Current status and perspectives of the textile industry in Serbia

Bukvić, Rajko and Petrović, Dragan

Nizhny Novgorod Engineering-Economic State University, Knyaginino, Institute for International Politics and Economy, Belgrade

2020

10th International Conference
"Economics and Management-Based on New Technologies"
EMoNT-2020
21-24 June 2020, Vrnjačka Banja (Serbia)

Current status and perspectives of the textile industry in Serbia

Rajko M. Bukvić[1], Dragan R. Petrović[2]
[1] Nizhny Novgorod State University of Engineering and Economics, Knyaginino, RUSSIA, E-mail: r.bukvic@mail.ru
[2] Institute for International Politics and Economics, Belgrade, SERBIA, E-mail: drdraganpetrovic83@gmail.com

Abstract: *The paper considers the current status and development perspectives of the textile industry in Serbia. As one of the oldest industries in the world, textile industry in Serbia (and Yugoslavia) was very developed and carried a lot of importance in GDP creation, absorption of the unemployed workers (especially women), and exports income. Unfortunately, in the last decade of 20th and first decade of 21st century, the country was deindustrialized and its industry, especially textile, was devastated. Big enterprises, as the basis of this strong branch, were liquidated, so now this industry consists mainly of small firms, which are highly imports dependent. They are grouped in five zones (Central Serbia, Northern Serbia, Western Serbia, Eastern Serbia, and South-Western Serbia), with different production programs. The future development of textile industry in Serbia must be seen in the context of reindustrialization and balanced regional development. This must be carefully planned and implemented.*

Keywords: *textile industry, Serbia, deindustrialization and reindustrialization, balanced regional development, economic zones.*

1. Introduction

Textile industry is the industry branch that produces yarn, fabrics from natural and synthetic fiber, knitting, wearing apparel and linen. The manufacture of textile and wearing apparel is one of the oldest industries in the world, as well in Serbia. It was initially developed in England, which actually held the monopoly over the textile industry of the whole world until mid-19th century. Then the development of this industry began in other big countries, such as Germany, U.S.A., Italy, and France. The development of textile industry at the international level depends on the raw-material basis, i.e. specific branches of agriculture and in modern times on chemical industry, as well as the international economic relations, which in the history of economics have often not demonstrated equality.
The young Serbian state began the industrialization of the country in the 1840s. Among others there was built the first textile factory (Factory of soldier’s cloth, apparel and blankets) in Topčider (Belgrade) in 1850, settled in Užice in 1870 and liquidated in 1880 [17]. Then followed the foundation of new textile factories: in Paraćin (1880) and in Leskovac region (1884), which soon became a great textile industrial center (“Serbian Manchester”). After the World War I and unification with Serbian Vojvodina, the textile industry got one new center, based on rich natural resources. This industry gained great significance after the World War II, in the socialist Yugoslavia. Although some branches were abandoned (sericulture, e.g.), the textile industry became one of the most prominent industries. The existing textile enterprises were nationalized, and many new ones were formed by the state, i.e. social ownership. The textile industry was very important for the economy and society of Yugoslavia

(and Serbia). It successfully followed the world's technological development, employed huge masses of workers and realized big exports. This was the "Gold period" of textile industry of Yugoslavia and Serbia. The main textile centers were, among others, Belgrade, Leskovac (town, and Jablanica region – Grdelica, Vučje, Lebane, Vlasotince), Vranje, Ivanjica, Paraćin, Kula etc. In more than hundred textile plants in Serbia worked about 250,000 employees.

2. Deindustrialization in the 1990s and textile industry of Serbia

The "Gold period" of Serbian textile industry ended at the beginning of 1990s, when Yugoslavia broke up. The wars in ex-Yugoslav republics, the sanctions of SC of UN against FR Yugoslavia, and the processes of liberalization and privatization during the first half of last decade of the century resulted in drastic fall of economic activities and GDP, especially in manufacturing. The second half of the decade brought a slow economic revival, but then came the Kosovo crisis and the illegal aggression of the NATO countries against Yugoslavia. In the 78 days' bombing campaign many industrial facilities were demolished, and industry production decreased to one third of the end of 1980's production. Therefore, the1990s were a decade of deindustrialization, which characterized not only Serbian, but practically all transitional economies, and was an expected result of the application of the Washington Consensus recommendations, see [13].

