

U- M - F Training
Shtip - Republic of Macedonia

BUILDING OF INTERNATIONAL COMPETITIVENESS OF TEXTILE COMPANIES IN THE BORDER REGION
MK – BGSV006.1.31.146

Part Two

STRATEGIC GAP ANALYSIS AND POSITIONING STRATEGY

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Introduction

The objective of this document is to present the process of development of the positioning strategy for the first regional cross-border cluster of textile industries of the Republic of Macedonia and the Republic of Bulgaria. The cluster is envisaged as the main result of the implementation of INTERREGIPACBC first call No. 2014TC16I5CB006 - 2015 - 1, priority axis - competitiveness, CB006.1.31.146 of the Textile Trade Association - Textile Cluster from Shtip, Republic of Macedonia and the partners from the Republic of Bulgaria BOTO – branch organization for textiles and clothes from Kyustendil. The overall objective of this part of the project is to define the strategic gap between the image of the current state of the textile industry within the population in the cross-border region, the business sector and other relevant stakeholders on the national and international market, and based on the identified strategic gaps to propose a long-term strategy of positioning the region on international markets.

The total requirements of the Conditions included defining the desired position of the region in the field of textile and garment industry in the European markets over the next five years, in order to achieve the region's vision. Service requests specifically included: material development and implementation of a one-day consultation event which required a draft of the strategic gap, positioning strategy and operational plan of activities in advance. The actions involved organization and coordination of the activities of preparing the necessary documents (agenda, list of participants, etc.), facilitating the event and preparing a short report from the event.

The analysis of the current position of the region in the textile and garment industry at national and European level builds upon the vision of the region. The assessment of the current position of the industry in the region should be conducted by means of questionnaires delivered to the top representatives of the management of textile companies. The objective of this activity is to identify the existing capacities of the companies in the textile industry sector within the cross-border region, as well as, to identify the most common risks that regional companies will face on international markets and other technical issues and critical factors: capacity, dimensions, bottlenecks and other factors that could prevent the achievement of the region's vision.

Based on the perceived capacities of the industry and market opportunities and in accordance with the objectives and the vision of the region, the regional positioning strategy should define the position of the industry in the region over the next five years. Elements to be included (content) are: the strategic gap, objectives, steps and tools for overcoming critical factors, defining the knowledge of companies necessary for implementation of the strategy, development of the human resources and the operational plan (steps to achieve the desired condition and definition of financial resources for each of the activities necessary for achieving the sustainability of the implementation). The consultative event involves a single one-day working session in the East Planning Region with 19 representatives of the top and middle management from the textile business sector and members of the associations, in order to discuss and accept the final version of the regional positioning strategy and the accompanying

documentation. This event also involves a survey to identify the existing capacities of the companies in the textile industry sector in the cross-border region and to assess the risks of the international markets.

This document consists of the following main parts. First of all, the introduction gives an overview of the amended methodology during the implementation of the project in accordance with the document "Calling conditions". Afterwards, an overview of the terminology in order to avoid possible dilemmas among the individual stakeholders over the content of the terms in the document, is given.

Methodology

During the development of this strategic document, a combined methodological approach was used, thus, a desk study of already existing sources of relevant data was consulted which in this document represent secondary sources. Furthermore, a method of empirical quantitative and qualitative study was used by means of a questionnaire of the relevant public, resulting in original and primary data collected precisely for the purposes of this strategic document. As a result of this applied methodology, balanced documents are obtained that are well-suited both with theoretical requirements and with the views of the main stakeholders. Since within the development process of this document stakeholders were properly consulted, they accepted it as their own and are ready and willing to implement it in action. Secondly, through the exchange of their sometimes different perceptions, domains of higher risk are identified and points are determined where additional engagement and training of the management and teams within the identified areas in which they do not possess enough knowledge how to deal with the challenges and dangers, or how to use the chances that are given to them.

Terminology

Cluster

For the purposes of this document, any "geographical concentration of interconnected companies and institutions in a particular activity" or "a group of firms linked to economic actors and institutions located close to one another and which generate productive advantages from their mutual proximity and connections" is designated as a cluster. They allow companies in such agglomerations to be more productive and more innovative than if they were acting in isolation. Such agglomerations help in the development of a sustainable competitive advantage both for the participating companies and for the regions themselves and also for the countries in which they operate.

Regional Clusters

The European Union invests heavily in raising the expectations for cross-border cooperation. In the list of strategic priorities in the field of competitiveness and innovation, the European Union includes clusters, especially the cross-border clusters. At the level of the Euroregions, appropriate cluster support policies are being developed. As a result of this policy of the European Union, the number of clusters is growing and more than 2,017 active clusters have been identified so far, many of which are cross-border clusters. The European Union considers that cluster association can help in the achievement of excellence and innovation in operations, in the mobility of skilled workforce and knowledge, in joint research and development and in regional business networking. This, as well as the requirements of enterprises to cooperate transnationally if they intend to access the European Union funds, will form the Union's support for the business sector for a long time.

Strategic Gap Analysis (Gap Analysis)

The strategic gap analysis represents a tool that managers can use to determine the size, and sometimes the form of strategic tasks that need to be undertaken in order for companies to move from current to desired conditions. The gap analysis is a very efficient technique for leading the planning team in search of corporate strategies that would achieve the desired level of efficiency. For its success, the basic requirements are providing solid and accurate data and a clear timeframe. In brief, this is an analysis of all the factors under which the entity's current position deviates from the desired one, in order to subsequently define the indicators and means of verification and monitoring of the closure of the strategic gap between the current and the future desired condition. The strategic gap analysis attempts to determine what needs to be done for a given organization to achieve its long-term objectives (vision). In order to eliminate the identified shortcomings, upon completion of this analysis, an appropriate implementation plan should also be developed.

