

Global Value Chains, De-Localisation and the Uneven Upgrading of the East European Clothing Industry

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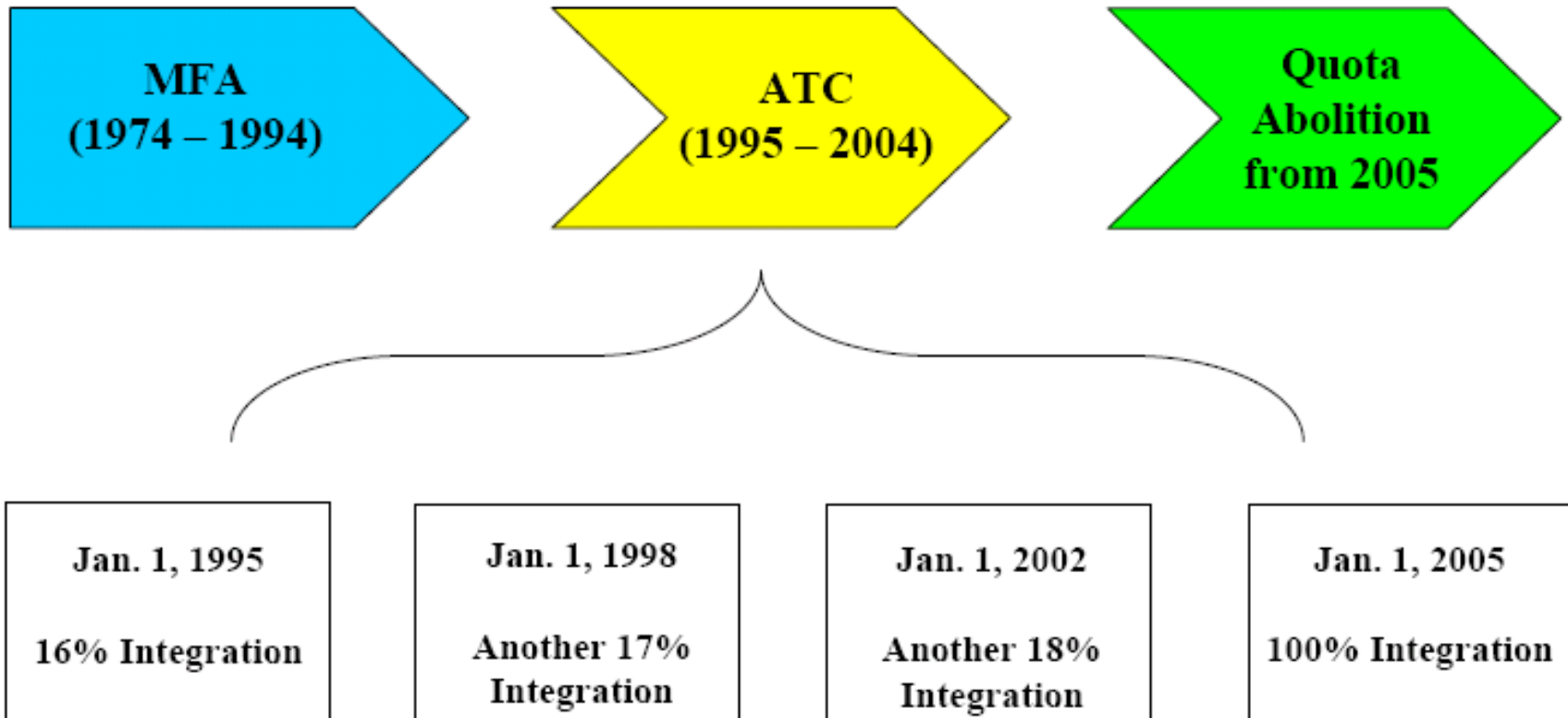
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Structure of presentation

1. Liberalisation and de-localisation of production in European clothing industry: the 'spectre of China'
2. Globalisation and regionalisation in European clothing value chains
3. Clothing production networks and diverse trajectories of 'upgrading'
4. Implications for understanding 'race to the bottom'/upgrading in global value chains

Quota abolition and liberalisation in textiles and clothing



The 'spectre of China' and de-localisation

- March 2007: Treorchy, Wales (Burberry) and Trenčín, Slovakia (Ozeta Neo)
- 'Bra wars' and temporary safeguards
- De-localisation and stability:
'sourcing decisions are much more nuanced than is suggested by these dire forecasts [of the spectre of China]' (Abernathy et al., 2006)

