

De-localisation and persistence in the European clothing industry: the reconfiguration of trade and production networks

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De-localisation and Persistence in the European Clothing Industry: the Reconfiguration of Trade and Production Networks¹

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“China will dominate the world”

—*IMF Survey* 2004

—
“sourcing decisions are much more nuanced than is suggested by these dire forecasts [of the spectre of China]” (Abernathy *et al.*, 2006: 2208)

“...we would like to stress that the hourly labor cost is but one of the many factors which impact the competitiveness of the textile industry. A factor for labor productivity has to be introduced in each case to arrive at a more meaningful unit labor cost. But even then, it can only give a limited view of the total competitiveness of the primary textile industry since total competitiveness depends on other cost and non cost factors, such as raw material, energy, interest cost, inventory turn-over, throughput time, quality, styling, etc., etc.”

Werner International, *New Twist*, Newsletter Volume 1, March 08, 2006

<http://www.werner-newtwist.com/en/site-vol-001/newtwist.htm>

(Received July 2008: in revised form October 2009)

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2
3 **Abstract:** This paper examines processes of de-localisation and the phenomenon of the
4
5 'spectre of China' in the European clothing industry following the removal of quota-
6
7 constrained trade in 2005. The paper examines the changing geographies of trade and
8
9 production in the European clothing industry, with a specific focus on the patterns of de-
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11 localisation and production resilience in East-Central Europe (ECE). Through an analysis of
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13 trade flows to core EU markets we show how the articulation of sourcing strategies, trade
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15 policies and locational decisions are producing distinctions in more liberalised global trading
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17 environment between shifts towards the globalisation of production networks alongside an
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19 intensification of the regionalisation of clothing production in lower-cost producing regions
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21 of ECE (and north Africa) that are proximate to major markets. The paper also examines
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26
27 some of the reasons for these different geographies of sourcing.

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30 **Key words:** De-localisation of production, Global trade liberalisation, Clothing industry,
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32 Global production networks, Global value chains, East-Central Europe

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34 **JEL codes:** L23 - Organization of Production, L2 - Firm Objectives, Organization, and
35
36 Behavior, L - Industrial Organization, F14 - Country and Industry Studies of Trade

37 38 39 **Introduction: The 'spectre of China' and de-localisation**

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43 In March 2007, plant closure and job shedding were announced almost simultaneously at
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45 clothing factories in Treorchy in Wales, which was a major producer of t-shirts for the
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47 putative 'Made-in-England' clothing retailer Burberry, and at the main plant of the former
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49 state-owned Ozeta Neo enterprise in Trenčín, Slovakia. Both factories, located in very
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51 different parts of the enlarged European Union (EU), were closing as a result, it was reported,
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53 of loss of orders to Chinese factories. These announcements coincided with on-going
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55 increases in imports to the EU from China; increases that continued to squeeze manufacturers
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3 in Western and Eastern Europe despite the temporary imposition of voluntary restraints on
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5 selected categories of Chinese clothing imports between 2006 and the end of 2007.² Both
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7 factories were relatively small parts of wider production networks experiencing de-
8
9 localisation from older core to new lower-cost producing regions, but their experience was
10
11 symptomatic of these wider processes. Competitive pressures and low-cost imports,
12
13 combined with decades of EU and state policies supporting de-localisation and the
14
15 integration of broader European production networks in the clothing industry, continue to
16
17 threaten the viability and stability of local and regional production systems. The ‘spectre of
18
19 China’ thus loomed large around the closing of these and other factories in both Western and
20
21 Central Europe.³ In particular, serious concerns were expressed across Europe about the
22
23 consequences of delocalization and the future viability of European clothing production
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25 networks.
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32 The experiences of these two factories were, thus, symptomatic of wider changes
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34 being experienced in the European and global textile and clothing industries, particularly
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36 since the abolition of quota constrained trade in 2005 and the ending of the Multi-Fibre
37
38 Arrangement (MFA) which had largely governed the global geography of textile and clothing
39
40 production for much of the post-war period (Glasmeier *et al* 1993, OECD 2004). The most
41
42 evident elements of these changes include the rapid pace of clothing supply chain
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44 transformation in North America and Europe due to production relocation and product
45
46 repositioning; the shifting global and regional sourcing patterns for the supply of textiles and
47
48 clothing; the rapid evolution of the clothing retail sector, characterized by a concentration of
49
50 large retailers and fast growing retail chains, linked to rapidly evolving consumption patterns
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52 focused on the phenomenon of ‘fast fashion’ (Tokatli 2008, Tokatli *et al* 2008); the effective
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3 removal of all quantitative trade barriers (quotas) among WTO members; and increasing
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5 access to, and use of, Internet technologies, which call for a technology driven, redesign of
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7 traditional business models (see [http://www.werner-newtwist.com/en/site-vol-](http://www.werner-newtwist.com/en/site-vol-001/newtwist.htm)
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9 [001/newtwist.htm](http://www.werner-newtwist.com/en/site-vol-001/newtwist.htm)).

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12 In this paper we focus on these processes of de-localisation and the phenomenon of
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14 the 'spectre of China' in the post-MFA world through the lens of changing geographies of
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16 trade and production in the European clothing industry, with a specific focus on the patterns
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18 of de-localisation and production resilience in East-Central Europe (ECE). Our focus on ECE
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20 is justified by the centrality the region played in European clothing production networks,
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22 particularly since the 1990s, but also before. Through an analysis of trade flows to core EU
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24 markets we show how the articulation of sourcing strategies, trade policies and locational
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26 decisions are producing distinctions in a post-MFA world between shifts towards the
27
28 globalisation of production networks on the one hand (specifically sourcing in the low-wage
29
30 regions of East Asia and South Asia) and, on the other hand, an intensification of the
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32 regionalisation of clothing production in lower-cost producing regions of ECE (and north
33
34 Africa) that are proximate to major markets (see Pickles 2006, Pickles *et al* 2006, Smith *et al*
35
36 2008). Rather than focusing too one-sidedly on factor costs, especially wage levels or
37
38 production costs, which can exaggerate the importance of China as a sourcing destination for
39
40 *some* kinds of products, we also consider the importance of geographically proximate
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42 regional production, the specific demands created by the needs of particular products in
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44 relation to short production cycles or rapid replenishment, and the stability of trading
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46 relations among firms and national networks (see also Abernathy *et al* (2006), Pickles *et al*
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48 (2006)). Abernathy *et al* (2006) for example focus their analysis of the continuing role of
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3 proximate, regionalised production in North America on the imperatives generated by ‘lean
4 retailing’ and its demands to sustain specific forms of product replenishment strategies.⁴
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8 They show how the geography of sourcing remains as much about managing policy and
9
10 logistical costs⁵ as it is about managing factor costs such as labour costs, notably for those
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12 products for which lean retailing has emerged as the industry standard. In the context of the
13
14 Euro-Mediterranean region, parallel arguments have recently been made in the context of the
15
16 relative competitiveness of the Middle East and North African (MENA) textiles and clothing
17
18 sector following the end of quotas:
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22 ‘Survival of the clothing sector in the MENA-4 [Morocco, Tunisia, Egypt and Jordan]
23 countries depends on the ability to better exploit the advantages of proximity to the
24 European Union. Proximity allows buyers and suppliers to build strong relationships
25 and permits a better understanding of customer preferences. Firms in the MENA-4
26 countries can be competitive in exporting time-sensitive, replenishable products to the
27 European market because their inventory costs and risks are lower than those of
28 distant suppliers. They can exploit focus on products that must be replenished quickly
29 during the selling season. Reducing lead time—the time required from receipt of an
30 order to shipment to markets—is a key priority’ (World Bank 2006: vii-viii).
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34 While Abernathy *et al* (2006) tend to see replenishment goods as central to the
35
36 solidity of regional sourcing, we are interested in the broader strategies of regional and
37
38 proximate sourcing (see Pickles 2006). Replenishment considerations certainly remain
39
40 important particularly in the ‘fast fashion’ segments of firms such as Zara (Tokatli 2008), and
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42 China and India (as well as others outside the ‘golden belt’ of Europe) may soon have the
43
44 infrastructural and logistical capacities to supply rapidly some of the replenishment products
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46 that retailers in core European markets currently buy. But, sourcing decisions also depend on
47
48 the level of service that core producers are able to offer in combination with a short turn-
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50 around time from order to delivery. Gereffi and his associates, for example, have
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52 emphasised the importance of recognising the increasing demand among many retail buyers
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3 for producers to offer 'full package' services, including product design, sourcing of inputs,
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5 production, packaging, labelling and logistics, amongst others (Bair and Gereffi 2001, 2003,
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7 Gereffi 1999, Gereffi and Memedovic 2003). The result is the emergence of key full package
8
9 producer hubs in the global clothing industry (Gereffi 2006). Indeed, the level of 'service'
10
11 required in the industry can be measured in a variety of ways, each impacting on the
12
13 geographies of sourcing decisions and production networks: time to market; response time to
14
15 changes in size, colours, fabrics, and design; quality and handling reliability; and delivery
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17 logistics (trucks direct to stores versus ships to brokers for trans-shipment). The consequence
18
19 with regard to ECE is that even in distinguishable product categories such as hand-made
20
21 tailored suits for the Italian market, geographically proximate producers in countries such as
22
23 Slovakia are still able to sustain some comparative advantage, and find themselves not bound
24
25 only by factor (labour) cost considerations (Smith *et al* 2008). Our argument is, therefore, not
26
27 one simply about industrial sustainability where the advantages of proximity can outweigh
28
29 costs (Abernathy *et al* 2006), but about the diversity of trajectories, some of which may not
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31 be reducible to a singular logic of either de-localisation or industrial upgrading, irrespective
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33 of long-term viability or decline (Pickles *et al* 2006).
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41 Within the context of these debates, we argue for the need to focus on national and
42
43 product specific trajectories in the East-Central European clothing industry to understand
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45 which types of production have been sustained in the immediate aftermath of the 2005
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47 removal of quota constraint and which are more likely to be sourced from China (and
48
49 perhaps India and surrounding countries) in the near future. We suggest that there is a
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51 tendency to overstate the extent to which trade liberalisation will result in a reduction in
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53 export orientated clothing production in ECE. Instead, we argue that there is much more
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3 national and product-specific unevenness and contingency involved in the organisation of
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5 production networks in a post-MFA world.⁶ The next section of the paper therefore uses
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7 import data to assess the macro-regional outcomes in relation to sourcing of products in the
8
9 post-MFA clothing sector. This is followed by a consideration of de-localisation in a wider
10
11 historical context. The paper then examines the particular role that ECE clothing production
12
13 has played in the global economic geography of the industry and highlights the importance of
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15 recognising nationally and product specific trajectories to provide any meaningful analysis of
16
17 the sector after then end of the MFA. We examine the role that dependency on particular
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19 product segments and national export markets plays in sustaining the industry's
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21 competitiveness in ECE in an increasingly liberalised international context. We then consider
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23 what the national and product-level trajectories tell us about the extent to which processes of
24
25 industrial upgrading have underpinned the continuation of export production in the ECE
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27 clothing industry. The paper concludes with an analysis of the strategies being pursued to
28
29 deal with increasing competitive pressures with particular emphasis on the emergence of
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31 cross-border production (e.g., between Slovakia and Ukraine), to show some of the ways that
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33 production decisions are always based on more than labour costs.
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41 The implications of this paper are at least twofold. First, models of the global
42
43 clothing industry following the end of the MFA need to recognise that large retailers and
44
45 manufacturers may make sourcing decisions that privilege other conditions and capacities
46
47 that run counter to detailed cost estimates which may, at first glance, pre-determine a global
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49 de-localisation strategy. Second, these broader structures of cost and capacity suggest the
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51 need for a different way of assessing what 'counts' in calculating supply chain options, and
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53 in particular how to be clear about the roles played by policy costs, compliance costs and
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3 logistical costs alongside factor costs (Abernathy *et al* 2006, World Bank 2006), and the
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5 ways in which the evaluation of these can be influenced by the historical legacies of
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7 industrial structure, labour market structure and labour capacities, and inter-firm and inter-
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9 national social networks (Pickles 2006; Pickles *et al* 2006; Smith *et al* 2008).
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14 **‘Globalisation’ and ‘regionalisation’ in the clothing sector: dynamics of trade in China,** 15 **Asia and the Euro-Mediterranean region**