Positioning Strategy

The positioning of the brand is an effective strategy when a company or cluster decides to internationalize itself. It determines the place that the given brand will take within the global market and also affects the creation of the desired perception of consumers for the given product and the improvement and strengthening of competitiveness in relation to other brands. Due to the globalization phenomenon, companies are trying to expand their presence in a whole spectrum of countries. Consumers are sensitive to the increase in the number of imported products available in their country and the awareness of the country (region) of origin is affirmed as an important dimension of the brand that has an impact on consumers' perceptions of goods and their purchasing decisions. These perspectives can influence the creation of a picture of the properties of products from a given region or harm their image especially when it comes to products from less developed countries. Hence, a good positioning strategy of the region and companies can result in effective marketing strategies.

Results of the Session on Defining the Strategic Gap

The textile and clothing industry is one of the oldest industries. Today, despite the technical and technological revolution, it remains to be an important part of the world trade. A number of countries produce textile and clothing for the international market. Nowadays, the textile industry is concentrated within the developing countries and as such, it is export-oriented. The entrance into this industry remains relatively expensive due to large investments in fixed equipment costs.

The textile industry also plays an important role in the Macedonian economy, especially the clothing industry. The development of textile in the former Yugoslavia was directed towards centrally planned systems oriented towards development of industrial families in which the woman would also be employed. At that time, the state invested in several large capacities throughout Macedonia. Yarns and fabrics were also produced as a base for the clothing industry.

In the period of transition to the free market, the textile industry of the former Yugoslavia, based on large concentrated systems, disintegrated in small, angular and dynamic but insufficiently large capacities. Large-scale basic producers went bankrupt and were practically never re-started. As a result, production within the industry as well as the **сито ситата** staff dropped dramatically. The global financial crisis and the decline in production and consumption between 2008 and 2010 also resulted in reduced orders from regular customers of our capacities. After the crisis, the textile industry continued to be a very important branch of the Macedonian economy. Nowadays, the textile industry has a significant impact on the total industrial production in the country and on the employment and export. The textile industry today participates with around 2.4% of the Macedonian gross domestic product. Despite the expectations that the global recession will negatively affect the textile industry more than the other industries, the data showed a fairly stable participation of the textile industry in the gross domestic product both in the period during the crisis and after that. Textile industry production remains variable and very dependent on international events since the largest chunk of it is being exported. In general, the textile production is declining whereas clothing production and productivity of labor are slightly growing. The share of the textile industry in the total industrial production in 2012 was 14.5%.

Regarding the spatial distribution, the textile industry remains present in almost every major city in the country. However, most of the clothing companies are concentrated in the eastern region, especially around Shtip (about 34.6% of all textile companies in the country), employing one third of the total number of textile workers. The second region known for textile production is the south east region, where about 16% of all textile companies are located which employ 17.6% of all textile workers in the country. Nevertheless, the textile industry in Macedonia employs, in total, about 7% of all employees and about 33% of the total number of workers in the processing industry. Regarding the gender structure, women dominate in the aspect of employment in the textile industry: 85% of the employees in the clothing industry are women. The educational structure is also unfavorable, since most of the employees (about 70%) have a low level of education (completed elementary or secondary school). However, the tradition and long experience in textiles provides a relatively trained workforce in that sector.

More recently, the number of employees with high qualifications increases along with the number of managers trained to organize the whole production process, designers working on model designs, marketing specialists working on the promotion of companies and brands and other related professions and specialties.

The products from the textile industry represent a significant part of the total Macedonian exports, along with the steel, chromium, lead, zinc, nickel, tobacco, lamb meat and wine. Globally, Macedonia is a very small exporter with less than 1% of the total world textile exports. In value terms in 2011, the Macedonian textile companies exported products amounting to 722 million Euros. The export of clothing items takes up most of the export of textiles. Nevertheless, textiles and to small extent leather and leather products are also being exported. In terms of destinations, the industry mainly exports to the EU countries. Germany, with about 66% of total exports is the largest partner of the country. However, the Netherlands, Greece, Italy, Switzerland, the United Kingdom and other countries are also very important and regular export destinations of the Macedonian textile companies. Regarding the structure of this export, all types of outer clothing, such as blazers, coats, jackets and blouses, dresses, pants and shirts known as light ready-made clothes, are being exported. Most of the factories are specialized in the production of clothes, and hence, those types of products are most often exported.

Salaries in the textile industry are traditionally low. Low productivity, low automation of the process requiring low training of the workforce contributes to this. Despite the fact that the textile industry remains an important branch of the Macedonian economy, it pays relatively low salaries to the workers. The minimum salary is regulated by collective agreements for the textile industry, and more recently, the initiatives for raising it to about 200 euros, net have been intensified. The minimum salary applies to a full-time worker who has achieved 100% of the working norm. The minimum wage is set at 39.6% of the average salary in our economy.

The textile industry in Macedonia is characterized by numerous positive factors and advantages compared to the competing countries. Some of the advantages of this industry are that Macedonian textile companies are highly customer oriented; they easily adapt to all customers and their requirements for a quick response. They also maintain long-term relationships with their customers and offer high quality products.

Most of the clothing capacities, or about 87%, are micro and small enterprises that in the aspect of employment contribute with 18%. This textile industry has about 800 registered factories.

Regarding the capital structure, the ownership and origin, most textile companies in Macedonia are 100% domestically owned, although there also are many examples of joint ventures and completely foreign owned companies.

In terms of basic business model, CMT (tailoring, sewing and cleaning) dominates, but there are also examples of OEM or original production, ODM (original design) and OBM (original brand). However, more than 93% of the production in Macedonia is made through CMT. According to this model, the foreign customer supplies the material. This model enables operation without owned stock and working capital. However, the value of such contracts is the lowest compared to other business models. Some of

the textile companies use advanced equipment and technology, computer technologies such as CAD / CAM systems and automated machines, but as a general rule, factories with foreign capital are better equipped and more productive and, therefore, more competitive than the domestic ones, which remain generally more conservative in terms of modernization and automation of the process.

