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14959

1985

THE TEXTILE AND CLOTHING INDUSTRIES
IN HUNGARY

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Budapest, July 1985

TABLE OF CONTENTS

	<u>Page</u>
Introduction	2
A./ The Hungarian textile and clothing industries	4
1./ The place of textiles and clothing within Hungarian industry	4
2./ Consumer trends	8
3./ The pattern of production	10
4./ Investments and technical development	13
5./ Manpower	16
6./ Organization of firms	19
7./ Productivity, profitability	21
B./ The role of textiles and clothing in domestic and in foreign trade	25
1./ The role of textiles and clothing on the domestic market	25
2./ The role of the textile and clothing industry in foreign trade	29
C./ Problems of adjustment	40
D./ Cooperation with developing countries	43
Summary	45
Notes	48
References	50

Introduction

1./ This study will examine the changes which are occurring in the textile and clothing industries in Hungary. The position of the entire sector and its inner structural changes are both discussed. In Hungary, 41 per cent of the 21 \$ billion worth GDP is produced by the industry. While the textile industry accounts for 4.5 per cent of the industrial output and the clothing industry for an additional 1.6 per cent, 7.3 per cent of the total of those employed in industry work in the textile and 4.6 per cent in the clothing industry. /1/

2./ The textile and clothing industries do not experience dynamic growth and they are often called by many a declining sector. They have certainly lost considerable weight in the economies of the OECD countries in recent decades. Domestic factors, like the swifter growth of other sectors, the fact that a number of firms were driven out of the market and the modest growth in consumption were accompanied by rapidly increasing competition from certain developing countries. In the meanwhile international trade in the sector, both exports and imports increased rapidly. The purpose of the present survey is to relate what shape these structural changes are taking in Hungary. It is worth examining which are the phenomena which are similar in Hungary to those occurring in other countries whose level of economic development is similar to that of Hungary and which are the differences. The differences and the specific features are the result of Hungary's particular development, historic and geographic conditions. They may also be due to the characteristics of socialist economic management, and may also be linked to the special conditions which exist among CMEA countries.

3./ The survey discusses primarily the present situation and perspectives of the textile and clothing industries. It will also discuss earlier developments only as they are necessary for proper understanding of the present situation.

4./ The first part will introduce the development of the sector thus far, and give an account to the present situation.

The second part examines the role of the textile and clothing industries in supplying domestic needs, in foreign trade, and in the international division of labour.

The third part examines the adjustment to the domestic and world economic situation and the problems this creates.

Finally, there is a special discussion of the opportunities which are present for cooperation between Hungary and the developing countries.

The survey is concluded by a short summary.

A./ The Hungarian textile and clothing industries

1./ The place of textiles and clothing within Hungarian industry

Significant growth of industry in Hungary began at the end of the last century. The development of industry was one sided within the Austro-Hungarian Empire. While heavy industry /metallurgy, engineering, chemical industry/ was established, light industry was mostly missing. The Hungarian textile industry covered approximately 14 per cent of domestic consumption. It was primarily a supplier of raw materials to mills in Bohemia and Austria and a market for their finished products. /2/ Before World War II Austria's textile industry was ten times bigger than Hungary's.

Between the wars emphasis was put on light industry as part of a protectionist industrial policy. The textile became the most rapidly growing sector for that period, tying down one third of investments in Hungarian manufacturing industries. In 1938 textiles and clothing accounted for 20 per cent of industrial output /3/ and fully satisfied domestic needs. /4/

The intensive industrialization of Hungary occurred late compared to western countries in the courses of the past forty years. After the war economic policy was aimed at rapid industrialization and striving for autarchy. The textiles and clothing were given low priority, as heavy industry was developed primarily. Between 1950 and 1955 90 per cent of industrial investments, and still 81 per cent between 1961 and 1965 were allocated to heavy industry. /5/ Consequently, industries which traditionally could be considered basic as e.g. textiles and food processing rapidly lost their standing. The share of total industrial production of textiles and clothing diminished from 22.4 per cent in 1950 to 10.9 per cent in 1965. /6/

However, the order of magnitude of the change was not extraordinary. The share of textiles and clothing continually diminished in the whole of Western Europe at the time. For the first time in the modern history of the Hungarian economy, the macro-structure of Hungarian industry followed the pattern of equally or more developed countries. The reason for this semblance were somewhat different on the Hungarian side.

For instance, in 1964 the weight of textiles and clothing within the manufacturing industries of the OECD countries was between 10 and 14 per cent, by the end of the 70's it had fallen to between 5 and 10 per cent. It remained high only in Italy /16 per cent/ and in Spain /15 per cent/. In the same period of time it fell in Hungary from 13.7 per cent to 9.6 per cent. Only Greece was an exception to this trend, where the share of the sector rose from 21 per cent to 26 per cent. /7/

This trend was present in the CMEA countries. /Table No 1/

Table No 1

The share of textiles and clothing in total industrial output of the CMEA countries

	<u>1960</u>	<u>1976</u>	<u>1983</u>
Hungary	13.4	9.0	7.8
Bulgaria	21.0	12.7	8.7
Czechoslovakia	11.0	9.1	9.0
GDR	13.4	9.4	9.1
Poland	15.5	12.7	11.6
Rumania	15.9	13.9	13.0
Soviet Union	22.3	16.3	14.9

Source: CMEA Statistical Yearbooks, Moscow

The table indicates that textiles and clothing are not among the dynamically growing sectors in Hungary either, but - if one wishes to use this debatable term - they may be included among the declining sectors. This is a universal phenomenon in the industrialized world. Some rapidly industrializing and export-oriented smaller countries of the Pacific region and some less developed South European countries, as e.g. Portugal and Greece are the only exceptions. Between 1960 and 1983 the proportionate decline of clothing and textiles was faster in Hungary than in the average of the CMEA countries /except Bulgaria/.

A fundamental difference between the OECD countries and Hungary is nevertheless conspicuous. In the OECD countries the loss of weight of textiles and clothing to the benefit of other - more dynamic - sectors was also accompanied by a drop in their production in absolute figures.

The reason for this was that in the course of the readjustments in the seventies the location of some of the production was shifted and important new suppliers appeared on their domestic market. In Hungary, so far the output of the sector has been growing or has been stagnating, and the reduction has occurred only in relative terms; only the share in total industrial output has diminished. The trends in the dynamics of production in various regions of the world is shown by Table No 2.

Table No 2

The world production of textiles and clothing in different regions and Hungary /1963-83/ annual percentage rate of change in volume

	<u>1963-73</u>	<u>1973-83</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>
<u>Textiles</u>					
World total	5	-	-1.5	-2.5	-
OECD countries	4.5	-1	-3	-5	2.5
of which					
EEC	2	-1.5	-4.5	-3.5	-2.5
USA	4.5	0	-2	-8.5	13
Japan	7.5	-1.5	-2	-2	0
Developing countries	4.5	-	0	0.5	-
CMEA countries	6	2.5	0.5	-1.5	0.5
Hungary	3.8	1.2	2.1	-2.8	0.8
<u>Clothing</u>					
World total	4	-	-0.5	-2	-
OECD countries	2	-1	-5	-5	1.5
of which					
EEC	1.5	-2	-7	-3	-2.5
USA	2.5	0	-5	-9.5	/9/
Japan	7.5	-1.5	-2	3	-3
Developing countries ^{1/}	5.5	-	8.5	3	-
CMEA countries ^{1/}	7	4	2.5	0.5	0.5
Hungary ^{2/}	5.9	1.1	3.7	-2.6	-4.8

Notes: 1/ including the leather and shoe industries

2/ clothing only

Source: UN Monthly Bulletin of Statistics, OECD, Indicators of Industrial Activity, national statistics, For the Hungarian data: Collection of Industrial Data 1972; Yearbook of Industrial Statistics 1983; Main national economic processes 1980-83, Central Office of Statistics, Budapest, 1984

Although its share in total production diminished to a similar extent as in most industrialized countries, Hungarian textiles and clothing did not undergo those changes which occurred in the OECD countries in the sixties and especially in the seventies. In the latter period a strong differentiation occurred, in the course of which the modernization of some products or of some phases of production were omitted, their production was discontinued, and means were concentrated on other sectors. These were primarily new products, some of exceptional quality, which followed fashion rapidly, some of them even dictated the trend.

In certain cases striking results in productivity could be achieved by the introduction of full automation and of micro-electronics on a wide scale. This led to strong selection between the most modern and the declining textiles and clothing enterprises, and increased efficiency in two respects: on the one hand, it led to a steep rise in productivity in firms which were selected in certain ways, and on the other, the dismantling of simple mass production has increased the efficiency of the whole sector. Export-orientation strengthened. At the same time the share of imported finished products increased rapidly in domestic trade.

During the same period, in Hungary the emphasis was put on the quantitative growth of production. The domestic market had little influence in changing product patterns or development, since it could not be described as saturated in spite of the growth of consumption. Over a considerable period of time the demand of markets in COMECON countries also represented a feeble stimulant to textile or clothing production.

The modernization of production was attempted simultaneously almost across the whole industry in the seventies, when it could no longer be postponed. The objectives included the growth of production as well as the modernization of products/technology.

The process of selection which occurred in the West asserted itself in the Hungarian industry to a small degree only. This too explains why gradually Hungary fell behind the leaders in the textile and clothing industry.

