreign ownership compared to other branches of manufacturing.<sup>35</sup> In turnover, only 14% was accounted for by the former, 58% and 29% by the latter owners. The profit rate (profit-loss/turnover) proved to be highly negative for state enterprises (-12%), positive for private (2%) and very good for foreign owners (12%).<sup>36</sup>

There are about 1400 companies in the Romanian leather and leather products sector, of which 53 are large companies with more than 250 employees, 65 have between 50 and 250 employees and the rest are small companies. During communism, outward processing accounted for about 90% of the production of large companies. Also today, outward processing plays a major role: international companies have their shoes produced in Romania, Italian ones being the most prominent. In recent years, many of these foreign companies have built their own factories, now competing with domestic ones. New companies have also emerged, facing however problems with domestic supplies: supplier-industries are underdeveloped, the quality of products is poor, investments are missing. Hence companies have to import materials, mostly from Italy, increasing production costs and making products less competitive on international markets.<sup>37</sup>

---

<sup>32</sup> PAIZ (1999), p. 22.

<sup>33</sup> Central Statistical Office Poland (1999).

<sup>34</sup> Ministry of Economy (1999), p. 122.

<sup>35</sup> In total manufacturing the distribution is as follows: 61% state, 29% private and 9% foreign ownership.

<sup>36</sup> Boscaiu and Munteanu (2000).

<sup>37</sup> See *OstWestContact* (2000), no. 3.

Looking at the financial indicators of the sector in 1998, the leather and leather products sector compares favourably with the total manufacturing average, except in the financial results (see Table 23, Status). According to Mereuta (1999) the sector hence belongs to the positive 'nucleus' of total manufacturing<sup>38</sup>. Also in other respects, including the industrial dynamics, international and internal competitiveness, and degree of privatization, the sector is in a 'clear distinct favourable situation'.<sup>39</sup> Its weaknesses, however, lie in low investment dynamics and low labour productivity.<sup>40</sup>

Table 23

**Financial indicators of the Romanian leather  
and leather products sector, 1998, in %**

Rate <sup>1)</sup>	Rate value <sup>1)</sup>	Status <sup>2)</sup>
Operational result	13.53	A
Financial result	-5.47	C
Exceptional result	-2.19	A
Gross result	5.87	A
Outstanding debts	17.12	A

*Notes:* 1) Result and debt divided by turnover. - 2) Rate compared to the same rate of total manufacturing: **A** meaning a rate superior by at least 5% to the equivalent total manufacturing rate, **B** meaning a rate placed between +/- 5% of the equivalent total manufacturing rate, **C** meaning a rate inferior by at least 5% to the equivalent total manufacturing rate.

*Source:* Mereuta (1999), p. 61.

In 1998, market leaders in the Romanian leather and leather products sector included:

- SC Star International SRL: The wholly foreign-owned company employs between 501 and 1000 persons and produces footwear, boots and parts.
- SC Clujana SA: Formerly a national flagship of Romania and internationally well-known trade-mark, Clujana was operationally closed down in August 1999, due to huge debts and a poor financial situation. In March 2000 it was included in a list of 64 Romanian companies to be privatized, restructured or liquidated. The integrated producer of leather and footwear formerly consisted of four sectors: a footwear factory, a department for tanning, a substitute and accessories department and a mechanic-energetic department.<sup>41</sup> It was held by domestic state and private owners.
- SC Bontimes: The company employs between 251 and 500 persons and is an important Romanian-Italian joint venture company, producing all types of footwear.

<sup>38</sup> Mereuta (1999), p. 61.

<sup>39</sup> *ibid.*, p. 100.

<sup>40</sup> *ibid.*, p. 100.

<sup>41</sup> *Romanian Economic Daily* (1999), 7 July; *NewsBase CEED* (2000), 20 March; *Romanian Economic Daily* (2000), 27 March.



- SC Medimpact SA: The domestic private-owned company was established in 1991, employs about 1400 persons today and produces leather, saddlery and harness, leather goods and also footwear.
- SC Antilopa SA Bucuresti: Established in 1963, the company is today domestic private-owned, employs 2500 persons and produces footwear.

## **Slovakia**

In the former CSFR, about one third of production of the leather and leather products sector was located in Slovakia (about 35% of the production in 1990). The privatization of the Slovak leather and leather products sector was completed by the end of 1999, with 99.5% of all companies in the sector being in private ownership. About 190 companies were located in the sector then, of which 51% had less than 20 employees, 39% between 20 and 250 employees, and about 10% more than 250 employees.

During transition, the Slovak leather and leather products sector was seriously hit by the collapse of the CMEA market and especially the former Soviet Union: production of footwear declined from 44 million pairs in 1990 to about 8 million in 1999, while the fall in leather tanning was even more pronounced. The sector registered losses, high debts and a low rate of investment. However, between 1996 and 1999 the sector transformed, moving from highly negative results towards a result of nearly zero in 1999 and a profit in the first quarter of 2000. The year 2000 represented a turning point for 'footwear', while 'tanning and dressing of leather' and 'luggage, handbags and the like, saddlery and harness' were still stagnating. The sector is highly troubled by cheap and often illegal imports from China and other South-East Asian countries. Hence, Slovakia introduced import quotas for products from China as of 1 February 1999, following the example of Poland and Hungary. While imports are slowly decreasing, Asian suppliers try to circumvent trade barriers by re-classification of their products. The main part of footwear production takes place in joint ventures with foreign companies, including Rieker Obuv, Elefanten, Gabor, Ecco and Rialto. Slovak companies include Vulkan, Refol, Jas Export, Hitop, Topart, Unitop.<sup>42</sup>

## **Slovenia**

The leather and leather products sector has a long tradition in Slovenia. In leather, the sector specializes on pig leather, while leather products include a variety of small leather articles. Footwear ranges from fashionable footwear to sports shoes. In 1998, the sector produced about 7.0 million m<sup>2</sup> of leather and leather goods (against 6.8 million m<sup>2</sup> in 1996),

---

<sup>42</sup> See Sulo (2000).