Results of the Session on Defining the Positioning Strategy

Possibilities of the Macedonian Textile Companies

The biggest advantage of the Macedonian textile companies is that they are mostly small and ready to quickly respond to the needs of the customers, and also possess great flexibility and fast mastering. Macedonian textile companies possess the skills to produce small series per generally accepted prices, and offer good logistics and transport to the European markets. It is commonly believed that countries closer to the European economic gravity centers can develop stronger technology and capital intensive industries, while peripheral and poorly developed European countries will focus on labor-intensive industries, which include the textile industry. The results of the conducted analyzes of the dynamics of certain economic activities confirm this thesis. The textile industry is among the first to feel the impact of globalization. The specialization of the countries in the aspect of the textile industry is closely related to their geographical location, thus, these are the countries of South and Southeast Europe i.e., low developed countries, including the Republic of Macedonia.

It is considered that the competitive advantages of the textile industry for the countries of Southeast Europe will be maintained in the next 8 to 10 years and will depend on the increase in the labor price. Hence the challenge of building a strategy for development of the textile industry, which will prepare the economy and the branch to successfully face these changes. Investments in labor-intensive industries, including the textile industry, do not assume high investments, given that cooperation in this area is achieved through the creation of subcontracting relationships i.e., relationships that can be achieved without major investments. On one hand, the character of these industries is not suitable for attracting foreign investments, and as a result, the countries of Southeast Europe are not attractive for foreign investments. This, on the other hand, largely determined the high specialization of the countries of Southeast Europe towards labor-intensive branches, including the textile industry. The EU has a steady increase in the trade of textile products with the world, and in this context there is a faster growth in imports (for example, in 2001 the import of textile products in the EU was higher than the export for almost 29 billion Euros). In addition, the main feature is that from 1992 onwards, in the textile area, the EU exports more than it imports, whereas in the case of clothing, for the whole period, the EU imports more than it exports. This structure of the textile industry in the EU, according to the knowledge gained from the available materials, remains its strategic commitment for the time frame until 2020. Accordingly, the current dimension and structural orientation of the Macedonian textile industry fits into the European scheme, however, the challenge whether it should remain like this in the upcoming period remains, especially in relation to the low level of own participation in the newly added value of the products. Domestic clothing producers are predominantly small and medium-sized companies with modest possibilities for creating and selling their own products. Therefore, the

alternative to the LOAN operation should be understood as a situation arising from the current constellation of the conditions within the environment and the capabilities of our companies. One of the basic strategic directions of the developed countries (mainly EU) in the textile industry is that they dominate as manufacturers and suppliers of fabrics, whereas the finalization of fabrics in clothing is mainly left for the developing countries. This strategy is already being implemented in practice and there are no indications that there may be some dramatic changes in this regard.

From the aforementioned text on the strategic orientation, it can be concluded that the quality, the reasonable prices and the use of new technology are the basic components that should be addressed in building the future strategic orientation of the textile industry (production of smaller series, with higher quality, in short term, with higher prices). However, the improvement of these three components is related to significant investments in funds and time to improve equipment, increase the working skills of employees at all levels of the process of operation, to improve the organization of the operation, and to provide trainings for the top management. In the long run, the development of the textile industry should follow the developed countries which emphasise on services, and above all on the creation, design and template, which generates the highest profit.

The favorable economic situation is expected to last at least 5 to 8 years. The current trend of moving the textile industry from EU countries to non-member countries, as well as to other continents, is an opportunity for the Republic of Macedonia. This opens up choices not only for increasing the volume of production and exports, but also for inclusion of higher stages of operation which will enable the classical LOAN operation to be enriched (full package to be offered). This will contribute to the inclusion of other (new) stages in the operation.

The development to higher stages of production should be as follows: (1) LOAN based operation for foreign partners (short-term); (2) full adoption of the production of a foreign brand (medium-term); and (3) creation of own product, brand on a local and regional level (medium and long term).

In many countries, macroeconomic policies support certain activities that are vital to the economy. Support is given with various forms and instruments and depends on the specific conditions. Starting from what has been achieved so far, the place of the textile industry in the national economy and the possibilities for future development, it is necessary to create more favorable macro economic conditions to develop and to encourage this industry.

The labor-intensive character of the textile industry and the opportunities it provides for the development of underdeveloped regions and rural areas are an additional argument to promote this industry. Considering the relatively smaller investments in equipment, an effective policy for encouraging investment in sparsely populated regions and rural areas at central and local level is necessary. If one of the basic determinations of the country is its social aspect, the macroeconomic policy should have greater influence on the issue of employment and living standards in the regions. By pursuing a special policy to encourage the development of underdeveloped and sparsely populated

regions, as well as employment, preconditions for development of parts of the textile industry will also be created given its labor intensive character and the relatively small investments needed to procure clothing sewing equipment. Balanced regional development policy envisages several measures that can contribute to the development of the textile industry, taking into account its labor-intensive character and relatively small investments. This requires the encouragement of labor-intensive activities to be conducted in the short, medium and long term. Stronger measures are particularly needed in the short and medium term. The Republic of Macedonia still has a relatively large workforce that is not employed and requires employment. With an effective policy of encouraging labor-intensive activities, more social and regional aspects will be covered. In addition, assumptions such as the engaged labor force to appear as an initiator for other independent and new economic activities, are created. Such a policy will also encourage return to the villages and use of local resources, both on the existing buildings and local textile raw materials (for example, wool). Especially interesting is the craft production of handicrafts (hand made products) that are required on foreign markets.

In spite of all the difficulties it faces in the last ten years, the Macedonian textile industry, is still one of the leading industries in the Macedonian economy, both on domestic and foreign markets. The developments in China (rising labor costs and growing consumer spending), salary increases in Romania and Bulgaria, the expansion of the textile industry in Albania and Bosnia and Herzegovina, have imposed the need to more seriously approach the needs of this branch. In practice, Macedonian textile companies are left alone to cope with challenges and competition without proper support from the institutions. Although as an insufficiently supported industry that has a very good perspective, the public views this branch as rather disadvantageous. The fact that this particular industry employs the majority of industrial workers is often forgotten. Due to its labor-intensive character, as well as the fact the majority of the employees are women, this industrial branch has an expressive social component, and due to the relatively simple way of organizing of the production, it represents a development base and deserves proper attention.

