Left Aside

Being a non-EU country brings unemployment and economic decline for Serbia

By **European Stability Initiative**


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Why textiles? Why Leskovac?

The textile and clothing sector is one of the most highly globalised industries in the world. This sector has emerged as a locomotive for export and employment growth throughout Southeastern Europe (SEE). Textile and clothing is a diverse sector, ranging from high-tech synthetic yarn to safety belts, from simple cotton T-shirts to uniforms. In 2002 textile and clothing enterprises employed more than 2 mln people in the European Union. One person employed in clothing produced roughly EUR 22,000 of value a year and cost about EUR 16,500. These wages have created a strong incentive to outsource production to countries on the EU's periphery.

The global picture

Since 1980, Chinese clothing exports have grown at an average annual rate of 30%. In 1993, China became the world's largest exporter of clothes.

The WTO Agreement on Textiles and Clothing was signed in 1995 to gradually phase out all import quotas by 1 January 2005. The elimination of quantitative import restrictions had huge implications. Across the world suppliers responded to competitive pressures, modernising equipment, adopting new working methods, specialising in higher value-added products. In Germany over a period of 15 years, those employed in textile and clothing dropped from 491,294 to 131,610. In the EU, employment in the sector dropped by more than 2.6 % a year.

Cut, make, trim

For SEE, these were years of opportunity. Companies from Turkey, Bulgaria or Romania started out with simple forward contracting ("cut, make and trim"). Today many brands, such as C&A or Zara, e-mail guidelines to suppliers in Turkey, outlining the colours and themes of the season. Turkish partners contact their own designers, purchase raw materials, cut, make and treat the clothes, and then send them to EU warehouses. It is this ability to react rapidly and reliably to orders that provides Southeastern Europe with a competitive

In Bulgaria, textiles and clothing have emerged as the most competitive post-transition industry. Bulgarian exports increased from EUR 370 mln (1997) to EUR 1.35 bn (2004). An estimated 90% of Bulgarian garment production is destined for export markets.

Leskovac

The "Serbian Manchester", with 69,000 people, shows both the potential and the failures of recent years in Serbia in this area. This still largely rural municipality of 156,000 inhabitants has had a rude awakening in recent years.
It has been an industrial town since the late 1890s. In 1860, Leskovac was the second largest town after Belgrade. In 1938, private textile factories in the town employed 2560 workers, which is more than today! Leskovac still has all the institutions for a textile cluster.
The local industrial textile school was founded in 1947. The Association of Textile Engineers set up in the town soon had hundreds of members. In addition to the tradition of a textile fair, a local textile magazine addresses global scientific progress in the field. Leskovac has the legacy of companies and staff in 17 enterprises. And yet none of this has been able to prevent an almost complete collapse.

Collapse

Most former socially owned companies have still not been privatised. As a result, export is low. The local pride, Sintetika, which used to produce synthetic fibres, was equipped with machines in 1989/90; their age is now, on average, between 15 and 30 years old. While there is huge global demand for synthetic fibres, Sintetika is not permitted to export, its director Novica Ilic said. Sintetika's competitors sit in Turkey, China and India. Around the world, production volume per minute has risen five times during the past 15 years. During the 1990s, the company kept up its employment for social reasons. Now all the reserves the company once had have been eaten up. On average, its 56 workers earn EUR 100 a month.