365 thousand m<sup>2</sup> of small leather articles (372 ths. m<sup>2</sup> in 1996) and about 4.4 million pairs of footwear (5.6 million pairs in 1996). A share of about 54% of the production is exported while manufacturing depends on imports of semi-finished goods. Especially footwear producers have their own retail outlets.<sup>43</sup>

In the structure of sectoral revenues, 'footwear' accounted for about 47% of the sector's income in 1997, 'tanning and dressing of leather' for 44% and 'luggage, handbags and the like, saddlery and harness' for 9%. In the employment structure, 'footwear' was much more pronounced (59%), while the more capital-intensive branch 'tanning and dressing of leather' had less weight (31%, see Table 24).

Table 24

**Slovenia: Employees and revenues of the leather  
and leather products sector, 1997**

	Employees		Revenues	
	persons	in %	in ths. SIT	in %
19.1 Tanning and dressing of leather	2463	30.8	20893	44.0
19.2 Manufacturing of luggage, handbags and the like, saddlery and harness	818	10.2	4411	9.3
19.3 Manufacture of footwear	4714	59.0	22145	46.7
<b>DC Leather and leather products</b>	<b>7995</b>	<b>100.0</b>	<b>47450</b>	<b>100.0</b>

Source: Slovenian Textiles, Clothing and Leather Processing Association ([www.gzs.si/eng/ccis/branch/tex2.htm](http://www.gzs.si/eng/ccis/branch/tex2.htm)).

In 1999, the Slovenian leather and leather products sector belonged to the largest loss-making sectors in manufacturing, being the third-largest loser only behind textiles and vehicles, trailers and semi-trailers. In the preceding years, the sector had also recorded losses.

In 1998, there were about 83 companies in the Slovenian leather and leather products sector, of which there were 7 large, 8 medium-size and 68 small companies.<sup>44</sup>

Problems of the Slovenian footwear industry include, in particular, large-scale production in a few large companies, in an industry which typically operates in small units. Companies are less productive than in the EU and are loss-making (see above). In the European Union, small manufacturers form clusters and transfer cost-intensive production to Eastern Europe and the Far East. They concentrate on key production and final phases of completion. The restructuring needs of the Slovenian footwear industry were recognized by

<sup>43</sup> Slovenian Textiles, Clothing and Leather Processing Association ([www.gzs.si/eng/ccis/branch/tex2.htm](http://www.gzs.si/eng/ccis/branch/tex2.htm)).

<sup>44</sup> *ibid.*

Table 25

**The largest companies of the Slovenian leather and leather products sector, ranked by 1999 income**

Name, location	Total income/ Profit in SIT mn	Net revenues in EUR mn <sup>1)</sup>	Employees	Export share	Main activity
Industrija usnja Vrhnika, d.d., Vrhnika	8,839/0	46	1,508	>80	Pigskin, sheepskin, leather ready-made clothes, other prod.
Alpina, d.d., Žiri	7,857/82,291	41	1,097	60-80	Ski boots, track shoes, etc.
Planika, d.d., Kranj	7,714/0	40	1,365	60-80	Trekking shoes, sports -, fashion footwear
Koto, d.d., Ljubljana	7,582/270,280	39	316	40-60	Leather
Peko, d.d., Ljubljana	6,365/0	33	1,071	.	Footwear

Note: 1) Converted with average exchange rate SIT/EUR 193.63.

Source: *Slovenian Business Report* (2000), Fall; SLO Export Internet-Homepage [www.gzs.si/sloexporta/default.htm](http://www.gzs.si/sloexporta/default.htm).

the Slovenian government, which in 2000 adopted a 'Programme of Adapting to EU Internal Market Conditions in the 2000-2003 Period' involving the textiles and clothing and the footwear industries. It targets companies' marketing capacities, technological modernization, and human resources development. In September 1998, the government had already adopted a strategy of restructuring and job renewal in the footwear industry. This programme envisaged certain financial investments made by state and by individual companies.

- Alpina, d.d.: The Slovenian company is the second-largest producer of cross-country ski-boots in the world (25% market share), and also produces hiking boots, roller-skates and fashion shoes. While ski-boots were always targeted at western markets such as the US and Norway, fashion shoes were mainly supplied to the former Soviet market. After the collapse of this market, Alpina did mostly low-margin sub-contracting work for the west in this latter product segment (see share of OP in Part I). During transition, it repositioned itself; plans are now to cut fashion models. High labour costs in Slovenia have forced the company to use low-cost sub-contracting for manual work in Bosnia (Italian producers do the same in Romania). Today, subcontractors there fulfil about one third of Alpina's stitching work. Alpina also turns to China, where labour costs are still lower. Owned 60% by its staff before, the company sold 16% of the stock to the EBRD in 1999. From this Alpina will finance the modernization and expansion of its retail network, the modernization of production and the increase of productivity.<sup>45</sup>

<sup>45</sup> *Financial Times* (1999), 7 June.

## Conclusions for Part II

- The leather and leather products sector in the CEECs is dominated by the production of ‘footwear’, with shares ranging between 47% of the sector’s income in Slovenia and 76% in Hungary. ‘Tanning and dressing of leather’ ranks second in Slovenia (44%) and Poland (19%), while ‘luggage, handbags and the like, saddlery and harness’ is rather small in these two countries. In the Czech Republic and Hungary, on the other hand, ‘luggage, handbags and the like, saddlery and harness’ comes second and ‘tanning and dressing of leather’ is the smallest sub-branch.
- During transition, the leather and leather products sector was hit hard by the disintegration of the former Soviet Union, by the decrease of purchasing power on the domestic market, the fall-apart of the shoe retail networks and the lack of trade-marks. In addition, the sector (especially footwear) was seriously affected by cheap imports from Asia, mostly China, against which some countries took trade measures. ‘Luggage, handbags and the like, saddlery and harness’ did comparatively well in most countries .
- In the financial sphere, the leather and leather products sector was hampered by low investment, high debts and losses.
- Regarding the company structure, the heritage of large enterprises – for instance in Slovenia and Romania – seems to have been a burden on the leather and leather products sector, which is typically composed of small and medium -sized companies.
- The largest/major companies in the sector are mostly footwear producers – only in Slovenia a leather company takes the first position.