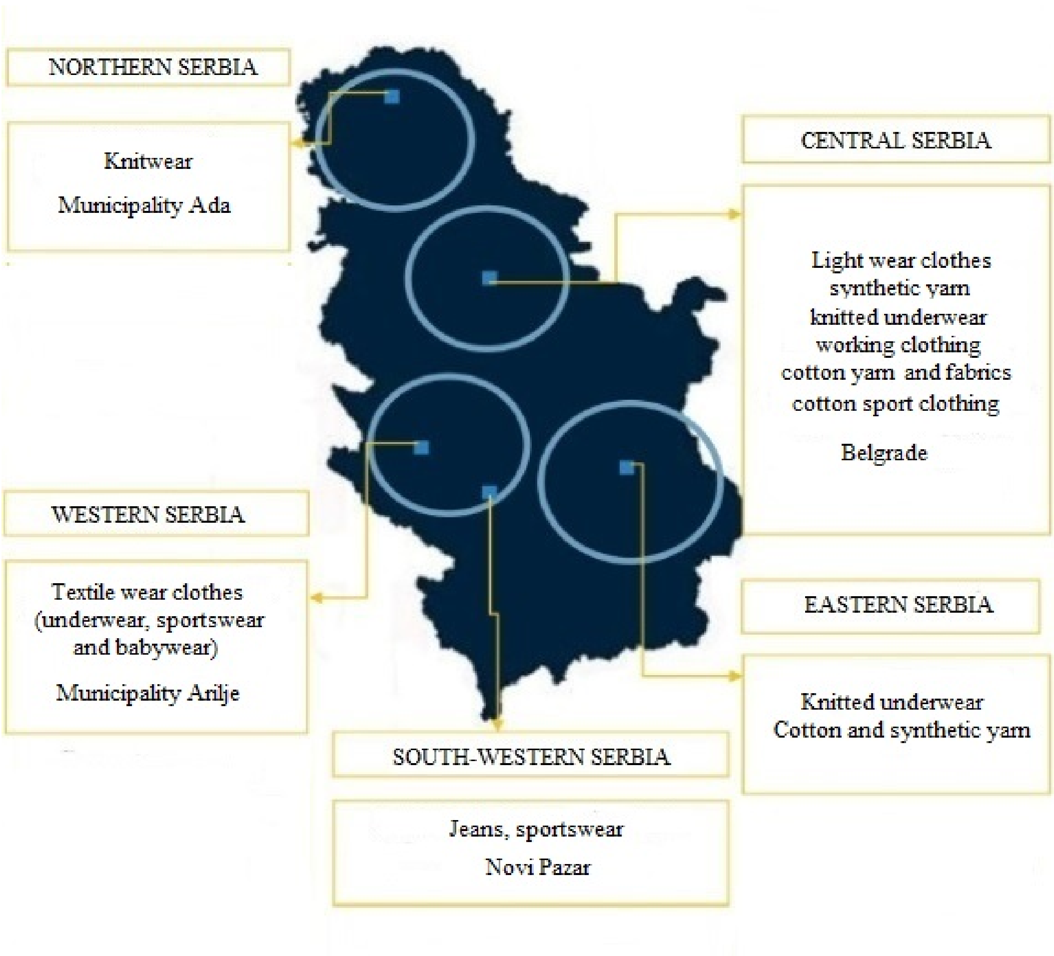

Fig. 1: Zones of current textile industry in Serbia
Source: Adapted from [16]

After the political changes in October 2000, the government definitely adopted neo-liberal economic policy that generally cannot lead to the significant revival of industry and economy in whole. The (criminal) privatization in the first decade of 21st century was especially damaging in industry, and resulted in its complete devastation. The big firms, and not only in textile industry, were generally not interesting for investors, and the FDI inflow was very small. So, the recovery of the economy and industry was slow and selective, as only in some branches (energetics, food industry, pharmaceutical industry, production of cement) the facilities and production were saved. The textile industry does not belong among these branches. The privatization process in textile industry brought unexpected and un-promised effects, see [18], or more detailed [6]. Many big textile enterprises disappeared, and today can be subjects of industrial tourism [4]. The structure of this industrial branch deteriorated substantially. In only five years, between 2003 and 2008, the number of employees in textile industry is declined by about 50% [7]. The basis of primary production, raw materials, was not revitalized, and the new textile industry became imports-oriented. The place of the former industrial giants was occupied by small and middle-sized firms, which were established mainly in the old textile centers. Although the industrial structure became more flexible, small firms could not be autonomous development drivers.