2./ Consumer trends

In all countries which have overcome their low degree of development, the consumption of textiles and clothing grows more slowly than total consumption. This has happened in Hungary as well, although in recent decades this trend was not as steady as in many other countries of similar level of development. For instance, in the first half of the sixties the volume of clothing consumption grew much more slowly than total consumption /1.2 per cent as against 3 per cent/; in the second half of the decade growth was equal /5.4 per cent and 5.3 per cent respectively/; in the seventies it fell again considerably behind the growth in total consumption /2.1 per cent as against 3.9 per cent/. Between 1980 and 1983 clothing consumption fell by one tenth of one per cent annually as compared to an annual 1.5 per cent growth in total consumption. /8/

In 1938 15 per cent of total consumer expenditure was spent on clothing in Hungary, in 1950 the corresponding percentage was 13.7 per cent, in 1970 11.7 per cent, and in 1983 as small as 8.4 per cent. /9/

The role of clothing and textiles within the total consumption of the OECD countries and of Hungary is shown in Table No 3. While in the sixties, the share of consumption in Hungary exceeded that of the average of the OECD countries, in the eighties it fell gradually to their level.

Table No 3

- 9 -

The share of the clothing industry /including the shoe industry/ in total private
consumption /percentage/

Country	1960-1961 average ^{a/}		1969-1970 average		1978-1979 average		1980	1981
	c	v	c	v	c	v	v	v
Canada	9.3	9.1	8.7	8.5	7.7	9.3	9.2	9.4
USA	9.0	9.1	8.1	8.1	6.8	8.4	7.9	8.2
Japan	10.2	9.1	7.7	7.7	7.3	7.5	7.2	6.9
Australia	11.2	10.4	9.1	9.4	8.0	7.3	7.5	7.5
Austria	12.6	11.6	12.3	13.2	11.5	12.2	12.7	-
Belgium	8.4	7.3	7.5	7.0	6.6	6.6	6.6	6.6
Denmark	10.6	8.1	7.9	8.8	5.8	6.4	6.4	6.6
Finland	10.0	9.0	7.8	7.4	4.8	5.1	5.4	5.2
France	10.0	8.8	8.7	8.7	7.1	6.8	6.7	6.8
Federal Republic of Germany	11.4	10.5	10.4	10.4	9.5	9.3	9.0	8.8
Greece	10.1	10.7	12.4	12.2	11.3	10.2	10.9	10.4
Ireland	9.8	8.9	10.1	10.3	8.5	8.2	-	-
Italy	10.3	9.7	9.6	9.6	9.8	9.1	9.5	8.9
Holland	-	-	10.4	10.9	8.6	8.6	-	-
Norway	11.6	10.6	10.3	10.2	8.7	8.6	8.6	8.5
Spain	9.7	-	10.4	10.6	10.6	9.0	8.5	-
Sweden	10.0	8.0	8.1	7.3	7.7	8.7	9.1	9.3
Switzerland	8.3	7.1	6.7	6.7	4.9	5.0	5.1	5.2
Great Britain	10.1	8.1	8.9	8.2	8.0	8.7	8.9	-
Hungary	12.9	12.0	11.1	11.5	9.5	9.2	8.9	8.9

Notes: a/ or the data from the preceding or next year

c = at current prices

v = at constant prices /usually based on 1970/

Source: OECD, Comptes Nationaux, Textile Industry in OECD countries 1981, Paris 1983
The Income and Consumption of the Population 1960-1979, Central Office of Statistics,
Budapest, for the year concerned

Main National Economic Processes 1980-1983 - Central Office of Statistics, Budapest, 1984

As compared to the Hungarian level of development, the share of clothing consumption per capita fell relatively rapidly, and what is more, the market did not become saturated. /It is considered saturated if purchases are made only to replenish stock or keeping up with changes in fashion./ Several factors have contributed to this.

- a./ Up to the second half of the 70's the Hungarian price structure differed considerably from that in the West. Private and public services as well as food were cheap, and the prices of industrial goods were high. This is why it could happen that at the beginning of the sixties clothing consumption grew half as fast as total consumption. In the seventies the price of clothing grew less in the industrialized countries than those of other goods and services, in Hungary - between 1970 and 1978 - only the price of beverages and tobacco grew faster than that of clothing.

Since then price rises have become more frequent with respect to other goods as well, sometimes more significant than those in clothing. /The rate of annual inflation is approximately 8 per cent./ A lady's summer dress costs up to 10-25 per cent of the average monthly wage /not income/. On the other hand, full cosmetic treatment costs 5 per cent, and a concert ticket approximately 2 per cent of the same wage.

- b./ The standard of living rose considerably at the beginning of the seventies, the purchases of almost all durable goods on a massive scale occurred simultaneously and this depressed considerably the then beginning growth in the consumption of clothing.
- c./ The need to restructure the Hungarian balance of payments /which was in the red in mid 70's/ led to restrictive economic policies in the early 80's. This did not favour the demand for clothing.

All these factors together resulted in the faster decline of share of clothing in total consumption, than in most countries of Western Europe. A possible fall in relative price level would probably create a considerable growth in demand for clothing.

3./ The pattern of production

The share of the principal sub-branches in the production

of the textile industry was as follows in 1984: /in value/

cotton industry	36 per cent
wool industry	21 per cent
flax- and hemp industry	11 per cent
silk industry	5.4 per cent
haberdashery industry	7.4 per cent
knitting industry	19.2 per cent

Source: Yearbook of Industrial Statistics, Budapest, 1984

The output of some important products was as follows in 1984:

cotton yarn	63400 tons
cotton fabrics	303 in million sq.m.
flax and hemp fabrics	39 - " -
wollen fabrics	39 - " -
silk fabrics	47 - " -
knitted under and outer wear	22400 tons

Source: Ministry of Industry

The output in textiles rose between 1981 and 1985 by a total of 5.5 per cent at comparative prices, while the output in clothing stagnated.

Production expanded at an above the average rate in flax and hemp, in wool, in haberdashery and knitting; in cotton and silk industries growth stayed below the average.

A slow favourable change in the structure of production has occurred. Even where the volume of production diminished, value increased somewhat. At the beginning of the 1980's the product pattern adjusted better to changes in fashion than in the 70's, although it is not yet possible to speak of fundamental structural changes.

In fabric production the share of capital and labour intensive wovens fell, and the share of higher productivity crocheted fabrics and non-woven products rose.

The pattern of materials used followed international trends. The share of natural fibres dropped from 54.4 per cent to 53 per cent. The share of man-made fibres rose; it was 47 per cent in Hungary in 1984, while in the West European countries it fluctuated between 60 and 70 per cent. Within man-made fibres, the share of synthetics

rose between 1980 and 1984 from 30.8 per cent to 34 per cent.

In the years to come the use of man-made - including synthetic - fibres and filaments will increase further to a small extent only. The reason for this is that the demand for clothing made of natural materials is on the increase both on the Hungarian market and traditional external markets. Man-made fibres will be used in future to a greater extent in the manufacture of textiles for technical use and some furnishings.

It is likely that in cotton processing one quarter of the basic material used will be man-made fibres. Instead of the traditional rayon used today, industry will increasingly require synthetic staple fibres and new synthetic fibres /e.g. pan, pp/, as well as materials with improved properties for special purposes /e.g. high-strength, high-stretch, non-flammable etc./.

As regards cotton fabrics, their average width as well as the share of fabrics of a fine finish will increase. There would be high demand for some special products, however due to the backwardness of their manufacturing technology they are often in short supply. These include e.g. poplin, batiste, velvet, impermeable.

In the wool industry - as contrasted to the cotton industry - the use of natural wool is relatively low by international standards and its share is slowly diminishing. In the coming years, however, the share of wool and of synthetics will rise and the share of rayon will be reduced.

In the silk industry the use of traditional rayon yarns is gradually diminishing, while synthetics and to a smaller extent cotton and cotton-type yarns are gaining ground.

In knitting the use of cotton and cotton-type yarns has increased. The level of the use of wool and wool-type yarns has remained largely unchanged, and the quantity of products made of rayon has dropped to a minimum. In future, the use of cotton and cotton-type yarns will grow moderately in the knitting industry, including a higher demand for blended yarns. The use of wool and wool-type yarns will also grow to a small extent, with emphasis on increasing the percentage of wool. With the exception of

the stocking and panty-hose product group, the use of synthetic yarns is losing importance, but there is a growing emphasis on specially processed precious fibres which approach the properties of natural fibres.

In the clothing industry the share of outerwear increases at the expense of underwear. In the knitting industry the share and fashionableness of sports and leisure goods is growing, but the output of a number of obsolescent products is not diminishing.

The transformation of the production structure is promoted by technological progress and by increased adjustment to market demand. It slowed, however, by the fact that some of the investments are only directed at keeping up production and by the constant large turnover of manpower and the deterioration of professional skills.

The modernization of the structure of production is also slowed down by the circumstance that domestic trade relies overwhelmingly on the products of domestic industry and this - to a certain extent - makes industry responsible for producing the whole range of products. The necessity to increase the quantity of exports ties down all capacities and also makes difficult to update the product pattern and to phase out the production of uneconomical products.

