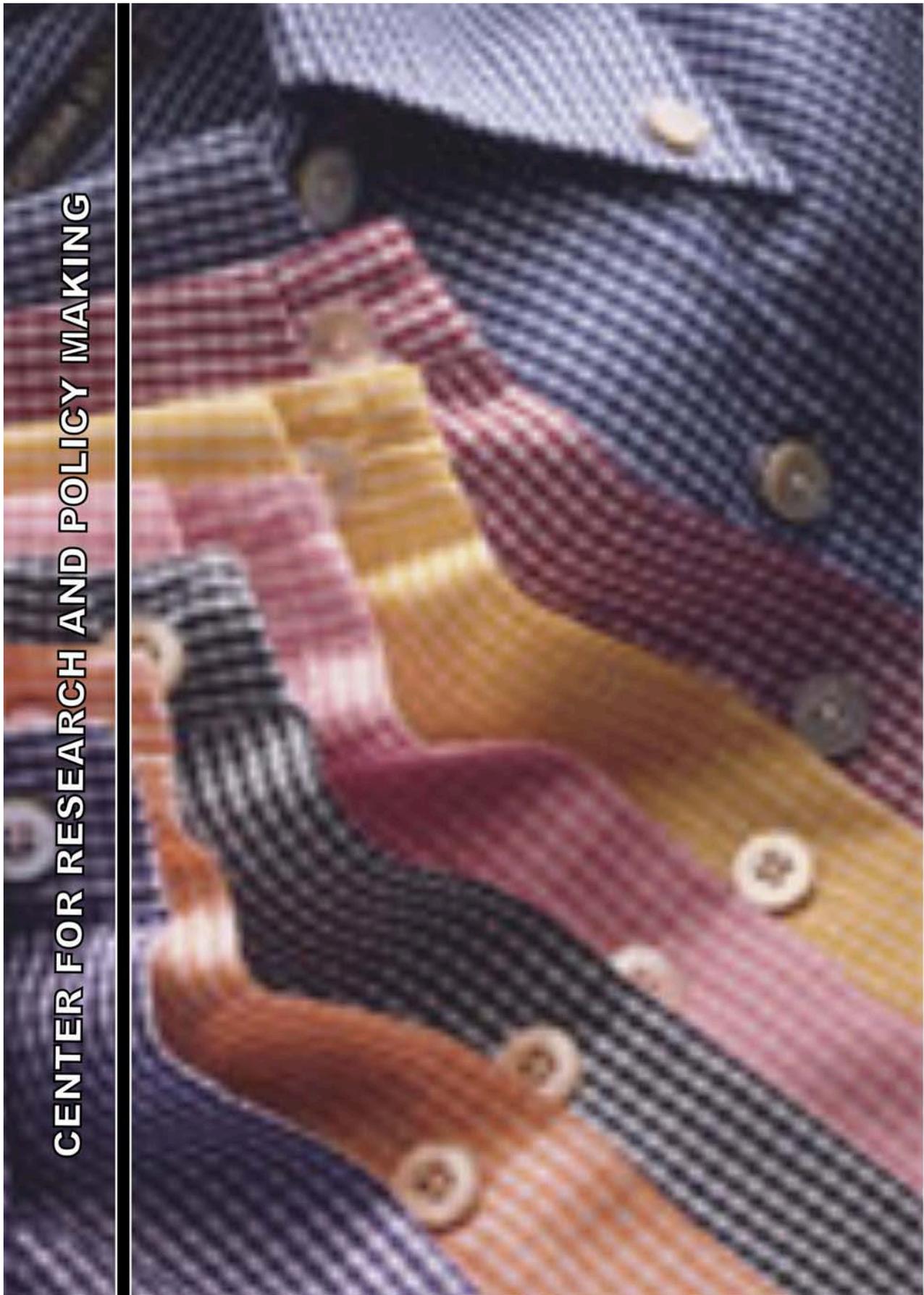


MACEDONIAN CLOTHES FOR EUROPE

CENTER FOR RESEARCH AND POLICY MAKING



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POLICY STUDY N1

Place: Skopje, Macedonia

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I. INTRODUCTION

This is an analysis of development problems in a former socialist country in South Eastern Europe. It is also a story about life in Stip a medium-sized town in Eastern Macedonia; the emergence of a new group of private entrepreneurs on the ruins of formerly socialist companies; and the policy responses to the emerging new economy by public institutions. The story explores the forces that have affected the people and economy of Stip in the past and the factors which are buffeting them today. Examining and investigating those forces and factors is crucial for anybody who wants to understand the current socio-economic situation of Macedonia. As Stip is traditionally the biggest center of clothing and textile production in Macedonia this study is important for understanding the overall situation in this sector. In this study we aim to explore what is the state of affairs of the textile and apparel industry. Is there a need for modernization and transformation to make it one of the economic driving forces of the country? Stip - due to its historical and regional importance for the textile production - shall be used as a case study for this sector.

The story of Stip is also vital for any policy maker who considers which measures and public policies might be effective for breaking out of a cycle of stagnation and decline. The analysis of the changes in the clothing sector in Stip offers a solid basis for understanding the transformation of other industries in Macedonia in search for a more focused approach to problems of the Macedonian economy. Picturing Stip and its over-dominant industrial sector - textile and clothing industry, provides an extremely useful tool for more comprehensive understanding of the current economic problems of the country and for considering the possible solutions of the crisis. This report helps to explain the universal and specific reasons making Macedonia one of the slowest growing transition economies.

Today, the Macedonian “transition” from socialism to a market economy is largely completed. However, the results of the transformation have been disappointing. The country’s GDP growth has been slowest in the region.

GDP real change in % against previous year^[1]

<i>Country / year</i>	<i>2001</i>	<i>2002</i>	<i>2003</i>	<i>2004</i>	<i>2005</i>	<i>2006 forecast</i>
Albania	7	2.9	6	5.9	6.5	6.5
Bosnia	4.5	5.5	3	5	5	6
Bulgaria	4.1	4.9	4.5	4.6	5.5	5.3
Croatia	4.4	5.2	4.3	3.8	3.3	1.8
Macedonia	-4.5	0.9	2.8	2.9	4	4
Romania	5.7	5.1	5.2	8.3	5.5	5.5
Serbia	5.1	4.5	2.5	8.6	4	5
Montenegro	-0.2	1.7	2.5	3	5	5

In addition, Macedonia has a very high unemployment. Its official rate of unemployment is highest in Southeast Europe, worse than Bosnia and Herzegovina and Serbia excluding Kosovo.^[2] The percentage of Macedonians of working age (15-64) who are employed is 33,51%, compared to 46% in Turkey, 51,7% in Poland or 65% in Germany.^[3] Macedonia rates 81 among 155 economies that are surveyed annually for the purposes of “Doing business report” of the World Bank.

Poorly functioning institutions and dysfunctional courts have undermined business activity and kept per capita foreign direct investments low, even by regional

standards. The foreign investments in Macedonia are lowest in the Southeast of Europe lagging well behind neighboring Bulgaria, Albania, and Serbia.

Foreign Direct Investments in South East Europe in million Euros^[4]

<i>Country / year</i>	2000	2001	2002	2003	2004	2005	Per capita inflow 2004
Albania	400	232	151	158	275	400	86
Bosnia	1800	133	282	338	400	400	104
Bulgaria	1000	903	980	1851	2114	1800	272
Croatia	100	1503	1195	1788	921	1000	208
Macedonia	3500	493	83	84	122	100	60
Romania	800	1294	1212	1946	4098	3500	189
Serbia	-	186	502	1197	775	800	103
Montenegro	-	11	89	39	50	-	80

Growth and reform strategies should not be based on abstract values, but mainly on concrete figures obtained directly from field research. That is the only way to elaborate policy, tailored to the real needs, and to develop practically applicable economic strategies. The objective of this paper is to shed light on some of the structural problems facing Macedonia that might help explain its stubbornly high unemployment rate and low level of growth and exports. It does so by looking both at a crucial sector (clothes or apparel production) and at trends in one of Macedonia's seven regions (Eastern Macedonia). This sector is crucial for bread winner both in terms of exports and employment. Every second item Macedonia sells to the EU is a shirt, blouse or another piece of clothing. In 2004 clothing and textile exports made up 32 percent of all of Macedonia exports, and 46.4 percent of its exports to the EU (in 2003) significantly more

than the 'traditional' Macedonian exports of raw tobacco (2,8%), wine (2,5%) and lamb (1,6%).¹⁶¹ Exports of iron and steel contribute a further 24 percent: in fact, apparel and iron exports combined make up two thirds of the country's exports. Developments in these key sectors directly and strongly affect all of Macedonian society as they contribute to two thirds of the country's exports.

Table 2: Macedonia's top Exports by commodity group (million US\$ m)¹⁶¹

	2000	2001	2002	2003	2004	2005
Clothing	318	321	334	472	488	498
Iron & steel	289	196	155	251	405	535
Beverages / tobacco	129	122	125	137	128	N/A
Food products	66	65	75	92	126	N/A
Machinery / transport equipment	83	77	74	81	99	110
Chemicals	60	61	69	70	80	91
Textiles	37	37	36	42	53	50
Total	1,323	1,158	1,113	1,367	1,674	1459

Note. Figures as in source: components may not sum to the total given.

*Filip Blazhevski, Snezhana Mojsoska (eds.),
Nadvoreshnata politika na Makedonija, Analiza na tekovite na izvoz i i uvoz 1994-2005,
 USAID:Skopje 2006

In terms of employment clothing manufacturing today is the biggest industrial sector. Almost one in ten officially employed Macedonians today produce clothes (8.6

percent).^[7] The industry employs 36,635 people, nearly one third of the total number of employees in the Macedonian industrial sector.^[8] It has more than a double of the workers in the manufacture of food products and beverages (16,938) and far more than the 9,590 employees in the production of metal products.^[9] This is true even though the number has been in decline since the late 1980s, when there were 62.518 employees.^[10]

Women's blouses and cotton T-shirts are the most competitive products produced in Macedonia today. The women's blouse was the number one Macedonian export product in the first trimester of 2005.^[11] On the list of the top 10 most valuable export items were also men's cotton shirts in the fourth and women's trousers and brace overalls in the eighth place. Macedonia actually earns more selling women's blouses than with the sales of its wine and lamb combined, and these items are just one kind of apparel exported by the domestic producers. Exports of blouses sewn for C&A are worth more than the sales of the famous *T'ga za Jug [Longing for the South]* Macedonian red wine.

The center of the clothing production in Macedonia today is in Eastern Macedonia, in Stip. There 5,610 (or 40 percent of all employed) work in 58 companies in the textile sector.^[12] This is more than in any other town in the country (Skopje has 3,851, Tetovo 3,549 and Bitola 2,541 people working in this sector).^[13] In the rest of Eastern Macedonia textiles and clothing are also major employers. In the small town of Radovich where the economy in socialist time was concentrated around the copper mine *Buchim*, today there are several textile companies such as: *Koneli*, *Dekorteks*, *Edinstvo*, branches of *Stipteks* (from Stip), and *Orka* (from Skopje).” In Vinica, there are *Vinka* and *Vinichanka* built in socialist times, but also new clothing companies such as *Moda*; in Kochani, *Ko*, *Stil*, *Goldenteks*, *Triko*, *Amorteks* and *Daniteks*. The town of Delchevo was also textile oriented. Today besides the old *Alkaloid* and *Frotirka*, several new clothing companies, such as *Palteks* and *Dateks* have been opened.

Outsiders looking at Macedonia rarely pay much attention to its East. North West and North East Macedonia are in the focus due to their complex ethnic relations (here

most of the country's Albanians live). The capital Skopje is the political and economic centre: with 25 percent of the total population producing 50 percent of the country's GDP.^[14] Even Central Macedonia - the valley of the Vardar river - is familiar to those who travel from Central Europe to the Aegean, from Belgrade to Thessaloniki. Eastern Macedonia, however, sees few visitors; the population is largely mono-ethnic, the landscape unspectacular. People in this region have the worst living standards in Macedonia. They are less prosperous than those in Skopje but also than citizens of Tetovo or Kumanovo.^[15]

Can a city whose economy depends on textiles and clothes be anything other than poor? Can a region where the typical worker is a woman with primary school education, sewing and stitching pieces of imported cloth with the help of old-fashioned sewing machines, truly develop? Some in Stip doubt this. "A town with so many clothing companies must be poor", explains Vlado Netkov, who now runs one of the most entrepreneurial businesses in Stip.^[16] Yet most of the private companies CRPM interviewed in recent months have expanded their activities since 2001. In the short term, then, the sector appears to be doing fine. However, in the clothes sector the short term is short indeed. It is alarming that today, as in the socialist past the simple "sewing and stitching" remains the main economic activity in the town. Investments in higher value-added production are hardly evident, which brings the danger of Stip being destined for further stagnation. Precisely because Stip is so "clothing manufacturing dependant" if this sector fails the city itself would collapse as well. Whereas in other Macedonian municipalities a decline of the clothing sector means economic trouble of a single economic sector in Stip it would mean the collapse of the entire city. As the experience of so many countries has shown manufacturers and retailers scout the planet for the lowest-cost production. The search for yet lower costs of production influences the "race to the bottom" concept.

