

## THE ROLE AND IMPORTANCE OF THE TEXTILE INDUSTRY IN THE NATIONAL ECONOMY OF THE REPUBLIC OF MACEDONIA: SHARE OF GDP, EXPORTS AND EMPLOYMENT

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**Abstract:** The focus of this paper is the analysis of the role of the textile industry in the national economy of the Republic of Macedonia.

The main objective is to consider what determines the actual structure in this particular industry and how it affects the national economic categories, such as: the gross domestic product, exports and the level of employment.

The research results present that more than one third of the total exports, as well as more than one third of the employed population in the manufacturing sector accounted for the textile industry, but this industry creates only 3% of the national GDP.

Conclusions reveal that the above mentioned statistics is due to the very low level of additional value among all the products that consist this industry's exports. It is expected that the developed countries would tend to keep the creative activities of the manufacturing process in their own terms and transfer the basic production activities in other less developed countries. But the textile companies from the countries in the South-East Europe (among which is the Republic of Macedonia) could play the role of a bridge between the modern textile brands and the niche producers in Middle and Far East.

**Key words:** *textile industry, textile companies, GDP, export, employment, Republic of Macedonia*

### Introduction

The textile industry has a special importance for the national economy of the Republic Macedonia for its meaningful participation in the creation of employment and exports. In the past

twenty years, this industry has won the role of the cradle of private entrepreneurial initiatives. The opportunities for balanced regional development that textile industry offers are another important feature in addition to its importance. The globalization trends and the Macedonian companies' growing tendency for presence in foreign markets bring great challenges, not only for the textile industry, but also for the national economy as a whole.

The developed countries in Europe completely restructured their textile industries, by keeping the creative activities of the manufacturing process in their own terms and transferring production facilities in other less developed countries. This favorable trend was reflected in the development of the Macedonian textile industry. The extensive CMT (cut, make, trim) production played a significant role in setting the operational and financial basis for further development of the industry. A future challenge that follows is the improvement of the existing relations of cooperation with the foreign companies.

The stability of the basic parameters of the macroeconomic policies (monetary, foreign exchange and tax policy) is important for the realization of such potential development of the textile industry and the national economy as a whole. The improvement of the business

climate (among other, due to Macedonia's membership in the World Trade Organization) and the liberalization actions affected the market rules, increasing the openness of the national economy, greater access to foreign markets and, ultimately, improving the competitiveness of the textile industry.

This industry is one of the key manufacturing industries in the Republic

of Macedonia with notable participation in the formation of GDP, employment and exports, with a special emphasis on the last two. The dynamics of growth of the added value, although showing signs of acceleration, compared with that of the total GDP and total added value in the Republic of Macedonia, significantly lags. Summarized indicators are presented in Table 1.

**Table 1. The textile industry's share in GDP - added value, investments, exports and employment (in %)**

<b>The textile industry's share in:</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
<b>Total GDP – added value</b>	3,1	2,9	2,8	2,8	2,8
<b>GDP in manufacturing industry – added value</b>	15,2	15,2	14,9	16,3	15,2
<b>Total investments</b>	-	1,4	1,6	1,5	1,6
<b>Investments in manufacturing industry</b>	-	7,7	8,9	9,9	10,3
<b>Total exports</b>	31,0	33,3	32,3	31,9	26,4
<b>Total employment</b>	8,4	8,0	8,5	8,8	8,8
<b>Employment in manufacturing industry</b>	30,3	30,3	34,6	36,4	37,2

Source: Adopted according to the *Strategy for the textile industry development in the Republic of Macedonia*, Ministry of Economy, Skopje, 2007

According to the *Association of Commerce and Textile-Textile Cluster* in 2011, there were about 600 companies in the textile industry with about 40,000 employees, or 34% of the total number of employees in the Macedonian industry. The textile industry accounts for 12.45% of the gross domestic product of the manufacturing industry and more than 30% of the total exports of the Republic of Macedonia.

### **1. Exports and imports: structure and characteristics**

Table 2 summarizes the level and structure of exports and imports realized

by the companies from the textile industry in the period 1996-2006. As a result of the stagnation (due to the conflict in 2001 and the worsened political conditions and later the economic crisis in Europe) the share of exports of textiles in total exports declines by 30.9% in 2002 to 22.72% in 2006. In 2009, this relationship is back to 27% and in 2011 it counts for 31%.

As for the structure of the exports, the ratio between the share of the two branches of the textile industry is extremely asymmetric, so that the share of exports of yarns and fabrics in total exports of textile industry is only about 5%, while the share of finished textile products (clothing and knitwear) is about 95%.