4./ Investments and technical development

The greater part of the present fixed assets of the Hungarian textile and clothing industries were installed in the seventies. During the industrialization of the fifties and the sixties few investment and developmental sources were left for textiles and clothing. Output was raised mainly in an extensive manner. The existing stock of machinery was used to full capacity and new, mainly female labour was employed. In the course of the sixties these sources became exhausted, the equipment of the sector became increasingly obsolete, and depreciation was set at such a low rate that not even replacement for natural deterioration could be assured. The technical standard of the sector fell so far behind the international level that it became impossible to produce at an acceptable efficiency. /10/

In the seventies a comprehensive programme of reconstruction and modernization was put through. Fixed assets in the sector rose by 40 per cent between 1970 and 1975, and by a further 60 per cent between 1975 and 1980. Investments in textiles were somewhat under the average, and those into the haberdashery, knitting and clothing were above the average.

In the light industries /approximately 62-63 per cent of which are made up by the textile, clothing, leather and shoe sectors/ the ratio of investments over a longer period has been as follows: construction 29 per cent, domestic machinery 15 per cent, machinery imported from the CMEA countries 11 per cent, machinery imported from the western countries 35 per cent, and other investments 10 per cent.

The reconstruction resulted in progress in several branches. This included, among others,

- efforts directed at processing lower quality cotton were successful;
- novel spindleless spinnerheads were introduced, though the spinning machines were not replaced;
- the proportion of automatic and shuttleless looms reached 81 per cent in 1982;
- one third of the knitting machines was mechanically operated in 1982, one third mechanically controlled, and one third programmable;
- the mechanization of finishing reached approximately 60 per cent of the West European level;
- the technical standard of the machinery in the clothing industry progressed most vigorously, the proportion of automation being 72 per cent for de-cating machines and 88 per cent for bonding /laminating/ machines; 44 per cent of sewing machines are automatic;
- the reprocessing of waste from the opening, cleaning and carding machines and in the knitting industry was extended;
- the specific use of energy, chemicals and other materials dropped with respect to both conventional and the new technologies.

Between 1971 and 1980 65 per cent of the machinery assets of the textile industry was commissioned in the course of reconstruction, but since then the rate of investment has slowed down. In 1982 the proportion of machines younger than two years was 5.6 per cent, and of machines older

than 17 years 15.3 per cent. The situation is less favourable than the average in cotton, flax and silk industries, and better in the knitting, haberdashery and wool industries.

73 per cent of the 1982 machinery park of the clothing industry was commissioned between 1971 and 1980, and a further 12 per cent in 1981 and 1982. The share of textiles in the stock of fixed assets of industry is 4.7 per cent, that of the clothing industry 0.7 per cent /1982 figure/. /11/

The reconstruction has not been fully successful, its goals and results were both limited. An adequate technological environment was not always provided for modern imported equipment. The manufacture of fabrics was unable to keep pace with the capacities of the clothing industry, either in quantity or in quality. Some of the new machines obtained in the course of the reconstruction were not of the highest standard. The level of technology was quite unequal in the different stages of production.

Technical disproportions arose in respect of some of the new investments. So for instance, there was no attention paid to auxiliary or finishing activity on several occasions which reduced the efficiency of the entire investment programme.

The technological standard of the Hungarian firms continued to be rather mixed even after modernization. Entirely outdated technologies may also be found next to factory units using latest technology. This is to a certain extent characteristic of the Hungarian economy as a whole but it is especially obvious in textiles and clothing that the modernization of the basic production processes is not accompanied by that of the preceding and the follow-up stages of production. One of the reasons hampering the effectiveness of modernization was the lack of Hungarian built equipment, and so the reconstruction was mainly based on imported machinery.

The efficiency of continuous and automated production is diminished due to the sometimes uneven delivery of imported and domestic materials, auxiliary materials and accessories and by the low degree of mechanization of subsequent phases, e.g. that of transport and wholesaling.

The losses caused by obsolete technology and low profitability were brought to light more clearly by the present system of economic control. However, neither the effect of low profitability nor the pressure of the world market are strong enough to ensure the rapid elimination of backward technologies. Consequently it is necessary to reckon with the coexistence of modern and obsolete technologies for a longer period. Selection is also stymied by the economic authorities urging the Hungarian producers to keep up supplies to the domestic market and to increase the quantity of exports.

By the end of the period of big investments external conditions had deteriorated, and the hopes that reconstruction would improve international competitiveness were not entirely fulfilled. World market prices for raw materials rose, opportunities for importing raw materials from the CMEA countries on favourable terms were narrowed down, there were depressed prices on the market of finished products, and the prices of new equipment rose considerably. Competition became keener; in the OECD countries with the dynamic firms that had successfully overcome the difficulties and with the rapidly developing South European and Far Eastern countries, but also with other CMEA countries.

The problem has been intensified by decreasing investment opportunities in general and in particular for the textile and clothing industry, and this put an end to the upswing which had occurred toward the end of the seventies. Between 1970 and 1975 6.4 per cent of total industrial investments, between 1975 and 1980 4.5 per cent, and between 1980 and 1982 3.3 per cent went into the textile and clothing industry. /12/ Between 1981 and 1985 the volume of investments was lower by 40 per cent than in the preceding five years. /13/ At the same time, investments aiming at increasing the volume were replaced first by investments improving the quality of the product and raising its value, and second by investments increasing productivity and substituting for manual labour.

5./ Manpower

Between 1950 and 1970 manpower flowed from agriculture to industry in Hungary, and at the beginning of the eighties the flow of manpower began from industry to service sector.

Between 1980 and 1985 the number employed in industry fell by 11 per cent. An above average drop in manpower occurred primarily in metallurgy and in the light industries.

136.000 persons worked in the Hungarian textile industry in 1975; in 1985 only approximately 100.000. In the clothing industry the decline of manpower was slower, and during the ten years mentioned the numbers dropped from 81.000 to 65.000. /14/ Women accounted for the greatest part of the fall in numbers and it has become more and more difficult to operate the night shift. This decline in numbers was not accompanied by technical development which might have counterbalanced it. In the industrialized countries the reduction in manpower is accompanied by vigorous mechanization which leads, as the last resort, to a rise in productivity. In Hungary, in the majority of factories - including the whole of the textile and clothing industries - the share of production within total industrial output dropped faster than that of manpower within total industrial employment. /See table 4/

Table No 4

Share of the textile and clothing industries in total industrial output and in industrial employment

/in percentage/

		<u>1965</u>	<u>1970</u>	<u>1975</u>	<u>1983</u>
Textiles	output	8.2	6.4	6.3	4.2
	employment	9.4	8.5	7.8	7.3
Clothing	output	2.5	2.3	2.2	1.5
	employment	3.7	4.3	4.7	4.6

Source: Statistical Yearbooks, Central Office of Statistics, Budapest

Labour intensity has increased in both branches, and this differs fundamentally from trends in the highly industrialized countries.

The investments undertaken in the OECD countries did not

aim to expand capacities but to increase productivity. In Hungary, the reconstruction and modernization programme of the textile industry in the seventies served also the expansion of capacities in addition to raising productivity. But after the termination of reconstruction the investments in the textile industry dropped considerably. There were consequently hardly any means left for structural improvements or for increasing productivity within the existing structure, which would make the reduction of manpower possible.

More available manpower was anticipated even in the period of the reconstruction, that is in the seventies. But life denied this expectation, and today one of the obstacles to a smooth operation of the textile industry is a shortage of manpower. In addition, the level of profitability of the industry offers small scope to a rise in wages. The dynamically growing sectors syphon off manpower, especially in large industrial centres. The manpower problem was eased somewhat in the seventies by the relocation to country areas of some production processes and plants. At the same time, this dispersion of production caused internal organizational problems in large centralized companies.

In recent years some new phenomena have contributed to the bridging over of the severe manpower shortage. One is that in the seventies jobwork contracts were generated by the clothing industry with firms in the OECD countries which eased to a certain extent the manpower problems of the textile industry since jobwork used mainly imported materials. In addition the role of foreign labour is growing, although it is not a decisive factor.

Another Hungarian speciality is cooperation with a number of farming cooperatives. Equipment is made available to them in various forms. At least 3000 persons are employed in this way in the clothing and 1300 in the knitting industry.

So far training has not kept up with the requirements of high-tech equipment. Furthermore the reconstruction programme of the textile industry has not concentrated on saving manpower. This must be a decisive objective in the future. In direct production - depending on the branches and factories - 30-50-80 per cent more labour is employed than in similar factories in OECD countries. In the auxiliary jobs /preparation of materials, packing, transport, administration/ the numbers are sometimes three or four

times higher than the optimum.

Since modern processes require huge investments, attempts are sometimes made to expand production or at least keep it at present on levels in the cheapest manner by preserving or increasing manpower, thereby delaying the modernization of production.

6./ Organization of firms

Organization of firms and related questions influence the flexibility of industry and its ability to adjust.

By international comparison, the Hungarian textile and clothing industry is highly centralized and concentrated. In 1983, among the forty-two state-owned firms in the textile industry twenty-three had a work force between 1000 and 5000, four over 5000, and only fifteen under 1000. The concentration is even more evident by the fact that out of those employed in production 64 per cent work for firms in the 1000-5000 category, 29 per cent with large firms, and only 7 per cent with firms employing fewer than a thousand employees. /15/ /Table No 5/

Table No 5

Number of firms, and numbers employed per firm and per plant respectively in 1983

	<u>Number of firms</u>		<u>State-owned firm</u>		<u>Cooperatives</u>	
	state-owned	cooperative	number of persons employed per firm	number of persons employed per plant	number of persons employed per co-operative	number of persons employed per plant
Textile industry	42	12	2480	451	270	79
Clothing industry	25	95	1503	174	342	48

Source: Yearbook of Industrial Statistics 1983,
Central Office of Statistics, Budapest, 1984

In addition to the state-owned firms there are twelve cooperative textile producing facilities which are much smaller. The average number employed by the state-owned textile firms was 2480, the cooperatives averaged 270.