## References

- ANEIR – Foreign Trade Promotion Center S.A. (2000), *Romania Your Business Partner 1999/2000 Edition*, CD-ROM.
- Bulgarian Enterprises Information System BEIS, Internet Homepage [www.bic.bia-bg.com](http://www.bic.bia-bg.com).
- Business Eastern Europe*, various issues.
- Boscaiu, V., Munteanu, C. (2000), *Impact of the FDI on Productivity in Romanian Manufacturing*, Paper presented at the 6<sup>th</sup> E.A.C.E.S. Conference, Barcelona, 7-9 September 2000.
- Central Statistical Office Poland (1999), *Statistical Yearbook Industry*.
- Chamber of Commerce and Industry of Slovenia, Textiles, Clothing and Leather Processing Association (1999), *Catalogue – Slovenian Textile and Leather Producers 1999*, July.
- Czech Business and Trade*, various issues.
- Confederation of National Associations of Tanners and Dressers of the EU (COTANCE), The Euroleather Web Site ([www.euroleather.com](http://www.euroleather.com)).
- Europäische Kommission (1997), *Panorama der EU-Industrie 97*, Luxemburg.
- Fath, J. et al. (1993), 'Die Industrien Tschechiens und der Slowakei: Profile, Trends und Bezug zu Österreichs Industrie', *WIIW Research Reports*, no. 201, The Vienna Institute for Comparative Economic Studies, September.
- Financial Times*, various issues.
- Havlik, P. et al. (2000), 'The Transformation Countries in Early 2000: Improved Outlook for Growth, But Unemployment Is Still Rising', *WIIW Research Reports*, no. 266, The Vienna Institute for International Economic Studies, June.
- Hunya, G. (ed.) (1998), *Database on Foreign Investment Enterprises in Central European Manufacturing: Austria, the Czech Republic, Hungary, Slovakia, Slovenia 1993-1996*, The Vienna Institute for International Economic Studies, September.
- International Labour Organization (ILO) (2000), *Labour practices in the footwear, leather, textiles and clothing industries*, Report for discussion at the Tripartite Meeting on Labour Practices in the Footwear, Leather, Textiles and Clothing Industries, Sectoral Activities Programme, TMLFI/2000, Geneva.
- Landesmann, M., Burgstaller, J. (1997), 'Vertical Product Differentiation in EU Markets: The Relative Position of East European Producers', *WIIW Research Reports*, no. 234 (a+b), The Vienna Institute for International Economic Studies, February.
- Landesmann, M., Burgstaller, J. (1999), 'Trade Performance of East European Producers on EU Markets: an Assessment of Product Quality', *WIIW Research Reports*, no. 255, The Vienna Institute for International Economic Studies, April.
- Mereuta, C. (co-ordinator) (1999), *Assessment of the National Economy Status: The Romanian Processing Industry, 1990-1998, A Structural Diagnosis, Options for Industrial Policies*, Romania's Academy.
- Ministry of Economy (1999), *Poland's Report - Industry in 1998*, Warsaw.
- Ministry of Economy of the Slovak Republic (1999), *Elaboration of the principles of the European Union's Industrial Policy for conditions of the Slovak Republic, including a Review of Branch Profiles*.
- Ministry of Industry and Trade (2000), *Panorama of Czech Industry 1989/99*, Prague.
- Ministry of Industry and Trade (2000a), *Survey of the Czech Economy and MIT Sectors in 1999*, Prague.

- Naujoks, P., Schmidt, K. (1994), 'Outward Processing in Central and East European Transition Countries: Issues and Results from German Statistics', *Kiel Working Paper*, no. 631, May.
- Naujoks, P., Schmidt, K. (1995), 'Foreign Direct Investment and Trade in Transition Countries: Tracing Links – a Sequel', *Kiel Working Paper*, no. 704, August.
- Neue Züricher Zeitung*, various issues.
- New Europe*, various issues.
- NewsBase CEBD, various issues, Internet Homepage [www.cebd.com](http://www.cebd.com).
- Ost-West-Contact*, various issues.
- Pavitt, K. (1984), 'Sectoral Patterns of Technical Change: towards a Taxonomy and Theory', in: *Research Policy*, Vol. 13, no. 6, December.
- Podkaminer, L. (1998), 'POLAND: Medium- and Long-term Economic Prospects', *WIIW Analytical Forecasts*, The Vienna Institute for International Economic Studies, April.
- Polish Agency for Foreign Investment (PAIZ) (1999), *The Polish Textile and Leather Industry*.
- Romanian Economic Daily*, various issues.
- Slovenian Business Week*, various issues.
- Slovenian Business Report*, various issues.
- Sulo, S. (2000), 'Current Situation and Future Prospects of the Leather and Footwear Industry in the Slovak Republic', Lecture held on the Intershoe-fair in Bratislava on 7 September 2000 (in Slovak language).
- The Republic of Slovenia, The Ministry of Economic Affairs (2000), *Strengthening the competitive position of Slovene manufacturing industries*, Executive Summary, March.
- Tiusanen, T. (1997), *Poland in the 1990's: Business opportunities in a successful transitional economy*, Studies in Industrial Engineering and Management, Lappeenranta University of Technology, no.1.
- United Nations Industrial Development Organization (UNIDO) (1998), *International Yearbook of Industrial Statistics 1998*, Vienna.
- Universita' Commerciale Luigi Bocconi (1997), *EU Foreign Direct Investment in Central and Eastern Europe*, Research Project with the Financial Assistance of the Commission of the European Communities, Directorate-General III, Ref. SUB/96/83328/U.B., Milan, November.
- Urban, W. (1999), 'Patterns of Structural Change in CEEC Manufacturing', in: *Structural Developments in Central and Eastern Europe*, *WIIW Report 1999*, The Vienna Institute for International Economic Studies, Vienna, August.