In spring 2006, wage payments were 10 months behind. Ilic explains: "In August, we do not work at all because it is too hot, in winter we also do not work because it is too cold. The embargo experience has taught us how to survive. We are truly the best working class you can imagine. We get by with almost nothing, still come to work, even if we are not paid … We are still willing to do the kind of work that nobody in Europe wants to do." In 2002, Sintetika's Workers Council Assembly said it wanted to be privatised. Since then nobody from the Privatisation Agency has set foot in the factory, though there have been visitors from Bulgaria, Slovenia and Italy. They come, enter data in their computers, but never return. Today Sintetika is without capital to finance its operational costs or the purchase of raw material. In 1990 textile and clothing companies employed some 11,000 workers in Leskovac municipality. Today these companies employ less than 900 people. Sock producer Zele Veljkovic's work force has shrunk from 650 to 70. Clothes producer Inkol only employs a few guards today. Synthetic yarn producer Zevelon started bankruptcy procedures in 1999. Until recently, none of these companies had been either privatised or liquidated. Only in December 2006 Leteks was finally privatised. Strictly speaking, the transition from social to private ownership has barely begun for the Leskovac textile sector. Mrs Danica Ivkovic, the director of the Centar za Socijalni Rad in Leskovac, admits that the current numbers do not reveal the full truth about the social decline of the city. Those still officially employed in un-privatised SOEs are supposed to get at least the minimum wage, but these wages are not paid out in many cases. SOEs cannot "release" workers unless the company can "prove"' that they are '"technological surplus". These are "fictional workers". Nor has the private sector been able to make up for losses. The 11 largest private companies create less than 500 jobs, and very few of them are able to export.

Post-textile Leskovac?

In autumn of 1990, the municipality had an employed workforce of 40,168 persons – 19,853 of them in the manufacturing industry. Today 67% of the population (104,000 persons) is of working age. In September 2005, employment in the manufacturing industry decreased to 9940 workers. There is still a very large number of people working for the government, public institutions or public enterprises. There are an estimated 14,000 private farmers. There is also a new private sector but very little manufacturing of any kind remains, and unemployment is extremely high. The population has also declined and aged: from 161,986 (1991) to 154,894 (2007). In 1981, 9% of the citizens in Leskovac were older than 64, in 2004, it was 16%.

Who is to blame?

But has the decline of textiles in Leskovac been inevitable? Or is it due to competition from China? The surplus of workers in China "puts incessant downward pressure on wages and working conditions, leading the apparel and textile industries to favour the cheapest producers". There were no Chinese in Leskovac until 1998. Today there are more than 300. And they compete with the very simple household textiles produced by Leskovac's weak private sector.

Macedonian mirror

To understand the opportunities Serbia has failed to grasp, it is useful to look to Stip, eastern Macedonia. Since 2001, privatisation and liquidation have completed its economic transition. A rapidly growing and competitive private sector, exporting to the EU, has emerged. Today there are more than 70 companies with some 7000 workers in the Stip textile and clothing sector. The local TV station advertises constantly about 200 open positions. Where in 2002 thousands were jobless and the employment office registered 11,700 unemployed, today directors complain about a severe shortage of labour. Net monthly wages in the clothing sector are about EUR 140 and rising. Stip's entrepreneurs have formed an independent association of producers. Exports are rising despite international competition. Since 2001, when Macedonia signed the SAA agreement with the EU as the first country in the Western Balkans, exports to the EU have risen at a rate of almost 27% annually, to EUR 365 mln in 2004. Four foreign logistics and intermediary organisations have opened logistics centres: Birkhard, as part of Thiel Fashion Lifestyle in Luxembourg, the Bulgarian TLM as part of the C&A group, and smaller Dutch and German investors. Clearly, what Stip has achieved would also have been possible in Leskovac, where many of the managers in Stip's companies were educated and trained in the recent past. But three factors explain why Stip succeeded where Leskovac failed: its companies never cut off contacts with European Union partners as radically as Serbians did. The privatisation and liquidation was actually completed by 2002. And most importantly, by 2002 Macedonia had clearly embraced the EU perspective. Finally, in 2005 it was granted candidate status.

New Hope

What would it take for Leskovac to follow in the path of Stip? There are signs that things might change. Since 2005 there are no longer quotas for clothing exports from Serbia and exports are picking up. An SAA might actually be signed. There is the goal to complete the transformation of the SOE sector in 2007. And in recent local elections in Leskovac, people voted for a mayor who campaigned under the slogan "Leskovac in the heart of Serbia, Serbia in the heart of Europe". If Serbia would be able to emulate Bulgaria, this would mean 100,000 additional jobs. The challenge now is to take a look at the success of others in the region, and to translate this in practical policy.