Firms employing large numbers were either established after the nationalization of industry or during the mergers in the sixties and the seventies, which were carried out in the belief that the greater centralization of management, the concentration of capital, the large plants assure more efficient production. The figures show that a medium or larger company has an average of 5-6 plants. The majority of these operate on the principle of vertical centralization, i.e. they carry out successive work phases.

In some cases, owing to the concentration of the means of production or the greater bargaining power, the merged large firms enjoy an advantage. However, the experience of recent years has shown that there is great strength - especially in flexibility - in the autonomy of the smaller units of production, especially if they have few ties with the parent firm. Consequently, a gradual reduction of centralization and concentration is needed in Hungary as well. The aim is to increase the autonomy of firms and to promote the establishment of viable smaller and medium size units, on the basis of highly specialized production.

By international comparison, the concentration is high in the clothing industry. Of 120 firms only 25 are state-owned and 95 are cooperatives. The share of cooperatives in industrial production in Hungary is approximately 6-7 per cent. It is approximately the same for textiles, while more than 40 per cent of the total output of the clothing industry is produced by cooperatives. 56 per cent of the state-owned firms in clothing employ fewer than a thousand employees.

At an earlier date small firms were almost entirely absent in this sector. In the clothing industry smaller producers and merchants appeared in recent years. They are able to adjust extremely flexibly to demand, and their overheads are low. The experience in Hungary is the same as in many West European countries, i.e. that a network of flexible small companies does by no means result in lower productivity than a system of large companies. Such small workshops were, for instance, established in farming cooperatives as auxiliary activities.

In recent years the management system of the Hungarian economy has experimented with many other forms of entrepreneurship, and these experiments are under way at present. These include for instance, working teams, small private companies, etc.

In Hungary the textiles and clothing firms were the first to call on the organizational experience of the more advanced western countries. The application of know-how and of modern organizational methods led to the shortening of downtime reducing stocks, the reduction in administrative staff together with the speeding up of administration, and finally to a rise in profitability.

Until recently the producers had hardly any direct contact with their suppliers and markets. Such contacts were looked after by the large wholesaler and foreign trade companies. In the case of mass production this was useful, and it can be even considered feasible today. It is beyond any doubt that this practice isolates producers from the direct market influences to a certain extent. The emphasis on the role of the market made the building up of direct contacts both with the domestic and the external markets inevitable. The forms of this are: several competing wholesale companies or retail chains, possibilities for the manufacturers to sell directly on the Hungarian market - if they so desire, through their own shops -, in certain cases direct export or import authorization for the producers. This trend has assorted itself mainly with respect to apparel. The idea of direct contact between firms has turned up also within cooperation between the CMEA countries.

7./ Productivity, profitability

Although the structural transformation of Hungarian industry follows the trends prevailing in the industrialized countries, with respect to some sectors which have been expanding at a lower than average rate - as e.g. heavy chemicals, iron and steel industries, vehicles, textiles - the relative weight of these industries in Hungary considerably exceed the world average and especially that of the OECD countries. No policy of streamlining existed. It is a peculiar feature of the Hungarian industrial structure that the natural resource-intensive sectors account for more than 50 per cent, and in the past two decades their proportion has even grown, so that until the beginning of the 1980's the

material-intensity of Hungarian industry showed an increasing trend. In manufacturing industry the food processing industry alone relies on a domestic raw material basis. /16/

Light industry as well processes mostly, about two thirds imported raw materials. A textile or clothing industry which processes mostly imported raw materials and operates a medium level stock of machinery has no competitive advantages on international markets. And yet, in Hungary, it is impossible to disregard comparative advantages, since the country's economy is open, approximately 40 per cent of production is exported, and the same proportion of needs is met from imports. Hungary cannot change this, and the government has no intention to do so.

In earlier decades the regional market of the CMEA stood for approximately two thirds of the international environment but the weight of the latter has fallen somewhat to under 50 per cent while that of other parts of the world rose. Furthermore, the terms of the regional division of labour within the CMEA have also come closer to those of the world market. The changes which occurred in the world economy in the seventies including the rise in energy and raw material prices, created all over the world, including Hungary, the strengthening of the income-producing ability of the economy, the phasing out of non-profitable economic activity, and the reassessment of technologies. It was on the account of this that, in the international field, the position of industries which do not rely on domestic raw material basis and operate obsolete equipment has become weaker. This is also true as regards textiles and clothing in Hungary. Within Hungarian industry the productivity of this sector too, has grown more slowly than the industrial average. On the basis of 1975 prices, gross output per person employed rose by 41 per cent between 1975 and 1983 but it did so by 35 per cent only in textiles and 23 per cent in clothing. /17/ Within manufacturing industry the per capita added value has been the lowest in this sector, and amounted to a fraction of the value added achieved in the industrialized West European countries. /18/

The Hungarian price system, which is only gradually adjusting to world price market prices, makes it difficult to measure precisely the efficiency of different sectors, and this is true especially regarding textiles and clothing for which a relatively high price level has come about on the domestic market. However, calculations made by the most diverse methods indicate that the profit-

ability of the textile industry is low, and that of the clothing industry is only slightly higher. Within textiles the profitability of cotton, wool and silk is lower, and that of haberdashery and knitting is higher than the average. /19/

For a long time a considerable difference existed between the prices that could be obtained on the western markets, on the market of the COMECON countries, and on the domestic market. This often distorted the rational thinking of the firms. To eliminate this, and more so in order to let world economic trends assert themselves, or rather to ensure that Hungarian firms should better adjust to them, the price reform of the end of the seventies strove for so called "competitive prices". The idea was that prices on the two other markets should adjust to those obtained on western markets. The profitability of Hungarian firms should be as if the entire market were subjected to the influence of the world market. Raw material prices were also adjusted to world market prices, regardless they were purchased from the cheaper Soviet or the more expensive other sources. It was impossible however to give full effect to competitive prices. To ensure supplies for the domestic market and carry out growing exports in the eighties many provisional corrections were made. In spite of all these it can be claimed that world market influences now affect industry more directly and compel adjustment to the conditions of the world market.

It has, however, to be taken into account that the technical standard of the sector is so far behind that of highly industrialized countries that, without huge investments, it is impossible to raise the textile and clothing industry among the leading sectors. The industry itself is unable to produce the resources for these investments, and it will not enjoy any preferences in the distribution of central resources either. Although it is difficult to judge precisely differences in technical standards, some figures may throw light on them. For instance, in a good middling West European weaving mill the immediate working time required for one million shots is 320 minutes. This figure was double in a Hungarian weaving mill, and after the reorganization of production this has been reduced to 400 minutes. In 1977, the manpower per one hundred looms was twice higher in Hungary than in West Germany. The differences were smaller in clothing industry. The specific wage cost of productivity and manufacturing time was, in the case of men's ready-made clothing, higher by 15-20 per cent in Hungary than in Western Europe. /20/

If one wants to judge whether it is economical for Hungary to develop the textile and clothing industry, among others for export purposes, one cannot regard exclusively the productivity and the gap existing in efficiency with the more advanced countries. A point of departure may be the extent to which the productivity of the whole of Hungarian industry is lower than that in e.g. Western Europe, and those branches can primarily be described as uneconomical where this difference is greater than the average. The difference in the technical area and the price level achieved in exports make it likely that this is the case for textiles and clothing, i.e. it cannot be considered a sector which enjoys a competitive advantage. All this will not decide by itself as to which sector should be focused on for exports and which should be sidelined since it is at least as important what Hungary can sell on the world market at all, and at what prices.

B./ The role of textiles and clothing in domestic and foreign trade

Textiles and clothing will continue to play a decisive role in supplying the domestic market in the longer term as well. According to all indications, at least in the medium term, it would also be difficult to do without them in exports.

1./ The role of textiles and clothing on the domestic market

The decisive role of textiles and clothing in satisfying approximately 80-85 per cent of demand on the domestic market is determined by two factors. One is - and I shall revert to it later - the barriers which make imports difficult, primarily from the socialist and the western countries. The other is that Hungary is not only able to supply its own market; approximately 30 per cent of the textiles output and over 50 per cent of the output of the clothing industry are exported. The traditions of the sector, but the mere fact of its existence, would make it unimaginable that such a massive demand as that of the domestic market should not be satisfied mainly domestically. The Hungarian economy is far from a position where it would be able to cover a large part of domestic demand from imports.

This does not mean that the role of imports in covering the requirements of the public may not grow, or that the export share will have to remain unchanged.

The importance of imports is also large because textiles and clothing are industries which process imported raw materials.

Approximately 15-16 per cent of the basic materials /21/ are derived from Hungarian sources, 18-20 per cent from COMECON countries, and 63-65 per cent from imports paid for in convertible currencies. 43 per cent of the cotton used comes from the Soviet Union.

Hungary supplies all the hemp, 60 per cent of wool, 30 per cent of flax fibre, and nearly 25 per cent of man-made fibres /22/ used by its own industry.

Tables Nos 6 and 7 show the role of foreign trade in textiles and clothing.