Map of Macedonia with Stip's neighboring towns Delchevo, Berovo, Sveti Nikole underlined.



Since orders can be placed anywhere on the planet the sub-contractors, the ones actually who produce the goods, are relatively powerless price-takers, rather than partners and deal-makers. The world of textile and apparel industry has undergone several production migrations since the 1950s, from North America and Western Europe to Japan in the 1950s and early 1960s, and then from Japan to Hong Kong, Taiwan and South Korea, which dominated *Global* textile and clothing exports in the 1970s and early 1980s. Finally in the late 1980s and the 1990s there was a third migration to other developing economies including China. Each new tier of entrants in the *Global* apparel trade had a significantly lower wage rates than its predecessor. Stip and Macedonia have entered this race sometimes ago. But, an economy whose symbol is the cotton T-shirt is not one that can reach EU living standards in the 21st century.^[17] How Macedonia arrived at this stage, and

what options a town like Stip, and national policy makers, have today are crucial questions for the future of the whole country?

II. MACEDONIA'S MANCHESTER

Stip is a small, picturesque little town merely a one hour drive from the capital Skopje. According to statistics, in Stip the food is cheapest in Macedonia.^[18] In the country Stip is famous for its local, pizza-like pastry, *pastarmajlija*. Most of the town's houses are modern. There are a number of socialist era apartment buildings and newer shopping centers. A river passes through the center of Stip full of cafés and restaurants. This little town is a home to many Macedonian historical figures, from the chiefs of the 'infamous' VMRO, Vancho Mihajlov, and Todor Aleksandrov, to the partisan leader Mihajlo Apostolski. The key figures of the country's post- 1991 independence, former premier Nikola Kljusev, presidents Kiro Gligorov, and the spiritual leader Archbishop Mihail, also hail from there. It was in Stip during the times of Kingdom of Yugoslavia, in 1924, where the Russian musician Sergey Mihailov, staged "Pagliacci" the first opera in what is today Macedonia and it is in Stip's where "Makfest", the most prestigious pop music festival in the country, is organized nowadays.^[19] A vast majority of the 47,796 inhabitants of Stip are Macedonians with a small number of Vlachs, Turkish, Roma and others. Although there were more than 4,000 Turks in the town after 1945; most of them left as part of a population 'exchange' organized in the 1950s between socialist Yugoslavia and the Turkey. The Vlachs are a small and entrepreneurial minority of 2,074.

Table: Ethnic breakdown ^[20]

	<i>Total</i>	<i>Macedonians</i>	<i>Albanians</i>	<i>Turks</i>	<i>Roma</i>	<i>Vlachs</i>
Stip	47796	41670	12	1272	2195	2074

Although this is an old city, there are few buildings left from before the 20th century. Before the 19th century they are no precise statistics on Stip's population figures.

The only useful information are from traveler's descriptions of the town according to which Stip had 3,000-4,000 inhabitants in 1797, the number increasing to 6000 in 1807, and then to 17,000 in 1835. Stip was rather a dynamic and rapidly developing town for this period in history. The growth of Stip was induced by the trade with Thessalonica, mainly conducted by the Jewish community of the town.^[21] In this era the Stip had 3000 houses out of which 1200 were Christian houses, whereas 1570 were Turkish.

The importance of the city as an economic and trade centre of the eastern region of Macedonia started to decline when the railway Thessalonica-Skopje-Mitrovica was built in 1873 bypassing Stip. By the end of 19th century (1899) Stip had some 20,900 inhabitants, of which 10,900 Macedonians; 8,700 Turks; 800 Jews; 500 Roma. The Vlachs appear in the statistics only in 1912, when they amount to 120 people.^[22] Before the 1912 the city of Stip had 32 neighborhoods out of which 11 were inhabited by Macedonians, 9 were inhabited by Turks, one by Roma and one by Jewish inhabitants, whereas the rest were mixed. There were around 700 craftsmen's workshops (most of them shoemakers - 100 and clothing producers - 60) and trading houses, one hotel, 47 restaurants, and 25 bakeries.^[23]

Before the Second World War Stip with its 550 Jewish inhabitants had a third biggest Jewish community in Macedonia (after Skopje and Bitola)^[24]. Most of the Jews living in Stip were engaged in small trade activities and were relatively poor^[25]. Unlike their kin from Bitola who were supporting the Zionist movement and those from Skopje who were well integrated with the rest of the society, the Jews from Stip were mainly working class and had strong pro-communist orientation.^[26] All but few Jews from Stip were deported to the concentration camp Treblinka between 25 and 29 March 1943.^[27] None of them survived the camp horrors and today there is only one Jewish family living in Stip.

In the Kingdom of Serbs, Croats, and Slovenes, Stip was a town of craftsmen, and agricultural producer (tobacco, cotton, poppies and wool). After 1945 however, Stip as other towns in Yugoslavia, went through a rapid process of mass industrialization and urbanization becoming an important economic center. Industrialization resulted in most of

the surrounding villages becoming depopulated. Much of the agriculture production has been neglected and people left their villages to work in the industrial capacities in the town. In fact, the urbanization has been so extreme that out of 45 villages in the municipality, by 2002, 35 have been completely depopulated or have less than 100 inhabitants.^[28] The villages that have actually witnessed population growth in the last fifty or so years, are either adjacent to the town, (Chardaklija with 922, and Star Karaorman with 911 inhabitants), or are on the main road to Veles and Skopje. (Tri Cheshmi with 1065 villagers)

Table: Population of Stip Municipality, Employment in Sectors

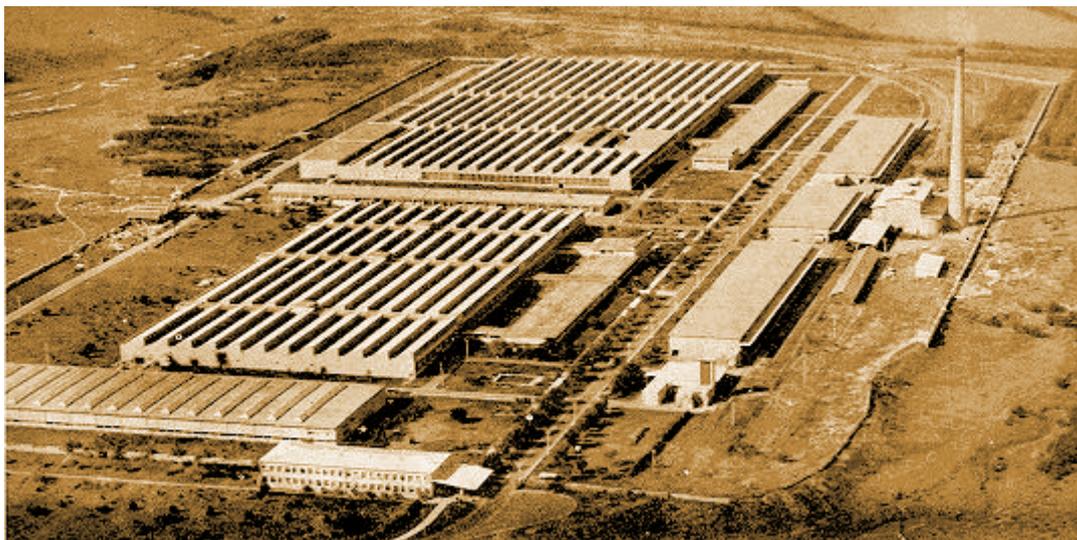
	<i>Municipality</i>	<i>Town</i>	<i>Villages</i>	<i>Employment</i>	<i>Industry</i>	<i>Agriculture</i>
<i>1953</i>	32,702	24,763	7,939			
<i>1961</i>	36,444	29,829	6,615	8,697	3,073	1,364
<i>1971</i>	40,675	34,787	5,888	10,594	4,502	1,397
<i>1981</i>	46,610	41,598	5,012	17,660	8,616	2,244
<i>1991</i>	51,947	47,523	4,424	20,704	10,706	2,161
<i>2002</i>	51,808	47,796	4,012	13,888	9,140	254

The post-war industrialization of Stip was based on the production of textiles and clothes. There were other industrial facilities built from scratch: some in food production and processing (*Zhito Leb*, an industrial bakery), some in metal production (*Metalna*, producing metal tubes), and a very large company producing shoes (*Bargala*). However, it was the textile factory *Makedonka*, founded in 1950, which played the leading role in transforming the town. *Makedonka* and its affiliate factory *Astibo* was considered as an important basis for the development of the Yugoslav textile and clothing production. The importance of this factory was high at that time, but until today it continues to condition the current economic situation and potentials for growth of the Stip economy.

Even the physical layout of Stip tells a story of a town that is based on the development of *Makedonka*. As you enter Stip from the West, one soon reaches a roundabout near the now defunct train-station. On the left is the region's main industrial zone. Since 1950 this area is dominated by Stip's largest socialist enterprise, the textile company *Makedonka*. There is a huge white monument of an industrial worker at the entrance symbolizing the economic giant employing 5,900 people in the 80's.

When one comes in the complex of *Makedonka* on his left he first sees the yellow administrative building where the whole process of production in the factory was planned and administered/managed. Next to the entrance door of this management building there is a plaque announcing the beginning of production of yarn in *Makedonka* in 1953 when the spinning mill was handed over to the workers of the factory. Further down the main street (there are two parallel streets that go through and around the *Makedonka* compound) one can see on the left side a huge production facility where the Macedonian fabrics were created, whereas on the left side there are the storage facilities next to which a railway is passing. This is where the trains used to stop at *Makedonka* while the yarn and fabrics were loaded to be transported throughout the former Yugoslavia and Europe.

Aerial picture of the colossal buildings of *Makedonka* in the socialist past



Since April 2004 the railway line connecting Stip to Skopje has stop functioning, the government deeming it not profitable enough. Two years earlier *Makedonka* also stopped operating. Today the compound is falling apart, the railway gate locked already rusted. The maintenance has been poor in the last ten years and one could see that many windows are broken, parts of the walls are deteriorating and the grass in the park is growing wild for some time. There is a bulk of old machinery, rusted from the rains and the time that past by, scattered around the compound. An old flag of the factory is still there, continually blown by the wind that is so strong in the Stip area.

To get from the round-about to the centre a traveler would continue on *Goce Delchev* Street. One then passes a number of private clothing firms including *Albatros*, one of the most dynamic enterprises in town. Soon one reaches what is today the largest employer in town, *Bargala*, where more than 1,200 employees are making shoes for export to the USA and Italy. On the left one finally comes to the complex of buildings of *Astibo*, the most important clothes producer in socialist times. Named after the Roman name for Stip, *Astibo* laid the foundations of the large clothes sector of today. Many of the managers of private producers today, including those of *Stipteks* and *Albatros* started their careers in the management of *Astibo*. When the company was liquidated and its premises sold, a consortium of (mainly) former managers bought the premises which today again houses eight producers of clothes.

The *Goce Delchev* road then climbs up a small hill before one reaches the centre of the town. The main cathedral, *St. Nikola* from the XIX century built on the ruins of a XIV century church, dominates the centre of the city. Opposite it is the municipal building, housing the Mayors office, regional offices of the various Ministries of the central Government, the offices of the trade union, the citizen's information centre and the local UNDP office. A few steps from the cathedral are the City Museum, and a large bronze memorial in the shape of a Menorah commemorating the destruction of Stip's Jewish community during World War II.

The Decline: Picture of Parts of *Makedonka* Today



The Decline 2: Picture of Parts of Machines around *Makedonka* Today



This is the old commercial centre concentrated around the Ottoman covered bazaar (*Bezisten*) in which traders gathered and sold their items in the past but nowadays is used as an art gallery. Next to the *Bezisten* is the tall building of Stip's largest hotel, *Oaza*, built in the socialist era by *Astibo*.

To the south-west, on the big hill which shadows the town, you can see the remains of a medieval castle, the *Isar* an old Ottoman fortification and halfway up, on what is little more than a ledge, the small fourteenth-century church of *St. Arhangel*. On the same hill there is a newly built cross overlooking the town, constructed in celebration of the 2000 years of Christianity.

The economy in Stip revolving around *Makedonka* and *Astibo* declined in the years after the dissolution of Yugoslavia and the transformation of the system. While during socialist times the many Stip inhabitants has a decent life and good working conditions today this is no longer true. Living standards have worsened drastically at the beginning of 90's. Workers in the textile sector have far less amenities than 20 years ago. Their jobs are not a certainty. Long gone are the paid holidays at the Ohrid lake, and the provided social and health care for the whole family. No cultural events for the workers are organized by the clothing manufacturing firms any more. The salaries are low, and the working hours long. After 1989 the town did not witness a construction boom typical for the capital or some other parts of the country. Instead, in the city center one finds a new shopping center that is half finished and only a few new apartment buildings.

Today only 36 percent of the working age population have official employment (in 1994, the employment rate was 61 percent). The employment rate in Stip today is higher than the Macedonian average of 33.51 percent.^[29] However, the EU average is 63.3 percent, and the lowest rate among EU is Poland's 51.7 percent.^[30] Despite the economic decline, industrial production, and clothing manufacturing in particular, overshadows the economy in Stip. While in the tertiary sector there are 4494 employees or 32% of all employed, agricultural activity, except for occasional subsistence farming, has almost

diminished. Today, out of 13,888 registered employees, 9140 persons, or 66% of all employed, work in the industrial sector. Like in the past, within the industrial sector, clothing manufacturing predominates.