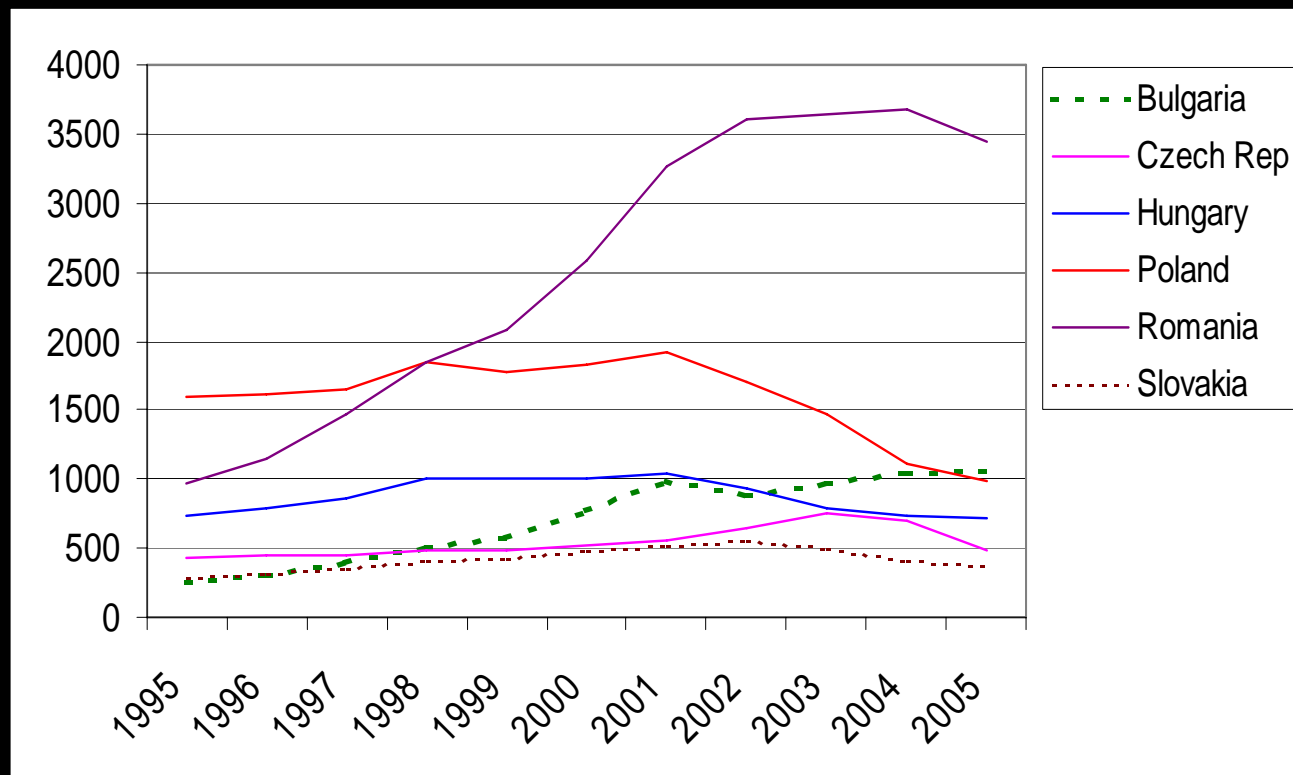
Historical de-localisation in Europe

- Intra-national (e.g. United Kingdom ... NE England and Northern Ireland; North to South in Italy)
- New International Divisions of Labour in wider Europe (Greece, Spain, Portugal)
- East-Central Europe and OPT from the 1980s

