

Local Enterprises in the Global Economy Issues of Governance and Upgrading

(ed) Hubert Schmitz, Edward Elgar, Cheltenham 392pp £65

The book derives from a research project managed by the Institute of Development Studies at Sussex University and the Institute for Development and Peace at the University of Duisberg and contains recent case studies from Europe, Latin America and Asia, together with more thematic discussions of issues relating to local economic development, value chains and clustering with particular reference to upgrading and the impact of quality and labour standards.

The book reflects contrasting ideas about the possibilities for locally initiated development strategies, especially the capacity for upgrading and whether quality and labour standards aid upgrading or serve to marginalize producers in developing countries. These issues are raised thematically but also through a range of detailed case studies based on regions and sectors including the Sinos Valley in Brazil and Brenta in Italy, the tile industry in Italy, Spain and Brazil, surgical instruments in Tuttlingen, Germany, personal computers in Taiwan and quality and labour codes in Pakistan. The book thereby provides a valuable resource for academics interested in the processes of development as well as practitioners seeking to promote local economic development, though it does not provide any simple or singular remedies.

The central theme, especially relevant to economic geographers, is the significance of global buyers in world markets and how the prospects of local enterprises are

structured by their relationship with global value chains. To identify the prospects for upgrading two fourfold typologies are identified, one specifying the nature of relations between local and global firms; arms-length, networks, quasi-hierarchy and hierarchy, and one relating to forms of upgrading; process, product, functional and inter-sectoral, though further distinctions are also drawn in order to accommodate specific complexities. This linking of clusters with the value chain perspective redresses the myopic tendency in the former and the classification of different upgrading possibilities provides a useful way of thinking about the development possibilities of local clusters. There is a particular focus on relations between more and less developed countries but the key link is the role of major global buyers in influencing the possibilities for local economic development.

Four key propositions are advanced and then investigated through the case studies, perhaps the most interesting of which is the idea that in quasi-hierarchical chains producers in developing countries are able to engage in product and process upgrading as these benefit the buying firm but make little progress in functional upgrading because conversely this provides no direct advantage to the buyer and in fact could constitute unwelcome autonomy. Support for this proposition comes from the shoe industry in Brazil (Ch.5) and in the production of personal computers in Taiwan (Ch.9). However successful upgrading still requires the local firms to invest in people and equipment, which the buyer does not necessarily assist, as well as the buyer's technical and marketing knowledge. Thus connections with the chain provide opportunities for upgrading but whether this happens depends also on the local firms

themselves and so opens the connection with local economic development strategies and the role of local institutions in assisting local upgrading processes.

While buyers develop quasi hierarchical relations because it assists their quality control and reliability of supply, especially in less developed countries, market relations and price competition are not suspended so these harmonious relationships can be transitory, something John Humphrey and Hubert Schmitz (Ch, 13) recognise but perhaps understate when they argue that there is an emerging consensus that insertion into quasi-hierarchical chains provides a fast track to process and product upgrading and given the problems that local producers find in functional upgrading ‘working for foreign buyers and accepting quasi-hierarchy is a tempting solution even if it means low profit margins’ (p.360).

Roberta Rabellotti’s evidence from Brenta (Ch. 6) falsifies the second proposition, namely that local producers in developed countries do not engage in quasi-hierarchical chains. She found that some of the previously independent high quality producers were now working to the specifications of major brand labels in both shoes and other leather goods, mainly because it was more profitable than producing their own designs, even though in the longer term they run the risk of being displaced by lower cost suppliers. The remaining hypotheses relate to how network-based chains potentially allow all forms of upgrading but rarely involve producers in less developed countries, and that there are no specific implications for upgrading in market-based chains.

The question of profitability and different kinds of upgrading is also raised by Jörg Meyer-Stamer (in Chapter 12) who suggests some of the typologies have implicitly been built upon the experience of South East Asia in the 1980s and yet both the contemporary structure of organisations and the global context have changed significantly since then. Meyer-Stamer identifies a number of strategies for competitiveness, only one of which is upgrading in the usual (Schmitz-Humphrey) sense of developing better quality products using higher skilled labour and technology. He argues that firms can also advance through ‘polarization’, namely expanding output at both ends of the market simultaneously, by producing high quality designer goods on the one hand and for buyer’s own label products on the other. Furthermore firms also engage in ‘lateral differentiation’ that is by frequently changing the product with stock renewal on a two week cycle, the practice followed by Inditex/Zara or Hennes + Mauritz to meet young peoples’ demand for low priced highly differentiated garments. These latter strategies allow firms to increase the scale of their operations, reduce the amortization time on equipment and so retain productivity and competitiveness through frequent retooling. Likewise Schmitz (1999) earlier work on the Sinos Valley in Brazil points out how firms integrated into value chains linked for the quality market were in a disadvantageous situation when the buyers turned to cheaper producers from elsewhere. The firms that had retained an interest in the lower quality domestic market had also upgraded in a different way by widening their functions to include marketing and design and were in a better position to re-orientate and expand further into the domestic market. Thus there is a huge range of possibilities, which vary significantly between different sectors, different markets and in relation to wider changes of the world market, so while the concept of

upgrading and the typologies are useful, the wide range of contingent factors makes it difficult to formulate clear strategies.

Effectively the book is dealing with middle range theory and the plethora of typologies introduced by different writers reflects a wavering between the desire to accurately reflect the complexity of contemporary industrial dynamics while simultaneously identifying strategies for local economic development mirroring in turn the merging between academia and consultancy, indeed many of the researchers have this hybrid identity. Mapping the different quality and labour codes however (Khalid Nadvi and Frank Wälting Ch3) brings clarity to the wide range of standards. A further concern is that, similar to much of the writing in this vein, local economic development is largely restricted to or equated with the success of firms and connections with individual and social well-being correspondingly sidelined. This volume makes an exception by referring to labour codes but even these are largely viewed from the impact on firms rather than people working within them. Despite these limitations however the book provides an extremely valuable role in making the findings of recent research across a number of continents available to a wide audience and certainly brings a welcome degree of analytical precision and global awareness to the cluster debates.

Schmitz, H (1999) Global competition and local co-operation: success and failure in the Sinos Valley, Brazil, *World Development* 27 (9):1627-50

Diane Perrons, Department of Geography and Environment, London School of Economics