Table: Sectors and employment in Stip

<i>Sector</i>	<i>Companies</i>	<i>Employees</i>	<i>Biggest Company</i>
<i>Clothes</i>	58	5,610	Mavis
<i>Public enterprises</i>	50	2,351	Medical Centre
<i>Shoes</i>	8	1,216	Bargala
<i>Construction</i>	54	531	Beton Stip
<i>Transport</i>	112	521	Balkan Ekspres
<i>Food Processing</i>	42	485	Brilijant
<i>Forwarding/Logistics</i>	26	304	<i>Birkart</i>
<i>Agriculture</i>	62	254	Evropa As (Pigs)
<i>Doctors, Pharmacies</i>	22	100	Getaldus
<i>Lawyers</i>	19	20	
<i>Other</i>	314	2,775	Angroteks

III. STIP'S RACE TO THE BOTTOM

In clothing production, labor expenses account for up to 60 percent of the overall production costs.^[31] Labor costs are particularly important in the outward processing trade (OPT) also known as cut-make production, the 807/9802 program, "production sharing", or lohnveredelung. In this system of international subcontracting firms supply intermediate inputs (cut fabric, thread, buttons and other trim) to suppliers, typically located in neighboring low-cost countries with reciprocal trade agreements that allow goods assembled offshore to be re-imported with a tariff charged only on the value added

by foreign labor. To make this system worthwhile, the cost savings associated with low-wage assembly must exceed the inherent additional costs of production fragmentation, namely: two-way shipments; longer and larger inventory; and added co-ordination to manage the fragmented supply chain. Even small deviations in production costs can in turn drive the producer “out of the market” the buyer turning to the competitors.

Stip clothing producers today fear that they will be driven out of the market. The history of the development of the industry in this town tells us why. Stip has a long tradition of clothing and textile production, first developed after the Second World War, concentrated around *Makedonka*, playing the key role,^[32] and then *Astibo*. Founded in 1950 *Makedonka* began production with 120 workers in April of 1952 with new machines bought from the United Kingdom. *Makedonka* was one of the biggest and most modern factories in the whole SFR Yugoslavia producing yarn, fabrics and cloth for the domestic clothing market. It included a restaurant serving one free meal for the employees per day, three discount stores, and a library.^[33] *Makedonka* had apartment buildings constructed for its workers who could buy these through different kinds of credits.^[34] The company expanded, both in size and in production capacity, building a weaving plant in 1955, a spinning mill in 1957, clothing manufacturing line in 1962 and a jeans factory in 1983. The number of workers grew year by year from 500 in 1953, to the peak of 5900, in 1987. ^[35]

Makedonka's fibers and cloth was used by the clothing producing unit *Astibo* was founded in 1962 with 119 employees. This company also grew quickly.^[36] The core business was the design, production and distribution of men's, women's and children's clothes. Already in 1972, *Astibo* had about 2.000 employed persons. It even founded production units in a number of towns in the Eastern part of Macedonia employing the spouses of the men working in the mine pits in Eastern Macedonia.^[37] A decade after it was established the conglomerate became the biggest producer of light (casual) clothes in all Yugoslavia and one of the top five producers of apparel overall, with 60 own shops throughout the country.^[38] In 1967 *Astibo* began exporting its production making contracts

with foreign buyers, "manufacturing pre-ordered items already paid by the partners abroad."^[39] By 1978 *Astibo* exported half of its production.^[40]

The crisis of Stip's textile industry began in the 1980's. *Makedonka* had a number of problems: difficulties procuring cotton from the 1970's onward when domestic production drastically decreased; over-employment in the factory^[41]; and new openings of units to absorb unemployed persons^[42]; increasing indebtedness from getting loans to pay the wages of the workers; bad management and political mingling added to the negative effects of the wars and the disintegration of Yugoslavia.

Around the same times similar problems faced the Stip clothing industry. In the early 1980's *Astibo* had problems with regular payments for its sales on the domestic market and decided to step up exports working on the basis of the "lohnveredelung" production.^[43] This job was easy to do as the foreign partners, mainly German ones, provided all the necessary materials and *Astibo* had to do only stitching and sewing. The firm now did not need to develop own products and sell them to foreign partners; neither it had to purchase the materials for manufacturing.^[44]

Meanwhile, for various reasons that had little touch with economic realities the number of workers of *Astibo* grew to a record 4800 in 1987.^[45] Since *Astibo* was part of a system of command economy the management was not much concerned about long term effects of employing huge amounts of workers. During the massive employing of youth in the 1970's for example, the management boasted that "we will hire new employees because we have plenty of orders...what will happen when there will be no more orders- we will think about this when such times come."^[46]

Besides over-employment, the wars of Yugoslav succession which disrupted the quickest delivery to Western buyers of apparel were factors that led to *Astibo's* collapse in the 1990's. The ratio between workers and administration was striking: at the end of the 1990's out of the 2.000 workers, up to 700 were employed in the non-manufacturing section

of the company.^[47] The firm also could not realize its financial claims from companies throughout the former Yugoslavia.^[48]

Table: Workers in *Makedonka* and *Astibo*

	<i>Makedonka</i>	<i>Astibo</i>
1952	500	
1955	1,224	
mid 60's	3,070	320
1973	3,700	2,000
1987	5,900	4,800
1991	4,200	-
1995	3,500	-
late 90's	-	2,000
Dec 2001	3,009	-

Both companies went bankrupt in the mid 1990's but their transformation then led to different outcomes. Throughout the 1990's the government tried to save *Astibo* and *Makedonka* through various 'programs for restructuring,' laying off surplus workers and subsidizing production through loans. *Astibo* was liquidated only in the summer of 2002. Following one unsuccessful tender a consortium of nine clothing manufacturers bought *Astibo* to use the premises for production purposes for 1,704,000 Euros. Each member of the consortium paid a share according to the size of the objects bought, the sum ranging from 110,000 to 280,000 Euros.^[49]

Companies that have bought off from the formerly socialist enterprise of *Astibo*

• *Lars*

• *Linea*

• *V&E*

• *Elena*

• *Modena*

• *Mont*

• *Vabo*

• *Eskada*

• *VIT*

On the other hand, after much wrangling *Makedonka* was broken up into eight separate legal entities, liquidated at the end of 2001 and sold separately unit by unit. During the liquidation of *Makedonka* much of the equipment was disbanded and stolen, some of the machines sold as scrap metal^[50], smashed by bulldozers^[51]. Throughout the privatization process eight of the newer machines were relocated to the textile factory “Alkaloid” from Berovo. There is no document testifying if the machines were sold or rented out.^[52] In the *Makedonka* compound the only machines that survived the transition and are still used for production are those from “AD Ros”. While in the late 1980s *Makedonka* was still one of the largest textile companies in South East Europe, today most of *Makedonka* has been rented out, only a small part used for textile and clothing production. Only few firms use the premises employing far less workers than in the glorious past.

The <i>Makedonka</i> privatized units ^[53] :	Number of employed ^[54]	Bought by legal entity (individual) used today by	Number of employed in 2004/5
Linen/Postelnina	208	Makpromet (Mile Atanasov) rent out to "Mikoteks"	Mikoteks: 180 workers
Spinning mill / Predilnica	742	Makpromet rent out to Bargala	Bargala: 986 workers
Weaving mill / Tkaechnica	1227	Oaza (Slave Ivanovski and Ljupcho Mandzhukov), rented out to <i>EAM</i> , Elan Trejd, and Proteks As. Politeks owned by Oaza.	Politeks, (fabrika za proizvodstvo na frotir i finalni proizvodi): 5 (0) Proteks As: 10 workers to expend to 50 <i>EAM</i> : 45 workers Mikoteks: 180 workers Elan Trejd (furniture producers):
Jeans / Denim	584	Undefined ownership Metodija and Igor Smilenski rented out to, Tekstil Invest Denim, Tekstil Invest Konfekcija, Ilinden Tekstil	TID: 130 workers TIK: 80 workers Ilinden: 100 workers
Forwarding and transport / Shpedicija i Transport	38	The Kit-go firm (owned by Krum Gogov)	
Services and Energy / Usluzhni Dejnosti i Energetika	81	Bobo Menuvachnica (Riste Micev)	Usluzhni Dejnosti i Energetika 15
ROS (rezervni delovi, opremuvanje i servisiranje- maintenance of electric machines transformers and production of mechanical parts)	36	Blagoja Temelkovski from Skopje owner of CER, registered a new company ECM to run Ros	ECM 20 plans to expend to 36
Opshtestveni Standardi (services)	93	Preciz (Toni Manev) rent out to "Maksima"	Maxima: 185 workers
Hotel <i>Makedonka</i> , lake Dojran, kindergarten, restaurant & 3 shops		Preciz	
Total	3009		1891

Stip's *Astibo* and *Makedonka* have been replaced by newcomers in the clothing manufacturing. While in the socialist past of Stip there were two large companies now there a dozen of clothing producers. Managers, engineers, and economists from the socialist times have started up own businesses using the skills and the contacts of the two defunct. Most of the newcomers, like *Stipteks*, manufacture clothes. Textile production is almost disappearing. Like *Astibo* in the 80's, nowadays Stip companies are very much focused upon "outward processing production", having few value added products and currently doing only 'sewing and stitching'. This activity is low-value added, labor-intensive and is using unskilled labor for a mass production of lower-quality and/or standard products. Most of the companies are small and mid-size and the workers are skilled in simple cut and make techniques needed for the production of casual or "light clothes" such as shirts, blouses, t-shirts, etc. They employ mainly female workers -semi-skilled and unskilled - and outsourcing to household production is quite common in the low end of the market^[55]. This is a sector where relatively modern technology can be adopted very quickly due to the relatively low investment costs and companies sprung up and close often. Profits are small and life is hard for these companies. For example, for a small size producer employing about 100 workers, the yearly turnover is about 200,000 Euros and the monthly profit about 3,000 Euros^[56].

The producers of more complicated clothing items are better off but are few. Only a smaller number of Stip clothes producers such as: *Beas-s* or *Stipko*, manufacture only or predominantly jackets, coats and other more sophisticated, semi-heavy and "heavy apparel (tailored)". This production is less exposed to market vulnerability due to higher transport costs, needs more skilled labor, and more capital investment. The process of sewing such clothes is longer than the production of casual clothes. It takes about 45 minutes to sew a simply designed pair of pants, compared to the 30 minutes needed for the production of shirts. On the other hand it takes 150 minutes to manufacture a more complicated item such as a working suite or a vest. The more sophisticated products are

more expensive, the basic product, a shirt, costing 1 euro to make, the pants 1.30 euros, but the working suite 10 euros.^[57] Naturally then, the profits for manufacturers that make heavy clothing are higher.

However, the systemic feature of clothing production system, especially nowadays, is the domination of buyer-driven value chains. Large retailers, marketers and branded manufacturers, like *JC Penney*, *Liz Claiborne*, *Gap*, *Levis'*, *Wrangler* and *Tommy Hilfiger*, generally design and/or market—but do not make—the branded products they order. They are “manufacturers without factories”, with the physical production of goods separated from the design and marketing. In searching out producers for their items, manufacturers and retailers scout the planet for the lowest-cost production. The sub-contractors have to follow orders and accept prices by retailers.

That is the case with 90% of the Stip base clothing companies. For example, *Stipteks* the oldest private clothing producers in Macedonia, having been set up in 1989, has a production hall and the offices located in a grey building in the industrial zone next to two other clothes manufacturers. *Stipteks* has German partners who come to Macedonia periodically to order different kinds of clothes from local producers and *Stipteks*. Once the latest fashion trends are clear the Germans send design of the products that *Stipteks* needs to manufacture. The German partner also sends the fabric or cloth to be made into t-shirts. When the order is made the deadlines for production are short and the work is intense. It is often required to work over time. The T shirts are produced in a large hall on the bottom floor where 200 women are seated in five long rows. In front of them are sewing machines, the women forming Ford-like factory lines in which everyone is focused on one specific task.

The cloth that enters the company is first cut by a tailor. If not automated usually this physically demanding job is done by men, *Stipteks* being no exception. The manager is aware of the need of modernizing production and minimizing costs through increased reliance on automatic machines. Therefore, he plans to purchase a machine for

computer aided manufacturing that will replace the tailor. Each line has about fifty women working on a piece of cloth, i.e. the separate components of a woman's t-shirt. At the end of the hall there are pressing machines ironing the shirts just made.

While the ground floor is huge but noisy, the administration part of the company, on the first floor, is small and modern. The office of the manager dominates the space together with the offices of the accountants, the secretary and of the sales representative. Here are a computer with internet connection, fax machine, a copier, and a telephone. On this floor, the contacts are made, deals are considered and accepted. The manager is busy, his mobile phone ringing constantly during the working hours. Like many managers in Stip, Dushko Zendelov is a former *Astibo* director.^[58] Obtaining such orders is a key to the company's survival. Competition is fierce and not only from Macedonian companies. *Stipteks* managers are aware of the fact that labor costs are particularly important in the outward processing trade. The Stip low labor costs (0.75 EURO/hour, which is similar to the labor costs in Bulgaria and Romania)^[59], are incomparable with the even lower ones in Serbia, Ukraine, Moldova or in the East - Bangladesh, Cambodia, and China. Therefore, the managers of *Stipteks* have invested part of their profits setting up a production unit in Radovish where the wages are lower than in Stip.