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18 Critical to any understanding of macro-regional trajectories in clothing trade and
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20 production has to be the increasing role of China. Since entry into the WTO in 2001, Chinese
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22 exports into the EU have increased dramatically. On January 1 2005, following the final
23
24 stage of liberalization of global trade in textiles and clothing and the ending of the quota-
25
26 constrained trade governed by the MFA, clothing imports to Europe from China surged
27
28 rapidly and unit prices declined (World Bank 2006, Francois *et al* 2007).⁷ Some categories of
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30 clothing imports from China increased by over 100% in a few months. The result was serious
31
32 for many EU manufacturers whose markets were undercut very quickly despite the ten-year
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34 adjustment process that had accompanied the staged phase-out of quotas under the
35
36 Agreement on Textiles and Clothing (ATC). The ‘surge’ of Chinese imports to the EU was
37
38 largely a result of the ‘back-loading’ of quota removal in the EU to the most sensitive
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40 clothing products, as a way in which the EU industry attempted to protect (in the short-term,
41
42 at least) its production capabilities in Europe (Curran 2008a). The same situation prevailed in
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44 the USA. As a consequence of the immediate impacts of post-2005 import growth, EU and
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46 China agreements on voluntary restraints, which followed an intense period of negotiation
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48 between EU officials and the Chinese government, provided generous, but term-limited
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3 levels of import growth from China in ten categories of textiles and clothing each year until
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5 the end of 2007 (with annual increases of up to 12.5%).⁸
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8 As a result of these voluntary restraints, annual increases of clothing exports⁹ to the
9
10 EU stabilized and in 2006 constituted around 30% of total EU15¹⁰ clothing imports (Figure
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12 1).¹¹ These figures no doubt hide a great deal of regional shifting and secondary exporting of
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14 Chinese production (notably from Hong Kong, Macao, and probably Cambodia and
15
16 Vietnam).¹² Imports into the EU15 from Asia continued to grow from 41% of total EU15
17
18 imports in 1995 to 56% in 2006. EU imports from Turkey have also grown from 11% to
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20 13% between 1995 and 2006 (see also Tokatli 2008, Tokatli *et al* 2008), while those from
21
22 ECE have declined from 18% to 15%. The Euro-Med region has experienced an overall
23
24 relative decline from 53% to 36% of total EU15 clothing imports between 1995 and 2006
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26 (see also Curran 2008a). Thus, from a macro-regional perspective, the story of post-MFA
27
28 trade points to a declining significance of pan-European regional production networks in
29
30 favour of more globalised sourcing strategies focused on Asian suppliers. But are these
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32 patterns also the case at the level of specific products and national systems? We argue that a
33
34 more nuanced, national and product-specific analysis reveals a situation which belies a
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36 simple global de-localisation narrative. But first we set the current situation within the
37
38 longer-term context of de-localisation in Europe.
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47 * Figure 1 about here *
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50 **Historical geographies of de-localisation in Europe**

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52 The historical record of the textile and clothing industry has long stressed its
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54 footloose and largely temporary nature, emphasising the continuity of the industry's patterns
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3 of relocation. Read as a history of footloose and sunset industries, textiles and clothing
4 analyses have been predicated on an understanding of the natural economy of regional
5 comparative advantage and a natural outcome of inter-firm competition based largely on
6 labour costs (see Smith *et al* 2005).
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13 While the textile and clothing industry has certainly been one of the most dynamic
14 and geographically mobile industries (Dicken 2007) and the industry has often been seen as
15 an archetype of supply chain and production flexibility, at the heart of these debates is a
16 discourse of globalization and de-localisation predicated on enormous spatial flexibilities
17 among buyers and retailers. It is certainly the case that de-localisation of production has been
18 a strategy central to labour intensive industries such as clothing for many years (Scott 2006).
19 It involves the fragmentation of tasks and the division of labour across geographical space,
20 often with the relocation of labour intensive elements of the production process to lower cost
21 locations, while core competencies (product design, network coordination, brand ownership,
22 fabric R&D, etc.,) are assumed to be more spatially inflexible, tied as they are to human
23 capital resources and knowledge networks (Rantisi 2004, Scott 2006, Evans and Smith
24 2006). De-localisation in Europe has worked at three main scales. First, within nation-states
25 (for example, the UK) the search for lower cost production sites led to the establishment of
26 branch plant factories in peripheral regions such as north east England and Northern Ireland
27 from the 1970s onwards (Hudson 2005, Evans and Smith 2006). In Italy, by contrast, the de-
28 localisation of production from the industrial triangle of the north and the industrial districts
29 of the Third Italy was part of the industrialisation process in the South (Dunford 2006).
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31 Second, between countries within western Europe, a new international division of labour
32 developed from the 1970s as labour intensive activity was relocated to southern Europe from
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3 the North (particularly, Portugal, Greece and Spain) (Fröbel *et al* 1981, Lipietz 1987). Third,
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5 and more recently within the wider European and Euro-Med region, outward processing
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8 customs arrangements (known as outward processing trade (OPT)) enabled the development
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10 of assembly production networks in central Europe from the late 1970s and early 1980s on
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12 (Fröbel *et al* 1981, Graziani 1998, Pellegrin 2001, Begg *et al* 2003).¹³
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14

15 By the mid-1990s, OPT trade accounted for 82% of total clothing exports from ECE
16
17 to the EU. Since then EU enlargement and the desire on the part of the EU to bring its
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19 strategy of pan-regional integration to greater fruition has meant that the European
20
21 Neighbourhood Policy has extended such customs benefits to other countries in North Africa
22
23 and the former Soviet Union surrounding the now enlarged EU27. EU enlargement, in
24
25 particular, has meant the need for planning for a regularisation of trade within the internal
26
27 market and the eradication of the customs provisions involved in OPT for the new Member
28
29 States. Initially, OPT was a way for the West European textile industry to cope with
30
31 competitive pressures, enabling the continued production of fabric in western Europe, its
32
33 duty free export to ECE and re-import back into the EU with duties paid only on the value
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35 added derived from sewing. As such, OPT was part of wider geo-political arrangements in
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37 Europe, involving increasing integration of economic and political relations even before the
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39 collapse of state socialism in ECE (Begg *et al* 2003, Pickles *et al* 2006).
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46 Within this apparent picture of locational mobility even within Europe as a result of
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48 intensifying competition and the rapidity and ease with which new producers enter the
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50 industry, it is also important to recognise the locational stabilities involved in the industry..In
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52 the following section, we explore some of the dimensions of this national and macro-level
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3 stability in the context of East-Central Europe using national trade data as a surrogate
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5 measure for sourcing decisions.
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10 **East-Central Europe and the emergence of pan-European clothing production** 11 **networks** 12