## **Appendix of Tables and Figures**

Table A1

## Key data on total manufacturing

			1989	1992	1993	1997	1998	1999	Average growth in % 1993-1999
<b>BULGARIA</b>									
Industrial production (at current prices)	in BGL mn		59320	177335	201870	13510638	13501353	11988000	.
Industrial growth (at constant prices)	in %		.	-17.2	-12.7	-12.0	-12.0	-13.1	.
Employment	in 1000		1420	883	767	720	690	592	.
Employment growth	in %		.	-16.3	-13.2	-2.7	-4.2	-14.2	.
Wage growth (ECU basis)	in %		.	46.0	44.5	-1.6	25.9	6.6	.
Productivity growth	in %		.	-1.0	0.6	-9.5	-8.1	1.4	.
ULC growth (ECU basis)	in %		.	47.5	43.7	8.7	37.0	5.1	.
Total exports to EU	in ECU mn		394	757	779	1772	1896		16.5 <sup>2)</sup>
Total imports from EU	in ECU mn		1316	971	1158	1492	1863		11.5 <sup>2)</sup>
Trade balance with EU	in ECU mn		-921	-214	-380	280	33		.
Exports to the EU: Market shares	in %		0.12	0.20	0.20	0.31	0.31		.
<b>CZECH REPUBLIC</b>									
Industrial production (at current prices)	in CZK mn		558351	652893	655289	1330877	1442259	.	.
Industrial growth (at constant prices)	in %		.	-8.0	-8.4	7.6	2.6	-2.7	1.9
Employment	in 1000		1658	1181	1098	1173	1143	1088	.
Employment growth	in %		.	-13.2	-7.0	-2.6	-2.6	-4.8	-4.0
Wage growth (ECU basis)	in %		.	20.0	33.7	8.1	9.3	4.3	14.9
Productivity growth	in %		.	6.0	-1.5	10.4	6.4	3.0	6.1
ULC growth (ECU basis)	in %		.	13.2	35.7	-2.0	2.7	1.3	8.3
Total exports to EU	in ECU mn		.	.	4385	9660	11796		21.9 <sup>1)</sup>
Total imports from EU	in ECU mn		.	.	5613	12885	13259		18.8 <sup>1)</sup>
Trade balance with the EU	in ECU mn		.	.	-1228	-3225	-1463		.
Exports to the EU: Market shares	in %		.	.	1.13	1.68	1.90		.
<b>HUNGARY</b>									
Industrial production (at current prices)	in HUF mn		1461100	1497321	1721479	5197367	6615642	7886728	.
Industrial growth (at constant prices)	in %		.	-17.5	3.0	15.9	17.4	18.6	10.3
Employment	in 1000		1171	857	747	637	734	743	.
Employment growth	in %		.	-14.5	-12.9	0.7	3.4	1.2	-3.5
Wage growth (ECU basis)	in %		.	14.5	18.4	10.8	2.3	10.4	6.2
Productivity growth	in %		.	-3.5	18.2	15.2	13.6	17.2	14.4
ULC growth (ECU basis)	in %		.	18.6	0.2	-3.8	-9.9	-5.8	-7.1
Total exports to EU	in ECU mn		2177	3548	3522	8981	11213		21.1 <sup>2)</sup>
Total imports from EU	in ECU mn		2665	3738	4585	10092	12236		21.9 <sup>2)</sup>
Trade balance with the EU	in ECU mn		-488	-189	-1063	-1111	-1023		.
Exports to the EU: Market shares	in %		0.74	0.94	0.90	1.55	1.80		.
<b>POLAND</b>									
Industrial production (at current prices)	in PLN mn		.	78975	104441	299825	334887	0	.
Industrial growth (at constant prices)	in %		.	4.9	10.2	13.3	5.3	5.1	10.7
Employment	in 1000		3326	2767	2700	2821	2801	.	.
Employment growth	in %		.	-13.1	-2.4	0.7	-0.7	.	-0.3 <sup>2)</sup>
Wage growth (ECU basis)	in %		.	2.6	13.8	11.1	8.5	.	2.6 <sup>2)</sup>
Productivity growth	in %		.	20.7	14.3	6.1	8.8	.	10.2 <sup>2)</sup>
ULC growth (ECU basis)	in %		.	-15.0	0.8	-1.3	2.3	.	0.0 <sup>2)</sup>
Total exports to EU	in ECU mn		2835	5910	6497	11828	13277		14.4 <sup>2)</sup>
Total imports from EU	in ECU mn		3289	6952	8658	20465	22291		21.4 <sup>2)</sup>
Trade balance with the EU	in ECU mn		-454	-1043	-2161	-8637	-9014		.
Exports to the EU: Market shares	in %		0.84	1.58	1.68	2.06	2.14		.

Table A1 (continued)



		1989	1992	1993	1997	1998	1999	Average growth in % 1993-1999
<b>ROMANIA</b>								
Industrial production (at current prices)	in ROL bn	.	5484	15302	171363	205445	341484	.
Industrial growth (at constant prices)	in %	.	-23.1	-1.2	-6.6	-11.4	-14.5	-3.0
Employment	in 1000	.	2811	2590	2032	1907	1684	.
Employment growth	in %	.	-12.5	-7.9	-5.4	-6.2	-11.7	-7.1
Wage growth (ECU basis)	in %	.	-37.0	35.5	-7.1	24.7	-9.9	9.2
Productivity growth	in %	.	-12.1	7.2	-1.2	-5.6	-3.2	4.4
ULC growth (ECU basis)	in %	.	-28.3	26.4	-6.0	32.0	-6.9	4.6
Total exports to EU	in ECU mn	1654	1333	1582	4012	4554		22.7 <sup>2)</sup>
Total imports from EU	in ECU mn	611	1545	1958	4254	5168		22.3 <sup>2)</sup>
Trade balance with the EU	in ECU mn	1043	-211	-376	-242	-614		.
Exports to the EU: Market shares	in %	0.49	0.35	0.41	0.69	0.73		.
<b>SLOVAK REPUBLIC</b>								
Industrial production (at current prices)	in SKK mn	.	.	266525	419028	545700	599075	.
Industrial growth (at constant prices)	in %	.	-15.7	-11.9	2.6	7.5	-3.2	1.0
Employment	in 1000	.	527	472	439	515	500	.
Employment growth	in %	.	-12.6	-10.4	-3.6	-4.4	-3.0	-3.9
Wage growth (ECU basis)	in %	.	11.3	23.6	13.2	3.7	-2.6	11.0
Productivity growth	in %	.	-3.6	-1.6	6.5	11.1	-0.1	4.9
ULC growth (ECU basis)	in %	.	15.4	25.6	6.3	-6.6	-2.5	5.9
Total exports to EU	in ECU mn	.	.	1069	3221	4337		32.3 <sup>1)</sup>
Total imports from EU	in ECU mn	.	.	1084	3729	4396		32.3 <sup>1)</sup>
Trade balance with the EU	in ECU mn	.	.	-15	-508	-59		.
Exports to the EU: Market shares	in %	.	.	0.28	0.56	0.70		.
<b>SLOVENIA</b>								
Industrial production (at current prices)	in SIT mn	.	809602	998161	1868671	2077927	.	.
Industrial growth (at constant prices)	in %	.	-13.9	-4.0	-2.6	4.5	0.2	0.8
Employment	in 1000	370	282	257	229	227	224	.
Employment growth	in %	-1.4	-10.1	-9.0	-3.2	-0.8	-1.4	-4.3
Wage growth (ECU basis)	in %	.	-4.8	14.6	5.3	7.5	5.0	8.8
Productivity growth	in %	.	-4.2	5.5	0.7	5.3	1.6	5.3
ULC growth (ECU basis)	in %	.	-0.6	8.6	4.6	2.1	3.3	3.3
Total exports to EU	in ECU mn	.	.	2808	3960	4278		8.8 <sup>1)</sup>
Total imports from EU	in ECU mn	.	.	2852	4886	5070		12.2 <sup>1)</sup>
Trade balance with the EU	in ECU mn	.	.	-44	-926	-792		.
Exports to the EU: Market shares	in %	.	.	0.72	0.69	0.69		.