Table No 6

The role of foreign trade in the textile industry and in domestic consumption

/in billion forints and in percentage/

	1976	1977	1978	1979	1980	1981	1982	1983
Gross production value	40.0	42.2	43.2	43.4	42.6	46.3	45.7	47.6
Total exports	10.6	11.1	11.9	12.0	13.3	12.2	12.2	14.1
exports transacted in roubles	4.2	5.3	5.2	5.2	4.7	5.2	5.7	5.5
exports transacted in convertible currencies	6.4	5.8	6.7	6.8	8.6	7.0	6.5	8.6
Exports/production	26.5	26.3	27.6	27.7	31.2	26.3	26.7	29.6
rouble exports/production	10.5	12.6	12.0	12.0	11.0	11.2	12.5	11.5
convertible currency exports/production	16.0	13.7	15.1	15.7	20.2	15.1	14.2	18.1
Total imports	11.8	13.0	14.5	13.8	15.8	16.8	15.1	16.3
imports transacted in roubles	2.6	3.1	3.3	3.2	2.9	3.2	3.7	3.5
imports transacted in convertible currencies	9.2	9.9	11.2	10.6	12.9	13.6	11.4	12.8
Imports/consumption	28.6	29.5	31.7	30.5	35.0	33.0	31.0	32.7
rouble imports/consumption	6.7	7.8	8.0	7.7	7.1	7.2	8.5	7.7
convertible currency imports/consumption	21.5	21.4	23.5	22.4	27.5	25.7	22.5	24.7

Notes: 1./ apparent consumption = production - exports + imports

2./ The foreign trade data are based on the sectoral system, where the individual articles /both in imports and exports/ figure in the product group of the sector by which they are produced. Only this can be compared to gross production in Hungarian statistics.

Sources: Yearbook of Industrial Statistics and Yearbook of Foreign Trade Statistics, Central Office of Statistics, Budapest, Nos 1976-84

Table No 7

The role of foreign trade in the production of the clothing industry and in domestic consumption

/in billion forints and percentage/

	1976	1977	1978	1979	1980	1981	1982	1983
Gross production value	14.0	14.6	15.4	16.1	16.2	17.2	17.0	16.9
Total exports	6.2	7.0	7.8	8.7	8.4	8.7	9.2	9.3
exports transacted in roubles	2.8	3.1	3.4	3.2	2.9	3.1	3.9	3.3
exports transacted in convertible currencies	3.4	3.9	4.4	5.5	5.5	5.6	5.3	6.0
Exports/production	44.3	47.9	50.7	54.0	51.9	50.6	54.1	55.0
rouble exports/production	20.0	21.2	22.1	19.9	17.9	18.0	22.9	19.5
convertible currency exports/production	24.3	26.7	28.6	34.1	34.0	32.6	31.2	35.5
Total imports	1.4	1.6	2.2	2.0	1.9	2.5	2.6	3.3
imports transacted in roubles	0.6	0.6	0.7	0.8	0.8	1.1	1.4	1.4
imports transacted in convertible currencies	0.8	1.0	1.5	1.2	1.1	1.4	1.2	1.8
Imports/consumption	15.2	17.4	22.4	21.3	19.6	22.7	25.0	30.3
rouble imports/consumption	5.0	5.0	5.5	5.8	5.7	7.2	9.7	9.3
convertible currency imports/consumption	7.0	9.0	12.0	10.2	9.3	10.8	9.3	14.2

Notes: 1/ apparent consumption = production - exports + imports

2/ as for table No 6

Source: as for table No 6

It is impossible to reckon with a significant rise of raw material imports from CMEA countries, mainly due to the limited opportunities for increasing such imports from the Soviet Union. Likewise impossible to count on a considerable rise in imports from other CMEA countries either, including the relatively large textile exporters such as Czechoslovakia and Poland since they - like Hungary - are strongly interested in increasing their exports to convertible currency markets and in the satisfaction of the import requirements of the Soviet Union.

Here I'd like to discuss only the role which imports may play in covering domestic needs.

Imports from the CMEA countries were approximatively on an unchanged level between 1976 and 1983, and the cotton and other raw materials purchased from the Soviet Union were responsible for a considerable part of these. The level of imports from the CMEA countries did hardly rise until the eighties in the clothing industry either, but in recent years a rise of approximately 50-60 per cent has occurred.

The problems are similar with regard to trade in clothing, which however is slightly growing among the CMEA countries. It seems somewhat easier to bridge over the problems in this product group. This is also shown by the fact that, between 1976 and 1983, their share in domestic consumption rose from 5 per cent to 9 per cent. The system of specialization in production, which has been established among the CMEA countries, also contributes to an increase in mutual trade. In addition, a system of exchanging the range of available goods has been developed. This relies on the reciprocal exchange of part of the quantity of goods meant for the domestic market, whereby the choice available to the public of the CMEA countries is expanded without any special foreign exchange problems. Nevertheless, due to the problems indicated in connection with textiles but similarly present in clothing, it has to be pointed out that the imports of textiles and clothing from the CMEA countries are not likely to rise dynamically in the future.

The bulk of the imports of the textile industry for convertible currencies consists of raw materials and semi-finished products. Some come directly from developing countries, and some from OECD countries. The latter to some degree pass on goods originating in the developing world. As far as future imports are concerned, this is in essence a function of the growth rate of the textile industry, and consequently will be far from dynamic.

It is more interesting to observe imports for convertible currencies in the clothing trade. Their weight in domestic consumption doubled between 1976 and 1983, and at present they account for 14-15 per cent of total consumption. Although part of the imports consists of accessories needed by the clothing industry, another part serves the needs of the public. This is being imported partly from OECD and partly from developing countries.

However, the possible growth of imports from these countries is certainly not unlimited. The Hungarian economy

is a long way from a level of development which would make possible an adequate quantity and composition of goods to be exported for convertible currencies. This is to make it possible to cover with convertible currencies all possible import needs. Consequently, the import of clothing from western countries may play only a supplementary role in the immediate future.

The situation is more promising as far as imports from the developing countries are concerned. The opportunities and structure of Hungarian exports to these countries are much more favourable than those of exports to the western countries /see chapter D/.

To sum up, in domestic trade the domestic textile and clothing industry will continue to be decisive, but the goods available are continuously being supplemented by imports from the CMEA, the OECD, and the developing countries.

2./ The role of the textile and clothing industry in foreign trade

The evaluation of the role of the Hungarian textile and clothing industry in exports is less simple, and it is also more difficult to forecast how it will develop in the future. In the fifties only approximately ten per cent of the production of the textile industry was exported, by the mid-seventies exports amounted to one quarter, and in the eighties this figure is already up to 30 per cent of total production. This ratio is even higher in the clothing industry where, in 1976, 44 per cent and in 1983 55 per cent of the output was exported/23/. Such a high export-orientation can be found in some smaller West European countries with an open economy, in the South European countries specialized in textile and clothing exports, as well as in some developing countries. The two groups are an important export branch of Hungarian industry and its 24 billion forint /approximately 540 million dollar/ exports accounted for 6.5 per cent of total Hungarian exports in 1983 /24/.

Nevertheless, the share of the textiles and clothing within total exports is diminishing, since in 1970 it still accounted for 9.1 per cent of total exports. The trend is similar - only on a somewhat higher level - to that observed in the OECD countries, in the exports of

Table No 8

Structure of Hungarian exports according to main country groups

/in millions dollars/

<u>EXPORTS</u>	<u>1971</u>				<u>1982</u>				
	OECD	Devel- oping	CMEA	Total	OECD	Devel- oping	CMEA	Total	
SITC 26	12.6	0.7	0.3	13.6	SITC 26	40.7	3.6	8.6	52.9
SITC 65	27.5	15.0	48.6	91.1	SITC 65	101.5	35.0	94.2	230.7
SITC 84	31.8	4.4	82.1	118.3	SITC 84	148.6	11.2	154.7	314.5
Total:	71.9	20.1	131.0	223.0	Total:	290.8	49.8	257.5	598.1
As percentage of products among country groups									
SITC 26	92.6	5.1	2.3	100	SITC 26	76.9	6.8	16.3	100
SITC 65	30.2	16.5	53.3	100	SITC 65	44.0	15.0	41.0	100
SITC 84	26.9	3.8	69.3	100	SITC 84	47.2	3.6	49.2	100
Total:	32.2	9.1	58.7	100	Total:	48.6	8.3	43.1	100
As percentage of country groups among products									
SITC 26	17.5	3.5	0.3	6.1	SITC 26	14.0	7.3	3.3	8.8
SITC 65	38.3	74.6	37.1	40.9	SITC 65	35.0	70.3	36.6	38.6
SITC 84	44.2	21.9	62.6	53.0	SITC 84	51.0	22.4	60.1	52.6
Total:	100	100	100	100	Total:	100	100	100	100

Source: Commodity Trade Statistics, U.N., 1971, 1982, New York

Table No 9

Structure of Hungarian imports according to product groups
/in million dollars/

<u>IMPORTS</u>	<u>1971</u>				<u>1982</u>				
	OECD	Devel- oping	CMEA	Total	OECD	Devel- oping	CMEA	Total	
SITC 26	21.9	23.6	32.6	78.1	SITC 26	44.1	32.0	71.2	147.3
SITC 65	43.0	15.7	17.2	75.9	SITC 65	16.6	67.0	37.3	270.3
SITC 84	9.1	1.9	9.7	20.7	SITC 84	32.8	36.8	58.5	128.1
Total:	74.0	41.2	59.5	174.7	Total:	242.9	135.8	167.0	545.7
as percentage of products among country groups									
SITC 26	28.1	30.2	41.7	100	SITC 26	30.0	21.7	48.3	100
SITC 65	56.6	20.7	22.7	100	SITC 65	61.7	24.8	13.8	100
SITC 84	44.0	9.2	46.8	100	SITC 84	25.6	28.7	45.7	100
Total:	42.4	23.6	34.0	100	Total:	44.5	24.9	30.6	100
as percentage of country groups among products									
SITC 26	29.5	57.3	54.8	14.7	SITC 26	18.2	23.6	42.6	27.0
SITC 65	58.2	38.1	28.9	43.4	SITC 65	68.3	49.3	22.3	49.5
SITC 84	12.3	4.6	16.3	11.9	SITC 84	13.5	27.1	35.1	23.5
Total:	100	100	100	100	Total:	100	100	100	100

Source: as in table No 8

which the share of the sector fell from 7.5 per cent to 5.3 per cent between 1970 and 1982 /25/.

