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### Delocalization, Triangular Manufacturing, and Windows of Opportunity: Some Lessons from Greek Clothing Producers in a Fast-Changing Global Context

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# Delocalization, Triangular Manufacturing, and Windows of Opportunity: Some Lessons from Greek Clothing Producers in a Fast-Changing Global Context

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LYBERAKI A. Delocalization, triangular manufacturing, and windows of opportunity: some lessons from Greek clothing producers in a fast-changing global context, *Regional Studies*. Delocalization as an instance of adjustment to global competition can acquire a variety of forms. This paper examines the opportunities and pitfalls for Greek clothing companies between 1996 and 2004. It focuses on three cases exhibiting common features: first, the performance of dynamic exports; second, insertion into networks of cooperation; and third, relocation of production to the low-wage economies of the Balkans and Eastern Europe. In view of the rapid changes occurring in this sector, the main argument is that the 'triangular manufacturing' strategy is gaining momentum as it allows building on previous strengths.

Greece    Triangular manufacturing    Garment production    Delocalization

LYBERAKI A. 产业再分布、第三方制造与机会：瞬息万变的全球背景中的希腊服装制造业，区域研究。作为应对全球竞争进行调整的策略之一，产业再分布具有不同的表现形式。本文探讨了1996年至2004年间希腊服装商所面临的机遇和陷阱。文章所涉及的案例着眼于三个共同特征：第一，动态业绩；第二，介入合作网络的能力；第三，向经济水平较低的地区，如巴尔干和东欧进行产业转移。考虑到这一部门内部发生的迅速变化，本文的主要论点是由于“第三方制造”战略允许在之前的基础上进行优势累加，因此这一战略发展势头强劲。

希腊    第三方制造    服装生产    产业再分布

LYBERAKI A. La délocalisation, la stratégie industrielle à trois temps, et les créneaux: des leçons à tirer des confectionneurs grecques dans un cadre mondial en pleine évolution, *Regional Studies*. En tant que moyen de s'adapter à la concurrence mondiale, la délocalisation peut adopter diverses formes. Cet article cherche à examiner les atouts et les inconvénients pour les confectionneurs grecques entre 1996 et 2004. Il porte sur trois études de cas qui manifestent des traits communs: primo, la performance des exportations dynamiques; secundo, l'intégration dans des réseaux de coopération; et tertio, la délocalisation de la production à destination des pays à faibles salaires, à savoir aux Balkans et en Europe de l'Est. Etant donné les transformations rapides qui ont lieu dans ce secteur, l'argument principal est qu'une stratégie industrielle à trois temps prend de l'élan parce qu'elle permet de consolider des qualités antérieures.

Grèce    Stratégie industrielle à trois temps    Confection    Délocalisation

LYBERAKI A. Delokalisierung, Produktionsdreiecke und Chancen: Lektionen von griechischen Kleiderherstellern in einem sich rasch wandelnden globalen Kontext, *Regional Studies*. Eine Delokalisierung als Ausdruck der Anpassung an den globalen Wettbewerb kann die verschiedensten Formen annehmen. In diesem Beitrag werden die Chancen und Risiken für griechische Kleiderhersteller im Zeitraum von 1996 bis 2004 untersucht. Hierbei konzentriere ich mich auf drei Fälle mit gemeinsamen Merkmalen: erstens die Leistung dynamischer Exporte, zweitens die Eingliederung in Netzwerke der Zusammenarbeit und drittens die Verlagerung der Produktion in die Niedriglohn-Wirtschaften der Balkanländer und Osteuropas. Angesichts des raschen Wandels in diesem Sektor lautet das Hauptargument, dass eine 'Dreiecksstrategie' bei der Produktion an Bedeutung gewinnt, da sie eine Nutzung der früheren Stärken ermöglicht.

Griechenland    Produktionsdreieck    Kleiderherstellung    Delokalisierung

LYBERAKI A. Deslocalización, manufactura triangular y oportunidades: lecciones de los productores del sector textil en Grecia según un contexto global en rápida evolución, *Regional Studies*. La deslocalización como ejemplo de un ajuste frente a la competición global puede adquirir diferentes formas. En este artículo examino las oportunidades y los escollos de empresas textiles griegas entre 1996 y 2004. Presto atención a tres casos que presentan características comunes: primero, el rendimiento de las exportaciones dinámicas; segundo, la inserción en redes de cooperación; y tercero, la reubicación de la producción hacia las economías con bajos salarios en los Balcanes y Europa del Este. En vista de los rápidos cambios que ocurren en este sector, el principal argumento es que la estrategia de 'manufactura triangular' está cobrando fuerza ya que permite aprovecharse de ventajas ya existentes.