Notes: 1) 1994-1998. - 2) 1993-1998.

EU: European Union (12)

Bulgaria: 1989-1995: Total manufacturing excluding petroleum refineries; Industrial production at 1993 prices.

From 1996: Industrial production at 1996 prices.

Czech Republic: Up to 1996 enterprises with 100 employees or more, from 1997 enterprises with 20 employees or more.

Industrial production at constant prices: 1997 and 1998 industrial output index calculated from production statistics of businesses with 20 employees or more.

Hungary: Industrial production: Enterprises with more than 20, from 1996 enterprises with more than 10 employees, 1999 enterprises with more than 5 persons.

Employment and wages: Enterprises with more than 20 employees, 1999 enterprises with more than 5 persons.

Poland: Industrial production at current prices: From 1993 excluding VAT; including import duties; from 1996 basic prices, the years before producer prices. Average monthly gross wages: Enterprises with more than 5 employees.

Slovak Republic: Enterprises with 25 and more employees, 1997 enterprises with 20 and more employees, from 1998 all enterprises.

Slovenia: Employment in enterprises, companies and organizations: 1989-1996 private enterprises are included only if they have 3 or more persons in paid employment and armed forces staff, from 1997 all enterprises.

Wages in enterprises, companies and organizations.

Source: WIIW database

Table A2

### Leather and leather products

Estimated ranges for Unit Labour Costs in 1999, Austria 1996 = 100<sup>1)</sup>

	Bulgaria	Czech Republic	Hungary	Poland	Romania	Slovak Republic	Slovenia
PPP for GDP (lower range)	29	60	52	37	18	51	109
Unit value ratio	.	60	54	58	.	.	.
PPP for fixed capital formation (upper range)	66	92	79	51	67	83	125

Notes: 1) Defined as wages in ECU divided by productivity (measured as output at constant prices 1996 converted with ECU-based purchasing power parities (PPPs) divided by employees); gross wages used for calculation.

Source: WIIW

Table A3

### Structure of manufacturing exports to the EU(12), 1998, in %

	Bulgaria	Czech Republic	Hungary	Poland	Romania	Slovak Republic	Slovenia
D Manufacturing total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
DA Food products; beverages and tobacco	4.6	1.4	4.1	5.7	0.7	1.0	1.4
DB Textiles and textile products	29.2	8.1	9.2	16.8	41.8	9.7	12.4
<b>DC Leather and leather products</b>	<b>6.6</b>	<b>1.3</b>	<b>2.7</b>	<b>1.5</b>	<b>12.7</b>	<b>3.5</b>	<b>2.0</b>
DD Wood and wood products	2.4	3.0	1.4	5.7	2.6	2.1	3.7
DE Pulp, paper & paper products; publishing and	0.9	2.6	0.7	2.3	0.3	2.4	3.1
DF Coke, refined petroleum products & nuclear fuel <sup>1)</sup>	.	.	.	.	.	.	.
DG Chemicals, chemical products & man-made	10.3	5.7	4.7	5.4	3.6	5.3	3.5
DH Rubber and plastic products	1.2	5.0	2.1	2.9	1.1	2.6	3.4
DI Other non-metallic mineral products	2.6	4.6	1.4	3.0	2.1	2.5	2.3
DJ Basic metals and fabricated metal products	29.2	17.7	7.9	17.6	16.0	14.7	17.0
DK Machinery and equipment n.e.c.	5.8	12.2	6.6	6.0	5.0	6.2	13.0
DL Electrical and optical	3.4	15.5	30.1	12.6	4.4	11.0	10.8
DM Transport equipment	0.8	18.5	26.8	11.4	2.4	36.1	23.3
DN Manufacturing n.e.c.	2.9	4.4	2.4	9.0	7.3	2.8	4.1

Notes: 1) Coke, refined petroleum products & nuclear fuels not termed manufacturing in the trade

Source: Eurostat, WIIW calculations

Table A4

**Percentage shares of CEECs  
in total imports after outward processing of EU(12): Footwear**

(EU imports after OP from CEECs/total EU imports after OP)\*100

		Czech Republic <sup>1)</sup>		Hungary	Poland	Romania	Slovak Republic		Slovenia <sup>2)</sup>	CEEC(7)
		Bulgaria								
EU imports after OP	451	1988	0.02	1.38	21.36	3.84	12.49	.	50.85	89.94
		1989	0.45	3.75	24.64	5.01	8.52	.	47.99	90.36
		1990	0.00	5.61	23.18	7.81	10.06	.	37.27	83.93
		1991	0.05	9.64	26.28	13.84	13.07	.	21.28	84.16
		1992	0.21	17.63	40.92	14.79	9.29	.	8.24	91.08
		1993	3.20	13.07	29.17	13.82	10.16	2.57	5.47	77.46
		1994	4.08	13.71	25.30	10.49	15.16	3.31	4.05	76.10
	19.3	1995	4.71	10.69	17.54	11.77	16.37	1.34	4.12	66.54
		1996	6.07	6.77	16.40	6.50	17.90	2.48	2.02	58.14

Notes: 1) Until 1993 CSFR.- 2) Until 1991 Yugoslavia.