Tables Nos 8 and 9 show the structure of Hungarian exports and imports according to country groups. The tables indicate also how the trade in individual product groups is divided among the country groups, and also the changes which occur in exports to and imports from the individual country groups.

The analysis of exports figures shows that

- exports of raw materials /SITC 26/ to western countries are relatively high
- in earlier years approximately 60 per cent of total exports went to the CMEA countries, but only 43 per cent in 1982
- the share of the western countries rose considerably in the exports of clothing.

Reviewing the import data we find that

- the share of CMEA countries fell from 34 per cent to 30.6 per cent, within this figure the imports of raw materials increased from 41.7 per cent to 48.3 per cent
- the share of textile yarns and fabrics /SITC 65/ from the developing countries has risen
- the share of clothing from developing countries rose even faster; earlier it accounted for 4.6 per cent of imports, in 1982 it has already exceeded one quarter of imports.

It is highly debatable how economical it is for Hungary to export textile products based mostly on imported raw materials and on a medium level technology, since the earlier advantage of relatively low wages has also disappeared.

The foreign currency producing role of the Hungarian textile industry has been marginal. It mostly processes imported raw materials, and starting with the eighties its net foreign exchange balance has been negative. This has been counterbalanced by the clothing industry, the exports of which exceed the imports needed for its operation. This picture differs considerably from that presented by the West European countries, where textile and clothing imports have considerably exceeded exports since the seventies. Italy alone is an exception to this rule, having a large and increasing export surplus in both product groups; it has been able to make good use of the traditions of the North Italian textile industry and of "Italian design", which has lately dictated fashion trends /26/.

There is a certain connection between the increasing imports in the textile and clothing industry and the end product centered industrialization which has been a ruling concept in Hungary. The reason for this is that as opposed to West European practice in Hungary there is a certain lack of the phases preparing and finishing production, the modernization of handling material and packaging, and the production of the accessories of the clothing industry. Such end product centered raw material transforming industrialization has led to an increased vulnerability to foreign trade. This is because the majority of the equipment as well as the accessories used in this sector came from imports.

As in many other countries, in Hungary too, the textile industry is the least efficient sector today. The textile industry was 21st out of 24 manufacturing branches in 1981 on the basis of per capita added value, and the clothing industry was ranked 24th /27/. The slow decline of the textile and clothing industry as far as of industrial products exports are concerned is also shown by the fact that while Hungary's share of world industrial exports was one per cent in 1965, this percentage fell to 0.52 per cent by 1982. In the same period Hungary's share in textile exports fell from 0.89 per cent to 0.46 per cent, and in clothing exports from 2.22 per cent to 0.78 per cent /28/.

The competitiveness on the world market for textiles and clothing achievable by Hungary, but especially on the markets of the OECD countries, was also strongly influenced by changes in external factors. In the sixties and at the beginning of the seventies the combination of relatively low wages and generally medium level technology was favourable on western markets, where technology was of a higher level, but so were wages. Consequently Hungary's wage advantages was made use of. Wages were much lower in the developing countries, however the higher Hungarian technological standard, the more European styling and traditions offered some advantages.

By the beginning of the eighties the situation had changed gradually. In the industrialized countries, the technological level rose considerably in the textile industry, and they began to produce special products of a very high standard. In the clothing industry, in addition to the rising technological standard, specialization had become highly effective. Quality and fashion became very important in the sector. The relatively low wages by them-

selves no longer offered a sufficient advantage to Hungary. It was very difficult to catch up with good quality in textiles. In the clothing industry, some advantages remained in jobwork, especially with regard to goods the standard of which somewhat exceeded the average. But at the same time changes occurred also in the developing countries. Some of them were able to combine cheap manpower employed in three shifts with modern technology, mainly in textiles, but sometimes in the clothing industry as well. Those countries which continued with low wages and poor technologies overtook Hungary in the production of mass goods mainly owing to wage advantages. It should be added that the tariff preferences granted by the OECD countries to the developing countries put Hungarian industry into disadvantage.

Hungarian export performance improved to a smaller extent more slowly than the world average and in particular that of the principal competitors. All this indicates that it is worthwhile to concentrate the Hungarian textile and clothing industry on carefully selected special areas in order to compensate the loss of ground.

The above situation is illustrated in an interesting way by the specific average prices which can be obtained on OECD markets /29/. In the early eighties, when the influence of technologies of a higher standard was already felt in the Far Eastern and the South European countries, the average price level of textile fibres and yarns was by 25 per cent higher than the Hungarian export prices, and that of special fabrics by 184 per cent. In the early eighties, regarding clothing, the Hungarian unit prices per ton were still 83 per cent higher than Taiwanese, 35 per cent higher than South Korean, and 19 per cent higher than Spanish prices, while they were lower by 23 and 44 per cent respectively than the French and the Italian specific prices.

In spite of all this, it has not proved possible in recent years to reduce the exports of textiles and clothing, and between 1976 and 1983 textile exports even rose by 33 per cent, and clothing by approximately 50 per cent. This was less than the 82 per cent growth registered by total exports, but nevertheless represented a significant increase. The Hungarian economy was unable to do without the income derived from the exports of this sector, and the present financial situation of the country suggests that it will not be able to do so in the near future either. Since

there are no comparative advantages for Hungary in this sector /perhaps some areas of the clothing industry may constitute an exception/, it cannot be considered a promising export sector for Hungary in the longer perspective. All this does not mean that the exports of the sector can simply be dismantled. This can only be done when other more economical sectors emerge and expand their exports. Discussion of this would go beyond the scope of this study.

It has to be taken into consideration in the appraisal of the international relations of the textile and clothing industries that exports play an important role in covering the imports of the same sector. The figures of trade in textile show that imports exceed the exports by an average 50 per cent, this is counterbalanced by the clothing industry, where exports regularly exceed imports.

It must nevertheless be taken into account that owing to both the slowly expanding domestic market and to the presently still growing exports, it is necessary to reckon with rising raw material imports. In these imports it is necessary to strive for an optimum combination of sources, i.e. for maximize imports from CMEA countries, expand sources from the developing countries, and in addition to this still trade with OECD countries to a considerable extent.

The nature of the sector is that, owing to its international relations, an increasing dollar-rouble conversion occurred in the past, i.e. some of the products made of raw materials imported for convertible currencies were sold in the rouble trade area. There are clear limits to the convertible currency revenue. This may be regarded as a constraining factor in the increase of exports to the rouble area.

Textile and clothing exports play an important role in Hungarian exports to the CMEA countries, first of all to the Soviet Union, while in 1982, total Hungarian exports to the CMEA countries accounted for 3.4 per cent of their total imports, this share was 4.1 per cent with respect to textile exports and 4.9 per cent concerning clothing exports /30/. Approximately 11-12 per cent of the output of the textile industry and 40 per cent of its exports goes to the CMEA countries; 35 per cent of the output and approximately two thirds of the exports of the clothing industry have the same destination. It is important that the Soviet Union, as Hungary's largest trading partner,

offers a secure market in the form of long-term contracts. It must also be taken into consideration that nearly 30 per cent of Hungarian imports derived from the Soviet Union, including the overwhelming part of imported primary energies and raw materials, basic machinery, indispensable vehicles, chemical products etc. Another advantage is the geographic proximity and the benefits of transporting crude oil and natural gas by pipeline. Consequently, in paying for imports from the Soviet Union, the Hungarian economy cannot do without the products of any sector which is capable of exporting and this includes definitely the textile and clothing industries.

On the part of the Soviet Union, but also of other CMEA countries, there is a very big demand for Hungarian textiles and clothing. Its full satisfaction would make it impossible to retrench the sector, and would even require the type of investments that do not fit into Hungarian industrial strategy. The optimum ratio is established in the course of the coordination of the five-year plans.

The reconciliation of plans for five years is the foundation for cooperation among the CMEA countries. In the textile and clothing industry this sets the main figures for mutual trade. Setting out from these figures, the foreign trade ministries conclude five-year trade agreements, which are more detailed concerning the composition of goods. Concrete supplies are annually agreed on by the foreign trade firms /with respect to raw materials. the agreement may be for five years/.

These agreements, bounding the respective firms, contain in detail the list of goods, prices, deliveries, schedules, and other terms. These contracts offer security for both the suppliers and the buyers, although they slow somewhat the reaction to changes of the world economy which affect also the markets of the socialist countries and delay keeping up with the requirements of fast-changing fashion trends.