**Table2.Exports trend in the period 1996-2006  
(in U.S. \$ 000)**

<b>Year</b>	<b>Republic of Macedonia's total exports</b>	<b>Textile industry's total exports</b>	<b>Exports of textile fabrics</b>	<b>Exports of finished textile products</b>
<b>1996</b>	1.147.440	297.907	32.720	265.187
<b>1997</b>	1.236.808	303.688	35.381	270.307
<b>1998</b>	1.310.679	405.965	36.106	369.859
<b>1999</b>	1.191.266	355.931	20.434	335.497
<b>2000</b>	1.322.617	357.969	46.356	311.613
<b>2001</b>	1.157.507	358.734	43.194	315.540
<b>2002</b>	1.115.527	371.177	40.449	330.728
<b>2003</b>	1.366.989	453.482	46.564	406.918
<b>2004</b>	1.675.877	535.094	26.942	508.152
<b>2005</b>	2.041.265	539.485	25.754	513.740
<b>2006</b>	2.400.715	545.365	28.533	516.832

Source: Adopted according to the *Macedonia in numbers*, State Statistical Office, Skopje, 2009

When analyzing the dispersion of markets, exports is concentrated in a number of countries that are considered as traditional cooperation partners. This fact provides security for stable and sustainable growth of exports in the future.

Depending on the scale, the countries in which the exports is realized are divided into three groups: the first group includes countries in which the achieved exports of textile products worth over U.S. \$ 5 million per year. This group includes: Germany, Greece, Holland, UK, Italy, USA, Serbia, Montenegro, Turkey, Croatia and Belgium. Companies from these countries are called *strategic partners* of the Macedonian textile industry because the exports in these countries accounted for 95% of total exports from the textile industry.

The second group consists of countries in which an annual export between 1 and 5 million U.S. dollars is achieved. Summarized, their participation in the total textile industry exports is around 4%.

The third group comprises of countries where the export is realized in small amounts. The list of countries in which the exports of the textile industry has been achieved is presented in Table 3.

The order in principle does not change, except for the significant decline in exports to the United States for the abolition of quotas on imports of textile products from Macedonia. However, ways to meet the conditions necessary to increase exports and exploit the possibilities of this huge market should be developed. Understandably, the EU continues to be the largest export market of the Macedonian textile products.

**Table3. Rang list of countries according to the value of the realized exports of textile products from the Republic of Macedonia in 2006 (in U.S.\$ 000)**

<b>FIRST GROUP OF COUNTRIES</b>			
<b>Rang</b>	<b>Country</b>	<b>Realized exports</b>	<b>Share(%)</b>
1.	Germany	280.108	51,36
2.	Greece	106.055	19,45
3.	Holland	95.165	6,45
4.	Great Britain	28.337	5,20
5.	Italy	22.462	4,12
6.	USA	11.879	2,18
7.	Serbia	11.708	2,15
8.	Turkey	7.206	1,32
9.	Croatia	7.154	1,31
10.	Belgium	5.506	1,01
<b>Exports from these 10 countries</b>		<b>515.580</b>	<b>94,54</b>
<b>SECOND GROUP OF COUNTRIES</b>			
<b>Rang</b>	<b>Country</b>	<b>Realized exports</b>	<b>Share(%)</b>
11.	Austria	5.265	growing
12.	Switzerland	3.632	growing
13.	Bosnia and Herzegovina	3.623	growing
14.	Spain	3.294	declining
15.	Slovenia	2.030	declining
16.	France	1.998	declining
17.	Bulgaria	1.711	declining
18.	Denmark	193	growing
<b>Exports from these 8 countries</b>		<b>21.746</b>	<b>3,99 (stagnating)</b>
<b>THIRD GROUP OF COUNTRIES</b>			
<b>Rang</b>	<b>Country</b>	<b>Realized exports</b>	<b>Share(%)</b>
19.	Полска	2.319	growing
20.	Чешка	1.774	growing
21.	Романија	1.312	growing
22.	Словачка	760	growing
23.	Албанија	482	growing
<b>Exports from these 5 countries</b>		<b>6.647</b>	<b>1,22 (growing)</b>
<b>TOTAL EXPORTS</b>		<b>545.365</b>	<b>100,00</b>

Source: Adopted according to the *Strategy for the textile industry development in the Republic of Macedonia*, Ministry of Economy, Skopje, 2007

As for the imports of textile products, large variations, both in scope and structure, are noticeable in the analyzed period from 1996 to 2006. The dynamics of growth of imports of textile yarns and fabrics (up to 78.71% of total imports of textile products in 2006) is in direct correlation with the increase in exports of textile products. This import is not detrimental to the national economy, because it is an input that has been further

refined to final product and exported abroad (regardless of whether the it is CMT production or higher form of export). What is worrying is the increase in imports of finished textile products that pose a direct threat to the domestic textile companies and their competitiveness. The mentioned discussion arises from the data presented in Table 4, which summarizes the imports of textile products and its structure in the period 1996-2006.