NACE 1970 classification: 451 'Manufacture of mass produced footwear (excluding footwear made completely of wood or rubber'.

NACE rev.1 classification: 19.3 'Manufacture of footwear'.

Sources: Landesmann, Burgstaller (1997) and Landesmann, Burgstaller (1999).

Table A5

**Percentage shares of exports after  
outward processing in total exports to the EU(12): Footwear**

(CEEC exports after OP to the EU(12)/total CEEC exports)\*100

		Czech Republic <sup>1)</sup>		Hungary	Poland	Romania	Slovak Republic		Slovenia <sup>2)</sup>	All trading partners of EU
		Bulgaria								
451	1988	3.44	12.37	86.25	16.09	64.34			50.93	3.10
	1989	30.12	29.47	87.36	22.78	62.84			45.35	3.12
	1990	0.00	37.75	69.17	63.52	61.18			35.56	2.61
	1991	1.74	46.75	67.09	52.00	62.65			23.17	2.65
	1992	1.44	42.18	72.15	38.45	40.37			23.17	2.97
	1993	23.09	45.55	66.37	51.08	28.27	34.44		25.85	3.58
	1994	29.98	44.76	59.53	41.03	28.62	27.82		23.62	3.57
	19.3	1995	27.11	29.71	33.78	32.15	18.44	5.35	20.52	3.00
		1996	27.98	23.69	28.50	17.27	17.35	8.21	10.94	2.81

Notes: 1) Until 1993 CSFR.- 2) Until 1991 Yugoslavia.

NACE 1970 classification: 451 'Manufacture of mass produced footwear (excluding footwear made completely of wood or rubber'.

NACE rev.1 classification: 19.3 'Manufacture of footwear'.

Sources: Landesmann, Burgstaller (1997) and Landesmann, Burgstaller (1999).

Table A6

### Developments in GDP and gross industrial production

real change in % against preceding year

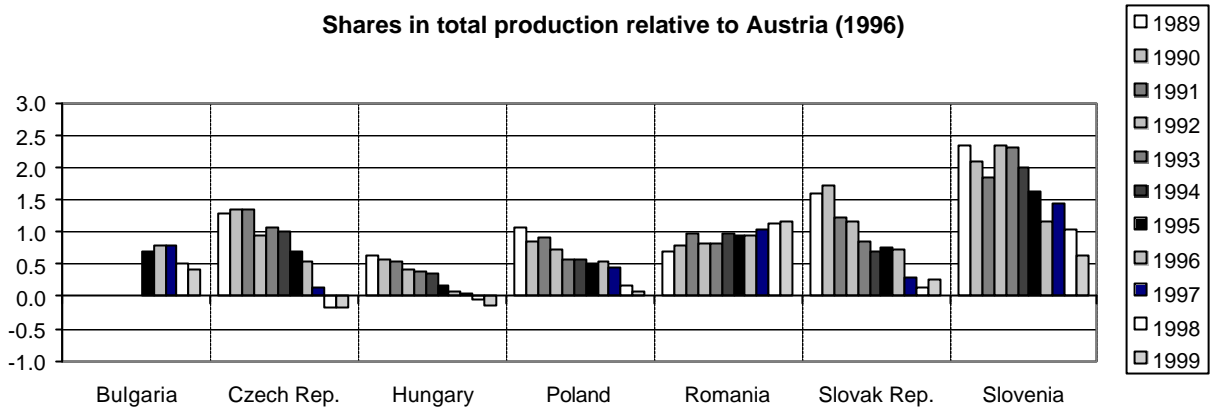
	Gross domestic product				Gross industrial production				2000 1989=100
	1999	2000 <sup>1)</sup>	2001 forecast	2002 forecast	1999	2000 <sup>1)</sup>	2001 forecast	2002 forecast	
Czech Republic	-0.8	2.7	3	3.5	-3.1	5.7	5	5	83.0
Hungary	4.4	5.5	5	5	10.4	18.5	13	13	136.3
Poland	4.1	4.0	3	4	4.8	4.3	4	5	128.1
Slovak Republic	1.9	2.0	3	4	-3.4	10	6	6	89.9
Slovenia	5.0	4.7	4.5	4.5	-0.5	6.2	4	4	80.3
Bulgaria	2.4	5.0	4	4	-12.3	3.5	4	4	46.9
Romania	-3.2	2.0	3	1	-8	7	5	2	46.8

Notes: 1) Preliminary.

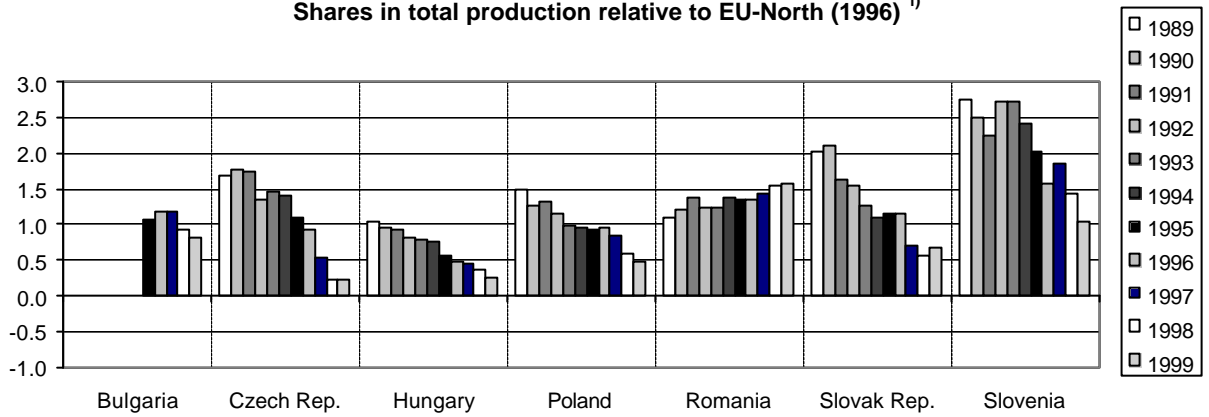
Source: WIIW (February 2001).