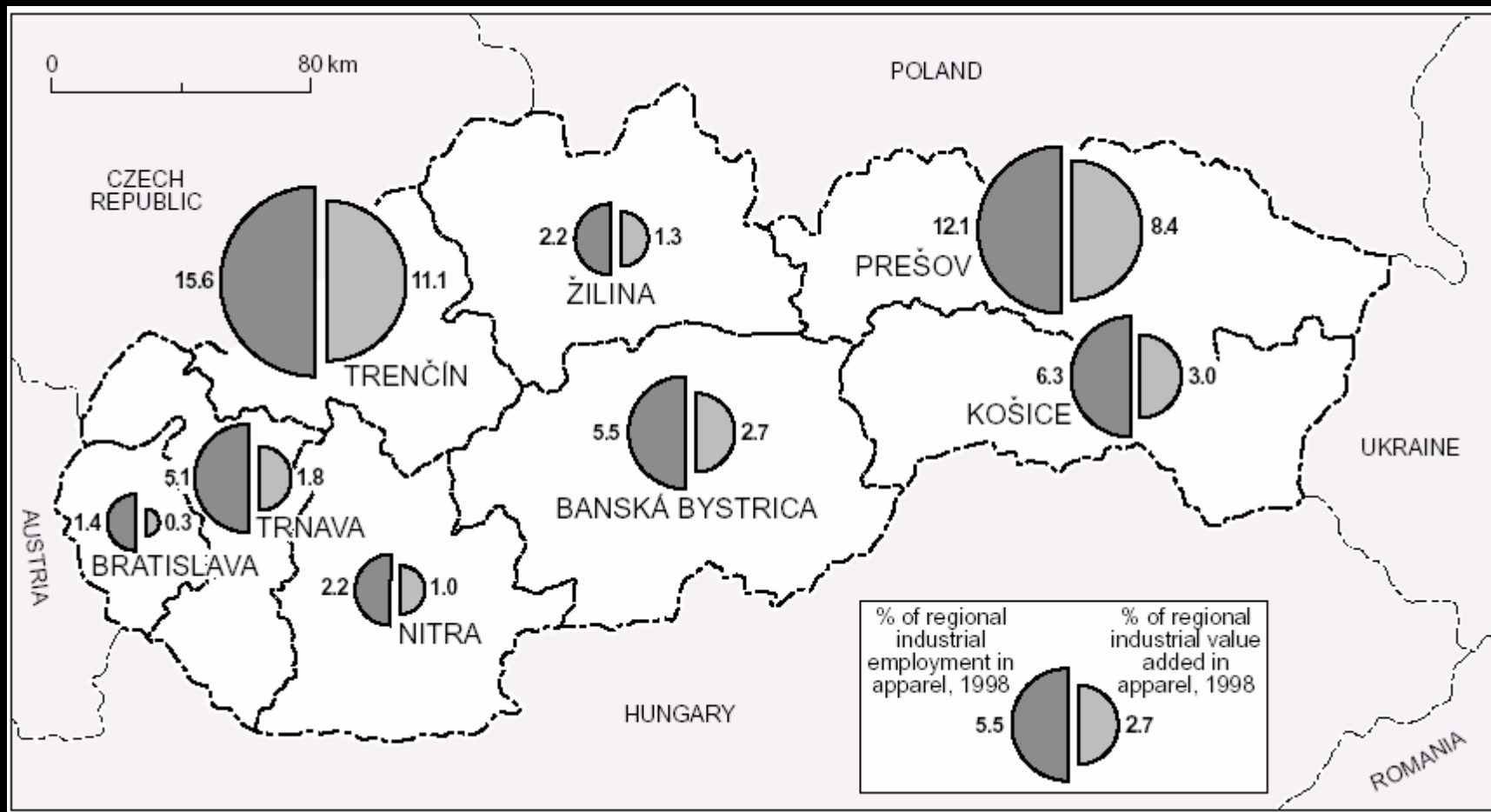
East-Central Europe as a core production site

- Export assembly production: outward processing trade and exports to EU markets

ECE6 clothing exports to EU15 markets, 1995-2005 (€ million)
(Source: Comext database)