The World Economic Crisis 2008 has a great impact on industry as a whole, and also on the textile industry of Serbia. After the crisis, a revival of Serbian industry began, as it is demonstrated in Table 2, although the production rate growth was not so high. As for the results of the current corona-crisis, we do not know them yet.

The new textile industry of Serbia is geographically located in five zones (fig.1). These zones are, accordingly [16]:

- Central Serbia – Belgrade, and Belgrade region, production of light wear clothes, synthetic yarn, working clothes, cotton fabrics, sportswear, and other products;
- Northern Serbia – municipality Ada, production of knitwear;
- Western Serbia – municipality Arilje, textile wear clothes (production of underwear, sports and babywear);
- Eastern Serbia – knitted underwear, cotton and synthetic yarn;
- South-Western Serbia – Novi Pazar, sportswear and jeans.

Among the kinds of production, the Study [16] highlights the prevalence of the CM or CMT (Cut and Make Trim), where the materials are imported and only labor is added before re-export. This is, of course, not the best form of cooperation. Also, the Study emphasizes the good quality of Serbian production, which has already become well known. Although the quality is not questionable, like it didn't use to be earlier, this kind of businesses in general demonstrates the bad position of our textile industry as a whole. A second kind of production, OEM businesses (Original Equipment Manufacturer), is not so widespread. It is somewhat better for the structure and development of textile industry, as well as for the economy as a whole. Lastly, there is the production of own original brands. The Study shows these businesses are only present in Central Serbia zone (see the original picture). This is surely doubtful and we don't know the reasons for it. However, this also demonstrates the position of textile industry in general as well as in Serbia. It is important to say that textile industry today is one of the most globalized industries in the world.

In the transition period the Serbian textile industry, and especially clothing industry, have evolved from a domestic, manufacturing-based industry into a design-oriented sector operating on the global market. The number of enterprises has increased, but there are predominantly small and medium size enterprises (in 2017 Statistical Office registered 382 and 917 units in textile manufacturing and clothing manufacturing, respectively, but only 10,303 and 28,801 employees). As we have seen, businesses mostly provide CMT services, and in such circumstances, there is no incentive for the development of the country's own raw-materials basis.

3. Current status of the manufacture of textile and wearing apparel

After the turbulences in 1990s and the process of privatization in the first decade of this century, the current status of textile industry of Serbia was established. It is characterized by many small, even micro enterprises, by a break in vertical integration between primary and final production, the lack of raw materials production, and therefore the great imports dependence. The Serbian enterprises provide mainly the CM or CMT services, and this is another indicator of its bad position and lack of independence in development and business policies.

The current significance of the branch in the whole economy is far behind the significance it had in the times of socialist Yugoslavia. This is especially reflected in the number of employees (see Table 1), although we do not consider any methodological issues here. These would make the picture much worse. The share of number of employees in textile industry is only a little above 10 percent of all manufacturing employees. For a worker-intensive branch, this is too low, and it demonstrates the little importance of the branch in modern economy of Serbia, especially when we consider the importance of the textile industry for women work force and for the economy of underdeveloped regions. The actual employment rate in textile industry, and of course in every other activity, is much lower, when we take into account that the official statistics consider as employed workers who have done any work in one month, even if it is for only hour.

Table 1: Registered employment in textile industry of Serbia*, annual average

Year	Total**	Manufacturing	Manufacture of textile	Manufacture of wearing apparel
2015	1,896,295	380,325	10,040	32,593
2016	1,920,679	393,906	11,480	33,787
2017	1,977,357	417,564	11,829	35,744
2018	2,052,546	444,888	12,679	37,116
2019	2,101,267	459,647	12,417	37,206

** Excluding registered individual farmers
Source: Statistical Yearbook of Serbia [10–12].

The indices of industrial production in the last decade are shown in Table 2. As we emphasized, the decade has been characterized by a growth in industry production. However, the growth rates are not so high, and have even been negative in some years. This again demonstrates the slow revitalization of the industry in general, and the textile industry especially. As we can see, fluctuations of the growth rates are very big, even on the global level. It is not to expect significantly better results in the future with a continuation of the current economic and development policy, even if we could exclude the influence of the current corona-crisis.