Figure A1

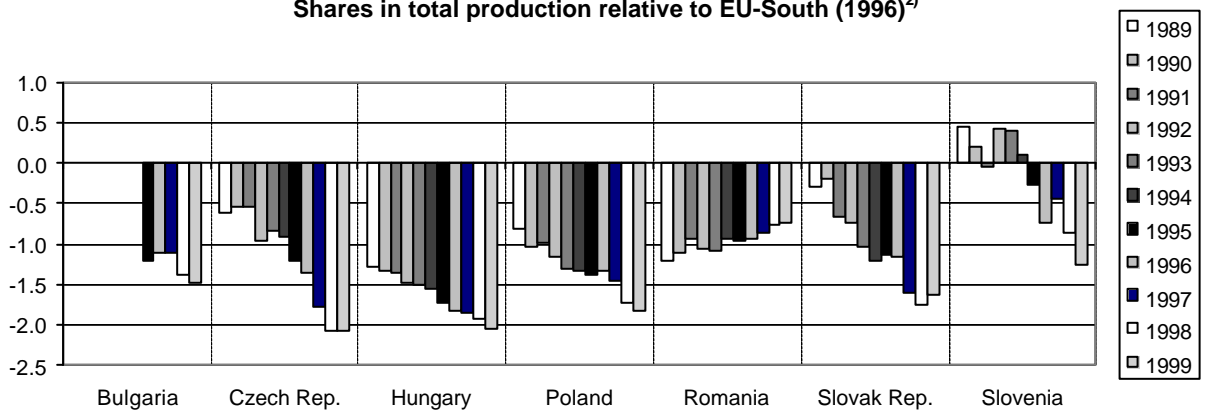
**Leather and leather products**  
**Shares of CEECs (at constant prices 1996) relative to other countries**  
**Shares in total production relative to Austria (1996)**



**Shares in total production relative to EU-North (1996)<sup>1)</sup>**



**Shares in total production relative to EU-South (1996)<sup>2)</sup>**



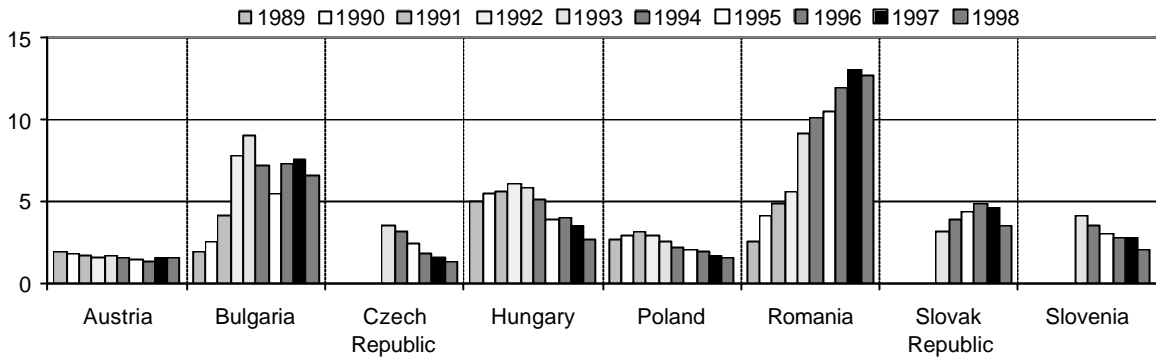
Notes: 1) Including UK, France, Germany and Belgium.- 2) Including Greece, Portugal, Spain.

Source: WIIW Industrial Database

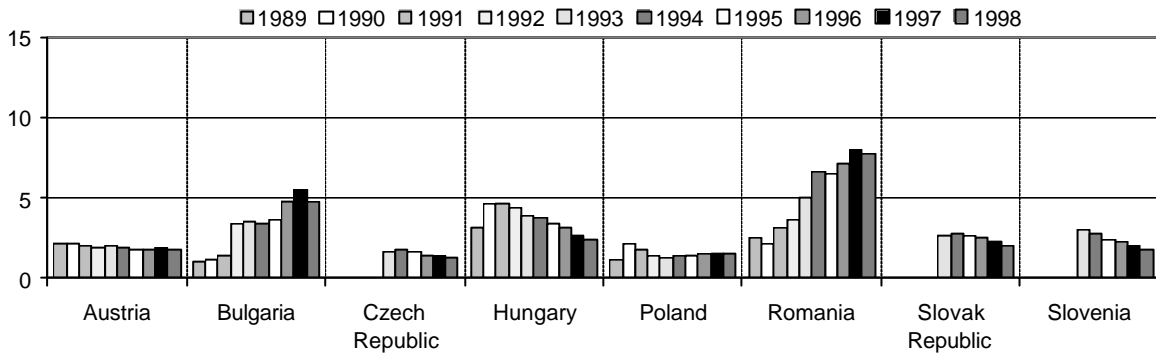
Figure A2

### Leather and leather products

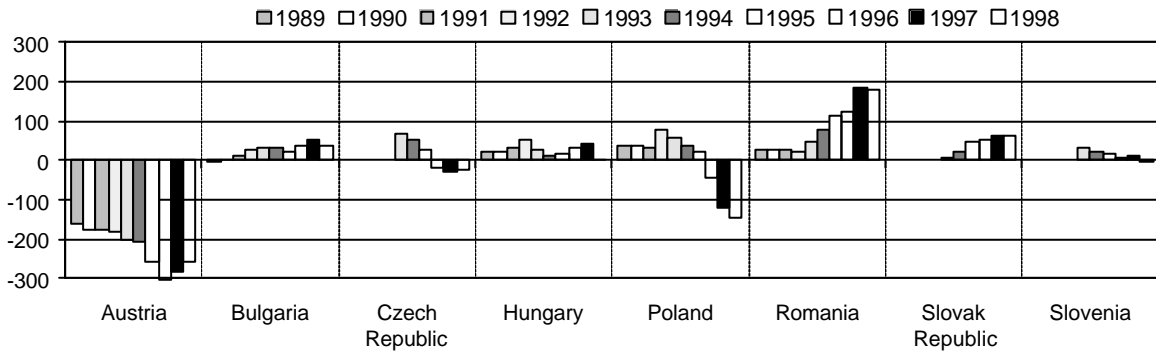
Share in manufacturing exports to the EU(12), in %



Share in manufacturing imports from the EU(12), in %



CEECs trade balance with the EU(12), ECU mn



Source: Eurostat, WIIW calculations

## **WIIW Industrial Subscription Service – Central and Eastern Europe**

The WIIW Industrial Subscription Service comprises

- the WIIW Structural Report (published biannually, last edition November 1999; see order form last page)
- 4-6 Industry Studies per year (1999: mechanical engineering, paper & printing, transport equipment, wood & wood products)

The **Structural Report** covers structural developments in Central and Eastern Europe, analysing changes in the structure of output and employment, international competitiveness (wages, productivity and labour costs), balance-of-payments structures and the patterns of trade and foreign direct investment. The analysis follows the statistical classification of economic activities in the European Union, which allows for cross-country and cross-industry comparisons (including east-west comparisons). It comprises all manufacturing industries at the 2-digit NACE (rev. 1) level and places them in the context of the CEECs' general economic development.