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15 State socialist apparel industries entered into contracting arrangements for export
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17 goods from the late 1970s and early 1980s (Fröbel 1981, Begg *et al* 2003, Pickles *et al* 2006).
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19 West European manufacturers were first seeking to combat lower-cost competition at a
20
21 global scale by expanding regionalised production networks into ECE. Over time these
22
23 relationships were consolidated into OPT policies which became the engine for rapid de-
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25 localisation of production to the lower cost and relatively close production centres of ECE
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27 (see Begg *et al* 2006, Smith 2003).
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32 In this sense, outward processing was symptomatic of a broader change in
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34 development policies within ECE. Earlier state-led development policies created national
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36 industries in each of the countries of ECE, despite the CMEA's efforts to create a pan-
37
38 regional division of labour. Textiles were a capital-intensive proposition, but state socialist
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40 planners invested in them as a necessary industry to provide inputs for national clothing
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42 industries. The result was the emergence of an expanded and fully integrated post-war textile
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44 and clothing industry across the planned economies of ECE, integrated into a wider Council
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46 for Mutual Economic Assistance (CMEA) division of labour (see Smith 2003 for a
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48 discussion of the Slovak example).
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53 From the early 1980s, state socialist planners, faced with increasing difficulties of taut
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55 planning, popular legitimacy and foreign currency shortage began to internationalize
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3 production relations beyond the CMEA area. These emergent relations were invariably
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5 orchestrated through state organs such as buying agencies, party structures and industry
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7 associations. One unintended consequence, however, was the establishment of what were, in
8
9 some cases, to become longstanding personal business relationships between industrialists,
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11 enterprise managers and trade officials in Western and Eastern Europe. Indeed some of the
12
13 most successful firms in ECE were established by former state-owned enterprise (SOE)
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15 managers, using contracting networks and strategic business partnerships established prior to
16
17 1989 to conduct export production (Smith 2003). The internationalizing of state socialist
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19 production networks also marked a broader shift in development policies towards export
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21 assembly and a renewal of an emphasis on regional comparative advantage, especially in the
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23 form of relatively lower wage costs in comparison to western Europe.
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29 The recession of late socialism and the early years after 1989 was also a period of
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31 rapid expansion in the volume and geographical range of this form of outward processing
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33 assembly production. The expansion of export contracting was rapid among the main
34
35 exporting states in ECE (what we call the ECE6) by the mid 1990s.¹⁴ By 1995, Poland
36
37 continued to be the largest clothing exporter to EU15 markets, as it had been throughout most
38
39 of the early 1990s (Figure 2). Romania was the second most important exporter in 1995, but
40
41 by 2005 had expanded much more dramatically than all others and was by far the most
42
43 significant, accounting 6% of total EU15 clothing imports in that year. Bulgarian exports
44
45 have also increased dramatically since 1995, at which time they were the smallest of the six
46
47 countries reported in Figure 2. By 2005, Bulgarian clothing exports to the EU15 had
48
49 overtaken those of Poland into second place. Consequently, there are specific geographies
50
51 and temporalities of involvement in EU15 markets. Central European suppliers dominated
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3 the scene in the first half of the 1990s (Poland and Hungary (1st and 3rd most important in
4
5 1995) but ten years later the lower cost and later EU accession states of Romania and
6
7 Bulgaria were the two most important source countries. This was partly the result of
8
9 sourcing decisions focused on labour costs. As wage levels, tax burdens and expectations
10
11 over further wage pressure in the run-up to the first round of EU enlargement in 2004
12
13 increased, sourcing to EU markets did appear to grow in the lower cost countries of Romania
14
15 and Bulgaria. But there was also a significant level of absolute continuity in central European
16
17 states, alongside the burgeoning of export production in 'newer' locations such as Romania,
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19 with countries such as Slovakia and the Czech Republic seeing continuing levels of exports
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21 to the EU15 really until 2004.
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29 * Figure 2 about here *
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34 Throughout this period, clothing export production enabled regional resilience to
35
36 wider pressures of deindustrialisation in ECE. In most ECE countries, clothing production for
37
38 export was one of the few sectors that was able to sustain itself during the early years of post-
39
40 socialist transformation largely because of its integration into pan-European contracting
41
42 relations. One result was that production became consolidated in core localities, many of
43
44 which had been important under state socialism. In Slovakia, for example, the regions of
45
46 Prešov and Trenčín, which had dominated the geography of the industry under state
47
48 socialism, remained the most important sites for export production throughout the 1990s
49
50 (Smith 2003, Pickles *et al* 2006). In Bulgaria, the Plovdiv region, which had been one of the
51
52 historical centres of the industry, along with the branch and workshop economy of the
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3 Rhodope mountains, remained two of several such sites in which the resurgence of the
4
5 industry occurred (Begg *et al* 2000, Pickles and Begg 2000).
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8 How are we to understand de-localisation differently in this post-socialist context? If
9
10 the globalization of production is the movement of assembly work to other, often greenfield,
11
12 locations, in ECE the process of production out-sourcing occurred through the incorporation
13
14 (or re-incorporation) of the majority of existing industrial sites, services and labour capacities
15
16 that were formerly operating large, integrated production facilities in already industrialised
17
18 societies. In addition, the growth of export production in ECE was also possible based on the
19
20 fragmentation of the existing clothing industry into smaller units of production related to the
21
22 privatisation of branches of larger, integrated enterprises and the establishment of *de novo*
23
24 firms by former SOE managers (see Smith (2003) for a discussion). These particular
25
26 geographies and legacies of the planned economy matter in important ways to how the
27
28 industry is being re-configured today in the context of global trade liberalisation, which is the
29
30 focus of the next section.
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39 **National trajectories and the dynamics of clothing production and exports in East-** 40 **Central Europe**

41
42 Between 1995 and 2006 a complex picture of *national* export performance to EU
43
44 markets in the clothing sector became evident (Table 1). As already noted, Chinese imports
45
46 grew continuously until 2005 and have continued to do so after the removal of quotas. This
47
48 rapid increase in orders and shipments altered the policy environment and earlier
49
50 commitments to full liberalization of trade. With trade liberalization worldwide, however, the
51
52 earlier rapid expansion in export processing in central Europe began to experience
53
54 competitive pressures from lower cost producers elsewhere in ECE and beyond. Many ECE
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3 countries experienced a decline in the adjusted value¹⁵ of their clothing exports to EU15
4
5 markets over this period. In some countries this decline was more marked than in others
6
7 (Table 1). With the imposition of restraints and increased uncertainty about the future of
8
9 open markets after 2005, growth continued to occur in the value of clothing exports to the
10
11 EU between 2005 and 2006 from Albania (12%), Bulgaria (8%), the Czech Republic (15%),
12
13 FYR Macedonia (19%) and Slovakia (11%).¹⁶ The picture in the wider Euro-Med region is
14
15 also more complex. Turkish and Tunisian exports to the EU15 experienced small declines in
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17 value, while exports from Morocco and Egypt continued to grow.
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24 * Table 1 about here *
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29 However, alongside pressures from global trade liberalisation, all of the new Member
30
31 States joining the EU in 2004 experienced declines in clothing exports to EU15 markets,
32
33 between 2000 and 2005 (Table 1). The situation with the later EU accession states of
34
35 Romania and Bulgaria was different. Between 1995 and 2006, Romania in particular
36
37 increased substantially the value and volume¹⁷ of exports to the EU. These shifts occurred
38
39 for different reasons. Romania's earlier advantage in lower value products has meant that for
40
41 some producers elsewhere in ECE exports have declined as global competition in these cost-
42
43 sensitive areas has increased since 2005. By contrast, Bulgaria – which has also experienced
44
45 export expansion since 1995 – saw the value of exports continue to grow in 2006. While the
46
47 EU fully liberalized trade with ECE countries by 1998, the removal of quotas globally in
48
49 2005 has had the effect of squeezing low-value producers and enhancing the market position
50
51 of higher value and/or full package low cost producers in ECE and increasing the value of
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3 exports. For example, between 2005 and 2006 both Slovakia and Poland saw a reduction in
4
5 the volume of clothing exports to EU15 markets at the same time as a marginal increase in
6
7 export value and units values (Figure 3). This may reflect one of two dynamics in the
8
9 industry. Either there has been a scaling up of production into higher value added goods,
10
11 suggesting a general process of industrial upgrading. Or the unit price paid for similar
12
13 clothing products exported in 2005 has increased while volume has fallen.
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20 * Figure 3 about here *
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25 At this aggregate product level it is not possible to determine which of these shifts is
26
27 occurring; changes in export value and volume alone cannot tell us enough about the actual
28
29 patterns and directions of change in the context of wider competitive pressures and the extent
30
31 to which processes of enhancing industrial upgrading in global value chains is occurring. To
32
33 better understand these issues we require a product specific analysis of trade trajectories in
34
35 the industry, which we turn to in the following section. However, the overall trajectory is one
36
37 in which, as noted previously, rapid growth has occurred in value of clothing exports from
38
39 Romania and Bulgaria to EU markets, alongside a stabilisation of export production in
40
41 countries such as Slovakia, and a reduction in the highest cost locations such as Poland.
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47 *Trade trajectories and the dynamics of clothing production in East-Central Europe*

48

49 There are other more specific reasons for the differential nature of changing trade flows
50
51 between ECE and EU markets. To understand these, we need to consider the structure of
52
53 wages in different countries; the product structure of EU imports from ECE suppliers; the
54
55 degree of market concentration; and the degree of stability in these trade relations. In what
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3 follows we confine the analysis to the experiences of the three most important ECE national
4 clothing suppliers to EU15 markets – Romania, Bulgaria and Poland. As noted above,
5
6 Romania’s growth of export production has been rapid but has recently declined, Bulgaria’s
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8 export growth continued into 2006 and possibly beyond, and Poland witnessed a decline over
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10 the period in question, apparently losing out to lower cost competitors elsewhere in the
11
12 region and beyond.
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17 Differential levels of wages and living costs are important in understanding the
18
19 geographies of sourcing in ECE, particularly because of the significant decline in real wages
20
21 in the economic recession wrought by the collapse of the command economy and the almost
22
23 immediate introduction of structural adjustment policies in the 1990s. Relative wages were
24
25 driven down throughout the region and across all sectors. The social overhang (savings) was
26
27 rapidly spent in the early years of intense deprivation. As a result, post-socialist economies
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29 approached EU accession intent on ‘catching-up’ and ‘returning’ to Europe (see Pickles
30
31 2005). The harmonization of institutions and norms that came with EU accession also
32
33 brought with it pressure on wages to rise as the cost of consumer goods, energy, health care,
34
35 education and housing rose – not least because of the domestic liberalisation of prices that
36
37 were formerly state-regulated. But, and importantly, this process was geographically highly
38
39 uneven. The relative attraction of low labour costs in Asia is clear, but equally important is
40
41 the highly differentiated structure of relative wage costs among more proximate producers in
42
43 Europe and North Africa (Table 2). Producers in the more proximate countries are, it seems,
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45 able in part to offset high labour costs with other advantages that we turn to in the following
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47 discussion.
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3 * Table 2 about here *
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8 In addition to this global geography of differential labour costs it is helpful to
9
10 understand how differential wage levels articulate with the product-specific structure of
11
12 export relations, and the extent to which these have been relatively stable over the past
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14 decade. For example, to what extent is there market concentration in the main export
15
16 products from Romania, Bulgaria and Poland and to what extent is there evidence in the main
17
18 six-digit product clothing exports¹⁸ from Romania, Bulgaria and Poland to the dominant
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20 EU15 markets of increasing competition and loss of market share to lower cost producers in,
21
22 for example, China or resilience in export, and by implication, sourcing patterns?
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27 Like most ECE suppliers, the three most important national clothing exporters to the
28
29 EU15 (Romania, Bulgaria and Poland) have been characterized by high degrees of export
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31 concentration in specific clothing products. Indeed, the current degree of export reliance on a
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33 few products has increased substantially over the past ten years. For example, by 2005 the
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35 top ten six-digit export products in all three countries accounted for between 41% and 45%
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37 of total clothing exports and the top twenty six-digit products for just over 60% in each
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39 country in 2005, with significant increases in product concentration occurring since 1995
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41 (Table 3).
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48 * Table 3 about here *
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53 Given these high levels of product concentration, to what extent has the sourcing of
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55 the most important products been able to endure increasing competitive pressures from
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3 producers elsewhere in, for example, Turkey, North Africa and China? In order to examine
4 this question, it is helpful to look at the degree of change in absolute exports to EU15
5 markets (adjusted for inflation) between 1995 and 2006. In Poland, three products accounted
6 for 28% of the value of clothing exports to the EU15 in 2006 (men's cotton trousers (12% of
7 total clothing exports); women's cotton trousers (7%); and a mixed category of 'aggregated
8 trade' (9%)). Romanian clothing exports were also concentrated, with three products
9 accounting for 20% of total exports to the EU15 (men's cotton trousers (9% of clothing
10 exports); women's cotton trousers (6%); and women's blouses (5%)). Similar patterns of
11 product concentration were present in Bulgaria, with four products accounting for 20% of all
12 clothing exports to EU15 markets (men's cotton shirts (6%); women's cotton trousers (5%);
13 women's trousers (5%); and men's trousers (4%)).