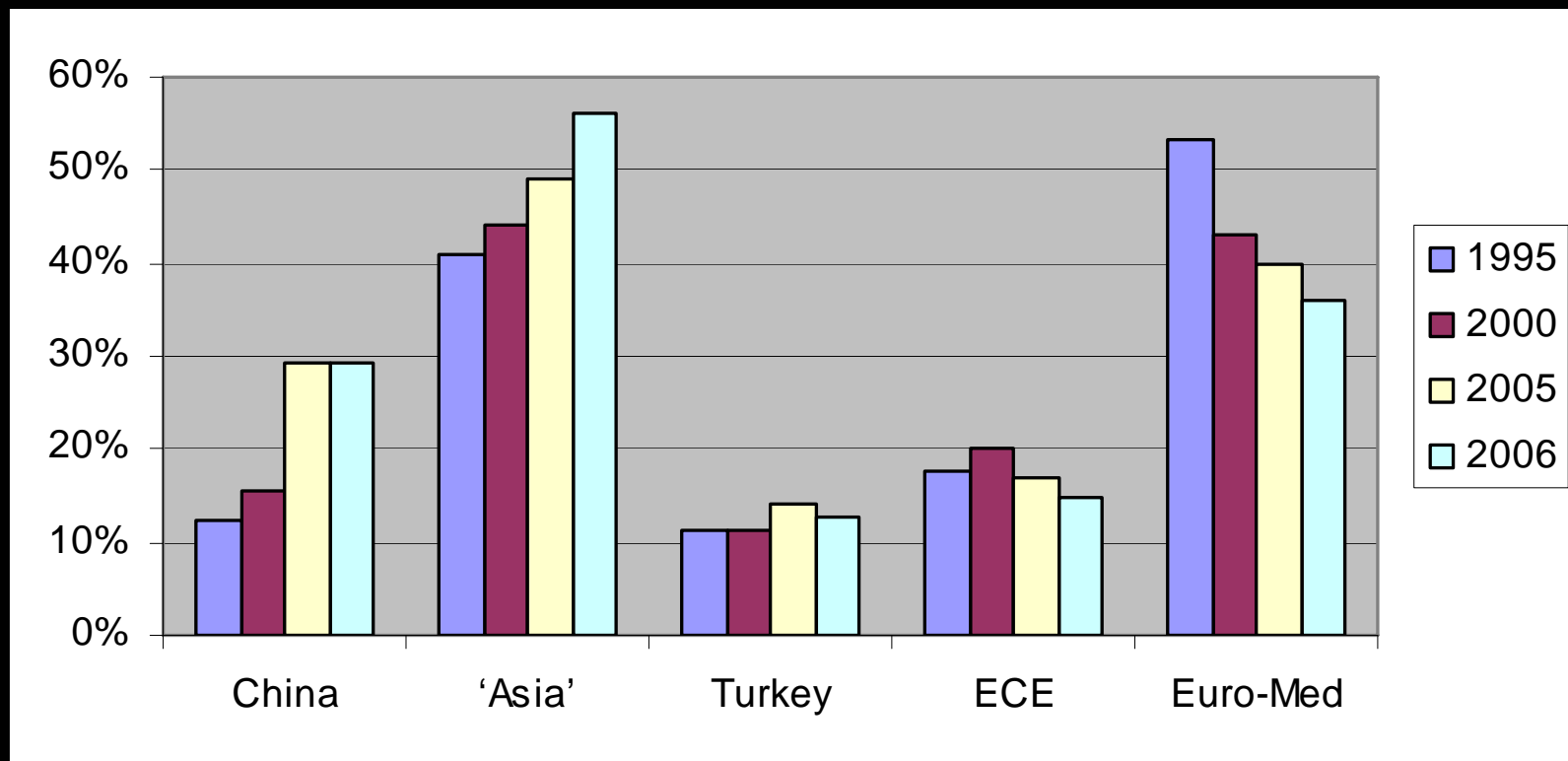


Slovakia: garment districts



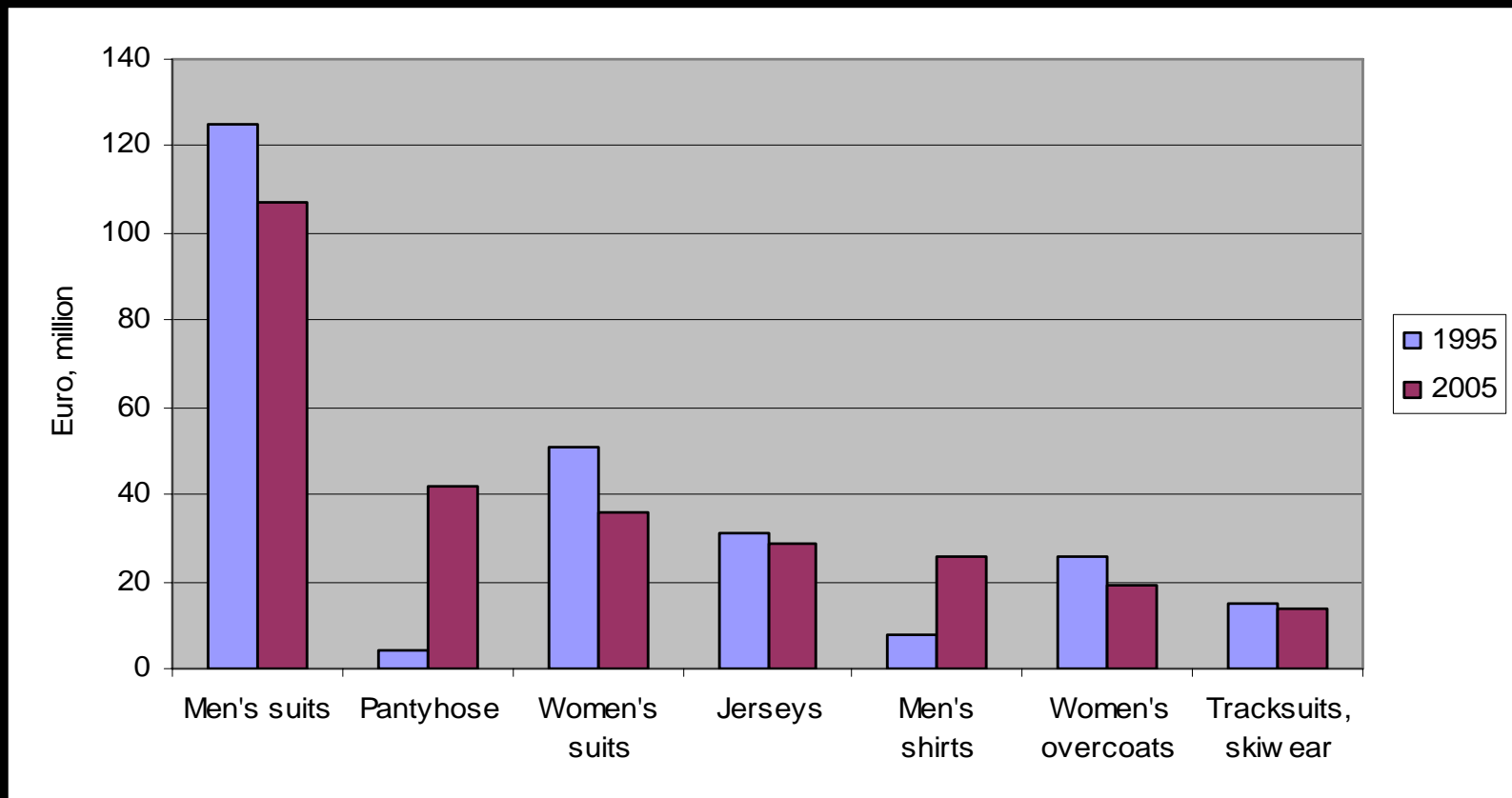
'Globalisation' and 'regionalisation': China & Asia gain, Euro-Med loses

EU clothing imports from selected regions,
1995-2006 (% total value)



Stability and change in EU sourcing

Top 4-digit clothing exports from Slovakia to EU15, 1995 and 2005



Top 10 exporters of men's cotton shirts to Germany

1995	%	Unit value	2003	%	Unit value	2005	%	Unit value
India	13%	15.1	Bangladesh	12%	9.2	Bangladesh	11%	9.4
Turkey	13%	22.1	India	10%	17.5	Turkey	10%	33.2
Hong Kong	11%	17.3	Turkey	8%	29.2	India	9%	17.2
Bangladesh	8%	8.8	FYROM	7%	28.3	China	9%	10.4
Poland	8%	26.7	Romania	7%	28.1	FYROM	8%	31.3
Tunisia	4%	32.4	Poland	4%	32.6	Vietnam	6%	16.6
FYROM	4%	23.1	Vietnam	4%	16.1	Indonesia	6%	18.1
Korea	3%	24.6	Hong Kong	4%	20.1	Romania	4%	24.8
Italy	3%	54.3	Indonesia	4%	17.5	Poland	4%	43.0
China	3%	11.3	Netherlands	4%	25.3	Slovakia	4%	28.0
Slovakia	0.5%	22.1	Slovakia (rank	3%	26.0			
(rank 30)			12)					