The next door company, *Briteks*, tells us a similar story. The company is run by Risto Brashnarov, and his sister Biljana Cvetkova Brasnarova. Their father was the general manager of *Makedonka*. Founded in 1992, the firm's basic activity is the manufacture of ladies winter and summer ready-to-wear lines for the domestic and foreign markets. *Briteks* has 1,300 square meters space, the hall painted in stark violet and white. The manager's office is at the entrance of the premise, equipped with relatively new furniture, a notebook on the manager's desk. Although still enrolled in a program for clothing engineers, Risto in his 30ies, haven't yet finished university finding it not quite useful. Biljana is a graduated economist with interest in clothing design. Opposite his office is the hall with the workers. There is also a storage depot and the tailor's room.

Briteks produces some 300,000 clothing items annually in 4 lines. However, the manager admitted that the “company lacks space” and that “the hall is overcrowded as it should accommodate only three lines.” Finding extra space is hard and costly. The factory started its work with merely 30 employed people. Today there are about 130 employees. 90 percent of employees are women, most of them around 35 years old. In 2002 another production unit was opened in Skopje and managed by Risto’s sister. However, the attempt was unsuccessful and now the family concentrates their business only in Stip. About 95 percent of production is based on orders made from foreign companies based in the Netherlands, Belgium, Germany and Greece and arranged through an intermediary firm *Global*. Unlike *Stipteks* which is sent the cloth to sew by the buyer, *Briteks* uses the services of *Global* to procure the necessary fabrics from Italy, China and Indonesia. Brasnarov then transports the final products through *Birkart*, international logistics company.

Besides working for foreign clients *Briteks* also produces own clothes, about 15 percent of its total output. The manager, Biljana, designs the fashion lines of the company. She has visited international fashion fairs. Yet Risto Brashnarov feels that they “need help to create own brand-production, especially in the sphere of design and marketing”. The latest *Global* developments in the fashion industry affect their work: the company receives smaller orders from clients that need to be quickly finished. Faced with the difficulties Brashnarov family decided to invest in 2,000 square meters of real estate to rent. The rent is to cover losses from the clothing company if they occur.

IV. TEXTILE FAMILIES

In the fall of 1990 Macedonia held its first free and democratic elections. In 1991 it declared independence. In the same year the wars in the former Yugoslavia started in Croatia, to spread to Bosnia-Herzegovina in spring 1992. The end of communism, the break-up of Yugoslavia and the imposition of an international sanctions on Serbia -

reinforced in 1994 by a unilateral embargo on Macedonia imposed by Greece - hit the Macedonian clothes and textile sector severely.

In 1994 the Macedonian government set up a council to prepare the privatization of *Astibo*, which at that time still had about 3,000 employees. An attempt by the former management to buy out the company came to nothing. At the same time *Makedonka* was also struggling. In 1994 it was included among the 25 biggest loss making companies in the country. Following strikes and protests the liquidation of the company was postponed. Only in 2000 bankruptcy procedures were initiated; in December 2001 the company was liquidated. One year later *Astibo* was also liquidated.

Today, *Makedonka* and *Astibo* are history, their premises used either by private clothes producers or by other businesses. But the textile families of Stip remain the largest part of the towns' workforce. If one looks at what has happened to Stip's proud textile families from the socialist era one comes upon two striking discoveries. One concerns the changing role of women, who have in many cases become the only breadwinners in their households. The other is the growing dependency of younger family members on their parents and even grand-parents, and in particular on those who already receive a public pension.

The clothing companies are the biggest employer in Stip. Most of the employees in this sector are women. Women and those younger than 40 or 45 in particular, are almost exclusively employed in the clothing producing sector. Half of the women that are less than 40 produce clothes.^[60] An estimated number of 5,000 women work in the Stip's 58 clothing companies, whereas another 1,000 women work in other sectors. Today manufacturers looking for women to work in clothing production have difficulty finding suitable candidates: young, trained and skilful sewers of the Macedonian clothes for Europe. This increases the salaries for the Stip workers, the average one being between 150-200 Euros. The producers claim that the wages in this sector are too high in Stip, and highest in Macedonia. One response by producers from Stip has been to move part of their

production to smaller towns and villages. *Stipteks* has moved production in Radovish, *Mavis* is opening a factory in Sveti Nikole and Probistip, *Lars* in Zrnovci and *Linea* in Probistip. The salary of one worker in Radovis is around 20 percent less than her colleague in Stip.^[61]

Table: Different facts about Stip

Registered Employed (31 December 2004)	13888
Registered Unemployed (September 2005)	8654
Registered Unemployed Men	5424
Registered Unemployed Women	3230
Registered Pensioners (2005)	8562
Social Welfare Recipients (2004 September)	2469
Students in Secondary Schools (2003/4)	3692
Children 0-14 age (2002)	8600
Stip (2002)	47,796

Today 36 percent of the working age population has official employment (in 1994, the rate was 61 percent). However, the employment rate of the persons between 20 and 55 years old is 50 percent. From those older than 55 a small fraction (802) are employed, and 287 registered as looking for a job. The rest are pensioners. In total there are 8,562 pensioners in Stip. Most of the pensioners have retired under the 1993 Law on Pensions which stipulated the retirement age being 55 for women and 60 for men. Alternatively, one could have retired with at least 35 years of working experience for women and 40 years of experience for men. Therefore, the number of pensioners is high and employment rate among the age group 55-64 is minute. Since many of the young are unemployed the pensions of their grandmothers and grandfathers help the extended families survive the new economic realities.

Since independence in Macedonia as a result of the aging of the population, rise in life expectancy and the mentioned retirement eligibility criteria, the number of pensioners grew significantly. Those that were employed during the industrialization drive in the 1950's retired in the 1990's. The data from the Pension and Disability Fund show that merely in ten years (1990-2000) the number of pensioners went up for 69%.^[62] As the unemployment also grew the number of contributors to the pension scheme fell and the ratio between contributors and pensioners according to the official statistics went from 3.4 in 1990; to 1.3 in 2002. This portrays a very serious situation where one and a half employed person pays from his/her salary the pension of one pensioner. The international standard for sustainable pension scheme is to have at least three people that pay the pension of a pensioner, but every system strives for even bigger ratio, i.e. in Sweden the ratio between contributors and pensioners goes up to 7.

Therefore reform of the pension system was needed to introduce stricter criteria for retiring. According to the new scheme, to be introduced in two years time eligible for a retirement benefit are contributors with 64 years of age (for men), i.e. 62 years of age (for women) and minimum 15 years of service. The question that remains unanswered is whether the women presently working in the clothing companies can work until they are 62. Nowadays the companies in Stip do not want to employ older women than 45. As the today's old, who have secured pensions die out there will be huge consequences for the Stip families. Stip's women employed in the clothing sector are not likely to physically endure the demanding job beyond 45 and will face lay offs. On the other hand, there are not many other jobs produced by the local economy and their husbands or sons are likely to be unemployed or forced to work in the grey sector of the economy. Jobs in the public administration that are more secure are coveted and will be even more so in the future. But, Macedonia is also under pressure by the international financial institutions to decrease the size of the public administration. The future for towns like Stip then, *SEAM* bleak.

The present is not idle either. Andon Mahojsev, Stip representative of the Alliance of Trade Unions of Macedonia (the country's largest and oldest trade union), points

to a little book of some 80 pages with a black cover on his desk. It has the title *Black Book - Stories from Stip and Karbinici* and is a collection of 150 statements of those who lost out in the Macedonian transition. There are many disturbing evidence of social decay and poverty. Families have lost hope in the system and the state. Young and old reveal that jobs are difficult to find and that those that are available are poorly paid. Working from dawn to dusk for meager pay not being able to raise children properly is a stark contrast to the conditions and life styles of workers in socialist times.

Let us explore some of the typical stories. In 1990, Kiril Dimitrov and his wife were both employed as tailors in cloth producer *Astibo*, earning the equivalent of 700 € a month together. Their son and daughter were then 12 and 16 years old. Milancho Manev was a worker in textile producer *Makedonka* when it still had over 5,000 employees. Stojan Stojanov, a former football player, was also employed by *Makedonka*, as was his wife. Zoran Andonovski, the son of a manager in a socialist trading company, was in his last year at the Stip Commercial Middle School. Riste Basharov was fighter-fighter in *Astibo*, and his wife, with a degree in economics, was working in *Makedonka*.

Today, in 2005, Kiril Dimitrov and his wife are still working as tailors in the private sector, together earning about half as much as they did 15 years ago (350 €). Their son has completed the secondary textile school and has been unemployed for eight years. He is dreaming of leaving the country. The daughter is an economist, married in Skopje. Milancho Manev lost his job and income and is today unable to pay his water bills. A newspaper reported that last summer there were another 100 people who, like him, worked for public utility companies instead of paying their bills. Stojan Stojanov has also lost his job, and lives today of the salary of his wife, who now works for a private clothes producer.

Not all textile families have fared badly. Zoran Andonovski is today a manager of a company employing 60 people and producing women's blouses. However, the annual profits of his company are below 10,000 Euros; the lifestyle this allows resembles that of a

qualified worker in the 1980s more than that of a successful entrepreneur. Riste Basharov has done best of all, taking over a private pastry shop from his parents and expanding successfully. He has, however, left the world of clothes and textiles behind.

V. MOVING UP

How can textile companies move up the value added chain? What is most profitable today? In clothing manufacturing biggest profits are made from combinations of skill-intensive activities, such high-value research, design, sample making, sales, marketing and financial services. Improvements in quality control, packing, warehousing and transport also earn large profits within the clothing industry. As profitability is greatest in these parts of the *Global* value chain it is natural that there are high entry barriers for new firms. In fact, leading clothing retailers and manufacturers spend lavish advertising budgets and promotional campaigns to create and sustain *Global* brands. They use sophisticated and costly information technology to lower costs and to have a “quick response” to fashion whims of the public. In the world trade of apparel, leading retailers, designers and marketers link overseas factories with product niches in their main consumer markets. Suppliers often need to undertake frequent shipments to replenish stocks in retailer’s stores. Working under tight schedules it is extremely difficult for local suppliers to acquire the skills and move from contract manufacturing to a full-package supply and then to develop new production and marketing niches.

Upgrading within production requires countries and suppliers to co-contract with buyers, to provide both the raw materials (i.e. textile cloth) and finished garments achieving a ‘full-package’ of services - from textile production to cutting, sewing, and packaging. Full package production thus means that an EU retailer can go to a Macedonian manufacturer and say ‘we want so many thousand jackets; we will send the designs to you down the line’. The Macedonian firm then gets the raw material, designs the jackets according to the EU retailer’s master plan, makes them, packs them and sends them directly back to the EU.

Thus there will be a new premium on *skilled labor*, as companies have to extend their range of skills from just sewing and stitching. Compared with the mere assembly of imported inputs, full-package production fundamentally changes the relationship between buyer and supplier in a direction that gives far greater autonomy and learning potential for industrial upgrading to the supplying firm.

However, a move to a full package of services is very difficult to achieve. It does not only require improvement of production and design efficiency but also financing, and expertise in marketing, material sourcing, quality control, logistics (storage and retail distribution). For example, efficiency in the marketing of products increasingly becomes extremely important factor of comparative advantage. Waiting for customers to come is no longer sufficient to increase exports. Marketing strategies have to be developed and applied. Another factor in the consideration of comparative advantage is the design and quality of products. Permanent upgrading is essential for achieving, maintaining and improving competitiveness. At the moment the vast majority of Stip and Macedonian companies are engaged in the assembly phase of the production of clothes through outward processing agreements/programs. This is a low value added activity which is very vulnerable to market fluctuations.

Delivering a full package of services is however still a far step from producing own brands and etiquettes. Improving through a *functional* upgrading means moving into higher valued-added stages such as design, branding, marketing and retailing and is more difficult to achieve. Only when local firms are capable of making retailer's or branded buyer's designs into finished products on time, with volume and quality that fulfill their standards they develop a potential to cut their buyers and establish own brand names. This strategic move requires services-related *expertise in designing, marketing, retailing, financing* and the *gathering of market intelligence* on foreign markets. The strategy has been tested in Turkey, Hong Kong, and China where some leading manufacturers like *Mavi Jeans* have launched their own brand names and are entering retail distribution. Within this

segment of the clothing industry the biggest profits are being made but upgrading is quite costly.

The owner of *EAM*, Kole Patrakliski, a former worker of *Astibo*, has succeeded in the business of knitting and sewing. *EAM* has not only succeeded in achieving a full package of service status but today is also a producer of own brand apparel items. From a point of view of higher valued added manufacturing this firm is the most successful Stip producer. *EAM* produces 100% of the clothing items under its own brand. The company was founded in 1991 with 3 employees, while today there are 45. Another forty are employed on a part-time basis. Their basic activity is the production of tricot fabrics and tricot garments. *EAM* aims at vertically integrating production reducing costs for purchasing textiles from abroad. Since January 2005 they are trying to grow cotton on a small field near Stip and have also experimented producing textiles for their own products. *EAM* exports to Germany, Switzerland, Slovakia, Croatia, Bosnia and Kosovo. Last year he made profits of about 2,1 million denars, or 35,000 Euros.