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Between 1995 and 2006 the majority of these leading clothing exports in Poland contracted, reflecting the relative shift of sourcing and production to lower cost locations in the region and beyond already noted. Romania was the winner from inter-regional competition in the 1990s and early 2000s. As Polish and other central European clothing industries saw a loss of relative share of EU markets, Romania's industry boomed and Romania's exports to the EU continued to grow until 2004, after which they have contracted a little. In Bulgaria, each of the main products saw a contraction in export value in 2004-05, but in 2005-2006, men's cotton shirt and men's trouser exports increased again.

Alongside these changing product-level trajectories, it is also important to recognise that if the degree of product concentration in clothing exports from each ECE country is, as we have seen, relatively high, the export reliance on specific export markets is astonishing. Italy and Germany accounted for 81% and 77% respectively of all Romania's exports to

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3 EU15 markets of men's trousers and women's trousers, with the UK alone accounting for
4
5 67% of Romania's exports of women's blouses to EU15 countries. Similar levels of market
6
7 concentration are found for Poland's main clothing exports (albeit in conditions of absolute
8
9 declines in volumes) and for Bulgaria's main clothing exports (although in this case with a
10
11 more diversified mix of importing countries). In the next section we explore the role that
12
13 these high levels of geographical specificity in EU15 markets plays in underpinning the
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15 stability of some parts of the clothing industry in ECE despite increasing global competitive
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17 pressures.
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25 *The degree of stability in export relations*

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27 In order to understand the relative impacts of trade liberalisation in these major
28
29 clothing products over time, it is useful to examine the role of changing sourcing strategies in
30
31 these dominant EU markets.¹⁹ The overall experience is one of increasing competitive
32
33 pressures from China (and Asia more generally) *alongside* ECE and Euro-Med resilience in
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35 many product areas.
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39 First, we examine the three most important six-digit Romanian clothing exports:
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41 men's cotton trousers, women's cotton trousers and women's blouses from man-made fibres.
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43 Men's cotton trousers accounted for nearly 9% of Romanian clothing exports in 2006, of
44
45 which 45% went to Italian markets and 36% to German markets. Between 1995 and 2003,
46
47 Romania's position in Italian imports of men's cotton trousers improved significantly to the
48
49 extent that in 2003 Romania had become the most important supplier, accounting for 23% of
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51 Italian imports (Table 4a). Between 2003 and 2006 Romanian exports in this product fell to
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53 14% of Italian imports, primarily as Chinese exports increased their share of the Italian
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3 market. To a certain extent, then, Romanian exports of men's cotton trousers held some of
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5 their position in Italian markets and unit value increased over this period, but there is
6
7 increasing evidence that competitive pressures are being felt from Chinese and Turkish
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9 exports, but Chinese competition appears to be in lower unit value trousers suggesting that
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11 Romania (like Tunisia) has been able to sustain a niche in relatively high value trousers.
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17 * Table 4 about here *
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22 In Germany, Romanian exports of men's cotton trousers have retained an increasing
23
24 share of the market both in the run-up to the end of quotas and immediately after (Table 4b).
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26 By 2006, German imports of this product category from Romania had increased from 2% to
27
28 8% of total clothing imports to Germany and unit values were also increasing. Chinese and
29
30 Bangladeshi exports were also becoming more important, but not at the expense of imports
31
32 from Romania. Indeed, the countries losing share of the German market for men's cotton
33
34 trousers were Turkey and Italy.
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39 The second most important six-digit Romanian clothing export in 2006 was women's
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41 cotton trousers, accounting for 6% of Romanian clothing exports. Again, Germany and Italy
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43 were the two main markets for these exports accounting for 41% and 37% of Romanian
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45 exports of this product, respectively, in 2006. In both markets, Romanian exports increased
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47 their share between 1995 and 2003 (Table 5). Following quota abolition, Romanian exports
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49 lost ground, especially in Italy where they fell from 25% to 14% of Italian imports of
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51 women's cotton trousers. In both markets, China has become an increasingly important
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3 player, and Romania has also lost market share to a range of other Euro-Mediterranean
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5 exports, notably Turkey and Tunisia (in the case of the Italian market).
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10 * Table 5 about here *
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15 The third most important Romanian six-digit export product tells a different story to
16 that of declining market share in the face of increasing Chinese and Turkish/North African
17 competition. In the segment of women's blouses made from man-made fibres, which
18 accounted for just over 5% of Romanian exports in 2006, 67% were exported to the UK. In
19 this market, Romania has been able to hold its position increasing from 5% in 1995 to over
20 one-third in 2003 and 37% in 2006 (Table 6). This is despite the increasing Turkish and
21 Chinese share of the UK market.
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34 * Table 6 about here *
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39 Unlike the most important Romanian products, the most important Bulgarian six-digit
40 clothing exports, men's cotton shirts (accounting for 6% of Bulgarian clothing exports in
41 2006) and women's cotton trousers (accounting for 5%) have seen a quite dramatic increase
42 – or at least stability – in the value of exports from 1995 in the face of increasing global
43 competitive pressures. In the case of men's cotton shirt exports to Germany, Bulgaria
44 retained a share of around 3% of the market despite China's increasing role from 3% in 1995
45 to 13% in 2006. Bulgarian exports of the same product to Italian markets played an
46 increasing role until 2003 after which, like Romania, it lost market share to China, India and
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3 Turkey (Table 7). However, in both cases European and Turkish/north African exports still
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5 accounted for 22% and 53%, respectively, of imports from the top 10 supplying countries in
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8 2006 and involved the export of higher unit value products than those from China.
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12 * Table 7 about here *
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18 In Poland, by contrast, the overall decline of position in EU15 export markets was
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20 also found at the six-digit product level. The most important products in 2006 were men's
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22 cotton trousers (12% of Poland's clothing exports, of which 83% were exported to three
23
24 markets (Germany (48%), Belgium (18%) and the Czech Republic (17%)) and women's
25
26 cotton trousers (7% of Poland's clothing exports, of which 70% went to the same three
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28 markets (Germany (34%), the Czech Republic (19%) and Belgium (17%)). In the most
29
30 important market for both products, Germany, Poland saw a declining share over the entire
31
32 period from 1995 to 2006 in the face of increasing Chinese exports (Tables 4 and 5).
33
34
35 However, even in this context of increasing Chinese involvement in the German market, it is
36
37 worth noting that European and Turkish/north African exports still accounted for 42% of
38
39 imports from the top 10 exporting countries in 2006 of both men's and women's cotton
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42 trousers.
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46 Despite the overall dire predictions of a globalised race to China, the evidence from
47
48 an analysis of the most important six-digit export products from the three main ECE
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50 exporters to EU15 markets suggests the need for a more nuanced understanding of the results
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52 of trade liberalisation marked by the end of quota constrained trade. On the one hand, higher
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54 cost locations such as Poland have seemingly lost market share for clothing exports in the
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3 core EU15 markets. On the other hand, in some key product areas in Bulgaria and Romania
4
5 there is resilience in key EU15 markets in the face of increasing competition from Chinese
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7 imports. This resilience is in part based on the ability to export higher unit value clothing
8
9 products to these core markets, suggesting that withstanding global competitive pressures
10
11 may be possible by specialising in higher value/quality production which requires quicker
12
13 delivery times and higher quality skills than those available from elsewhere in the global
14
15 economy (see also Pickles *et al* 2006 for a discussion of firm-level trajectories in Bulgaria
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17 which also identifies some movement in this direction among some firms). Of course, some
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19 of these changes also reflect the different geography of labour costs between central Europe
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21 and south-east Europe.
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28 *Trade liberalization, competition and industrial upgrading: real or artefact?*
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31 At the heart of these shifts in volume and value of trade is, then, the important policy
32
33 question about industrial upgrading. To what extent is a country's changing trade position –
34
35 particularly in the context of increasing competitive pressure from China – reflective of
36
37 moves to upgrade industrial activity? Industrial upgrading debates have framed this issue in
38
39 terms of: (i) the structure of production, in which upgrading is understood as an increase in
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41 the complexity of production activities from assembly, original equipment manufacturing
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43 (OEM), original brand-name manufacturing (OBM), to original design manufacturing
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45 (ODM); (ii) intra-sectoral upgrading, typically involving forward and backward linkages
46
47 along the supply chain; (iii) moving from labour-intensive activities to more capital- and
48
49 skill-intensive economic activities that involve organizational learning to improve the
50
51 position of firms or nations in international trade and production networks; and/or (iv) value
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53 capture, involving firms, regional networks, or national economies becoming more
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3 competitive by shifting into higher value parts of the value chain (Gereffi 1999). As Mayer
4 and Pickles (2009) have argued, this may equate with one of the other forms of upgrading
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6 (e.g., when a firm moves from stitching for apparel contracts to car covers), but it may take a
7
8 different form (e.g., when a firm focused on assembly for export develops a parallel focus on
9
10 lower-cost, but higher margin domestic markets, when Indian stitching firms buy
11
12 warehousing facilities in Europe to better manage inventory and supplies (Tewari 2006), or
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14 when the state mandates and supports the development of technical skills and competencies
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16 within its own labour force, as in China (Gereffi 2007)).
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22 Humphrey and Schmitz (2002) and Sturgeon (2006) have attempted to systematise
23 these forms of upgrading in four ways. Process upgrading involves firms improving their
24 existing systems to be more efficient, responsive, or quality-aware, e.g., through the adoption
25 of new equipment or better quality control practices. Product upgrading involves firms
26 shifting from simple to more complex goods of the same type (e.g., cotton shirts to men's
27 suits), i.e., to higher value added products in the same sector. Functional upgrading involves
28 firms adding new functions and activities, or substitute existing activities, that allows a shift
29 to new value chain activity, such as a stitching from adding cutting, dyeing, packaging, and
30 labelling functions. Finally, chain or inter-sectoral upgrading involves firms moving from
31 one value chain to another, such as when apparel firms shift into production for the
32 automotive industry, such as car seat covers. (*The Governance of Global Value Chains:
33 Implications for Industrial Upgrading.*
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50 <http://www.cggc.duke.edu/pdfs/workshop/SturgeonGVCDuke.pdf>
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54 While upgrading generally implies some positive impacts on the technical and/or
55 social relations of production, all four forms of upgrading can occur with intense job loss,
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3 speed-up and uncertainty for the remaining workers (Smith *et al* 2002, Mayer and Pickles
4
5
6 2009). This remains a crucial dilemma of upgrading arguments and rather under-explored in
7
8 the existing literature as to the potential developmental consequences of upgrading strategies
9
10 (Bair 2005).
11