Inter-governmental negotiations are usually conducted with the inclusion of the Hungarian firms, but overall economic benefits which can be achieved are not always necessarily advantageous for all firms concerned. In such cases, the government compensates them by various instruments of economic management, as e.g. favourable credit terms, compensatory funds, tax concessions, etc.

The CMEA countries set out from world market when agreeing on prices but disregard the effects of cyclical fluctu-

tuations. After the first oil price explosion the sliding scale principle was introduced, which relies every year on the average of the world market price of the preceding five years, and its aim is to cushion the effects on the economies of the CMEA countries of drastic price movements occurring on the world market. In addition, in the practice of the CMEA countries, a parallel evaluation system independent of prices has also come about that is the division of commodities into so called "hard" and "soft" goods. Over a long period of time the products of the investment-intensive raw material and energy sectors were considered hard goods, and manufactured products soft goods. Although shifts occurred from time to time, as for instance when farm products and research-intensive products were included among the hard goods, textiles and clothing have always been treated as soft goods, even if at certain times there was a considerable demand for them. Owing to such a classification of goods, the individual countries have endeavoured to balance their trade not only as a whole, but also separately within the scope of hard goods.

It is a problem in the textile and clothing trade between the CMEA countries how higher quality, product advancement, faster adjustment to fashion and costs can be adequately expressed in prices. In the past 15-20 years Hungary has succeeded in achieving a leading position on the markets of the CMEA countries by following the world's fashion trends. The time lag has been reduced from several years to a couple of months. Hungary can improve its comparative edge somewhat if it attains a surplus income by promptly keeping up with fashion and achieves that the additional performance offered by the Hungarian firms should be fully reflected in prices.

In recent years the system of cooperation among the CMEA countries has been complemented by complex programmes aiming at the harmonization of development beyond the reconciliation of foreign trade. In the textiles and clothing this may be considered only a general framework. In some areas the textile industry has reached the stage of coordinating the development of technology, and even joint research and development.

For the time being the maintenance and even temporary growth of exports for convertible currencies is a necessity. This accounts at present for approximately 18 per cent of production in textiles and approximately 35 per

cent in the clothing industry, the two adding up to 7-8 per cent of total exports for convertible currencies. In spite of keener competition, some of the exports continue to go to Western Europe, but the export range has been extended from a number of financially well-off developing countries to Japan. Keeping up exports is particularly necessary, at least until the debts accumulated at the end of the seventies are partly repaid. After this milestone and at the rate at which more efficient sectors take over the role of textile and clothing exports, a stronger selection can be drawn up, especially at the expense of mass produced goods and to the benefit of exporting clothing articles containing more intellectual work.

Links that go beyond a simple sale-purchase goods, and covering also technical cooperation, are expanding. These are favourable from several viewpoints. In 1983 one quarter of cooperation agreements of Hungarian industry were signed by textile and clothing industries.

Hungary has established cooperation with some socialist countries, - mainly in the production of basic materials and in the textile industry - as part of specialization. An example for this is the agreement between Hungary and Poland on the exchange of man-made fibres.

Various forms of cooperation have become common since the mid-seventies with firms in western countries. These are mostly simple jobwork contracts, or they may be combined with the transfer of technology of manufacturing processes, possibly the purchase or lease of equipment.

In 1983, twenty-six companies of the textile industry operated cooperation agreements, often more than one. Sixty-three agreements had been concluded with firms in western countries, and thirty with socialist countries. In the clothing industry seventy-seven firms operated a total of 440 cooperation agreements with firms in western countries and three with firms of CMEA countries. /31/ The majority of these agreements cover jobwork.

The industrial application of foreign licences and know-how is rather narrow, covering a relatively small member of firms or branches.

Licences are bought primarily by research-intensive and rapidly growing engineering and chemical enterprises. Between 1976 and 1981 thirty out of the four hundred and ninety licences bought by Hungarian industry were bought

by light industry, and approximately 4 per cent of licence fees were used for this purpose. In 1983, in the state-owned textile industry seventeen companies used licences, eight of them primarily licences from western countries. Various technologies and finishing processes /e.g. microstretch fabric/ were characteristic of licence purchases by the textile industry. The clothing industry tended to adoption manufacturing and organizational processes /e.g. Becker, Werner method/, as well as licences tied to jobwork /e.g. Levi Strauss, Felina and Triumph/.

In the beginning, in the clothing industry, jobwork connected to the purchase of a licence functioned as a safety valve for occupying manufacturing capacities; later it became increasingly the main form of international cooperation, and the fundamental instrument for expanding exports for convertible currencies. In the early eighties in the export of licensed products, the share of exports for convertible currencies was approximately 85 per cent. However, by international standards, the time requirement for adaptation is rather long, and thus can consequently be used mainly for standard products.

The goods produced under cooperation agreement account for 7-8 per cent of total textile and clothing sales, and - especially in the clothing industry - the majority of these are exports. At the beginning of the eighties, a large share of clothing exports to the West, approximately 40 per cent, consisted of jobwork. /32/

The benefits of the western firms in jobwork in the clothing industry include the shifting of phases which are not profitable for them /e.g. sewing/, obtaining capacities at low risk and the leasing of machinery. The proximity of the Hungarian producers, their traditions, their European production habits, and the relatively low wages are also attractive.

The Hungarian advantage consists primarily in the export itself to markets where the customary forms of trade are uncertain owing to due quotas or other obstacles.

The cooperation agreements have a benign effect on the transformation of the product pattern, and the improvement of the production process. They help to transfer experience in production and organization, and lead to higher productivity. /The 20-25 per cent rise in productivity to be achieved is sometimes stipulated by the contracts./ The agreements help to eliminate the drawbacks that Hungarian firms would otherwise suffer on external markets on account of shortcomings concerning fashion, quality or delivery. It is an essential strategic aspect

that they create relatively permanent relations and make a continuous flow of technology possible. A further advantage is the vicinity to West-European markets, many of them can be reached from Hungary by truck within a day.

In the eighties jobwork contracts have barely expanded. Many developing and socialist countries compete on more favourable terms. Owing to the saturation of the western market, the placing of not too cheap mass products is becoming increasingly difficult. The buyers demand either small series of high labour-intensity, or very simple products. The orders are usually not for a long term. Prices and payment for jobwork hardly rise, sometimes they fall. The profitability of the Hungarian firms declines.

It is increasingly obvious that in the years to come the advantages which may be achieved through cooperation agreements might diminish. Within the cooperation agreements, forms will receive priority which better serve the transfer of technology. In many cases the least expensive option /e.g. lease/ is considered. Following the experience, the Hungarian firms either seek new jobwork contracts, or search for new markets by processing the best Hungarian raw materials.

Foreign firms can now establish joint ventures with Hungarian companies to promote long-term relations on production, and they may even establish firms of the off-shore type in Hungary.

C./ Problems of adjustment.

What has been said makes it clear that the role of the Hungarian textile and clothing industry will not change radically in the coming years either from the vantage point of the domestic supply of the country or that of participation in exports. This nevertheless does not obviate the formulation, planning and organization of how the sector should adjust to the new situation. Textiles and clothing face a new situation from two aspects. One is that the rapid change in world economic conditions has strongly affected this sector as well. Competition has become keener on international markets, the production of some of the simple mass consumption goods has been transferred from Western Europe and the USA primarily to the Pacific region and to a smaller extent to Southern Europe. Simultaneously, the surviving West European firms

display a high degree of specialization and rapid technical growth, mainly through the automation of production and the wide application of micro-electronics. This leads to a considerable rise in productivity. Hungarian industry too has to face the world economic environment, since its products must remain export-capable.

The industry faces another problem as well. This is that the Hungarian system of economic management strives less and less for the protection of the economic units from the effects of the world market, and it increasingly abandons its protectionist attitude.

It wants to achieve that firms prone to the growing world market influences adjust to the requirements of the world economy. It stands to reason that this process should be accelerated, structural changes should begin and gather speed which alone can ensure the improvement of the competitiveness of Hungarian firms, and of the Hungarian economy.

All this puts the whole Hungarian economy, and their sectors affected, before a choice. Thorough structural changes enhancing efficiency, could be carried out if - mainly in exports, and in domestic trade - it would be possible to rationalize production and to do without those firms or technologies that produce losses. This would make it possible to concentrate resources on the development of products or branches of production offering a greater income.

It is clear, however, that it is impossible to the extent which would be ideal for textile and clothing sector as long as the international competitiveness of other export industries does not reach appropriate standards. Consequently, a sort of healthy proportion has to be created regarding domestic supply by domestic production and exports which will satisfy these requirements and at the same time also lead to adequate structural changes. Such ratios have to be developed primarily in the course of the formulation of government economic policy and of the strategy of individual firms.

The problem of adjustment comes from the fact that even if one has to reckon with stagnation or very slow growth, the necessary internal changes must nevertheless take place with respect to both the development of a more economical product pattern and technological progress. The government must play a large role in the control of these processes primarily by further reforming the system

of economic management and stimulating firms to move in this direction. At the same time, company strategies also have to play a decisive role.

The steps anticipated in the system of economic management between 1985 and 1987 would be aimed to amplify this trend. They include:

- the possibility of establishing new companies and phasing out old ones;
- provide greater incentives for profitability, and increase the cost awareness of firms;
- a more liberal flow of capital from regressive, non-economical sectors and firms to the more profitable ones, without central intervention;
- the gradual abolishing of all subsidies or other types of support which may keep going uneconomical production;
- the improvement of the banking system and the establishment of several independent banks beside the central bank in order to promote the more unrestricted flow of capital;
- more attention to rational manpower, management helping the regrouping of manpower which is released in some places;
- simplification of the imports of foreign capital and the establishment of joint companies;
- the possibility of establishing off-shore firms.