Very few clothing producers from Stip are moving up and upgrading production. Besides Kole's *EAM* which has own products marketed and sold abroad, few companies make own designed clothes: *Gracija* (with about 5% own production) *Mond* (10%) *Beas-s* 20%, *Briteks* 15%, *Milano/Modena* 50%, *Zen/Vivendi*, 20% and *Sthipko* 30%. Moreover, only a small number of Stip producers (11) such as: *Anateks*, *Kit-Go*, *Starteks*, *Beas-s*, *Star-teks*, *Stipko*, *Do-na*, *Stilteks*, *Ziziteks*, *Makteks*, and *Galija* manufacture only or predominantly jackets, coats and other more sophisticated semi-heavy and "heavy apparel (tailored)."

Upgrading is difficult task if you cannot find partners to sell your products. Stip companies have low managerial and marketing skills. Many of the managers of the new private companies come from the old textile companies. There are numerous others besides Kole from *EAM*. For example, eight out of nine companies that bought the premises of *Astibo* are run by former *Astibo* and *Makedonka* managers; *Lars*, *Linea*, *V+E*, *Modena*, *Mont*, *Vabo*, *Eskada* and *Vit*. The last general manager of *Astibo* before the transformation,

Panche Nasev, also leads a clothing company, Zen. The father of Beti Saneva, now the owner of *Beas*, one of the Stip's leading clothing companies, was one of the founders of *Astibo*. When it comes to exporting own products Stip managers do business with old contacts from former Yugoslavia. To find partners in Western Europe is a more demanding task.

Thus, firms like *Beas*, which sews for *Liz Claiborne* and is the largest semi-heavy producer with 250 employees producing coats, trousers, and jackets all year round, exports own clothes to Bosnia, Croatia, Kosovo and Albania only. In addition it produces goods on the domestic market sold through 80 shops across Macedonia, of those 17 being in Skopje. In order to break out of 'Lohn' *Beas* is actively searching for new business partners, regularly visiting international trade (fashion) fairs- including Florence, Milano, Düsseldorf, Paris. The company also plans to modernize buying computer cutting system and a machine for computerized ironing currently looking for second hand machines in the Netherlands, Belgium. Until recently, *Beas* worked through an intermediary- but in the summer they contracted their partner directly.

Another good example is Milano, which first started out with 30 employees and produced only for own brand *Modena*. The manager rented a 400 sq. meter shop in the center of Stip, hired young people and trained them, and bought old sewing machines from Greece. From the beginning besides contract manufacturing they exported, to all former Yugoslav markets- destinations which were familiar to the manager and where he had business contacts during the time of *Astibo*. In 2003, Milano moved to the large production facilities located on *Astibo* grounds. The move triggered Milano real expansion with 120 employees and 3 production lines producing 50 percent of the clothes under its own brand and planning to stop 'lohnarbeit' / contract manufacturing in the future. All marketing is currently done by the manager and his daughter.

Like in the past, the intermediaries are very involved in marketing since they have good contacts in the West. The sale intermediaries or agents had a very important role

in the textile and clothing industry in the SFR Yugoslav period. At that time in Macedonia there were two intermediary companies: *Inteks* and *Makoteks*. Dealing with export of finished products and import of raw materials and fabrics, *Inteks* was a trade representative of a large conglomerate of 25 factories/producers from Macedonia. *Makedonka* and *Astibo* were members of *Inteks*. In fact, the government of socialist Macedonia urged the smaller apparel producers to join *Inteks*.^[63] In the 1985 "Inteks" had 58 percent of the total turnover and 47 percent of the profits of the textile and apparel producers in the Socialist Republic of Macedonia, and made exports worth 22.8 million USD in the Western markets and 30.7 in the socialist block.^[64] Today, the company has lost its intermediary position and the owner Zoran Azmanov lives of renting the real estate of the company.

Former managers of *Inteks* have however, continued with the old job. The two directors and partners of *Texico*, a leading sales intermediary, Mr. Gruevski and Mr. Vaskov, are an example. *Texico* exists since November 2002 and employs six persons working with 10 foreign partners mainly from Germany, but also from Italy and Belgium. *Texico* is intermediary in the annual sale of one million pieces of apparel. Their way of business is to negotiate deals with the foreign buyers, together with the local producers. *Texico's* profit margin is five percent. The annual turnover of *Texico* is around two million Euros.

While *Lavishbelt*, *INT*, *Polaris* and *Etra* have about the same annual turnover as *Texico* the biggest company in this business nowadays is *Global*, employing about 80 people and with an annual turnover of about EUR 12 million. *Global's* 80 percent of its customers are from the EU, particularly from Germany, Netherlands, Italy and England, and 20 percent are from the USA. *Global* cooperates with the well established German clothing company *Steilmann Group*. The owner, Mr. Vladimir Ichokaev has built a logistical centre in Skopje with a own clothing facility, a customs depot, and computer-aided manufacturing (CAM) with computer-aided design (CAD) systems and plans to invest in a laboratory for washing clothes. Some 60 other companies throughout Macedonia manufacture for Mr. Ichokaev.

International aid programs like the Swiss Import Promotion Program (SIPPO) aim at helping Macedonian clothing companies improve marketing skills and find contacts in the West. SIPPO, a service of the Swiss State born out of the idea to support countries, that have a large trade deficit with Switzerland, providing information for the Macedonian companies through gathering general publications on the sector, through contact to contact, and market overviews (in preparation for textiles). SIPPO also organizes meetings between Swiss clients and Macedonian producers, and various trainings and seminars. Moreover, SIPPO organizes visits to different fairs for producers of home textile. The clothing manufacturers have not been helped in such a way since most of them do contract manufacturing and there is "little sense in representing at such events." Instead SIPPO has prepared a booklet of some of the bigger Macedonian Lohnveredelung producers having at least 50 employees. Through the booklet SIPPO helps apparel producers directly find partners. This activity however, in a way disturbs the work of the intermediaries as it empowers the apparel manufacturers to make direct deals with buyers.

In addition, the Dutch Government Agency CBI^[65], has recently started an "Export Development Program" (EDP), to help the Macedonian textile sector to diminish the share of Lohnveredelung in the production of Macedonian garments and invest into own collections and/or move towards full-package services. The EDP, envisaged to last for 4-5 years, is planned to be launched in the beginning of 2006 with a total budget of slightly more than 1 million Euros. CBI plans to help through introducing Macedonian exporters to importers from the EU, providing on-line access to updated market information and business-to-business services, enabling access to CBI's "Trade Intermediary Service", organizing trainings in Netherlands as well as visits to fashion fairs in EU.

The USAID supports the textile sector through two projects: the Macedonian Competitiveness Activity's Textile Cluster) and the E-biz project (which established a technological transfer centre in Stip and created the Macedonian Fashion Portal). In June 2003, MCA facilitated the establishment of the Macedonian National Entrepreneurship and Competitiveness Council (NECC), which on competitive basis selected the areas where

clusters will be promoted.^[66] The Council has two members from the clothing industry, Gjorgji Miladinov the owner of *Kimiko*, and Vladimir Ichokaev from *Global*. Following the establishment of the lamb meet and cheese cluster; the tourism cluster; the wine cluster; and the IT cluster in the summer of 2004, the Council decided to found a textiles cluster. Jasmina Miteva owner of *Magnolia*, was originally a member of the Council too. She, together with Mr. Ichokaev made the presentation in favor of selecting clothing production as a new cluster. The fact that the textile cluster was founded only year and a half before the project is to be closed, questions the criteria on which the clusters were selected, especially because textiles alone is as important for Macedonia as all the other economic activities together. The textile cluster was established with the main objective to improve the competitiveness of the companies in this sector through introducing improved work methods in production, sales, marketing and so on, and attracting adequate buyers for its products.

The MCA's Textile Cluster helps Macedonian companies take part and market their products at industry fairs, most recently at the Fair in Copenhagen in February, and the Milan Fashion Fair held in early March, 2005. In September they helped another 5 companies to display at another fair in Milano including the *Astibo* Export Consortium (*Milano, Vit and Linea*). MCA's Textile Cluster synchronizes its activities with the Trade Textile Association (TTA) founded in late October 2003 by a number of clothing producers, supported by the mighty intermediaries and policy makers, such as the representative of the Ministry of Economy. The TTA quickly filled the space occupied during the socialist times by the increasingly passive Textile and Garment Association of the Economic Chamber. A number of apparel companies from Stip participate in the activities of the TTA and the Textile Cluster.^[67] Moreover, the Council of Leadership of the Textile Cluster consists of 8 members out of which 5 stem from Stip while the leading person of *Global* Vladimir Ichokaev, is in charge of the marketing and promotional activities of the Cluster. Unfortunately the Cluster's activities are set to end in 2006. A question remains what would happen with the institutions formed by the Cluster, the TTA planning to join efforts and merge with the Economic Chamber Association.

Another tool for improving marketing is the web portal "Fashion MK" launched in April 2005. This fashion portal is a "business-to-business (B2B) online marketplace," a joint-venture between *E-biz* and Macedonian partner *Ein-Sof*. Currently the portal has 36 registered members, 6 from Stip, and is trying to interconnect international buyers and suppliers with Macedonian manufacturers as a "virtual intermediary". *Fashion MK* has an ongoing communication with the Textile Cluster, the Trade Textile Association and the Economic Chamber. It helped organize presentations of Macedonian companies at fashion fairs in Milan and Madrid and endorses Russia and Ukraine should be target market for Macedonian companies.^[68] "Fashion MK" facilitates collaboration with Economic Chambers from Russia, Italy and France.

Although the portal is operational it is not yet fully updated with information, the investments page having almost no data for example. Still since its opening the portal has attracted quite an attention, with the number portal visitors increasing from 800 in July 2005 to 1862 in October 2005. Until early November 2005, there were 90 advertisements altogether, the service being free for foreigners, but costing 30 Euros for the Macedonian companies. The portal's software however, is limited. It is not designed to promote Macedonian designed clothes but the facilities of the companies that produce *lohnveredelung*. It currently offers a virtual showroom and virtual fashion catalogue and there are also links to the companies' web sites. For 50 Euros a domestic company can attach 15 photos from its fashion line on the portal. Although it surfaced as an idea, making new specialized software enabling comprehensive on-line presentation of Macedonian garment manufacturers is not in the business plan of the portal. Although the *E-biz* project was initially supposed to end on 31st December 2005, the portal is to continue receiving support until September 2006. According to the business plan approved by *E-biz* and *Ein-Soft* the *Fashion MK* should become self-sustainable within three years.

In order to move up, besides marketing skills, Stip textile companies need access to raw materials and accessories. Unlike *lohn* production, where the materials are shipped by the buyer, when making own clothes Macedonian manufacturers need to source all the necessary materials. Given that Macedonian production of cloth and fibers has since the transformation plummeted, clothing producers need to procure materials for own

manufacturing from abroad. This is a task in itself. Take *Beas* for an example. In the past they had a bad experience with a delivery from Turkey that had low quality and faulty materials.^[69] Today they cooperate with an intermediary firm from Belgrade for importing raw materials, bought from Japan, Korea, Italy, and Holland.

On the other had, a recent fashion line produced through by *Astibo* Export Group, a joint effort of three Stip companies *Milano*, *ViT*, and *Linea*, was made with Italian materials making it costly and difficult to sell. Availability of cheap raw materials from other countries is strongly conditioned by the state regulated custom duties for import. On the other hand, EU policies of regional diagonal cumulation also affect Stip export oriented producers as they are not able to source cheap raw materials from countries like Turkey or Bulgaria, process them and sell the final products to the EU under made in Macedonia labels.^[70]

Clothing manufacturers that aim at moving up also need to have good designers to produce new innovative, trendy items. Although *Milano* for example, has 3 in-house designers there are few Macedonians educated in clothing design. There is the Macedonian Fashion Formation established in the spring 2005, although the founders informally gathered and discussed contemporary issues relevant to the clothing industry already a year before.^[71] The formation currently has 10 members (recently their membership grew) while in the country there are around 15 designers, mostly from *Accademia Italiana*, an Italian school for design. The Formation is also represented in the MCA's Cluster, trying to engage the clothing producers. Yet most of the managers are resistant and sceptical to take on fashion designers, those represented in the Textile Cluster proposing that the fashion designers and the textile companies should equally share the costs of investment in the creation of a Macedonian brand. This is mission impossible for the designers, as they are usually not wealthy and lack finances for such an investment. There is an uneasy relationship between the two groups. The fashion line produced by *Astibo* Export Group was made by a Slovenian designer, the companies believing that the Slovenian designer will help their collection be promoted on European markets.

Clothing manufacturers that aim at moving up also need to digitize production and buy sophisticated machinery and computers. Integrating computer-aided manufacturing (CAM) with computer-aided design (CAD) systems produces quicker and more efficient manufacturing processes. This methodology is applied in different manufacturing areas. Tailors like Mihajlo and his wife from the previous section are no more needed in modern clothing producing companies. Cutting the patterns of blouses or shirts is no more done by human hand, machines do it. The advantage of the CAD system is that the apparel producers that use it make maximum use of the cloth and minimize the work done manually. Moreover, the CAM cutting is about 10% to 20% cheaper and faster than hand-made cutting. But these computerized robots are quite expensive to buy and only few companies in Macedonia have bought them. CAD and CAM machines cost up to 200,000 Euros and are found only in the Skopje based clothing producer *ORKA*, and *Global*, and the Stip based logistics company *Birkart*. They are much needed and Beas for example is in the moment looking for second hand machines in the Netherlands, Belgium. *Stipteks* has also recently ordered a CAM machine from its partner in Germany. *Mavis*, *Albatros*, and *Milano* have also recently invested buying CAD systems.