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13 Several possibilities present themselves in relation to these discussions of upgrading
14
15 when considering trajectories of trade volume (Table 8). We should of course remember that
16
17 what applies to aggregate country level data reflects the averaging of outcomes at the plant
18
19 level. Consequently, trade data tell us about national economic shifts but are unhelpful at the
20
21 firm level, unless that is only one or two firms operate in a particular product segment.²⁰
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27 * Table 8 about here *
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32 It is possible to identify nine possible trajectories (Table 8). Working from left to
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34 right and top to bottom across the table, a country may experience increasing value and
35
36 volume of exports, suggesting important levels of product quality upgrading. Equally,
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38 upgrading may be evidenced through increasing value of products and stability of volume of
39
40 exports, suggesting that the existing product mix is able to command a higher price. Where
41
42 overall export value increases while export volume falls, this may reflect an industry moving
43
44 out of lower value products and focussing effort more systematically on a smaller range of
45
46 higher value products. In a situation where export value is stable or decreasing but the
47
48 volume of exports in that product area increases, or is at least stable, an industry may, in this
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50 product area, be experiencing an aggregate shift into lower value products or is increasingly
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52 unable to sustain the contract value in its export orders. Finally, in a situation in which both
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3 export value and volume are falling, an overall experience of product downgrading may be
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5 evident, with a commensurate loss of relative competitiveness in that particular product area.
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8 Change in these two key elements of trade data (value and volume) does, therefore,
9
10 allow us to trace out the relative shifts in composition in key product areas to shed further
11
12 light on the trajectories identified above in relation to post-MFA export performance. One
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14 way of exploring these trajectories is to examine changes in export value and volume to
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16 major EU15 markets for the major clothing export products already identified. Take, for
17
18 example, one of the major product areas in which Central European producers specialise –
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20 men's cotton shirts – imported to one of the major EU clothing markets (Germany) between
21
22 1995, 2000 and 2005 (Figure 6). A 45 degree upward change suggests that volume increases
23
24 are matched by value increases, which in the typology in Table 8 is indicative of quality
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26 upgrading. Equally, where the trajectory line indicates a greater degree of verticality, changes
27
28 in the export value of men's shirts to Germany are at a greater rate than export volume,
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30 suggesting a shift out of lower value products. Where the trajectory line indicates a more
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32 horizontal increase/decrease, export value changes at a lower rate than export volume,
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34 suggesting either a shift to lower value products or a process of downgrading. In the case of
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36 German imports of men's shirts, China, Slovakia and the Former Yugoslav Republic of
37
38 Macedonia (FYROM) have seen an increased share of the German market over this period.
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40 This has been matched by increasing export value and volume. In Slovakia, the export value
41
42 of men's shirts has been increasing at a higher rate than export volume. In other words,
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44 Slovak exporters have been able to compete in the German market alongside a similar
45
46 trajectory for Chinese exports of men's shirts, with the value of products increasing at a
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48 greater rate than export volume, despite higher production costs. The reverse situation has
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been experienced for Bangladeshi, Indonesian and Turkish production (except 2005), where both value and volume have been falling over the same period, suggesting that there has been an erosion of competitiveness and possibly a process of shifting to lower value products and/or downgrading as trade has become more liberalised and producers increasingly less able to compete in export markets.

* Figure 4 about here *

A second major product in which ECE producers specialise is men's suits imported to Italy (see Smith *et al* 2008). In this product area, China, Romania and Slovakia each increased Italian market share between 1995 and 2005 (Figure 5). China's growth between 1995 and 2003 was based solely on increasing export volume, but between 2003 and 2005 it was based on both value and volume increases, suggesting a shift away from an emphasis on exporting fewer lower value and more higher value men's suits. Both Romania and Slovakia experienced some export *volume* declines between 2003 and 2005, suggesting the increasing importance of Chinese competition. However, the increase in the *value* of Slovakia's exports of men's suits is at a much higher rate than the growth of export *volume* over the entire 1995-2005 period, and also greater than that in China and Romania. This is suggestive of quite rapid product quality upgrading, with those exported men's suits commanding a higher price in the market. This process of product change has been accompanied by the establishment of a number of particularly key joint ventures between Italian and Slovak firms in East Slovakia oriented to the production of high quality, high value men's suits for brands such as Facis and Corneliani.²¹ The establishment of very close relations between Slovak firms and Italian

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3 brand owners has enabled the securing of market share in Italy and a process of quality
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5 upgrading in the Slovak factories involved. The extent to which this can be sustained in the
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7 context of both increasing competition from Asian producers and the current global
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9 economic crisis remains, however, an open question (see Smith *et al* 2008, Smith and Pickles
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11 2009).

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16 * Figure 5 about here *

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20 **Conclusion: clothing production networks in the ‘new Europe’ and the limits of global**
21 **and regional de-localisation**
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25 East and Central European clothing producers have adjusted to the de-localisation and
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27 outward processing strategies of West European retailers and are now re-adjusting to
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29 increasing global competitive pressures in a wide variety of ways (Pickles *et al* 2006). These
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31 involve complex combinations of quality, price, quantity and delivery requirements that are
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33 increasingly organized through joint ventures and FDI arrangements in the region. These
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35 shifts from arms-length contracting by EU15 producers in central Europe established in the
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37 1980s and early 1990s to direct collaborative and joint venture activities, sometimes stressing
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39 inter-firm learning and technology transfer, have enabled regional production networks to not
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41 only be expanded, but also to be deepened in ECE. However, not all countries have
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43 benefited. Some of the higher cost locations (e.g. Poland) have steadily lost market share in
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45 EU15 markets, while other producers elsewhere in ECE have become more important.

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48 This deepening of production networks is particularly important for those export-
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50 oriented firms contracting with buyers in Western Europe dependent on higher quality,
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52 proximity and quick response strategies. The ability to guarantee short delivery times, to be
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3 responsive to buyer requirements and to be able to produce high quality (often tailored)
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5 garments remains critical in explaining the patterns of resilience found in ECE despite
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7 increasing competitive pressures arising from trade liberalisation. In other cases, the
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9 expansion of production networks has occurred in ways aimed at the strategic management
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11 of factor costs within the region. In Slovakia, for example, labour-intensive assembly work
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13 has been switched out of the higher cost western regions to the lower cost eastern regions
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15 (Smith *et al* 2008, Smith and Pickles 2009). More recently, companies struggling to survive
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17 increasingly competitive global contexts have adopted cross-border contracting into Ukraine,
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19 where wage levels and energy costs are substantially lower (Smith *et al* 2008). In other cases,
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21 producers and buyers in Western Europe have begun outsourcing more elements of the
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23 supply chain to reduce input and service costs. Notable in this regard, are Italian firms that
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25 have been investing heavily over the past decade in building local textile capacity in Slovakia
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27 and Romania (Sellar 2007).
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34 Current debates concerning the potential for the wholesale hollowing out of the
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36 European clothing industry in the face of factor cost competition from elsewhere in the
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38 global economy need, we argue, to recognise the multi-faceted nature of sourcing decisions
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40 in the industry at detailed product levels – levels at which the industry itself operates.
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42 Aggregate trends are only indicative of more specific trajectories of change at particular
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44 product levels, and we have shown in this paper how important a product level understanding
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46 of trajectories in the industry is, not least because of the high and continuing levels of
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48 product concentration and market focus in these product areas. We thus seek to avoid the
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50 pessimism of ‘race to the bottom’ arguments (Schrank 2004), but we also avoid adopting an
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52 optimistic conclusion that the fate of ECE’s clothing industry is not sealed despite the
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3 'spectre of China.'²² For us the future of this industry remains an open and shifting empirical
4 question. In this paper, we have tried to show some of the complexities of trade relations and
5 the diversity of capacities and responses currently emerging in clothing production systems
6 in ECE.
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12 While some are more optimistic about the future of regional production (see for
13 example Abernathy and Weil, 2004), and others do not give any chance to regional suppliers,
14 in the new EU-China reality, our approach is different. Rather than exploring the 'spectre of
15 China' in the global clothing industry through the lens of a binary discourse of large-scale
16 de-localisation versus regional resilience in Europe, we have suggested in this paper that we
17 need an analysis of actually existing trajectories of adjustment to develop understandings of
18 how the industry itself is dealing with the global context of increasing price and cost
19 competition following the end of quota-constrained trade. What this demands, then, is
20 sensitivity in any analytical work to the complex balance in sourcing decisions between a
21 range of forces including geographical proximity, trade policy regimes, product specificity
22 and quality, delivery times, as well as and labour costs.
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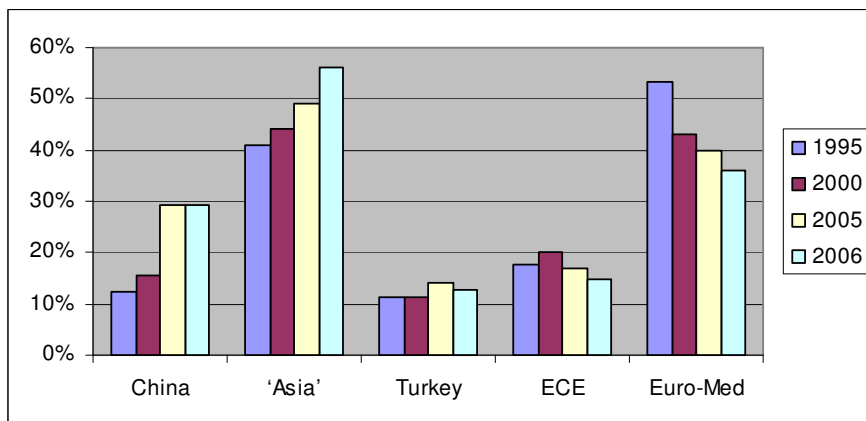
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Figure 1. EU15 clothing imports from selected regions, 1995-2006 (% total value)