Assisted by USAID, textile companies have been organized into an association, a cluster that has contributed to a certain promotion of the needs of this industry, however still insufficiently. Namely, there is no incentive component in state policies and the functioning of this industry is left to itself. Treated in this way, the industry is not able to follow the trends and technologies necessary for development. Only because of the long tradition and the skills inherited from the past, the textile industry of the Republic of Macedonia is still at a level that meets the needs of the European markets. However, one should not neglect the fact that this position can be lost at any moment and the Macedonian textile industry can find itself on the margins of European markets. In order to increase competitiveness and raise the level of quality of this industry, concrete measures should be taken and necessary financial support is required in machinery, technology and personnel in a very short time frame. None of the known funding sources are adequate to the needs of this industry, or, as a form of financing, they do not exist at all. For example, awarding grants to textile companies in the Republic of Macedonia is not at all a common practice.

Quality and adequate financial support is needed in order to strengthen the textile industry. Thus, the first step will be a financial support that will be available to companies in a simple, fast and efficient way. In this way, companies will be encouraged to start developing their capacities, which will strengthen their competitive position by improving productivity and quality. The business environment in the Republic of Macedonia is characterized by several weaknesses, which have unfavorable reflection on the results of operations, competitiveness, development opportunities and financing of enterprises in the textile industry. Even though the state has envisaged more opportunities for granting assistance, and even though the State Aid Law is in force for several years now, the opportunities that this Law provides are not being used. The reasons for this are the lack of appropriate programmes at the macro level and also the lack of knowledge of the opportunities provided by the state aid, the unwillingness of the companies to submit appropriate programmes and the lack of educational assistance, as this does not function at all. For example, textile industry companies can apply for state aid in order to preserve some vital sectors of the industry that can serve as a basis for future development of the company and in particular the basic textile industry. The state has provided several opportunities for granting state aid. This regulation is in line with the EU norms, and the State Aid Law has been in force since the beginning of 2004. State aid rules contain horizontal rules, regional rules, sectoral rules, and financial transfers and transactions. Several of these rules can be used by companies in the textile industry, whereby the following forms of aid could be identified: research and development aid; aid for environmental protection; aid to small and medium-sized enterprises; aid for rescue and reconstruction of enterprises with difficulties; assistance in training; employment assistance; aid for capital investment; assistance in the form of guarantees; aid in the form of capital investments; direct taxation; credit insurance of exports. However, this is only on paper and it does not work in practice. Therefore, the financial support should be a subject of elaboration. Thus, one of the important sources of financing - the grant is unavailable for the Macedonian textile companies, although it is one of the main sources of financing of the companies in the region. There is no possibility to obtain non-refundable funds that would be intended for automation of production processes. If there had been a possibility for direct support, companies would now have been at a different level and would have realized far greater foreign exchange inflows.

In real terms, loans from commercial Banks are unfavorable for the textile industry. These have high interest rates that the insufficiently productive textile industry can not absorb. The repayment deadlines are short, interest rates high, mortgage collateral are quite large and bound a large part of the property of the companies which makes it dysfunctional. The hidden costs of using and approving loans on various bases make this type of financial support even more expensive and unattractive for the development component of this industry branch. Even the credit lines of the Macedonian Bank for Development Promotion do not give the expected effects, because they are also available through commercial banks. From all of the above, one can conclude that the support by such crediting is unfavorable and can not meet the development needs of the textile companies.

Due to the fact that the companies for the most part (93%) have a LOAN production (CM and CMT), the expectation of the low profit margin is realistic, thus, the third common source of funding, companies' own sources, can not be expected to substitute the two previously mentioned sources of funding. When

one takes into account the above, the limitation for the development and growth of this industry is clear, and it is also very clear that a completely new qualitative approach to financing is needed.

For the most part, Macedonian textile companies operate as family businesses with a 100% domestic capital. All this is more or less conditioned by the transition, but also depends largely on the conditions imposed directly or indirectly by government policies. There are no mechanisms that would stimulate partner-organized companies, both domestically and internationally. Very few companies are based on partnership relations, and even less on mixed domestic and foreign capital. The opening of new foreign investments in the zones is much more stimulated than the strengthening through joint ventures and strengthening of domestic companies. Instead of improving the linkage between textile regions and their approximation through better flow of goods and services, the greatest emphasis was placed on investing infrastructure in industrial zones, thus putting domestic companies in an unfavorable and uncompetitive position. Additionally, unfair competition with regard to the workforce should also be considered, because instead of new employments, migration of quality and trained workforce from domestic companies to foreign, within or outside the customs industrial zones is taking place. Employment in technological industrial development zones was subsidized through tax incentives for wages, enabling foreign companies to recruit trained, skilled and experienced labor from domestic companies. Unlike this, domestic companies paid a full amount of social benefits (salary contributions). Considering that due to the low automation of the process the share of labor costs per unit of product of our textile enterprises is high, and the profit is low, this prevents our companies to follow the new technical and technological achievements.

The Condition with the Workforce and Education of Staff

Similar to the regional environment, there is also a shortage of labor in the Republic of Macedonia, especially for those with higher education; and there is also insufficient commitment to integrating modern curricula and content in education that would drive young people to choose a career in textiles and thus, textile industry to be appealing and attractive for young people. At the same time, there are also missing forms of attractive lifelong learning and development of the staff already working in textiles and fashion, which additionally reduces the attractiveness of these professions.

It is crucial to change public opinion and attitude towards this branch, especially by the media. The unreasonable negative perception of this industry that prevails in the public and the media, which may not intentionally, but often emphasize this, makes it difficult to attract young people; thus, the basic prerequisite for building a textile industry based on a strong human factor and young workforce is missing.