Easy access to finances and cheap loans is of vital importance for the apparel producers in Stip and Macedonia in general because the moving up needs serious capital investment. Besides buying updated machinery the company planning to move up has to plan for other costs. If a firm is to procure fabrics and other basic materials on its own, instead of relying on the foreign partners, it needs to invest a substantial amount of money. For example, for 50,000 shirts to be made the firm will need to buy 80,000 meters of fabrics plus basic materials such as threads or buttons. The costs of this procurement might be up to EUR 500,000. Additionally, one should bear in mind that it will take some time to produce and transport the shirts and a period of time before the Western partner pays the order. During this period the firm has to pay the workers, the custom clearance house, the transport company, etc. Two to three months may pass before the Macedonian producer paid for the job done, meantime investing substantial own financial resources.

A big problem for moving up of clothing producers therefore, is the availability of cheap capital. The Macedonian financial system is far from being developed as it lacks many financial instruments and institutions existing in Western countries, while those which are active are either still undeveloped. That is a serious drawback, particularly taking into consideration the low level of domestic capital accumulation and the low level of FDI in the country. While it takes a lot of capital to invest in a new collection, bank credits are very expensive. High interest rates (at least 10%) of the commercial banks through which most credit lines are administered and the high collaterals they require, limit the access to finance of the companies and determine the low level or no investments in the clothing-producing sector, which are essential for upgrade of the production chain and production of "Made in Macedonia" clothes.

In fact, the vast majority of the interviewed managers of the clothing producing companies in Stip did identify access to loans and other financial means as one of the biggest problems in their work and plans for the future (high interest rates of credits and bank loans, high collateral demanded, underdeveloped equipment leasing etc). Apparel companies from Stip most frequently use the short-term loans with relatively unfavorable interest rates, while averting the longer-term loans because obtaining them requires the high collateral.^[72] The banking policy is created on a central level, although from very recently, branches have started to grant loans based on their own decision, particularly when the loan amount is not huge. Compared to those in the neighboring countries such as Bulgaria, or Serbia and Montenegro, the offered loans in Macedonia (with key interest rate amounting to 6,5%) are expensive and unattractive. To overcome such difficulties and to bridge capital needs, a number of Stip based companies have initiated the idea of jointly opening a bank to serve the interests of the clothing producers even.

Capital is a less of a problem for companies such as *Birkart* and *Canda*, dominating one segment of the clothing industry, logistics and transport. Interestingly, these two are the only Stip companies that had foreign capital invested in. *Birkart* is the only international logistics/transport company with a branch office in Macedonia. It is a

classical foreign investment by a German company- and to this day it is fully owned by German *Birkart*.^[73] The *Birkart* offices are completely modern, high tech computers, generally young staff and everyone seemed very busy. All computers are directly connected to the *Birkart Global* software, allowing them to trace any delivery of any product around the world- if, a fabric is produced in China, shipped to Hamburg, transported by a German company to Macedonia for 'Lohn', tailored in Stip and returned to Germany, *Birkart's* software can trace the product from China to Stip and into the final retail outlet in Germany. *Birkart*, dominates the logistics in the Macedonian clothing sector. It works with 80 apparel companies in total, 30 suppliers from Stip, and 50 retailers based in West Europe. The company also owns a customs depot (*carinski sklad*) with around 3,000 sq. meters, to handle up to 300,000 pieces, where it does custom clearance for the apparel producers. They provide services like labeling of clothes, packaging, sorting and they prepare all paper work for the final transport and export to European markets.^[74]

A close company to *Birkart* is *New Trend Center for Textile Technology* founded in the beginning of the year as a joint venture between *Zmaj Promet*, and *E-biz*.^[75] *New Trend* provides CAD and CAM services to interested Macedonian apparel producers. They began with promotion of the CAM in May 2005, and the Stip apparel producers are increasingly becoming to use the service. The CAD system is being used in two shifts while the CAM in one shift. *New Trend* has currently 50 customers, 26 of them from Stip. The number of *New Trend's* customers is increasing every month. The machines are both located on the ground floor of the main building. Companies in Germany only have to send the design per email, and the raw materials, and "New Trend" then prepares the clothing pieces for the companies using sophisticated software. *New Trend* provides quality control of the materials and supplies clothing companies, like *Milano* for example, with the accessory materials intended for CAD and CAM services importing them from Italy. They closely cooperate with the intermediary company "*Global*" from Skopje. For *New Trend* and *Birkart* it would be great if there are more companies moving to full-packaging, using their *Global* networks.^[76]

VI. Politics and the Macedonian T-shirt

The Macedonian clothing industry is struggling to survive the fast changing world trends. The situation is alarming because most of the production is low value added. Yes, the absolute figures for the export of clothing items have risen. However, the rise in the exports has not been equal for all clothing items. In the last ten years the production of simple clothing materials to make, such as women's suits, blouses and shirts have risen while more complicated to manufacture items such as suits for men or women have experienced a dramatic decline in production figures. The decline is particularly striking in the manufacturing of men's suits.

Exports of textile products and clothes in the period 1993-2003^[77]

Year	Exports of textile products (in USD)	Exports of clothes (in USD)	Men's suits (thousands of pieces)	Women's suits (thousands of pieces)
1993	76 063	129 847	224	65
1994	72 649	110 535	146	22
1995	71 363	112 755	155	24
1996	71 112	249 274	230	26
1997	59 057	248 765	183	176
1998	58 794	353 663	219	413
1999	40 435	320 260	192	359
2000	36 215	317 209	179	480
2001	37 318	320 524	169	267
2002	35 803	334 146	72	169
2003	42 416	410 785	49	103

Production of "light clothing/apparel" is simple and low value added. It is mostly dependent on the availability of cheap labor. Stip is running out of such labor and there are signs for trouble already showing. The plea of the manager of the first private clothing making company, *Stipteks* Mr. Dushko Zendelski is particularly alarming:

"If the state institutions continue with this kind of public policy, the managers will transfer their capital in other areas, for example, I have bought a milk company. If the things get even worse then they are now, I will transfer my capital in that area. The situation in the textile sector has a downfall tendency from the war in 2001 until today. The prices for the products have fallen in the period of the war and until now, they are the same. But from the other hand, all the expenses have increased. This is one of the mayor problems. The grip over the neck is strengthening every day. I really do not now how much longer we can last." ^[78]

Public policies attempt to aid the manufacturers from Stip and elsewhere. But are they succeeding? There are three main policies that affect entrepreneurs and employees in the sector: trade and customs policy, social policy and education policy. Let us look at each of these three in turn. The most important steps in the area of trade and customs were taken in recent years through joining the World Trade Organization and signing Stabilization and Association Agreement with the European Union. Acceding to the WTO meant possibilities for trade increased. Having an agreement with the EU also gives more opportunities for export. But exporting to the EU is not easy for Macedonian clothing manufacturers, because on top of the costs of their production they need to pay on average twelve percent of custom fees in accordance with the EU system of cummulation of rules of origin.

In fact, for Macedonian clothes to become more competitive on foreign markets two important issues remain to be resolved; the issue of Macedonian customs fees on imports of raw materials for the clothing producing industry, and the issue of diagonal cummulation of origin for exports to the EU. In early July 2005 the government introduced a temporary measure allowing import of raw materials for clothing manufacturing customs

free of Macedonia's custom duties.^[79] The impact of this measure in the first two months of its application has been that "around a million euro worth of goods has been imported under this provision"^[80]. This positive measure for the Macedonian clothing industry is now enforced under the new Customs Law (implemented from January 2006).

On 29th June, 2005, the Minister of Economy announced that "from January 2006 Macedonia will become member of the European system of diagonal cummulation which will allow the Macedonian clothing products to be exported in the EU without custom fees. This will have a positive impact on the overall economy and will improve the business climate of the country and attract foreign investments"^[81].

However the situation with diagonal cumulation is far from resolved. Macedonia did not become a member of the European system of diagonal cummulation. A significant part of the responsibility for this situation lies with EU. The Commission agrees "regarding diagonal cummulation the [former Yugoslav Republic of] Macedonia fulfilled the conditions for accession to the system which was particularly necessary for the encouragement of foreign investment and the increase of export."^[82] Moreover, "there was a delay in the implementation of this item of the Thessalonica Agenda, but the responsibility for the slow progress was entirely on the European Commission."^[83] But, on a informal briefing held on June 22nd 2005, the EC offered to Macedonia and Croatia sub-regional bilateral cummulation between the two countries and the EU, and not membership in the Pan European Association of diagonal cummulation, requested by the Western Balkan countries several times and promised by the EU at the 2003 Council Summit in Thessalonica. In the same time EU is to extend the afore-mention association to the Mediterranean countries (Algeria, Israel, Morocco, Tunisia and etc.)

Why has there been no more lobbying to change this? Macedonian Government has asked the EU to allow Macedonia into the system of diagonal cumulation, and has built administrative capacities for this to happen. However, the lobbying from the side of the producers and the traders with clothing has been insufficient. In the case of the

Mediterranean countries, strong support for their application was given from the retail chains in Europe that sell the clothes produced in these countries. Macedonian producers did not lobby the European retail chains. Neither did the Macedonian traders with clothing. What is more they are not organized separately in two different associations and thus can not easily partner up with European lobby groups such as the "EUROcommerce" (association of European traders) and the "EUROTEx" (association of European clothing producers) position papers of which they could use to influence EU policy on rules of origin towards Macedonia. Macedonian clothing producers should stop looking up to the government to solve this problem of theirs and look up European partners to aid them.^[84]

Who is affected by the customs and cumulation issue? To understand this, let us look at the companies we presented from Stip. Those companies that produce their own products for domestic market, but are highly interested to export them to the EU, such as *Modena, VIT, Linea, Beas, Stipko, Gracija, EAM* and *Briteks* are most affected. They are sourcing raw materials to make Macedonian clothes from countries like Bulgaria, Romania and Turkey.^[85] Under the new customs regulations they do not pay customs for import of cloth and other raw materials. However, in order to export the clothes made of these materials in Europe, the Stip companies have to pay on average 12% customs once the goods arrive in the EU. If Macedonia is a member of the EU system of diagonal cumulation the clothes of the Stip producers would cumulate origin and would be possible to export them customs free to the EU. In this case the Macedonian clothes would be 12% cheaper and therefore more competitive for EU markets.

The second main area that affects the competitiveness of clothing companies is the area of social policy. The Labor Law has been one of the main concerns of Macedonian producers. *Albatros, Metro Premier* and others have complained to our researchers that their "work is cyclical (made in specific time period, the 'busy seasons') and our workers need to work hard during high season sometimes against the legal regulations (they have to work Saturdays and extra hours, whereas the law allows 40 hours a week)." Paying overtime increases the company's labor costs, whereas "foreign partners are ready to leave

Macedonia if the prices are lower for a cent elsewhere." Therefore, most of the employers in the clothing sector require change in the labor law and the collective agreements allowing work in the clothing sector to be treated as seasonal work. Others like *Stipko's* Technical Director, Dejan Popovski claim that "the Labor Law is not a problem for us because we work in 2 shifts, 7 hours each." He blames the others for not planning well the production. "The managers are greedy; they often overestimate their capacities to deliver."^[86]

On the other hand workers feel exploited by the owners of the private apparel companies as they do not get paid for the extra hours of their work. They cherish the socialist time when they had to work for only 8 hours per day and have been earning 350-400 Euros per month, as opposed to the 150 they earn nowadays. The struggle is over the value of the guaranteed minimal salary for the clothing producing sector.^[87] On the other hand, the government, responding to the numerous critics from international organizations and the businesses that the Labor regulations are not flexible enough^[88] adopted a new labor law that entered into force on 8th September 2005. With this law a more flexible hiring and firing arrangements were introduced.

The new Labor Law requires the employers to pay the overtime and contributions for that overtime. In Macedonia the social protection and health contributions account for about 36% of the net salary. On the top of it, the employers have to pay additional 15% for the personal income tax. This has been a heavy burden to the employers and many of them do not register all their employees. Some of the workers in the clothing sector complain about overtime abuses. When the labor costs are the main factor determining the fate of an industry obviously there is a clash of interests between the managers and the employees concerning workers rights and respecting the laws. It is difficult to find a solution to the race to the bottom concept. While managers would like to keep prices of production lowest possible, the state needs to collect revenues from taxes and keep the social welfare system functioning.^[89]

Export of own goods to the European markets is very far from the plans and actual work of most producers of clothes. To be able to design such clothes one needs adequately educated staff, managers with a vision and clothing designers. A clear vision is in a short supply in Stip. One of the managers of the Stip clothing produces for example bemoaned the perspectives of the integration of Macedonia to the EU as this would only cause the downfall of the clothing producing sector.¹⁹⁰¹ Indeed, many of the managers of the clothing companies, CRPM interviewed feel a need to get additional training in management and marketing. Their knowledge of foreign languages is very low and hardly any of them uses internet. Moreover, although there are few designers in Macedonia, none of them are educated in making fashion at home. This is a general problem. It effects both those that want or export own clothes abroad and those who just sew for foreign buyers. Thus, Macedonian clothing producers that want to co-contract, to make direct deals with foreign buyers, need to exhibit clothing samples. But there are few who can design their sample shirts. There is no school of design in Macedonia. Clearly then, the upgrade of the textile production is related with the available human resources which is contingent upon the existence of adequate and good quality educational institution.