The **Industry Studies** cover production, labour, foreign trade and foreign direct investment in the Czech Republic, Hungary, Poland, Slovakia, Slovenia, Bulgaria and Romania. The analysis builds on the WIIW Industrial Database, its FDI and FIE Database.

The first part of each study analyses the overall development of the industrial branch under consideration (trends in growth and structure), its international competitiveness, its trade performance with the EU (labour costs, price and quality indicators, revealed comparative advantage, etc.), FDI, and the general prospects. The second part provides company profiles of leading domestic firms and foreign investors in that industry.

*The **WIIW Industrial Subscription Service – CEEC** provides deeper insight into the process of economic development in the individual countries of Central and Eastern Europe. This subscription service is relevant for managers who have to make strategic decisions and assess risk; it will be of great value for financial investors and industrialists interested in longer-term trade relations and direct investments in the region; and it will be invaluable for those engaged in economic research and public policy.*

**Subscription fee: ATS 9,000 per year (€654.06)**

**Special fee for Member companies: ATS 6,000 per year (€436.04)**

# WIIW Industrial Database Eastern Europe

## Patterns of industrial development and restructuring at a glance

This unique annual database reveals transition progress through shifts in industrial structures by manufacturing branch. The database covers 14 CEEC manufacturing industries, consistent under 2-digit NACE classifications that facilitate comparisons over time, across countries and with Western Europe.

**Contents:** More than 2,500 series on the patterns of industrial development and restructuring in Bulgaria, the Czech Republic, Hungary, Poland, Romania, Slovakia and Slovenia, covering the time span from 1989 to 1999.

**Updates:** Twice a year (June and December)

## Topics covered:

Industrial production (current prices), national currency million

Production structure (current prices), manufacturing = 100

Industrial production (constant prices), national currency million

Production structure (constant prices), manufacturing = 100

Production growth, annual changes in %

Employment, thousand persons

Employment structure, manufacturing = 100

Employment growth, annual changes in %

Average monthly gross wages (national currency)

Average monthly gross wages (ECU)

Average monthly gross wages (DEM)

Average monthly gross wages (USD)

Average monthly gross wages, manufacturing = 100

Average monthly gross wages, annual changes, real (deflated with CPI)

Labour productivity, manufacturing = 100

Labour productivity, annual changes in %

Unit Labour Costs (national currency), manufacturing = 100

Unit Labour Costs (national currency), annual growth rates in %

Unit Labour Costs (ECU), annual growth rates in %

Unit Labour Costs (DEM), annual growth rates in %

Unit Labour Costs (USD), annual growth rates in %

Unit Labour Costs ECU, Austria = 100

Exports to the EU, 1000 ECU

Imports from the EU, 1000 ECU

Foreign trade with the EU, Balance, 1000 ECU



# WIIW Industrial Database Eastern Europe

## Tables contained in the database:

<b>By NACE industries</b>		<b>Dimension</b>
D	Manufacturing total	Countries X 1999-99
DA	Food products; beverages and tobacco	Countries X 1999-99
DB	Textiles and textile products	Countries X 1999-99
DC	Leather and leather products	Countries X 1999-99
DD	Wood and wood products	Countries X 1999-99
DE	Pulp, paper & paper products, publishing & printing	Countries X 1999-99
DF	Coke, refined petroleum products & nuclear fuel	Countries X 1999-99
DG	Chemicals, chemical products and man-made fibres	Countries X 1999-99
DH	Rubber and plastic products	Countries X 1999-99
DI	Other non-metallic mineral products	Countries X 1999-99
DJ	Basic metals and fabricated metal products	Countries X 1999-99
DK	Machinery and equipment n.e.c	Countries X 1999-99
DL	Electrical and optical equipment	Countries X 1999-99
DM	Transport Equipment	Countries X 1999-99
DN	Manufacturing n.e.c.	Countries X 1999-99
<b>By country</b>		<b>Dimension</b>
	Czech Republic	NACE X 1999-1999
	Hungary	NACE X 1999-1999
	Poland	NACE X 1999-1999
	Romania	NACE X 1999-1999
	Slovak Republic	NACE X 1999-1999
	Slovenia	NACE X 1999-1999
	Bulgaria	NACE X 1999-1999
<b>By year</b>		<b>Dimension</b>
	1989	NACE X Countries
	1990	NACE X Countries
	1991	NACE X Countries
	1992	NACE X Countries
	1993	NACE X Countries
	1994	NACE X Countries
	1995	NACE X Countries
	1996	NACE X Countries
	1997	NACE X Countries
	1998	NACE X Countries
	1999	NACE X Countries

The WIIW Industrial Database Eastern Europe is available on diskette (MS Excel format; two updates a year) at a price of ATS 9,000 (€ 654.06).  
Reduced rate for Member companies: ATS 6,000 (€436.04)

---

Herausgeber, Verleger, Eigentümer und Hersteller:

Verein "Wiener Institut für Internationale Wirtschaftsvergleiche" (WIIW),  
Wien 1, Oppolzergasse 6

Postanschrift: A-1010 Wien, Oppolzergasse 6, Tel: [+431] 533 66 10, Telefax: [+431] 533 66 10 50

Internet Homepage: <http://www.wiiv.ac.at/>

Nachdruck nur auszugsweise und mit genauer Quellenangabe gestattet.

P.b.b. Verlagspostamt 1010 Wien