This problem is present globally, but it should be approached very seriously if one wants to create bright future for this industry. It is particularly necessary to find a way to increase salaries that are now at the level of EUR 180-250, as a direct precondition for permanently attracting a trained workforce that can boost the productivity and competitiveness of this industry.

Textile companies make an effort to re-affirm this profession through the cluster and the chambers. A series of activities are organized together with representatives from secondary and higher education institutions with the purpose of recruiting and motivating young staff for this profession. Therefore, various events from seminars, workshops, shows, ideas and needs of curriculum change are organized, in which young people contribute and recognize the challenges and benefits of this profession. All these activities are aimed at restoring the image of the textile industry to position it in the right place within education. This is especially important because it would slow down the process of migration of young people from the Republic of Macedonia in the countries of the European Union and beyond.

Administrative Problems

Due to the fact that the Republic of Macedonia is not a member of the EU, Macedonian textile companies are faced with additional administrative and legal barriers. The huge bureaucratization of import-export activities requires time and efforts. This particularly applies to complicated import procedures. The export-import procedure and waste treatment additionally increases production compared to that of our competitors. This is one of the key problems that are constantly emphasized by the domestic textile companies that perform the outward processing, unfortunately, however without success so far. A specific problem and additional financial and functional burden is the waste disposal, which despite all the explanations, efforts and indications of the textile companies for more than 5 years, still can not be solved.

Positioning Problems

Most of our companies offer some intermediate level of quality ultimately determined by the equipment and the labor skills. Companies believe that the prices of their services are not correlated with the quality of the workmanship and the flexibility they offer to their customers. They believe that due to disorganization, our companies offer higher quality and service for a lower price than they should. A way out of this situation would be the introduction of new techniques and technologies that will enable effectuation of labor with much higher value. Most of the companies operate with a limited number of buyers (one to three) and they easily become dependent on them, which reduces their negotiating power. In such conditions they can not even imagine higher forms of organizing production and services. Such forms would be only possible with ample state assistance. Market dependence on only one market (Germany accounts for more than 70% of all exports) also changes very slowly with greater presence in other markets such as those of the Netherlands, Sweden and Austria. However, the positions there can not be maintained for long, if systematic measures for a better position of the textile industry abroad are not implemented.

Very few of the Macedonian companies possess certificates such as CA8000, BSCI, CERES, FAREWEAR, etc. Certification is mostly done only at the request of buyers because it is also related to costs that are relatively high for smaller companies. However, the reasons often include the lack of information on the

procedure and the possibilities of obtaining these certificates, as well as on the long-term benefits of obtaining such certificates.

Due to low accumulation or misinformation, Macedonian textile companies, allocate very little or no funds for their promotion at home or abroad. These costs are objectively so high that they can not be covered by the prices that companies now charge for the services provided, thus the promotion generally comes down to the activities of the Cluster, its website and the like. The assistance for promotion provided by the Ministry of Economy is present here, however, more as a symbolic amount that is not sufficient to cover the expenses for a quality promotion of the companies on the target markets abroad.

Plans for the Future

Apart from all the difficulties encountered by textile companies and due to the proximity to the European markets, the level of quality, flexibility, textile culture and established base, make the textile from the Republic of Macedonia attractive to European buyers. Therefore, there is a huge opportunity for the revival of this industry and its revitalization, which would also contribute to a significant additional foreign exchange inflow.

The textile industry provides a private entrepreneurial initiative and should be supported and stimulated by the state in its further development. The opportunities it provides for easing unemployment and more balanced regional development are additional features of this industry that are important for the Republic of Macedonia.

The biggest challenge faced by domestic companies is productivity and quality as the main precondition for competing in foreign markets with other textile regions in the environment such as Albania, Bosnia and Herzegovina, Romania and Moldova. This requires a new and effective national strategy for the textile industry. For a long period, the level of investments in the textile industry was very low. More organized ways to deal with this condition must be found. Far greater technical and technological equipment enables companies in the region to offer services at relatively low prices, which without having automated production processes, makes it difficult to be achieved in our country. Still, even with the same level of equipment as of the competitors, relatively lower results are achieved in our companies. The reasons for this are the low managerial skills, but also the inadequate operational organization. As a rule, forms of a line system operational organization is applied here, which is characterized by relatively higher operational costs. Therefore, in addition to the modernization and automation, it will be also necessary to pay attention to the education of the managerial staff.

The automation enables the same number of workers to get better results, but also strongly influences the attractiveness of this industry among young people. One systematic approach to solving automation of companies and raising textile production to higher technological level would promote the same among pupils and students.

Long-term Activity Plan

Many of these weaknesses could be mitigated by networking of our textile companies with their partner organizations from the border region of Kyustendil and the planned creation of a recognizable textile cross-border region. Branding the entire region as a favorable textile destination is of great importance for both Macedonian and Bulgarian textile companies and should result in an increase in the volume of services and production. In order to establish the criteria that companies will have to use in order to be able to use the regional brand are the formation and regional cluster with recognizable, branded and innovative products, with high technology and modern organized production, with developed infrastructure in which textile is seen as a prestigious occupation. A whole range of activities is proposed along with a long-term action plan for the implementation of this attractive initiative. The main directions of intervention under this plan are the following:

Improvement of the Image of the Textile Industry

The raising competitiveness in the textile industry is directly related to the awareness of the importance of the textile industry as well as the return of the image. The media have a decisive role, precisely in forming the desired perception of the textile industry. It is therefore of great importance to win the media and provide them with detailed knowledge of the actual situation, the challenges and the benefits of this industry. It is necessary to make an action plan that will thoroughly and systematically involve the media in promoting the needs of the textile industry. This will have a double effect, affirmation in front of institutions on the one hand, and affirmation among young population on the other. It is necessary to promote positive success stories, to promote perspectives and business opportunities and also opportunities for building a career and proving oneself in this field.