This leads us to an analysis of the education policy in clothing and textiles. Majority of the people that live and work in Stip are poorly educated. The clothing producing workers usually have only primary or at most secondary school. But even graduating from high school is a rare occurrence in Stip. Most of the people in this town have elementary education only.

Municipality	Total number	Higher university		Without/unfinished elementary		Elementary		Secondary	
		Number	%	Number	%	Number	%	Number	%
Stip	47,796	2,578	5.39	18,013	37.69	9,430	19.73	15,000	31.38

When one considers the state of affairs in the educational sector this is not a surprise. The secondary textile school in Stip can serve as an example. Closely cooperated with *Makedonka* for years, together with the secondary school in Tetovo, it is the oldest institution teaching students the textile and the apparel trade. Each year about 230 students graduate, 170 from a four year program and 60 from a three year program. There is a lack of space for practical instruction, i.e. apparel work as there are only 2 workshops for that purpose. That is why students are sent to practice in five apparel companies *Vabo*, *Elena*, *Mavis*, *Viteks*, and *Beas*. However, there, due to various reasons they are not allowed to practice much and are typically only let to observe the apparel production. Due to the lack of space it is "an art to properly train the students of apparel production."^[91] Another related problem is the old machines used in the workshops.^[92]

An institution that should be teaching design is the Macedonian Institute for Textiles in Skopje. The institute exists for 35 years. In the past it had a study program in textile engineering. Due to a dramatic decline in the basic textile production, and a decreased interest for enrollment in this program, in the academic year 1999/2000 a program for clothing engineers was opened. However, even though the program name was changed, the teaching staff and the curriculum essentially remained the same. The program has very old curricula that does not offer graduate students design skills. Paradoxically, the curriculum is heavy on mathematics, chemistry and physics and there are only two design related courses, and no management and marketing courses.

Moreover, the program offers almost no practical exercises in clothing manufacturing. This is costly to organize as it requires equipment, time and space, as well as experience in manufacturing clothes which unfortunately the university professors do not have. In the same tie their colleagues in Romania work in computer labs operating with CAD and CAM machines. There is a lack of interest to enroll in the program. Even the quota of places offered with free tuition is not filled at the time of enrollment. Just two students have graduated so far. The students testify that "even after graduation they have not seen how clothes are manufactured, so how would they know to resolve any manufacturing

problem."¹⁹³¹ Since this is a public institution the government should consider modernizing it as quickly as possible. In fact, there is interest in such kind of education. Although in Macedonia there is not a design school, there are 15 educated designers; most of them graduates from the Florence based Academia Italiana. The same school is interested in opening a branch in Strumica. Since this is a matter of long term interest, the public policy concerning this initiative should be aimed at reducing legal or political barriers for opening this academy.

The clothing sector, as the overall industry, does not have a defined strategy that will be conducive to growth and innovation and enhance the economic competitiveness of Macedonian clothing. The Ministry of Economy has in its jurisdiction to create a coherent policy and regulatory framework for the textile and clothing sector. The Ministry has an industrial department within which only one person specifically overlooks the developments in the industry that contributes with 32% of the total exports and employs every tenth Macedonian. This section of the industrial department of the Ministry after fifteen years finally succeeded in receiving 8 million denars (131.000 Euros) in 2004 from Swiss Compensation Funds to cover the expenses of an expert *EAM* that will develop the new Textile Strategy. And if the tendering process did not stall in the bureaucratic labyrinths of the Ministry by October 2005 Macedonia would have had a Textile Strategy. Now the 58 Stip based textile companies and many others will have to wait until no specific date in 2006 for the guidelines of their sector's future development to be prepared. Macedonia does not have an industrial strategy document, and needs to define an industrial strategy encouraging growth and enhancing economic competitiveness. What better way to start preparing an overall industrial strategy but by writing such a plan for the sector that produces the most export items in the country.

APPENDIX: List of Stip Companies and the Number of Workers

NO.	COMPANY & DIRECTOR	KIND OF PRODUCTS	EMPLOYEES
1	ALBATROS Vesna Miladinova	Light; Shirts, blouses, boxer shorts	235
2	AMARETA Pavle Panev	Light; Women' shirts	80
3	ANATEKS	Semi heavy; jackets 80% spring, autumn winter, technical/industrial textiles (HTZ equipment)	15
4	ANGROTEKS Vida Nikolova	Trikotaza	65
5	ASTEKS		190
6	BEAS-S Beti Saneva	Heavy and half-heavy ready-made clothing women's suits, jackets, skirts, winter coats and trousers and men's suits, winter coats and jackets.	185
7	BUMATEKS		5
8	DA	Light, Shirts	200
9	DIVAS		15
10	DO-NA	Heavy; suits, costumes, pants for men	20
11	EAM KONFEKCIJA	Light' women's and men's t-shirts, blouses, sweatshirts	45

12	ELENA MK Danijela Josifova	Light; ladies clothing (pants and skirts)	
13	ESKADA Igor Antolovic	Light; Blouses shirts, skirts, for women	205
14	FINA-MK Petar Petrov	Light; Women's shirts	40
15	GALIJA Ilija Angelovski	Heavy and half-heavy; jeans, pants, shirts	40
16	GRACIJA Stojan Kocev	Light; women's clothing	240
17	ILINDEN TEKSTIL	Predivo	100
18	KARMABELA	Light;	10
19	KIT-GO	Semi-heavy; pants, women blejzers	70
20	KONTI		45
21	LABOD MAK		160
22	LINA Angelina Gicinovic	Light; bluzi, suknji	40
23	LONGUROV	Light;	190
24	LARS Darko Naskov	Light women's blouses	300
25	MAK FALKON	Light;	75
26	MAKSIMA Liljana Lazarova	Light; Men's shirts, women's blouses	185
27	MAKTEKS	Semi heavy	30
28	MAVIS Angel Donceviski	Light; Women's blouses	350
29	MB-JTD		20

30	METRO PREMIER Beti Mileva	Light; Men's Shirts	115
31	MIKOTEKS Lubinka Ivanova	Light; women blouses, and shirts	175
32	MILANO/MODENA Vlado Netkov; Vesna Netkova	Light; Women's shirts, blouses	105
33	MK ANGELO Saso Angelovski	Light; Women's blouses, men's shirts	40
34	MK BRITEKS Riste Brasnarov	Light manufacturing; ladies' winter, and summer ready-to-wear lines	145
35	MK LINEA Stamen Trajanov	Light; Shirts, Blouses for Women	180
36	MK SHTIPKO Blagoj Kamcev	2 lines light textiles (men's shirts) 4 lines semi-heavy and heavy textiles (coats, jackets)	160
37	MK STILTEKS Snezana Stojanova	Heavy; Men's pants	10
38	MK VIVENDI-ZEN Dragica Naseva	Light for lohn, (women's blouses, men's shirts) heavy for domestic market suits, women's costumes	55
39	MOND Katerina Krsteva	Light and Half-heavy (pants and blouses)	125
40	NANA	Light; women's confection	10
41	PRIMAVERA		105
42	SMART Georgi Stojanov	Light; women' shirts and blouses	20

43	SOFITEKS Cvetanka Gjurkova	Light: women's blouses and pant	50
44	STARTEKS	Semi-heavy; Pants, jackets, youth	35
45	START-TEKS	Semi-heavy, pants, jackets, youth collection	
46	STIPTEKS Dusko Zendelov	Light; women's blouses, shirts	200
47	SUGAREV		10
48	TEATEKS Pero Krstev	Light; women's blouses	60
49	TEKSTIL INVEST DENIM Simo Vasilev	Cloth (tekstilni tkaenini)	130
50	TEKSTIL INVEST KONFEKCIJA Simo Vasilev	Light; blouses	80
51	TOMAS STIL	Light; men's blouses	5
52	V&E Lupco Todorovski	Light; ladies clothing summer ready to wear lines	155
53	V.I.T.		10
54	VABO Vane Bogdov	Light, blouses for women	130
55	VERA MOND Jasmina Chaneva	Light; Pants and shirts for women	110
56	VIP Vencislav Filipov	Processing of cloth (krajna obrabotka na platno)	20
57	VITEKS Ile Petrov	Light; women's skirts, shorts and pants	45

58	VIZA SPED Andonovski Verica	Light; women's	55
59	ZIZITEKS	Light; Shirts and technical/industrial textiles (HTZ equipment)	10
60	ZOGORI Ramiza Ristova	Light; women's pants, shirts	105

^[11] The Vienna Institute for International Economic Studies, *Back from the Peak, Growth in Transition Countries Returns to Standard Rate of Catching-up* by Leon Podkaminer, Gábor Hunya et al. Series: Research Reports, No. 320, July 2005

^[12] See *Economic Survey of Europe*, United Nations Economic Commission for Europe: New York and Geneva 2005, p.55. See official EU and OECD figures at: http://www.oecd.org/document/39/0,2340,en_33873108_33873854_33812967_1_1_1_1,00.html and <http://europa.eu.int/rapid/pressReleasesAction.do?reference=STAT/05/112&format=HTML&aged=0&language=EN&guiLanguage=en>

^[14] The Vienna Institute for International Economic Studies, Database on Foreign Direct Investment in Central, East and Southeast Europe: *Opportunities for Acquisition and Outsourcing* by Gábor Hunya, Monika Schwarzappel, Series: wiiw Database on Foreign Direct Investment, May 2005

^[15] Ibid, p.121.

^[16] See Country Profile 2005. The Economist Intelligence Unit; State Statistical Office.

^[17] See Chapter 15, Industrial Policy, Answers of the Republic of Macedonia to the Questionnaire of the European Union, Ibid, p.335

^[8] Ibid, p.323.

^[9] Ibid, p.20

^[10] *Ekonomijata na Republika Makedonija 1945-1990 [The Economy of the Republic of*

Macedonia 1945 - 1990], by Nikola Uzunov, 2001, MANU: Skopje, p.114.

^[11] See Drzaven Zavod za Statistika: Soopstenie [State Statistical Office: Report] 7.1.5.05, 28th April 2005.

^[12] Data from the Ministry of Economy, SME Observatory, December 2004, CRPM interviews.

^[13] Data from the Ministry of Economy, SME Observatory, December 2004.

^[14] See *Mapiranje na Socioekonomskite Dispariteti vo Makedonija*, UNDP, Zavod za Statistika: 2004, p.255.

^[15] Sources: State Statistical Office, 2002 census results and major macroeconomic indicators. National Human Development Report 2004, *FYR Macedonia Decentralization for human development* UNDP: Skopje, 2004, Eds. Dimitar Eftimoski et al, p.48

^[16] CRPM Interview 15th December, 2004.

^[17] See for example, Pietra Rivoli, *The Travels of a T-shirt in the Global Economy*, John Wiley &

Sons: New York, 2005.

^[18] See Dnevnik "Najskapo se Zhivee vo Ohrid Vo Stip Najeftino", 1st September, 2005. A basket

full of basic food items for a four member family is worth 9925 Macedonian denars or 163

Euros per month on average in Stip, and 11,087 denars or 182 Euros in Ohrid.

^[19] See "120 Godini od Ragjanjeto na Sergej Mihajlov, Osnovopolozhnik na Makedonskata

Opera", Vest 13th August, 2005, Dnevnik 25th August, 2005, "Ruzhica Bila Trening za Paljaci"

[20] State Statistical Office, census data 2002

[21] See *Stip niz Vekovite* (book one), Assembly of the City of Stip: Stip, 1986, p.327

[22] Ibid, p.494

[23] Ibid, p.331

[24] "The Holocaust in Macedonia, 1941-1945",
<http://www.balkananalysis.com/modules.php?name=News&file=article&sid=231>

[25] See the report by *Menora-Genesis*, Macedonian Association of Jews.
<http://www.jewish.org.mk/Etnogen/Doseluva/Gradovi/Stip/Stip.htm>

[26] See the report of Institut fur Judische Studien Der Universitat Basel.
http://www.jewishstudies.unibas.ch/Ueber_uns/ma_detail.php?maID=38

[27] See *Reality Macedonia* "The Holocaust in Macedonia, 1941-1945"
http://www.realtymacedonia.org.mk/web/news_page.asp?nid=1628

[28] See Municipality of Stip and its Villages Census Data 1948-2002.

[29] *Definitivni podatoci na Drzaven zavod za statistika* [Data from the census of 2002 State

Statistical Office] Skopje, April 2004, pages 62, 63 for Stip and 186,187 for Macedonia. For 1994 data are from *Definitivni podatoci* by State statistical office Skopje, February 1997, pages 18, 53. For additional data see *Economic Criteria, Answers of the Republic of Macedonia to the Questionnaire of the European Union*, p.5.

[30] See the Eurostat Press Service statement on the 2004 EU Labor Force made on 8th of September, 2005.