**Table 4. Imports trend in the period 1996-2006  
(in U.S. \$ 000)**

Year	Republic of Macedonia's total imports	Textile industry's total imports	Imports of textile fabrics	Imports of finished textile products
1996	1.662.917	129.593	43.316	86.277
1997	1.778.515	153.215	35.430	117.785
1998	1.914.663	49.124	33.034	16.090
1999	1.776.151	47.053	33.158	13.895
2000	2.093.872	37.113	26.633	10.480
2001	1.693.601	36.719	23.018	13.701
2002	1.995.156	38.570	24.509	14.061
2003	2.306.353	48.546	27.061	21.485
2004	2.931.626	143.360	108.008	35.352
2005	3.227.998	393.129	303.557	89.572
2006	3.762.715	409.763	322.536	87.227

Source: Adopted according to the *Strategy for the textile industry development in the Republic of Macedonia*, Ministry of Economy, Skopje, 2007

## 2. The employment in the textile industry and its features

Most of the companies in the textile industry in Macedonia are organized as small and medium enterprises with a total number of employees in the range 30-500 employees. This fact is positive, as it provides greater flexibility to companies in terms of changing the assortment of products, production of

small series and short time of delivery of the final product. These advantages are the key factors for successful cooperation with the foreign customers. To visualize the importance of the participation of the textile industry in the creation of employment in the Republic of Macedonia, the following Table 5 presents the number of employees in the textile industry in the period 2001-2006.

**Table 5. Number of employees in the textile industry  
in the period 2001-2006**

<b>Number of employees in:</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
<b>Textile industry</b>	<b>40.537</b>	<b>38.239</b>	<b>39.834</b>	<b>40.582</b>	<b>41.567</b>	<b>40.387</b>
<b>Production of textile fabrics</b>	7.376	6.292	5.750	5.262	5.719	5.628
<b>Production of finished textile products</b>	33.161	31.947	34.084	35.320	35.848	34.825

Source: State Statistical Office, *Statistical Review* No. 3.4.2.02 (2001); 3.4.3.02 (2002); 3.4.4.02 (2003); 3.4.5.02 (2004); 3.4.7.02 (2005). 3.4.7.02 (2006).

When it comes to the number of employees in the textile industry, the number of undocumented workers should be taken into account. The existence of the informal sector can not be denied. According to the estimation from the Ministry of Labor and Social Policy, the relevant number of undocumented workers is 10% -15% of the total number of employees in formal companies in the textile industry. As for the educational structure, it can be concluded that predominantly workers have completed secondary education.

The textile industry is characterized by relatively high demand for skilled labor force. However, there is a shortage of skilled textile workers and the interest in qualification in this area is quite low, despite the high unemployment in the country. The reasons for this situation are a result of the complex influence of many socio-economic factors.

The medium and long-term shortage of skilled labor can be offset by investing in new technology and automated machines, but due to the labor intensive nature of this industry, the need for quality human resource is permanent and the industry's development depends on it.

The efforts of the Macedonian textile companies to transit to a higher form of strategic partnership while working with the foreign companies could only be achieved through appropriate specialization, quality products and fast delivery of finished products. This requires educated, trained and motivated workers. The textile industry is characterized by very high quality work force, built in the past few decades through the educational system with a long tradition and the gained experience. However, in recent years the interest in this profession declined substantially. It is necessary to correct this trend with special measures such as: educational and professional incentives, average salary increase, frequent training and skills development, working conditions improvement and additional benefits.

### **Conclusion:**

The textile industry in the Republic of Macedonia engages around 40,000 employees or 34% of the total number of employees in the Macedonian industry. The textile industry accounts for 12.45% of the gross domestic product of the manufacturing industry and more than 30%

of the total exports of the Republic of Macedonia.

This particular statistics is a reason for itself proving that the textile industry will keep its role as one of the most important industry branches in the national economy. Along with the proposed actions: higher forms of strategic partnership with the foreign customers, such as outsourcing for more activities in the supply chain and retrieving back the interest in this traditional business with the special incentives for employees and recruits will allow the textile companies to achieve a significant long term profitability.

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