Table 2: Indices of industrial production in Serbia* (previous year = 100)

Branch	2011	2012	2013	2014	2015	2016	2017	2018
Industry total	102.5	97.8	105.5	92.7	107.3	105.2	103.9	101.3
Manufacturing	99.8	99.1	104.8	95.2	105.7	106.0	106.3	101.9
Manufacture of textile	88.2	98.1	97.7	81.0	120.5	92.4	113.0	93.5
Manufacture of wearing apparel	104.4	110.4	95.0	98.9	95.8	109.9	101.4	103.0

* Without Kosovo and Metohija
Source: Statistical Yearbook of Serbia [10–12].

The production of industrial products (Table 3) shows in general a shift from primary to final products. With exception of yarn of artificial and synthetic filaments, the production of the first group has decreased or ceased to exist. This is obviously the main cause of the imports dependence of the textile industry in Serbia. The current production rate of yarn is rather miserable. In comparison, the production of cotton yarn in 1989 was about 40,000 tons. Moreover, woolen and hemp yarn are now not produced at all, while in 1989 the woolen yarn production amounted to about 13,500 t, and hemp and jute yarn production to about 12,500 t. Similarly, the fabric production rate has reduced significantly. In comparison, about 76,000 t of cotton fabrics and about 33,000 t of woolen fabrics were produced in 1989. In addition to these, other fabrics also were produced, which are now not (for example, hemp and jute fabrics). The amount of other products has also declined, although not as much. For the production of textile products in Serbia during the 1980s and 1990s see more detailed [15, pp. 25-29].

One of the greatest problems of textile industry of Serbia today is the weak raw-material basis. About 90% of all raw materials are imported, while domestic production is very scarce: hemp is only produced in Pomoravlje and in Kosovo and Metohija, while cotton in produced in Vojvodina and in

Negotinska Krajina, which is absolutely not enough for the development of textile industry. Therefore, one of the first steps in the necessary and planned reindustrialization and revitalization of textile industry must be the recovery of its raw-material basis. Also, in this context we have to consider the production of synthetic filaments, where the company Viskoza (Loznica) earlier was one of the greatest producers beyond the borders in Serbia. Viskoza was founded in 1957 and was the biggest European and one of the biggest world producers of chemical fibers. It exported its products into more than 30 countries.

Table 3: Industrial products in textile industry of Serbia*

Manufacture of textiles	2011	2015	2018	Manufacture of wearing apparel	2011	2015	2018
Cotton yarn, t	828	754	726	Leather clothing, 000 units	10	8	6
Woolen yarn, t	24	24	-	Working clothing, 000 units	1,021	1,297	1,998
Yarn of artificial or synthetic filaments, t	-	-	2,294	Other clothing, 000 units	2,107	2,824	4,838
Cotton fabrics, 000 m^2	6,019	4,727	1,830	Underwear, 000 units	8,427	21,088	38,852
Woolen fabrics. 000 m^2	3	-	-	Hosiery, 000 pairs	226,395	235,001	299,926
Household underwear, 000 m2	834	589	734				
Carpets and floor coverings, 000 m^2	5,437	5,501	5,393				

* Without Kosovo and Metohija
Source: Statistical Yearbook of Serbia [10–12].

In socialist Yugoslavia textile industry was exports-oriented and realized significant exports income. In 1980s the growth of Serbian textile industry exports was two times larger than the whole industry, and even in 1990s it created a foreign trade surplus of 400 million USD per year. In the last decade (Table 4) textile industry created a foreign trade deficit (except in 2017), although the manufacturing of wearing apparel created a surplus. The share of textile industry in exports and imports of Serbia is about 5–6 percent, much lower in exports than in 1980s and 1990s: for example, in 1988 and 1989 shares of textile industry in total exports were 9.6% and 8.6% and in total imports 3.5% and 4.5%, respectively.