Top 10 exporters of men's woollen suits to Italy

1995	%	Unit value	2003	%	Unit value	2005	%	Unit value
Non-specified countries*	20%	132.3	Romania	32%	35.9	China	23%	28.7
Germany	14%	81.3	Slovakia	15%	58.8	Romania	22%	37.1
Switzerland	13%	101.2	Switzerland	12%	170.3	Slovakia	12%	61.3
China	10%	53.9	Germany	8%	127.0	Tunisia	9%	39.9
Romania	7%	25.0	Tunisia	8%	42.9	Switzerland	8%	171.2
Tunisia	5%	32.6	China	6%	25.6	Germany	5%	146.1
Spain	4%	40.5	Morocco	3%	47.0	Croatia	4%	40.3
Egypt	4%	37.9	Croatia	2%	36.1	Morocco	4%	47.0
Morocco	4%	34.5	Ukraine	2%	21.3	France	2%	49.0
Slovakia	4%	19.9	France	2%	203.7	Egypt	2%	59.1

* These are defined in the EU's Comext database as 'Countries and territories not specified within the framework of trade with third countries'

Clothing production networks in the 'new Europe'

- Complex combinations of quality, price, quantity, and delivery requirements
- Increasing role of joint ventures and FDI in central Europe
- Shifts from arms-length contracting by 'old' EU producers in central Europe ...?
- Organising production networks and further liberalisation ... new strategic reactions - diverse upgrading trajectories

I. Moving from OPT to own-brand retailing

Lifeline, Slovakia

- shift from OPT
- franchised stores
- sourcing from China

II. Cross-border de-localisation: Slovakia - Ukraine - Transcarpathia



“The clothing industry is a fast train from Brussels to Eastern Europe passing through Slovakia on its way to Ukraine. The clothing industry [in Slovakia] must take advantage before it shifts again.”

(Labour Inspectorate, Trenčín, November 2003)