Source: Comext database

Notes: Asia: China, India, Bangladesh, Hong Kong, Indonesia, Vietnam, Sri Lanka, Pakistan, Thailand, Cambodia, Macau

ECE: Romania, Bulgaria, Poland, Hungary, Czech R., Slovakia, FYRMacedonia, Baltic States, Ukraine, Slovenia, Belarus

Euro-Med: Turkey, ECE, Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, Palestinian Authority, Syria, Tunisia

Figure 2. ECE6 clothing exports to EU15 markets, 1995-2005 (€ million)

(Source: Comext database)

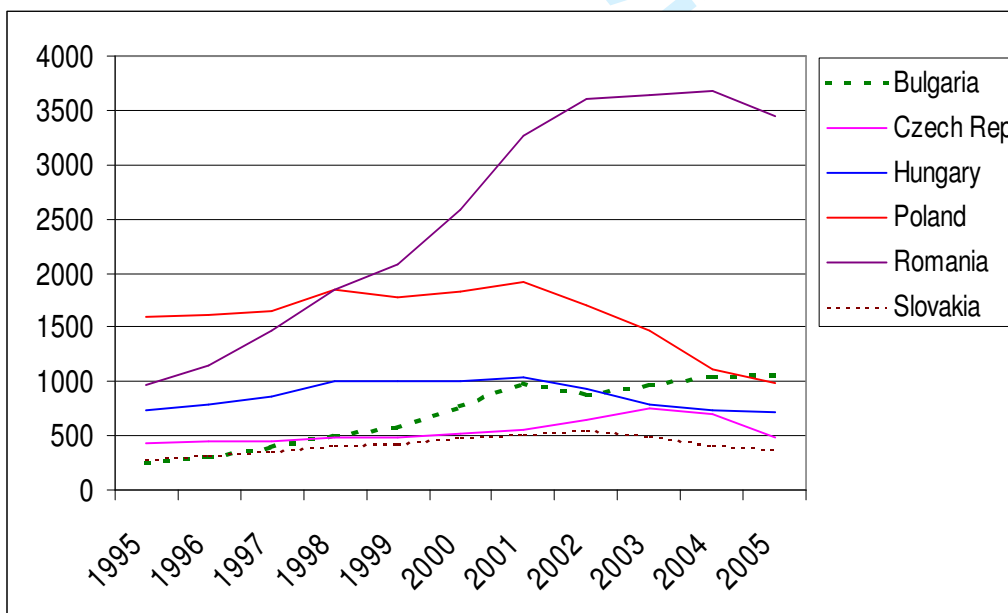
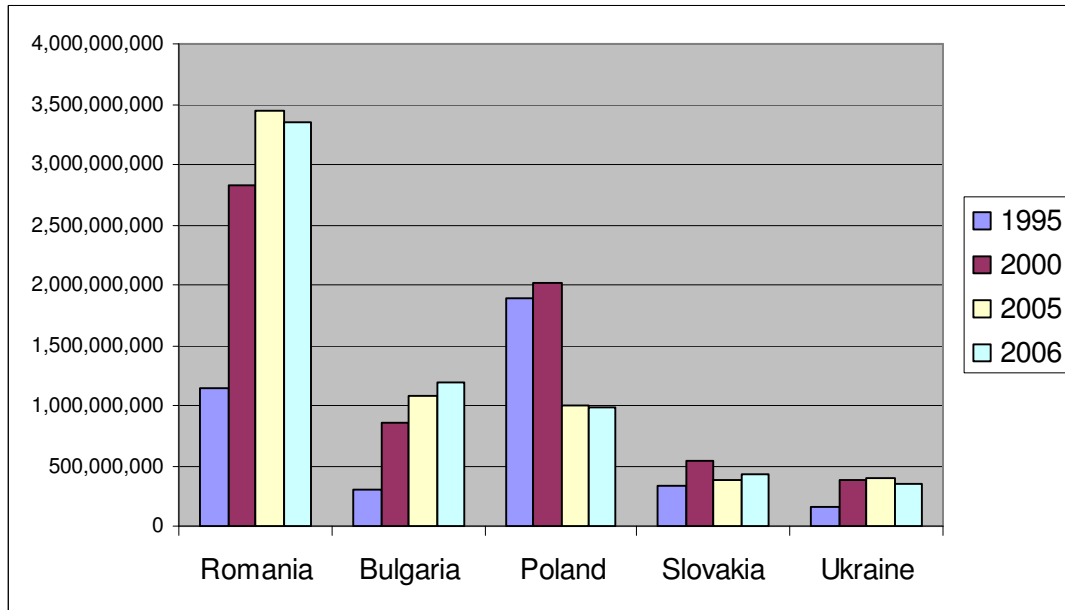
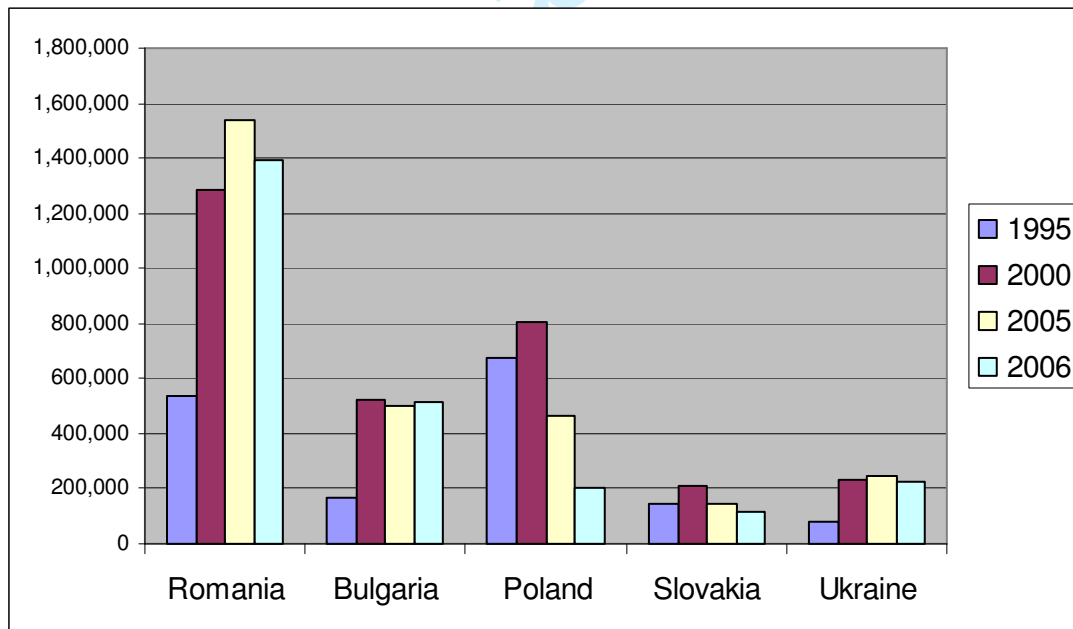


Figure 3. Adjusted value (€) (a), volume (kg) (b), and unit value (adjusted value divided by volume) (c) of clothing exports to EU15, 1995-2006 (Source: Comext database)

(a)



(b)



(c)

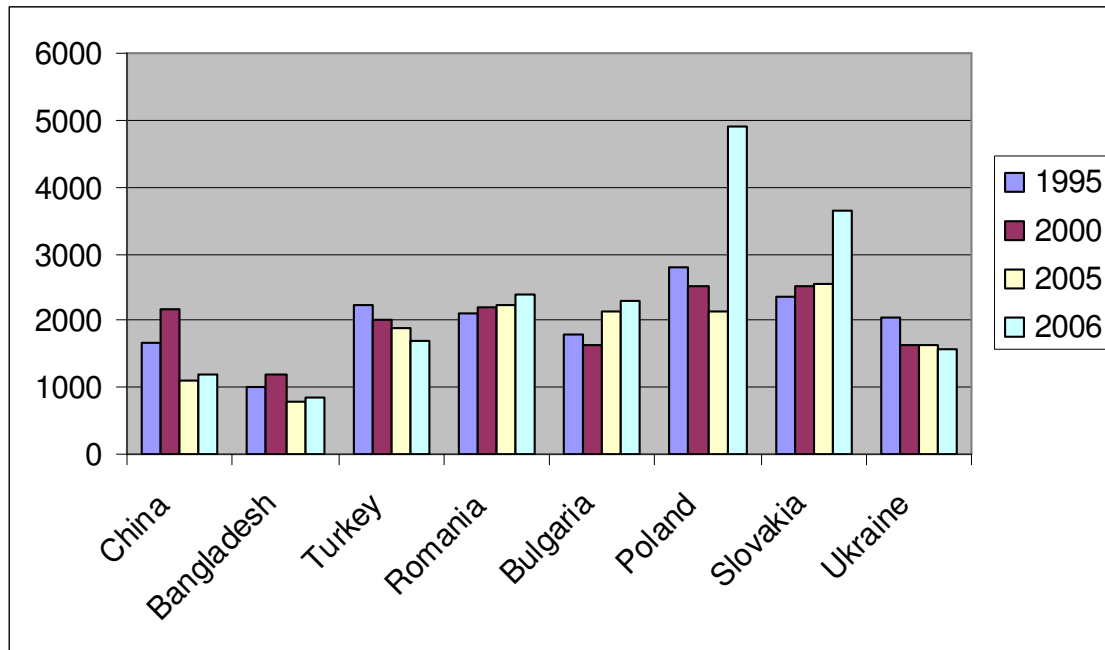
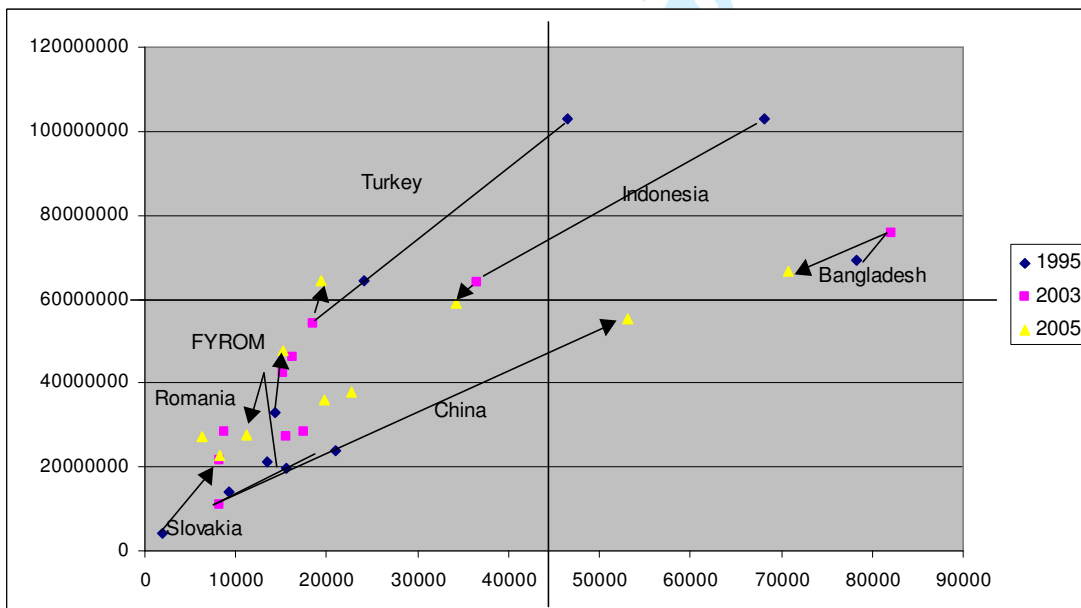