Table 4. Exports and imports by the classification of activities of Serbia*, 2011–2018, mill. USD

Branch	2011	2012	2013	2014	2015	2016	2017	2018
Exports								
Total	11,779	11,227	14,610	14,845	13,376	14,883	16,997	19,239
Manufacturing	10,196	9,709	13,073	13,385	12,075	13,435	15,560	17,759
Manufacture of textile	114	117	148	174	161	184	224	251
Manufacture of wearing apparel	478	503	601	626	523	593	672	709
Imports								
Total	19,863	18,929	20,550	20,601	17,875	18,899	21,921	25,883
Manufacturing	15,534	14,862	15,992	16,210	13,895	14,606	16,585	19,387
Manufacture of textile	401	394	430	466	423	466	529	573
Manufacture of wearing apparel	314	301	323	358	287	324	350	416
Balance of trade								
Total	-8,084	-7,702	-5,940	-5,756	-4,499	-4,016	-4,924	-6,644
Manufacturing	-5,338	-5,153	-2,919	-2,825	-1,820	-1,171	-1,025	-1,628
Manufacture of textile	-287	-277	-282	-292	-262	-282	-305	-322
Manufacture of wearing apparel	164	202	278	268	236	269	322	293

* Without Kosovo and Metohija
Source: Statistical Yearbook of Serbia [10–12].

4. New industrialization of Serbia and textile industry

The economic history has demonstrated two alternative approaches in promoting economic development. According to Reinert [8], they can be named as “activist” (or “idealistic”) and “passivist” (or “natural harmony”), according to the role of the state in them. The first one arises out of the Renaissance concept of the common weal. The second one characterizes the present-day mainstream economics, or neo-liberalism. The focus of the Renaissance state is production, whereas the focus of the latter is barter. As demonstrated by Reinert, a systemic dimension, which promotes the first approach, was lost in the atomistic and static structure of today's mainstream economics. In the activist approach the central place is held by industry. As the economic history shows, the industry is an essential condition for economic development, and in order to successfully develop its industry, a country needs to protect it. Even today’s highly developed countries, such as the U.S.A. and others, have used such economic policy in the period of its early development (see for example Hamilton’s *The Report on Manufacture* [3]).

After decades of deindustrialization and the application of Washington Consensus’ recommendations, Serbia began to speak about reindustrialization (see, for example [9], the theoretical background is described in [1]). Even the government officially started dealing with the reindustrialization issue [2]. However, this is all still giving meager results, and a new industrialization of the Serbian economy remains an open issue. One of the remarkable proposals for reindustrialization was given by Drobnjak [14, pp. 107–119]. In it, the importance of industrial zones is especially stressed, particularly in the less developed areas of country. We already know that textile industry was developed only in such areas, so this concept of industry development will mainly develop the underdeveloped areas. For this purpose, it is necessary to secure government support measures in different aspects, including tax policy. Of course, this approach to industry development is critical to the direct foreign investment development concept.

The conditions for the recovery of textile industry are very adverse. The textile industry is today one of the more significant industrial sectors in Europe. Over 223,000 enterprises give employment to approximately 2,450,000 people in the European Union countries [5]. On the global scale, there is a stronger competition in this industry, because many producers have moved their production to less developed countries in Asia and made its production cheaper. The main Serbia’s competitors and also partners are the EU countries and then Russia, Turkey, China, Vietnam and others. On the other side, Serbia has many advantages that would make this recovery very possible. There are natural conditions for the revitalization of raw-material production, which also has a long tradition in textile industry as well as a good quality and well educated work force, including many experts.

5. Conclusion

Today’s textile industry belongs to the most globalized industries in the world. Therefore, the building of a successful textile branch is one of most complex tasks. We need to consider it not only as a problem of the positioning of one branch within the world economy and market, but also in the context of the general position of Serbia’s industry and economy. After the processes of deindustrialization and the adoption of the neo-liberal economic dogma, which is promoted by IMF and other such institutions, the main issue becomes a return to the economic sovereignty. This is the condition for one of the necessary proposals, i.e. the initiation of the reindustrialization process. It is a process that must be seriously and thoroughly prepared and it should involve a synchronized action and cooperation between the state and business entities, as well as respecting of the existing market regulations.

For a successful recovery of textile industry, certain conditions have to be met. In our opinion, it is first and foremost the revitalization of the raw-material basis. The country undoubtedly has natural advantages necessary for this, and the production of chemical filaments can also recover very quickly. Small firms are necessary, but they cannot be the drivers of the so needed development. So, the structure of textile industry must be changed again, this time to the benefit of giant firms. These would make the development of domestic brands possible, through the production of higher value added products [5], among other positive effects.