It is therefore necessary to immediately establish contact with journalists who will be directly informed on the actual situation and opportunities of the textile industry, by visiting companies to talk with employees and employers, presenting the needs and opportunities of companies and promoting this information on the air. Insisting on more space on national televisions, organizing debates that will cover current topics from the everyday operation of this industry. Media coverage of fashion shows, workshops and all remaining activities with the deserved attention and the like.

Productivity Increase

Productivity requires a combination of technique, technology and appropriate human resources. Technical and technological support must be financially supported. Credit lines with longer repayment deadlines and with smaller interest rates specially designed for the specifics of the textile industry are

required. Considering that European companies receive investment loans with about 2% of interest, and our companies' interest rates are double or triple higher than those, it is not difficult to understand how competitive our textile industry is in the area of modernization. Flexible state guarantee funds and a reduction in "hidden" interest costs are also necessary. This measure would increase the ability of companies to procure modern equipment that will directly increase productivity, to invest in the promotion and marketing of companies and to strengthen human resources with the ultimate aim of promoting the textile profession. In addition to the credit lines, grants are also required, particularly the proper use of grants in order to achieve the purpose for which they are intended. It is necessary to analyze the needs of the companies for the type of equipment they need and organize a system which will simplify the realization of this process. The purchase of equipment by leasing should also be enforced and this instrument should also be revived in the Republic of Macedonia.

Salary Increases

With the increase in productivity, there will be room for increasing the salaries of the textile workers. Having in mind the current situation in the textile industry, the possibility of subsidizing some of the salaries of textile workers in favor of the employee should also be considered. Activity - negotiations with government institutions.

Establishment of a Relationship between Employers and Educational Institutions

It is of particular importance to establish a direct relationship and cooperation between companies and educational institutions, starting from the elementary education, in order to form an attitude and affection towards the production and production skills. In that sense, through cooperation with the active enterprises the formation of mini-workshops within the secondary schools should be initiated and joint competitions between the textile schools organized.

Secondary education is also important and it is necessary to organize mini-workshops within the secondary textile schools, where labor will be materially valued through joint fashion shows with the Bulgarian textile schools and sale of the creations and clothing pieces. In doing so, the profitability of the profession will be emphasized. At the end of each school year, fashion shows on which students from Macedonian and Bulgarian secondary schools will compete for the most successful creation selected by a professional jury, should be organized. For this purpose, it is necessary to allocate funds from the education budgets of the two countries or, to provide tax incentives for the companies that would finance these activities.

Trainings on Branding the Region as a Textile Region

Organizing trainings for the managerial staff of the companies is needed in order to inform them on the benefit of joint performances, the benefit of branding the region and also the benefit of strengthening the competitiveness. It is necessary that as many companies as possible get involved into the

introduction of the criteria for acquiring the right to use the trademark of the textile region. Clusters from both regions should jointly hire experts who will organize workshops for such marketing education.

Quality Standards, Social Responsibility and Environment Protection

Recently, customers' demands for social responsibility of the companies are becoming more and more popular. Buyers prefer to work with companies that care for their employees, the environment and their customers. During the last 3 to 5 years, the requirements for implementation of standards of the type CA 8000 have been actualized. However, in order to obtain an appropriate certificate, companies have to undergo an assessment procedure and a procedure for determination of their current state. In order to gain better position on the foreign markets, domestic companies (including Macedonian and Bulgarian) must strive to introduce the required quality and social responsibility standards, and demonstrate that they care for their employees, the environment and their final customers. Raising awareness of companies about the need for certificates is necessary in this regard. Companies themselves, not only at the request of their customers, need to create social responsibility initiatives. In doing this, they will affect the overall image of the region and present it as a place where fair production can be organized or, a place to be promoted under the name TrustedBalkanApparel. In order to achieve this, the support from the states with subsidies for introduction of these standards is necessary. Support programmes should be formulated in such a way to attract as many users as possible and not to be based on subsequent refunds, but on advance support that would go through the Textile Cluster.

Participation of Fairs under a Joint Name

Organized exhibitions at three European fairs in order to jointly promote the capabilities of the region, such as Premier Vision, Paris; FSVP, London and CIFF, Copenhagen is planned. The participation would be oriented in two directions: first, towards the possibilities of the companies for manufacturing from LOAN production to pure export and, second, towards creating fashion collections with a joint note. In the past, there were programmes for renting of booths at foreign fairs for the needs of the companies. Primarily, the support for this kind of activities came from the Ministry of Economy, which was then directed to the Agency for Foreign Investments and Export Promotion. Unfortunately, this Agency did not receive enough funds from the budget to carry out such an activity. On the other hand, some of the promoters from the Agency were quite active in connecting companies with potential buyers, mostly through cooperation with the Textile Cluster. In the past few years, the participation at fairs with a national booth was supported by donor organizations, thus, the need for further institutional support for maintaining continuity is evident. The participation on a joint booth with Macedonian and Bulgarian companies will promote the region by offering a variety of products and services. Due to the promotion of the region, customers will first be able to get an idea of the production possibilities, the level of quality and other characteristics and, they will recognize it in the future as a place where reliable, ethical and quality based production can be achieved.

Organization of Business to Business Meetings

It has been shown in practice that B2B meetings, especially in terms of promotion and entry of new markets, are very useful and achieve satisfactory results in the aspect of attracting clients and completion of export activities. In this regard, the embassies of the two countries should help in the organization of at least two B2B meetings per year, primarily in the Scandinavian countries, as a promising and interesting market for the companies in the region.