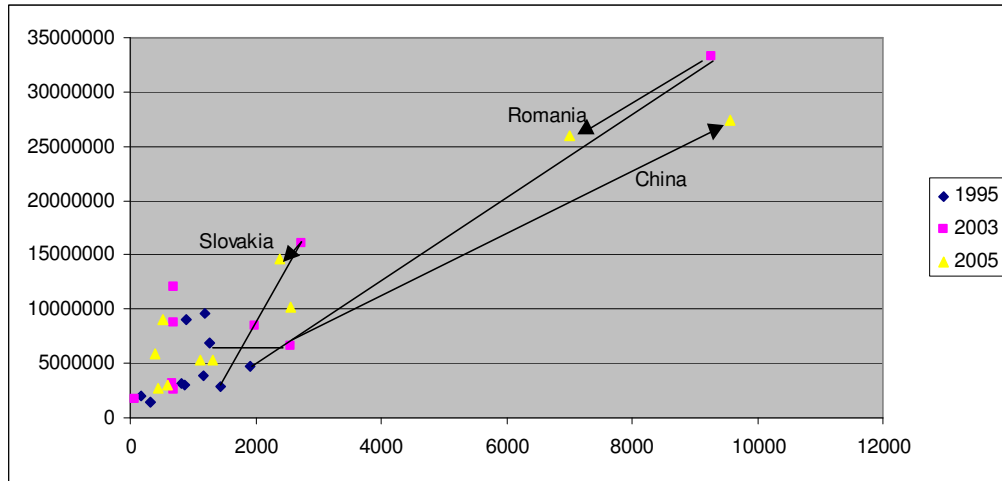
Figure 4. Trajectories of import value and volume of men's cotton shirts to Germany, 1995, 2003, 2005 (Source: Comext database)



Value (euro)

Volume (kg)

Figure 5. Trajectories of import value and volume of men's suits to Italy, 1995, 2003, 2005
 (Source: Comext database)



Value (euro)

Volume (kg)

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Table 1. Clothing exports to the EU15, 1995, 2000, 2005 and 2006 from China and selected Euro-Med and ECE countries (adjusted million euros)

	1995	2000	2005	2006	% annual av. change 1995-2000	% annual av. change 2000-05	Change 2005-06
China	4,168	8,252	16,420	17,903	16%	16%	9%
Turkey	3,752	5,894	7,857	7,815	10%	6%	-1%
Romania	1,143	2,833	3,450	3,275	25%	4%	-5%
Tunisia	2,035	2,843	2,454	2,398	7%	-2%	-2%
Morocco	1,919	2,609	2,262	2,310	6%	-2%	2%
Bulgaria	296	858	1,072	1,159	32%	4%	8%
Poland	1,887	2,022	997	965	1%	-8%	-3%
Hungary	858	1,109	750	753	5%	-5%	0%
Czech Republic	513	584	481	552	2%	-3%	15%
Slovakia	338	534	376	419	10%	-5%	11%
Egypt	160	311	328	369	16%	1%	12%
Croatia	494	507	396	362	0%	-4%	-9%
Lithuania	181	514	406	357	31%	-4%	-12%
Ukraine	160	382	405	348	23%	1%	-14%
FYR Macedonia	199	267	279	333	6%	1%	19%
Slovenia	515	381	159	142	-4%	-10%	-11%
Estonia	126	196	138	130	9%	-5%	-6%
Latvia	95	222	149	125	22%	-5%	-16%
Albania	50	109	108	122	20%	0%	12%

Source: Comext

Note: adjusted to 2005 levels.

Table 2. Labour costs in the textile and clothing industries, 2005

<i>Country</i>	<i>Total cost per operator hour^a</i>	<i>Normal hours operator/week</i>	<i>Normal equivalent days operator/year</i>	<i>Firm operating days/year</i>
Taiwan	7.58	42	250	350
Poland	3.80	nd	nd	nd
Turkey	2.88	46	277	322
Morocco	2.56	46	272	329
Mexico	2.19	na	na	na
Tunisia	2.05	48	282	312
Colombia	1.97	na	na	Na
Bulgaria	1.50	40	230	291
Thailand	1.29	48	286	333
Malaysia	1.18	48	295	338
Romania	1.07	na	na	na
Egypt	0.82	48	291	281
India	0.67	48	301	357
China (Coastal)	0.76	44	277	334
Indonesia	0.55	40	245	336
Mainland China	0.48	48	293	340
Jordan	0.46 ^b	na	na	na
Sri Lanka	0.46	45	269	340
Pakistan	0.37	48	280	351
Vietnam	0.28	48	290	350
Bangladesh	0.28	48	290	343

Source: World Bank (2006), adapted from Werner International 2005

Notes:

a. including all social costs

b. based on a minimum wage of US\$3.75 per day

na=no data

Table 3. Share of total clothing exports to EU15 from main clothing exports (% of total clothing exports from Romania, Bulgaria and Poland, respectively)

	Top 10 clothing products in 2005		Top 20 clothing products in 2005	
	1995	2005	1995	2005
Romania	33.0	44.6	47.1	62.7
Bulgaria	40.3	41.4	51.4	63.6
Poland	31.5	45.5	49.1	62.5

Source: elaborated from Comext database

Table 4. National structure of (a) Italian imports of men's cotton trousers and (b) German imports of men's cotton trousers, 1995, 2003 and 2006 (% of total value of this product imports and unit value)

(a)

	1995			2003			2006	
	Value	Unit value		Value	Unit value		Value	Unit value
Belgium	23%	23	Romania	23%	19	Tunisia	19%	21
Tunisia	15%	10	Tunisia	14%	19	Romania	14%	21
Morocco	9%	10	Belgium	9%	25	China	12%	10
Malta	6%	12	Morocco	5%	21	Turkey	6%	28
UK	6%	22	Bangladesh	5%	8	Bangladesh	6%	8
Spain	6%	22	Turkey	4%	22	Morocco	5%	22
Romania	4%	10	China	4%	7	France	3%	205
Egypt	4%	8	Bulgaria	4%	17	India	3%	13
Chine	4%	11	Algeria	4%	6	Algeria	3%	6
France	3%	34	Netherlands	3%	39	Belgium	3%	189

(b)

	1995			2003			2006	
	Value	Unit value		Value	Unit value		Value	Unit value
Italy	17%	25	Italy	13%	26	Bangladesh	11%	8
Belgium	17%	24	Turkey	12%	21	China	10%	12
Hong Kong	7%	12	Bangladesh	8%	8	Turkey	9%	22
Poland	6%	16	Belgium	7%	23	Romania	8%	30
Turkey	4%	16	Netherlands	7%	25	Tunisia	7%	32
Tunisia	4%	17	Tunisia	6%	24	Italy	7%	24
China	4%	10	Poland	6%	17	Hong Kong	7%	14
Netherlands	3%	18	Romania	6%	27	Netherlands	6%	20
Pakistan	3%	8	Czech R.	4%	49	Czech R.	5%	38
Japan	2%	20	Pakistan	3%	8	Pakistan	4%	9
Romania (rank 14)	2%	23				Poland (rank 11)	4%	23

Source: elaborated from Comext database.

Table 5. National structure of (a) German imports of women's cotton trousers and (b) Italian imports of women's cotton trousers, 1995, 2003 and 2006 (% of total value of this product imports and unit value)

(a)

	1995		2003		2006			
	Value	Unit value	Value	Unit value	Value	Unit value		
Italy	30%	25	Turkey	20%	23	Turkey	16%	25
Turkey	12%	19	Italy	11%	34	China	11%	12
Hong Kong	10%	14	Romania	7%	26	Bangladesh	10%	10
Tunisia	7%	20	Bangladesh	7%	9	Hong Kong	8%	14
China	4%	13	Netherlands	6%	24	Italy	7%	29
Poland	4%	24	Hong Kong	6%	18	Netherlands	6%	24
Belgium	3%	27	Tunisia	3%	25	Romania	6%	32
Macao	3%	12	Poland	3%	27	Tunisia	4%	29
Netherlands	2%	15	Macao	3%	15	Denmark	3%	28
Slovenia	2%	34	Czech R.	3%	61	Pakistan	2%	12
Romania (rank 22)	1%	23				Poland (rank 14)	2%	36

(b)

	1995		2003		2006			
	Value	Unit value	Value	Unit value	Value	Unit value		
Tunisia	24%	12	Romania	25%	21	Tunisia	19%	24
France	8%	69	Tunisia	19%	20	Romania	14%	24
China	8%	12	Hungary	5%	29	China	14%	10
Romania	8%	8	Belgium	5%	25	Turkey	7%	33
Greece	7%	15	China	4%	12	France	5%	248
Belgium	6%	21	Morocco	4%	28	Germany	3%	198
India	6%	12	Poland	4%	19	Egypt	3%	23
Morocco	4%	12	Portugal	3%	40	Hong Kong	3%	20
Germany	4%	39	France	3%	53	Morocco	3%	24
Portugal	3%	45	Croatia	3%	31	Hungary	3%	246

Source: elaborated from Comext database

Table 6. National structure of UK imports of women's blouses made from man-made fibres, 1995, 2003 and 2006 (% of total value of this product imports and unit value)

	1995		2003		2006			
	Value	Unit value	Value	Unit value	Value	Unit value		
Hong Kong	15%	28	Romania	36%	10	Romania	37%	14
Sri Lanka	12%	21	Morocco	8%	17	Turkey	11%	18
India	12%	20	Turkey	6%	19	Morocco	7%	21
Malaysia	10%	28	Lithuania	6%	12	China	7%	25
Cyprus	9%	33	India	5%	27	India	7%	26
Germany	8%	91	Hong Kong	5%	28	Sri Lanka	4%	14
Romania	5%	9	China	4%	42	Bangladesh	3%	9
Syria	4%	26	Bangladesh	4%	11	Indonesia	3%	17
Morocco	4%	21	Sri Lanka	4%	12	Germany	2%	15
China	3%	37	France	3%	44	France	2%	52

Source: elaborated from Comext database.