Although the textile industry is still important in terms of employment and consequently a balanced regional development, there is the need to restructure this branch from labor-intensive into a capital-intensive. This is, of course, possible through the automation of production. In the circumstances of the development and application of industry 4.0 technologies, this has to be a solvable task, especially if we consider it in the framework of the highly educated labor force present in our country.

References

[1] Bukvić, R.: The Other Canon Against Washington Consensus: Re-Industrialization as a Condition for Revival and Development, 8th International Conference *Forces Driving the Revival of the Companies and Economy*, 3 December 2010, Proceedings, Belgrade: Megatrend University, 2010, pp. 267–276. ISBN 978-86-7747-417-1.

[2] Dimitrijević, B.; Đuričin, D.; Đurić, D.; Grujić, B.; Perčević, G.; Spasojević, T.: *Nacrt strategije reindustrijalizacije Srbije*, radna grupa za reindustrijalizaciju Nacionalnog saveta za privredni oporavak, Beograd, 2013.

[3] Hamilton, A.: The Report on Manufactures, in: *The Works of Alexander Hamilton in Twelve Volumes*, Federal Edition, ed. by Henry Cabot Lodge, Volume IV, New York and London: G. P. Putnam's Sons, 1904. – IV+489 pp.

[4] Ilić, Z.: Potencijali razvoja industrijskog turizma u Leskovcu gradu tekstila – „Srpskom Mančesteru", *Tekstilna industrija*, Vol. 67, 2019, Issue 1, pp. 51–57. ISSN 0040-2389. DOI: 10.5937/tekstind1901051I.

[5] Kokeza, G. & Urošević, S.: Strategic Directions of the Development of the Textile and Clothing Industry in the Republic of Serbia, *Tekstilna industrija*, Vol. 66, 2018, Issue 4, pp. 69–78. ISSN 0040-2389.

[6] Obradović, M.: *Hronika tranzicionog groblja. Privatizacija društvenog kapitala u Srbiji 1989–2012*, Beograd: Nova srpska politička misao, 2017. – 579 str. ISBN 978-86-84321-23-9.

[7] Petrović, G.; Urošević, S.; Karabašević, D.; Maksimović, M.: Stanje i perspektive razvoja tekstilne industrije u Srbiji, *Tekstilna industrija*, Vol. 65, 2017, Issue 3, pp. 4–8. ISSN 0040-2389.

[8] Reinert, E. S.: The role of the state in economic growth, *Journal of Economic Studies*, Vol. 26, 1999, Issue 4–5, pp. 268–326. ISSN 0144-3585.

[9] Savić, Lj.: Srpska industrijalizacija za dvadesetprvi vek, *Industrija*, Vol. 37, 2009, Issue 1, pp. 1–17. ISSN 0350-0373

[10] *Statistical Yearbook of Republic of Serbia 2012*, Belgrade: Statistical Office of the Republic of Serbia, 2012. ISSN 0354-4206.

[11] *Statistical Yearbook of Republic of Serbia 2016*, Belgrade: Statistical Office of the Republic of Serbia, 2016. ISSN 0354-4206.

[12] *Statistical Yearbook of Republic of Serbia 2019*, Belgrade: Statistical Office of the Republic of Serbia, 2019. ISSN 0354-4206.

[13] Буквић, Р.: Вашингтонски консензус и деиндустријализација источне и југоисточне Европе, *Нова српска политичка мисао*, Vol. 20, 2012, Issue 1–2, pp. 7–28. ISSN 1450-7382.

[14] Дробњак, Ј.: *Нови економски манифест*, Београд: Укронија, 2017. – 10+XIII+269 стр. ISBN 978-86-6002-016-3.

[15] *Положај и стратегија развоја текстилне индустрије Јабланичког округа*, Београд: Републички завод за развој, 1998. – 264 стр.

[16] *Студија и анализа тренутног стања индустрије текстила и одеће у шест (6) пограничних региона Републике Србије у погледу асортимана и расположивих производних капацитета у пограничној области Србија – Бугарска*, Лесковац, 2015.

[17] Трајковић, Д.: Текстилна индустрија Лесковца и околине 1884–1918., *Сто година лесковачке текстилне индустрије (1884–1984)*, Лесковац: Народни музеј, 1884, стр. 9–35.

[18] Ћоровић, Е.: Ефекти приватизације текстилне индустрије Србије, *Економика*, Vol. 58 2012, Issue 3, pp. 110–119. ISSN 0350-137X.