Long-term Action Plan of Activities

ACTIVITY	TIME FRAME	RESPONSIBLE	Stakeholders
1. Improvement of the Image of the Textile Industry			
Promotion of positive success stories	continuously	Natasha Sivevska	Journalists
Contact with journalists	continuously	Marijana Perkovska	Journalists
More space on national televisions	continuously	Ilija Petrov	Journalists
Public debates	continuously	Marijana Perkovska	Journalists
Media coverage of fashion shows	continuously	Natasha Sivevska	Journalists
2. Productivity Increase			
Credit lines with longer repayment deadlines, specially designed for the specifics of the textile industry	Within the first 12 months	Vencislav Filipov	Bankers, Ministry of Finance
Awarding grants for modernization	Within the first 12 months	Vencislav Filipov	Bankers, Ministry of Finance
Forcing purchase of equipment by means of leasing	Within the first 12 months	Vencislav Filipov	Bankers, Ministry of Finance
3. Salary Increase			
To enable possibilities for increasing the salaries of the textile workers.	Within the first 12 months	Marijana Perkovska	Work Unions, Government
To subsidize a portion of the minimum salaries	Within the first 12 months	Marijana Perkovska	Work Unions, Government
To negotiate certain tax incentives for employment	Within the first 12 months	Marijana Perkovska	Work Unions, Government

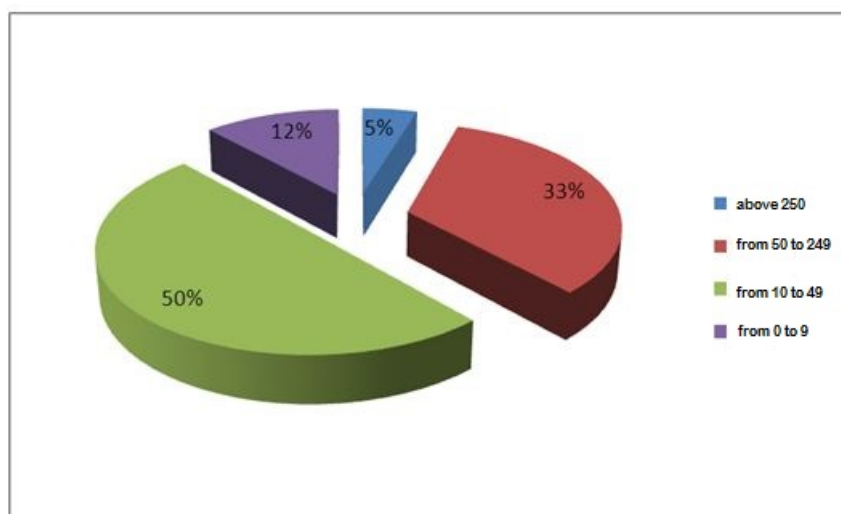
of highly qualified staff			
4. Establishment of a Relationship between Employers and Educational Institutions			
Establishment of a Relationship between Employers and Educational Institutions	Within the first 24 months	Natasha Sivevska Marijana Merkovska Goran Dembovski	The University in Shtip Secondary Textile School Ministry of Education
Establishment of a direct relationship and cooperation between the companies and educational institutions	Within the first 24 months	Vencislav Filipov Marijana Merkovska	The University in Shtip Secondary Textile School Ministry of Education
To introduce programmes to form an attitude and affection for the production process and skills	Within the first 36 months	Natasha Sivevska Goran Dembovski Sonja Jordeva	The University in Shtip Secondary Textile School Ministry of Education Media
Mini-workshops in secondary schools and organization of joint competitions between textile schools	Within the first 24 months	Katica Kostova Marijan Bojadjiev	The University in Shtip Secondary Textile School Ministry of Education
Joint fashion shows with Bulgarian textile schools and sale of the creations and clothing pieces.	Within the first 12 months	Natasha Sivevska Katica Kostova Marijan Bojadjiev	The University in Shtip Secondary Textile School Ministry of Education Media
Lobbying in order to allocate funds from the education budgets of the two countries or receive tax incentives for companies that would fund these activities.	Continuously	Marijana Perkovska	Ministry of Finance Governments Chambers of Commerce
5. Organization of trainings for the managerial staff of the companies in order to provide information on the benefit of joint performances, benefits of the branding of the region, and benefits of the strengthening of the competitiveness.			
Greater number of involvement of companies in the introduction of the criteria for acquiring the right to use the trademark of the textile region.	Within the first 12 months	Natasha Sivevska	Chambers of Commerce Government Media Donors
Clusters from both regions should jointly hire experts who will organize workshops for such marketing education.	Within the first 12 months	Natasha Sivevska	Chambers of Commerce Government Media Donors

6. Introduction of Quality Standards, Social Responsibility and Environment Protection			
More companies to acquire the appropriate quality and social responsibility certificates and standards	Within the first 24 months	Natasha Sivevska	Chambers of Commerce Government Media Donors
Raising companies' awareness on the need for acquiring certificates.	Within the first 24 months	Marijana Perkovska	Chambers of Commerce Government Media Donors
Lobbying for receiving state support in the form of subsidies for implementation of these standards	Continuously	Marijana Perkovska	Chambers of Commerce Government Media Donors
7. Participation on Fairs under a Joint Name			
Organized joint exhibitions at three European fairs in order to jointly promote the possibilities of the region	Continuously	Natasha Sivevska	Ministry of Economy Agency for Export Promotion Chambers of Commerce
The support for participation on fairs provided by the Ministry of Economy and the Agency for Foreign Investments and Export Promotion to be continued	Continuously	Marijana Perkovska	Ministry of Economy Agency for Export Promotion Chambers of Commerce
8. Organization of Business to Business Meetings			
Lobbying with appropriate ministries from both countries to make such meetings more successful	Continuously	Natasha Sivevska	Ministry of Foreign Affairs Agency for Export Promotion