Table 7. National structure of (a) German imports of men's cotton shirts and (b) Italian imports of men's cotton shirts, 1995, 2003 and 2006 (% of total value of this product imports and unit value)

(a)

	1995		2003		2006			
	Value	Unit value	Value	Unit value	Value	Unit value		
India	13%	15	Bangladesh	12%	9	China	13%	12
Turkey	13%	22	India	10%	17	India	10%	19
Hong Kong	11%	17	Turkey	8%	29	Turkey	9%	35
Bangladesh	8%	9	Macao	7%	28	Bangladesh	9%	10
Poland	8%	27	Romania	7%	28	Macao	8%	31
Tunisia	4%	32	Poland	4%	33	Indonesia	6%	20
Macao	4%	23	Vietnam	4%	16	Vietnam	6%	17
Korea	3%	25	Hong Kong	4%	20	Slovakia	5%	34
Italy	3%	54	Indonesia	4%	17	Poland	4%	48
China	3%	11	Netherlands	4%	25	Italy	4%	83
Bulgaria (rank 18)	1%	14	Bulgaria (rank 14)	3%	20	Bulgaria (rank 12)	3%	28

(b)

	1995		2003		2006			
	Value	Unit value	Value	Unit value	Value	Unit value		
Bangladesh	23%	8	Romania	35%	24	Romania	22%	27
Romania	14%	19	Tunisia	10%	29	China	15%	11
India	9%	15	Bulgaria	9%	26	Tunisia	9%	30
France	5%	73	Bangladesh	6%	9	India	7%	24
Tunisia	5%	19	Albania	5%	13	Bulgaria	6%	21
Hong Kong	5%	14	India	4%	20	Bangladesh	6%	10
Belgium	4%	27	France	4%	55	Turkey	5%	49
Portugal	4%	23	China	3%	19	Albania	5%	12
Macao	3%	22	Turkey	3%	33	France	4%	275
China	3%	13	Hong Kong	2%	25	Austria	2%	141
Bulgaria (rank 15)	2%	17						

Source: elaborated from Comext database.

Table 8. Ideal-typical typology of upgrading relative to shifts in export value and volume

Value \ Volume	Increase	Stable	Decrease
Increase	Quality Upgrading	Upgrading	Moving out of lower value products
Stable	Shift to lower value products	No change	Upgrading around existing or new products
Decrease	Shift to lower value products	Shift to lower value products	Downgrading

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20
21 Kraków, Poland, April 2007 and at the 2nd Central European Regional Science conference,
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23 Nový Smokovec, Slovakia, October 2007.
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29 ² While the US imposed the temporary safeguards allowable under WTO rules, the EU opted
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31 for a different strategy and negotiated with China voluntary restraints on key products. See
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33 EU Commission External Trade (2007)
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35 http://ec.europa.eu/trade/issues/sectoral/industry/textile/faqs190707_en.htm.
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39 ³ The Burberry factory closure on 31 March 2007 in Wales was a direct result of a decision to
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41 relocate production to China and it resulted in the loss of 300 jobs. The closure of Ozeta Neo
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43 in Trenčín - one of the largest Slovak former state-owned enterprises (SOEs) – resulted in the
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45 loss of nearly 1000 jobs. It closed because major contracts were moved from Europe to
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47 China and other lower cost producing areas, but it was also affected by the appreciation of
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49 the Slovak crown against the Euro and the dollar, by increasing labour costs and by claims
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51 over asset stripping by the Penta Group which has been the owner since 2003. Fears were
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53 expressed that, unlike in Trenčín where many of the former employees have been able to find
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5 new work, the factory closure in Wales represented the end of a centuries old manufacturing
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7 tradition and the further impoverishment of the local valley population.

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9 ⁴ Replenishment products refer in particular to items such as trousers, jeans, underwear, suit
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11 items and T-shirts in which fast fashion or lean retailing models may demand the rapid
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13 replacement of in-store stock (in the context of the increasing absence of retailers retaining
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15 large inventories in order to minimize costs) if sales on a particular product line are positive
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17 (see Abernathy *et al* (2006) and Tokatli *et al* (2008)).
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21 ⁵ Policy costs refer to the costs associated with the landscape of tariffs, and any remaining
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23 costs related to quotas. Logistical costs refer to transportation, storage and delivery costs.
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27 ⁶ We do not discuss the importance of the current global economic crisis for sustaining
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29 clothing production in Europe, which is a larger issue beyond the scope of this paper, but see
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31 Smith and Pickles (2009).
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34 ⁷ Curran (2008b) also argues that alongside increasing Chinese import penetration, Indian
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36 exports to the Core European and North American markets increased dramatically.
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39 ⁸ See http://ec.europa.eu/trade/issues/sectoral/industry/textile/pr190707_en.htm

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41 ⁹ The analysis that follows uses codes 61 and 62 from the EU's Combined Nomenclature of
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43 recorded traded products. Products listed under code 61 refer to knitted apparel products.
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45 Products listed under code 62 refer to not knitted or crocheted (i.e. woven) apparel products.
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47 Later analysis in the paper uses six-digit disaggregations of these combined products
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49 categories.
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52 ¹⁰ EU15 refers to the pre-2004 enlargement member states of the European Union. In this
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54 paper we adopt EU15 to also refer to the same group of countries (i.e. without the East-
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Central European member states) after 2004, particularly to capture the core of the west European market.

¹¹ According to some reports, Chinese exports to the EU were likely to increase dramatically once the voluntary restraints ended in 2008. For example, reports from Canada suggested that 'China's share of post-quota apparel markets could rapidly exceed 50%, as demonstrated by Canada's import data. Chinese shipments continue surging in a country where quotas were not reimposed in 2005'. (*Emerging Textiles online Daily Newsletter*, 14 August 2007: <http://www.emergingtextiles.com/?q=art&s=070813-apparel-import>).

¹² According to some reports, 'Hong Kong remained a very strong apparel trading hub in the first half [of 2007] ..., even benefiting from a rebound in re-exports. US and EU quotas on clothing imports from China continue boosting shipments through the SAR of products made in the mainland.' *Emerging Textiles online Daily Newsletter*, 14 August 2007 <http://www.emergingtextiles.com/?q=art&s=070810-hong-kong-apparel&r=&n=1>. See also Curran 2008b).

¹³ OPT is a customs arrangement which allows for the assembly (usually stitching) in non-member states of exported fabric and other inputs from – in this case – the EU member states and the re-import into the EU of the finished or partially finished goods with customs charges only being paid on the value added achieved from the activity which has taken place outside of the EU (see Pelegrin 2001, Begg *et al* 2003). For the countries of ECE which became EU member states, these arrangements ended in the planned run-up to accession as the extension of the EU's customs union brought these countries economically closer to the EU15.

¹⁴ The ECE6 refers to Bulgaria, Czech Republic, Hungary, Poland, Romania and Slovakia. The former Yugoslavia was also an important exporter of clothing to the EU but is not

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5 included here because of the difficulties of capturing trade trajectories in the context of the
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7 Balkan wars and the political fragmentation of the republic.

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10 ¹⁵ Adjusted value (also referred to as just ‘value’ here) refers to the euro value of trade as
11 recorded by the EU in its Comext database. See Curran (2008b) for a discussion of some of
12 the differences between the reporting of trade value. The euro value of trade is adjusted by a
13 standard annual consumer prices deflator which takes 2005 as the index year (see
14 [http://epp.eurostat.ec.europa.eu/portal/page?_pageid=1996,45323734&_dad=portal&_schema=PORTAL&screen=welcomeref&open=/prc/prc_hicp&language=en&product=EU_MASTER](http://epp.eurostat.ec.europa.eu/portal/page?_pageid=1996,45323734&_dad=portal&_schema=PORTAL&screen=welcomeref&open=/prc/prc_hicp&language=en&product=EU_MASTER_prices&root=EU_MASTER_prices&scrollto=0)
15 [prices&root=EU_MASTER_prices&scrollto=0](http://epp.eurostat.ec.europa.eu/portal/page?_pageid=1996,45323734&_dad=portal&_schema=PORTAL&screen=welcomeref&open=/prc/prc_hicp&language=en&product=EU_MASTER_prices&root=EU_MASTER_prices&scrollto=0)).
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26 ¹⁶ In other countries in ECE there was a reduction in exports.
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29 ¹⁷ Export volume refers to the physical volume of clothing exports in tonnes.
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32 ¹⁸ We use Harmonised System six-digit product levels as a specific guide to capture product
33 differentiation in clothing. At six-digit level some aggregation of products occurs but these
34 are specific enough to allow for meaningful analysis and moving to eight or ten digit product
35 levels becomes extremely unwieldy. For example, we include analysis of products such as
36 620311, which includes men’s or boy’s suits of wool or fine animal hair, and of 620342
37 which includes men’s or boy’s trousers, bib and brace overalls, breeches and shorts, of
38 cotton.
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47 ¹⁹ Of course, nationally-reported imports do not strictly equal markets because products
48 imported into one country may be re-exported to other EU countries for retail sale.
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52 ²⁰ Of which there is some evidence in the ECE context given the dominance of a number of
53 larger former SOEs, particularly in countries such as Slovakia (Smith 2003).
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²¹ Interviews with managing directors, Italian-Slovak joint ventures, Prešov and Svidník, May 2008.

²² We do not consider the impacts of the current global economic crisis on export relations in this paper, but see Smith and Pickles 2009.

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