Grecia    Manufactura triangular    Producción de prendas    Deslocalización

JEL classifications: F2, L1, L24, L67

## INTRODUCTION: PROMISING STRATEGIC OPTIONS VERSUS PATH DEPENDENCE

'Globalization has altered the competitive dynamics of nations, firms and industries' as GEREFFI (1999 p. 37) aptly put it some time ago. Indeed, it is becoming increasingly evident that the centre of gravity of production and exports is moving towards new high-performing players in low-cost economies. Meanwhile, the format of opportunities and threats for 'intermediate players' – former subcontractors who managed to move up the value chain – is shifting constantly.

The migration of production worldwide has proceeded in waves since the 1950s. In the European periphery, it occurred slightly later (during the 1960s, with what came to be called 'The New International Division of Labour' – NIDL) (FRÖBEL *et al.*, 1980). The intermediate players of today, one of which is Greece, benefited from earlier delocalization waves, given that their original competitive edge lay in low wages and proximity to the affluent markets of Europe. As wages went up, this initial competitive advantage gradually eroded. Nevertheless, gains accrued to them in the process, mainly in the sphere of know-how and the establishment of links with the world market. Therefore, Greek garment producers became 'intermediate players' in the global scene. The clothing sector is a good case in point.

What are the main implications of globalization for intermediate players such as Greece? In order to address this question, one has to move beyond the changes in the textile and clothing trade in order to encompass some broader trends: the new investment opportunities in neighbouring economies as well as the abundant supply of immigrant labour domestically (a new phenomenon for Greece). In this context, the scenario of triangular manufacturing becomes increasingly attractive both for firms and the economy as a whole. Its main attraction is that it allows building on previous strengths in order to upgrade and seek a more dynamic role in the global market. Upgrading, however, is a tricky endeavour, full of pitfalls and demanding constant adaptation. It seldom characterizes a whole sector; at best it reflects the strategies of dynamic firms (in most cases denoting exceptions).

The firms presented as case studies in this paper provide instances of successful adaptation along these lines. Their performance is examined against a larger sample of clothing firms over the period 1996–2004, a time of painful adaptation for the garment sector. As illustrated in the three examples, triangular manufacturing may offer real possibilities for prosperity, yet this path is far from smooth and easy. In the face of intensifying competition from new big players (most notably China) and taking into account that trade in labour-intensive products is increasingly organized by global buyers, the obvious questions are as follows:

- Is there is room for developmental manoeuvre at the local and regional levels?
- What will be the dominant themes of the coming decade?
- Will firms rely extensively on – cheaper – immigrant labour for production at home or opt for triangular production in third countries?
- What are the main forces encouraging the relocation of production abroad?
- What kind of relocation strategy is more likely to be chosen?
- Who – and how many – are going to be the winners and who are the losers?

The contribution of this paper is in addressing these issues from the point of view of Greek garment production. Although a lot of research has been carried out over the past few years on the restructuring of the sector internationally, no such exercise refers to Greece, a country with a long tradition in garment production and an intermediate position in the European context. In particular, while public opinion perceives the issues of delocalization both as a threat to jobs and as a symptom of weakness on the part of producers, little attention has been drawn so far on the opportunities and the strengths to be exploited by appropriate policy measures.

The next section briefly presents the general context of globalization, focusing primarily on the international clothing sector. In the third section, an overview of clothing production in Greece over the past decade identifies the challenges and responses. To illustrate

these trends, the fourth section presents a case study of three entrepreneurial strategies involving a shift of production to the Balkans and Eastern Europe. Finally, the fifth section brings together the main arguments developed above and attempts to draw the implications of a more general nature that may be applicable elsewhere.