[31] *The Global Apparel Value Chain: What Prospects for Upgrading by Developing Countries* by

Gary Gereffi and Olga Memedovic, UNDP Vienna, 2003, p.22. The clothing value chain is organized around five main parts: raw material supply, including: natural and synthetic fibers; provision of components, such as the yarns and fabrics manufactured by textile companies; production networks made up of garment factories, including their

domestic and overseas subcontractors; export channels established by trade intermediaries; and marketing networks at the retail level.

^[32] See "Tekstilnata Industrija vo NR Makedonija [The Textile Industry in NR Macedonia]",

Stopanski Vesnik, 22 August, 1956, "Tekstilnata Industrija na Makedonija [The Textile Industry in Macedonia]", *Stopanski Vesnik*, 10th August, 1955.

^[33] See "Makedonka-Stip: Megju Najgolemite Kombinati vo zemjava [Among the biggest

factories in the country], *Stopanski Vesnik*, 1st January 1977.

^[34] See "Dostoen Jubilej [a Jubilee to Celebrate] *Stopanski Vesnik*, 25th May, 1977

^[35] See Vancho Ristov, ed. *Stip-Astibo*, 1979, *Sobranie na Opshtina Stip: Stip*, See

"'Makedonka' Startuva Likvidna ['Makedonka' is Solvent]", *Stopanski Vesnik* 17th January

1973, "Dostoen Jubilej [a Jubilee to Celebrate] *Stopanski Vesnik*, 25th May, 1977, Interview with Andon Mahojshev, former "sekretar na opshtestveno politichka organizacija" [political commissar] within *Makedonka*, and a trade union leader in the factory, 13th May, 2005.

^[36] CD *Astibo*, ISBN 9989-825-97-8, created by EIN-SOF, 2002.

^[37] See "Kako Da se Izleze od Magjepsaniot Krug [How to break the Vicious Circle]", *Stopanski*

Vesnik, 18 September, 1990.

^[38] See "Edna Decenija na 'Astibo' -Stip [One decade of existence of *Astibo*], *Stopanski*

Vesnik 8 November 1972.

^[39] See "'Astibo' Kolektiv na Mladi ['Astibo' Enterprise of the Young People]", *Stopanski*

Vesnik, 17 January, 1973.

- ^[40] See "Nezapirliv Podem [Unstoppable Growth]", *Stopanski Vesnik*, 2nd August, 1978.
- ^[41] See *Stopanstvoto na NR Makedonija*, Skopje, 1962, p.45.
- ^[42] See "Makedonka i Nejinite Problemi [Makedonka and its Problems], *Stopanski Vesnik*, 12 May, 1965.
- ^[43] *Stopanski Vesnik* 1 December 1983.
- ^[44] Interview with Sashko Rashev, former general manager of *Astibo* 2000-2002, 19 February 2005, Interview with Nada Cvetanovska, former manager of the finance unit, and a the trustee (stechaen upravitel) of *Astibo*, 19 February 2005, and 19 May 2005.
- ^[45] See "Zgolemuvanje na Izvozot [Increase of Export]", in *Stopanski Vesnik*, 1987.
- ^[46] See "'Astibo' Kolektiv na Mladi['Astibo' Enterprise of the Young People]", *Stopanski Vesnik*, 17 January, 1973.
- ^[47] Interview with Sashko Rashev, general manager of *Astibo* 2000-2002, 19 February 2005, Interview with Nada Cvetanovska, the trustee (stechaen upravitel) of *Astibo*, 19 February 2005.
- ^[48] See "Insolventnosta na Pretprijatijata vo SRM: Kolapsot 'Okupira' se Povekje Firmi [Debts of the Firms in SRM: Collapse for Many]" *Stopanski Vesnik* 1 February 1991.
- ^[49] Interview with the president of the consortium Venco Filipovski, manager of VIT, 26th August 2005.
- ^[50] The new owners of AD "Tkaechnica" did not find much use of these machines and disbanded

them and sold them as scrap metal in Macedonia and Bulgaria.

^[51] In the “AD Predilnica”, the faith of the machines was no different, bulldozers coming in

destroying them before being sold as useless metal.

^[52] CRPM Interview with Milcho Macev former employee of Makedonka, one of the worker’s

leaders at that time coordinating the protests.

^[53] Within the *Makedonka* complex a separate unit “OOZT Politeks Fabrika za Pleteni Tkaenini”

also existed. It produced cotton cloth and it was bought by “Oaza” company.

^[54] Data from PIOM, *Pregled N.4 na pretpriyatija zagubari na koi e priznat pridonesot za*

penziskoto i invalidskoto osiguruvanje vrz osnova na zakluchoci na Vladata na RM.

7/2002, interview with Andon Mahojshev.

^[55] As it is the case of Amareta, DA, Stilteks, Anateks and Tomas Stil

^[56] According to CRPM studies of Stip based clothing producer’s performance and CRPM

interviews with producers

^[57] CRPM interviews with different clothing producers from Stip. The data was given provided

anonymity was secured.

^[58] Dushko Zendelov and Todor Ulanski, brothers in law, are equal partners in the company.

^[59] For Bulgaria and Romania see data in *Primary Textiles Labor Cost Comparisons, Winter*

2004/2005 Werner International Management Consultants, *Study on the Implications of the 2005 Trade Liberalization in the Textile and Apparel Sector Consolidated Report*, IFM and partners, February 2004, data from www.bgtextiles.org, www.romtextiles.com, and CRPM own research. Employers in the sector pay obligatory contributions for their workers to the Pension and the Health Insurance Fund claiming an

average salary of 4,500 denars per month. In *reality* the salaries are a bit higher ranging from 6,000 MKD in the economically weakest to 11,000 MKD in the strongest apparel producing enterprises. We have taken the average salary to be 8,500 MKD per month thereby calculating the labor costs per hour given in the text. In fact there is a discrepancy in the registered salaries and the actually paid ones in other countries in the world too. For example Werner's report notes that "the average labor costs might not always check with the official statistics of the respective countries for the textile industry. They are based on data collected and made available to Werner and are a realistic representation of the actual labor costs."

^[60] About 5,630 women age 15-40 are not employed in clothing production. In Stip there are

2000 female high school students in the age group 15 to 19. There are 741 female students at the faculties of geology and mining and pedagogy of the University of Cyril and Methodius in Stip. Although not all of them are from Stip, a majority are most likely. When one considers that young women from Stip also study in Skopje or elsewhere, and that some work in the other economic sectors then it becomes clear that all women that want to work in clothing manufacturing in Stip are employed.

^[61] Radovish is a mining city established by the workers in the copper mine Buchim.

In the transition period, the mine went through bankruptcy has not been restarted. Meanwhile the town developed a new niche, clothing manufacturing. This sector nowadays employs many of the women in the following companies: Koneli, Dekortex, Edinstvo, branches of Stiptex, and ORKA. Sveti Nikole on the other hand is an agricultural city. Its economy is concentrated around the food processing facilities exploiting the cattle breeding and agriculture in the town and surrounding areas. The main companies of the town are MIK-meat processing industry, LAKTIS- milk processing industry, BIM-producing building materials and MODA-producing clothing, and branch of Stip based LARS. Both cities are rather poor, underdeveloped and stagnating.

^[62] See CRPM's *The Reform of the Pension System in Macedonia*, Occasional Paper 7, Skopje: July, 2005.

^[63] Stopanski Vesnik 15th February 1986.

^[64] Ibid.

^[65] Centre for the Promotion of Imports from Developing countries.

^[66] The Macedonian National Entrepreneurship and Competitiveness Council (NECC), is a

partnership of the public, private and civil sectors. The national competitiveness council model has been tested and proven in several countries around the world, including, the most prominent and successful example, Ireland, as well as Singapore, Switzerland and the United States. The NECC's priority areas are attracting foreign investment, increasing exports and improving management capability.

^[67] *Mavis, Vit, Modena, Gracia, Milano, Lars, Vivendi, Maksima, Birkart.*

^[68] According to Marina Svilecic, General Manager of "Fashion MK", these markets are easier to

access as there is smaller competition and there is no problem with rules of origin of the fabric. Interview 11 November, 2005.

^[69] Interview with Beti Saneva, 28 September, 2005.

^[70] Where countries are linked by a series of identical free trade agreement (FTA) agreements

diagonal cumulation allows for intermediates originating in any one of these countries to be included in determining originating status. Thus, diagonal cumulation operates between more than two countries provided they have FTAs containing identical origin rules and provision for cumulation between them. Although more than two countries can be involved in the manufacture of a product it will have the origin of the country where the last working or processing operation took place, provided that it was more than a minimal operation. Regional cumulation is a form of diagonal cumulation, which only exists under the Generalised System of Preferences (GSP) and operates between members of a regional group of beneficiary countries (e.g. ASEAN). Diagonal cumulation operates

between the Community and the countries of the so-called "pan-European cumulation zone".

^[71] Interview with Daniela Simonovska from this organization, 28 October, 2005.

^[72] Interview with Lence Taseva, director of the Stip branch of "Komerrijalna Banka", 29 August, 2005

^[73] *Birkart* Globistic has recently been bought by Thiel Fashion Lifestyle, and as a result in some

countries, including Germany, they are now known as 'Thiel Fashion Lifestyle/*Birkart*', while

in some countries, including the Balkans, they retained the old brand name '*Birkart* Globistic'.

^[74] *Birkart's* main competitor is Textile Logistics Macedonia-Canda. It is the first logistic center

in Macedonia and today it works with about twenty apparel producers from, and five from

Stip.

^[75] In theory "Zmaj Promet" invested 53% and "E-biz" 47%. "Zmaj Promet" provided the land,

the building, the staff and the basic infrastructure while "E-biz" has invested into sophisticated equipment. Trajan Angelov is the manager of *Birkart* and co-owner of Zmaj Promet. The manager of "New Trend" is Suzanka Angelova the wife of Mr. Angelov.

CRPM

interviews with Mr. Angelov, and CRPM meeting with the leadership of E-Biz, "New Trend",

"*Birkart*", 8th November 2005.

^[76] "Textile Logistics Macedonia, Canda" is company similar to *Birkart*, both in the work done

and the international connections. As *Birkart* is taken as an exemplary company in the field of logistics and intermediation we shall not discuss “Canda” in detail here.

[77] State Statistical Office of the Republic of Macedonia, “Statisticki godisnik na RM 1993” p.

470; “Statisticki godisnik na RM 1994” p. 482; “Statisticki godisnik na RM 1995” p. 478; “Statisticki godisnik na RM 1996” p. 482; “Statisticki godisnik na RM 1997” p. 498; “Statisticki godisnik na RM 1998” p. 546; “Statisticki godisnik na RM 1999” p. 522; “Statisticki godisnik na RM 2000” p. 402; “Statisticki godisnik na RM 2001” p. 548; “Statisticki godisnik na RM 2002” p. 536; “Statisticki godisnik na RM 2003” p. 528; “Statisticki godisnik na RM 2004” p. 538.

[78] Interview 15th November, 2005.

[79] See Dnevnik from 5th July, 2005,
<http://217.16.70.236/?pBroj=2802&stID=58262>

[80] Interview with Zlatko Veterovski, Advisor to the Director of Customs, Macedonian Customs,
29.11.2005

“Made in Macedonia on products with imported raw materials”, Press conference of the Ministry of Economy and Macedonian Customs, 29.06.2005. See *Vest*
<http://www.vest.com.mk/default.asp?id=99675&idg=5&idb=1502&rubrika=Makedonija>

[82] Minutes of meeting from the 1st meeting of the European Community – the former Yugoslav Republic of Macedonia Stabilisation and Association Committee, Skopje, 3 June 2004

[83] Page 13 from the minutes of meeting from the first meeting between the EC and the Macedonian Government, Skopje, 3 June 2004

[84] The typical approach of the Stip and Macedonian clothing producers regarding this problem

can be seen in the interview with the owner of *Lars*, Smilja Nashkova, *Biznis Medium*,

December 2005, page 7.

^[85] Which are members of the Pan European Association of Diagonal
 Cummulation and which
 have more and by far cheaper raw materials than the EU ones

^[86] CRPM Interview with Dejan Popovski, 14th November 2004.

^[87] See for example, "Minimalnata Plata od 5060 Denari za Tekstilcite
 Previsoka[The Minimal
 Wage of 5060 Denars too high for the Clothing producers] ", *Utrinski Vesnik*, 14th
 February
 2006.

^[88] Macedonia is 123 ranked country in the World Bank "Doing business in
 2006" report out of
 155 surveyed economies in the world in regard to its hiring and firing procedures.

^[89] On the position of the managers asking for more liberal laws, see A1
 News from 22nd October
 2004, <http://www.a1.com.mk/vesti/vest.asp?VestID=38660>. On the experiences
 and demands of some of the affected workers see the *Black Book*.

^[90] See the interview with the owner of *Lars*, Smilja Nashkova, *Biznis
 Medium*,
 December 2005, p.8.

^[91] CRPM Interview with Anita Monev, manager of the school, 19th February,
 2005.

^[92] A recent donation in equipment has only partly solved the problem,
 interview with Anita
 Monev.

^[93] Citing Elena Zafirova, first graduate from the apparel engineers
 program, 20 November 2004,
 Interview.