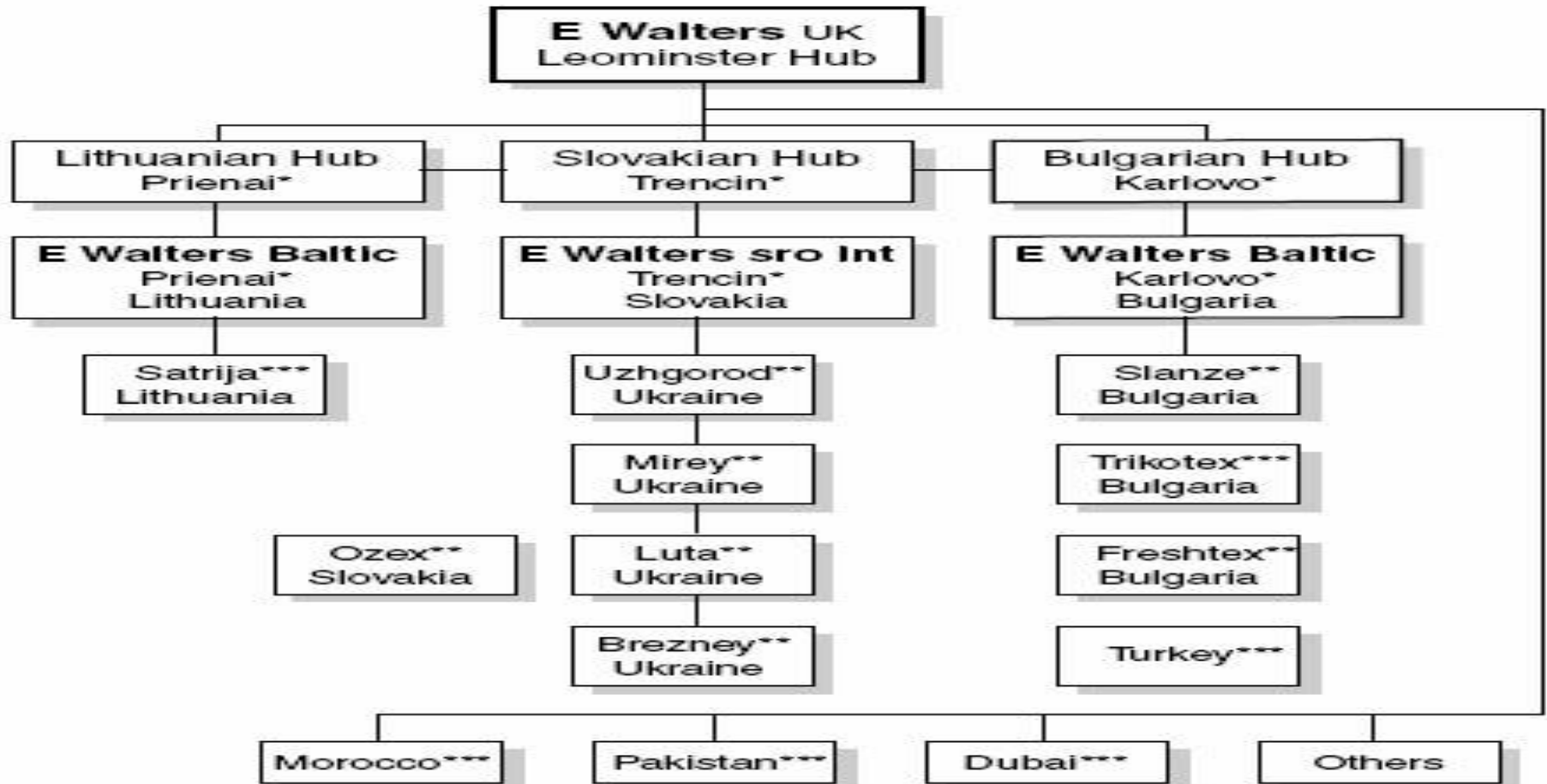
Cross-border CMT assembly production

“Last year [2003] we started subcontracting to the Ukraine and Belarus [in 2000 they were already planning to make this move]. We gave OPT to the Ukraine in the autumn. The entry into the EU means not many more years for clothing in Slovakia. My costs here [in Slovakia] are 0.12€/minute [about 290€ on a 40 hour working week] and I can do a jacket in 100 minutes [12€]. The 250€ minimum wage here means a girl [sic] needs to live with her parents. Even when I pay 30% more than the minimum wage it is not enough. In the Ukraine the same process takes 159 minutes to produce a jacket, so to break even I need to go to 0.09€ per minute. Wages in the Ukraine are only 50€ minimum or one-fifth of here. If I can find a partner to produce at .06€/minute with my technology and management I can do much better. This is possible in Belarus, where I am now focusing my attention.”

Cross-border networks & ownership

- High-quality, tailored suits for Italian markets
- Majority ownership of factory in Vinogradev
- Moved from CM assembly to direct ownership

From assembly to 'hubbing' to direct sourcing from Ukraine



- * Wholly owned subsidiaries
- ** Fully dedicated contracted units
- *** Partially dedicated contracted units

'Cultural proximity' and the demands of west European buyers

- Difficulties for west European buyers of establishing direct production in Ukraine
- Slovak former SOEs as 'cultural and network intermediaries'

III “Downgrading” - factory closure in higher cost districts in Slovakia

Regional average wage levels in selected branches of the Slovak economy, 2002 (Slovak koruny)

	Industrial production		Textile and clothing production	
	Total	Women	Total	Women
Bratislava	22541	17680	12515	11496
Trnava	14359	11365	9871	9327
Trenčín	13400	10690	9592	8924
Nitra	12747	10668	9299	8650
Žilina	13213	10519	8912	8503
Banská	13332	11049	8811	8459
Bystrica				
Prešov	11749	9180	8612	7923
Košice	17226	12931	8487	8334
Slovakia	14539	11261	9177	8623

The Limits of Global and Regional De-Localisation

Not an either/or choice:

- proximity, product specificity and quality, delivery times and labour costs, embedded production capabilities

“We are responding to continuous price pressures and competition by adopting higher levels of technology, and we have plans to produce hand-made production [hand-made tailored suits for the Italian market]. This would give us a comparative advantage in price and quality. ... Longer-term pressure is expected from China, but we hope to retain advantages through just-in-time production. We also have an advantage in design and delivery. We can produce (from design to delivery) in 4 weeks, and in some cases in as little as 2 weeks. In China it takes 4 months. We also have the advantage of being able to barcode, price, and label with made in the European Union.” OZKN, Prešov, June 2004

Uneven upgrading trajectories