All this may assist, even within a stagnating sector, the gradual flow of the factors of production to more efficient firms and sectors, and may stimulate the introduction of modern production technologies.

The Hungarian textile and clothing industry may maintain its role on the international market for a long time, if it keeps abreast in modernization. This role will continue to be primarily in the area of modern goods of medium or better quality, including a prompt keeping up with fashion trends.

In changed conditions all this requires a governmental and company strategy which reckons with the changes in the world and clearly guides firms of the textile and clothing industry toward a progressive product pattern, technological renewal, the growth in profitability, and adjustment to the changing world economic requirements and processes.

D./ Cooperation with the developing countries

There is a considerable interest in Hungary in expanding imports from the developing countries, thereby starting lasting trends in the division of labour in the textile and clothing industries. The Hungarian textile and clothing exports to the developing countries are much lower than are imports from them.

At present, one quarter of imported textile raw materials, semi-finished and finished products, and apparel come from the developing countries. The pattern of imports has changed considerably in recent years. Imports have shifted toward more highly processed products. Although the quantity of textile raw materials increased, the role of developing countries in the imports of textile raw materials fell between 1971 and 1982 from 30 per cent to 21 per cent. This is partly due to the fact that imports of man-made fibre increased considerably. In the same period the share of developing countries rose in the imports of semi-finished products, e.g. in the imports of textile yarns and fabrics, from one fifth of total imports to one quarter. Their share has increased even more in the imports of clothing. They had a share of 9.2 per cent in 1971 which grew to 27 per cent in 1982. /33/

In imports the share of the various countries differs considerably from one product group to another. More than one third of raw material imports from the developing countries come from Egypt, followed by Turkey and a few Latin American countries /Mexico, Uruguay, Nicaragua/. In 1982 one half of the semi-finished and finished textiles were imported from Brazil and Pakistan. They were followed by Turkey, India and Uruguay. In the imports of apparel from the developing countries Hong Kong, Pakistan, Malaysia, Brazil and India had a share of over ten per cent.

For several reasons Hungary is interested in increasing her imports from the developing countries. For political and economic considerations Hungary too has joined those countries which grant preferences to imports from the developing countries, in the form of a preferential tariff. In the expansion of economic relations with the developing countries a role is played by the fact that the structure of Hungarian exports to these countries corresponds to the endowments of the Hungarian economy, and the country's export policy. This is best shown by the fact that 75-80 per cent of total Hungarian exports to these countries are industrial products. Hence these exports are much more

favourable for Hungary than exports to the OECD countries. In addition, Hungary exports a relatively large number of turnkey factory equipment and complex production systems to developing countries.

For the reasons already cited, the increase of textile and clothing imports from both the CMEA and the OECD countries has obvious limits, and the expansion of imports must be primarily concentrated on the developing countries. It makes an obvious sense to import some raw materials directly from the producer countries. It is also in the Hungarian interest to import more finished clothing. The consumers favour products which extend the range of selection the price of which is often favourable. The import of simpler finished products /e.g. underwear/ may release production capacity for the manufacture of more expensive products /e.g. in the knitting industry/. The developing countries themselves are also interested in producing more raw materials at a higher degree of processing. In many cases this also coincides with Hungarian restructuring efforts. An example for this is the import of simple grey fabric which helps increase the production of blended-colour fabrics in Hungarian weaving mills.

Consequently, the increase of the imports of semi-finished and finished textile products as well as of apparel from the developing countries may become an organic part of efforts directed at the more economical and efficient restructuring of the Hungarian textile and clothing industries. In cooperation it is in Hungary's interest that this should rely on a stable foundation and be covered by agreements lasting several years. These agreements may cover the supply of goods over some time, when several years as jobwork contracts for the processing of raw material bought by the Hungarian firms, /for instance the shirt manufacturing agreement with Viet Nam/, or other types of cooperation. In addition to this Hungary attributes importance to the stability of relations of this kind also because they can contribute to the internal structural developments of the textile and clothing industry, that is concentrating available resources on more efficient branches.

Summary

- 1./ In accordance with international trends, the growth of the textile and clothing industry in Hungary lags behind that of the industry as a whole. Its relative importance is diminishing in production, in employment, in trade, and also in the absorption and promulgation of technological progress. In Hungary, and in the CMEA countries, the demand for textiles and clothing is expanding slowly. Their exports to the OECD countries are influenced detrimentally by the low dynamism of the expansion of international demand, keener competition, the barriers set up by trade policy.
- 2./ Compared to OECD countries on similar level of development, the situation in Hungary is different. While in the former the actual production of the textile and clothing industry is declining, in Hungary production is still experiencing a slow growth, and the proportional regression of the textile and clothing industry is slower. The reasons for this are as follows:
 - the domestic market is better protected and industry is given an important role in the satisfying internal demand;
 - the role of the sector is significant in responding to the demand from the CMEA countries, especially from the USSR;
 - Hungary transacts more than 50 per cent of her imports from the convertible currency area, thus she cannot do without the foreign exchange income generated by textile and clothing exports. Hungary is intent upon developing a more favourable product structure than the one that exists at present;
 - the Hungarian economy does not yet produce the necessary quantity and composition of export goods from other sectors that can be sold universally in place of textile products. This puts limits to convertible currency purchases.
- 3./ Owing to the particular characteristics of the Hungarian system of economic management-blending market and plan elements - the textile and clothing industries have not been affected radically by the shifts in the world market. This has reduced the

scope and level of social tensions caused by adjustment and has spread them in time. However, it has also impeded reasonable adjustment and the improvement of performance. Within the Hungarian development strategy for the eighties it is instrumental that textiles and clothing become streamlined in an orderly and planned way, that its internal structure be transformed, that the remaining production comprehensively be modernized, the ability to produce income and exportability be improved.

- 4./The comparative advantages of the Hungarian textile and clothing industry, which have not been too significant, thus far, have diminished in recent years. Hungary processes mainly imported raw materials and semi-finished goods. At the end of the sixties and the beginning of the seventies the combination of relatively low wages and a medium level technology still offered advantages to the Hungarian textile and clothing industry on the world market. In the first half of the eighties it is much more difficult to make use of these advantages, especially on the market of the OECD countries. Thanks to rapid technological growth and forceful specialization the western countries have acquired qualitative advantages which are already difficult to catch up with. In some of the developing countries high technology has been combined with wages which continue to be lower than in Hungary. In competing with those developing countries which produce less sophisticated products, with less sophisticated technology the wage advantage remains to be of importance.

Among the targets of the development of this sector in Hungary it is important to develop or expand the production and exports of products with a higher specific value or degree of processing. This would satisfy a special level of demand, which still represents a lower weight in the textile and clothing product structure offered by the newly industrialized countries.

- 5./Beside intensification of trade with the CMEA and the OECD countries, cooperation with the developing countries continues to expand dynamically.

The export interests of the developing countries

constitute desirable blend with the objectives of the Hungarian industrial development.

The intensification of industrial cooperation is encouraged in Hungary as well as this would mitigate manpower problems, satisfy the requirement of the internal restructuring of the textile and clothing industries, and substitute imports from the OECD countries as well.

In addition to the above closer cooperation would create favourable conditions for the expansion of Hungarian industrial exports with progressive technology content.

Notes

/The notes refer to the references marked in this list in brackets./

- 1./ Calculations on the basis of /13/. The data refer to 1983. 42,666 Ft = 1 \$
- 2./ /2/ page 61
- 3./ /13/, including leather and shoe industries
- 4./ /2/ page 165
- 5./ /2/ page 180
- 6./ /13/
- 7./ /13/, /33/, /42/
This refers to the textile, textile clothing, leather and shoe industries /ISIC 321, 322, 323, 324/. It is additional to the generally well-known statistical problems that the data referring to the textile and clothing industry are not uniform, since they sometimes contain the data for textile and textile clothing, sometimes they include leather clothing, and sometimes even the shoe industry. The reason why the Hungarian figure for 1964 is so much higher than that for 1965 is that the latter covers textile and clothing only.
- 8./ /8/
- 9./ /4/, /5/, /8/, /13/
- 10./ The chapter on reconstruction relies on /7/ but I have used a number of ideas also from Fodor's work /16/
- 11./ /9/, /13/
- 12./ /9/, /13/, /23/
- 13./ /13/ and interviews
- 14./ /13/ and interviews
- 15./ /9/, /13/
- 16./ /22/, /23/

- 17./ /9/, /13/
- 18./ /40/
- 19./ /9/, /13/
- 20./ /37/ and interviews
- 21./ Including also the leather and shoe industries.
Calculated from input-output tables.
Central Office for Statistics
- 22./ Central Office for Statistics. Input-output tables.
- 23./ See table 7
- 24./ /13/
42,666 Ft = \$ 1 Data here refer to the textile
and textile clothing sector, within the Hungarian
sectoral breakdown.
- 25./ /41/
Calculating the total export of the SITC 26, 65,
and 85 sectors.
- 26./ /34/
- 27./ /40/
- 28./ /43/
- 29./ /23/, /37/
- 30./ /23/
- 31./ /9/, /25/
- 32./ /9/
- 33./ /41/
- 34./ /41/

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