Annexes

Active Companies in the Textile Industry – Structure and Employment

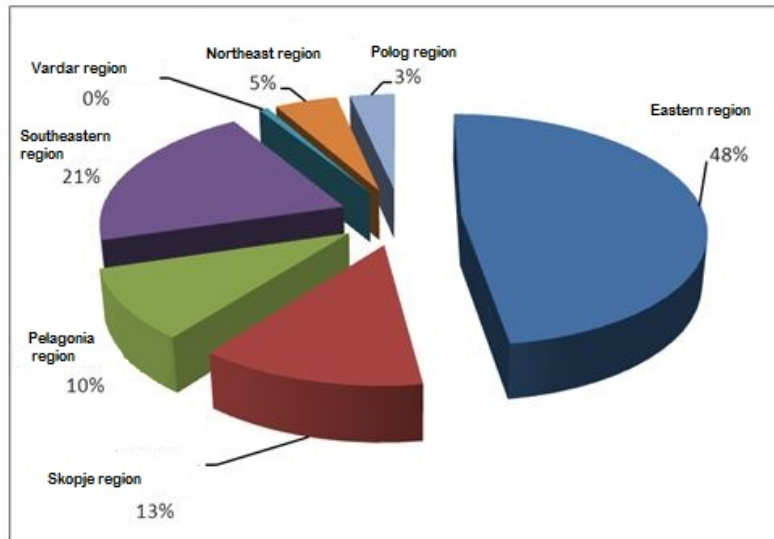
About 800 companies are registered in the textile industry, out of which 507 are active and employ around 35.000 employees in total. The structure of the active companies according to the number of employees is as follows:



Graph: Structure of companies according to the number of employees

24 or 4.7% of the companies have over 250 employees. 170 or 33.5% of the companies have between 50 and 249 employees, 253 or 49.9% of the companies have between 10 and 49 employees and 60 or 11.8% of the active 507 companies have between 0 and 9 employees.

Regarding the spatial concentration, the active companies are mostly concentrated in the Eastern Statistical region (209 companies), followed by the Skopje planning region where 56 companies are located, followed by the Pelagonia region with 43 companies, the Southeastern region with 91 companies, the Vardar region with 3 companies, the Northeast region with 21 companies and the Polog planning region with 15 active companies.



Graph: Spatial concentration of the active companies

The main advantage of the Macedonian textile industry is the tradition and the skills of the workforce. The following table shows the significance of this industry and its role in absorbing the labor.

	2009	2010	2011	2012	2013	2014
Total number of employees	426.252	435.078	458.873	474.398	483.447	501.788
Employees in the industry sector	104.751	101.093	100.878	101.132	104.214	111.559
Employees in the textile and clothing industry	39.738	38.394	35.683	36.072	35.348	37.841
Participation of the textile industry of the total number of industry employees	37.94%	37.98%	35.37%	35.67%	33.92%	33.92%
Participation of the textile industry of the total number of employees in the country	9.32%	8.82%	7.78%	7.60%	7.31%	7.54%

Over the entire period between 2009 and 2014, approximately 34% of the total industrial workers were engaged in the textile industry, and about 7.6% of the total number of employees in the country were engaged in the textile and clothing industry.

The salaries of textile workers are perhaps the most problematic issues of this industry. The table below shows their movement within the period from 2009 to 2014.

Average paid salary	2009	2010	2011	2012	2013	2014
Production of textile	9.271	9.746	9.623	10.059	11.037	12.662
Production of clothes	9.135	9.728	10.411	10.440	10.831	11.442

Export and Import of Textile

Textile is traditionally one of the most widely used products in the export of the Republic of Macedonia. Since at the country level, the export of textiles is higher than the import, the Republic of Macedonia is a constant net exporter. Such a trade surplus means that this industrial branch generates a positive foreign exchange effect for the country that is of particular importance for its otherwise modest economy. The table below shows the progress of the export and import of textiles in the period from 2010 until 2015.

EXPORT

Year	2010	2011	2012	2013	2014	2015
17 production of textile	54,1	48,6	46,58	65,9	68,2	76,1
18 production of clothes	418,9	472,7	465,15	469,59	502,4	529,3
Total 17+18	473,0	521,3	511,73	535,49	570,5	596,4

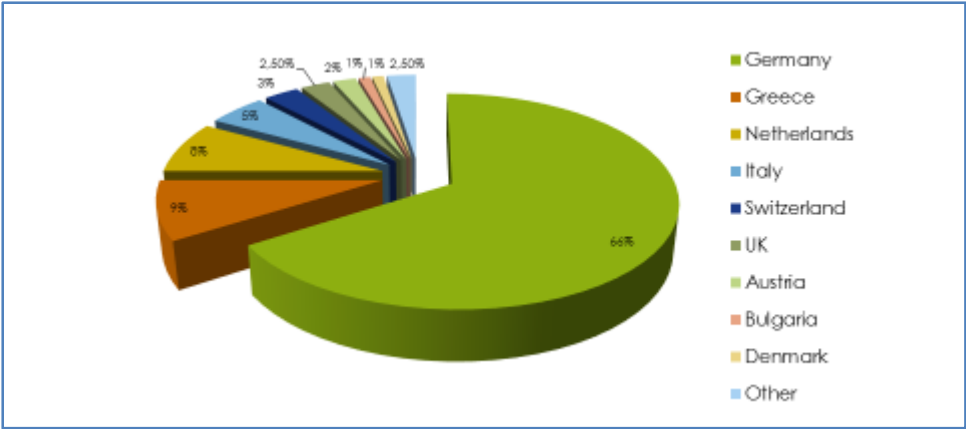
IMPORT

Year	2010	2011	2012	2013	2014	2015
17 production of textile	309,9	338,8	341,71	474,22	89,26	389,26
18 production of clothes	56,5	43,5	49,67	67,98	56,75	56,75
Total 17+18	366,4	382,3	391,38	542,29	446,12	446,12

NET FOREIGN EXCHANGE EFFECT

Year	2010	2011	2012	2013	2014	2015
Export	473	521	512	535	571	596
Import	366	382	391	542	446	446
Difference	107	139	120	-7	124	150

The Federal Republic of Germany is the most important trading partner of the textile industry in the Republic of Macedonia. This country accounts for 66% of total exports, then, Republic of Greece with 9% and Netherlands with 8% etc.



Graph: Exporting Countries of the Macedonian Textile