### CONTEXT: GLOBAL VALUE CHAINS, TRIANGULAR MANUFACTURING, DISTRIBUTION OF GAINS, AND INERTIA

In the era of globalization, economic activity is not only international in scope (what could be called 'internationalization' and which has present since seventeenth-century colonialism), but crucially is also global in organization. The latter refers to the functional integration and coordination of internationally dispersed activities (GEREFFI, 1999) via networks adding up to global commodity chains or global value chains as they came to be named after the experts meeting in Bellagio, Italy, in 2000 (referred to in HUMPHREY and SCHMITZ, 2002, p. 1026). The value chain<sup>1</sup> describes the full range of activities that are required to bring a product or service from conception, through the intermediary phases of production (involving a combination of physical transformation and the input of various producer services), delivery to the final consumers, and final disposal after use (KAPLINSKY, 2000, p. 8). Global value chains analysis has demonstrated that the ways in which trade and production are organized influence market access, capabilities acquisition, and distribution of gains (SCHMITZ, 2006, p. 546). Contemporary global value chains analysis suggests that value chains incorporate three crucial components. First, they are *repositories of rents* (primarily in areas outside of production, due to competition and falling terms of trade in manufactures of developing countries as a result of the 'China factor'). Second, they involve some degree of *governance* within and between firms, with some firms playing the role of key actors in the process.<sup>2</sup> Key actors (powerful players) seek to govern chains because they need to define the product (specifications, design and branding) and be safeguarded from the risk of supplier failure for non-price competition (SCHMITZ, 2006, p. 548). And third, their *effectiveness* rests on systemic rather than point-efficiency (KAPLINSKY, 2000, p. 9). The latter means that efficiency improvements rest less on efficiency enhancement in individual links but rather on closer cooperation between links in the chain (involving more complex responsibilities for governors and higher levels of trust between different links of the chain).

The formation of a global value chain can be facilitated by the relocation strategies of mature players. Faced with intensifying competition, they often opt for 'delocalization strategies' involving a variety of

decisions from direct foreign investment (acquisitions and greenfield) to outsourcing. Delocalization can acquire many forms, such as horizontal (the enrichment of the production process with additional plants abroad), vertical (by moving part of the production process to lower-cost locations), or by abandoning certain lines of activity and concentrating on 'core competences'. All of them lead to the spatial restructuring of industry on a global scale and imply a new nexus of opportunities and challenges for newcomers.

Labour-intensive industries such as apparel, footwear, and toys tend to encourage the form of buyer-driven value chains (as opposed to producer-driven chains). From the point of view of the smaller and/or newer global players, the success ticket seems to lie in their capacity to move from the mere assembly of imported inputs to a more integrated and higher value-added form known as full-package supply or original equipment manufacturing (OEM) production. This typically involves making the transition from a mere low-cost subcontractor of a foreign firm into developing multilayered global sourcing networks where low-wage assembly takes place elsewhere (where labour costs are lower). Participation in global commodity chains can be a necessary step for industrial upgrading because it puts firms and economies on 'potentially dynamic learning curves' (GEREFFI, 1999). Such transitions require the capacity to overcome substantial barriers. Distinguishing between rent-rich and rent-poor activities (the former including intangible knowledge and governance activities), it is possible to understand which parts of the whole process enjoy barriers to entry, resulting in asymmetric power between the various links and the generation of winners and losers. Small and medium-sized enterprises tend to concentrate in rent-poor activities because such activities require capabilities that usually are within their reach (KAPLINSKY, 2000, p. 15).

From the point of view of poorer countries, the question is as follows. To what extent do strategies oriented towards the exports of manufactures secure a better future for developing countries? Is the distribution of gains to all parties involved more or less an automatic process? Contrary to conventional wisdom on the positive link between trade and development (THE WORLD BANK, 2002), more recent research on the trends characterizing manufactured import prices into Europe reach more nuanced (and less optimistic) conclusions. KAPLINSKY and SANTOS-PAULINO (2006) show that analysis carried out at a more disaggregated level reveals a mixed picture, heavily influenced by the level of per-capita income of the exporting country (the lower the income, the more likely it is for the country to face falling export prices)<sup>3</sup> as well as by the technology and innovation intensity of products traded (less likely to face falling unit prices).<sup>4</sup> They conclude that the degree of price competition is closely and inversely related to the per-capita income of the exporting country.

In other words, it is the poorer countries that are more likely to be locked into heavily competitive markets. . . . [Furthermore] the greater the technological content, the smaller the percentage (or the lower the prevalence) of product lines registering price falls.

(KAPLINSKY and SANTOS-PAULINO, 2006, pp. 595–597)

Of course, falling prices of exports need not always be seen as a problem. Sometimes falling prices reflect cost-reducing productivity growth. Furthermore, the same countries are importers as well as exporters, hence they may benefit from declining prices in their capacity as consumers. If, however, this is a world of surplus production capacity (the ‘China factor’ again) and labour markets that do not clear, prices are likely to be bid down on a systematic basis leading to ‘immiserizing growth’ outcomes.

Apparel is a truly global industry as well as one of the oldest and largest export industries in the world. It is a typical ‘starter’ industry for pioneers and latecomers alike. At the same time, it is a prototypical buyer-driven value chain because it generates a highly aggressive pattern of global sourcing (GEREFFI, 2002). And last, apparel is also characteristic of extensive market segmentation and heterogeneity, as it encompasses large low-cost standardized market segments alongside distinct market niches of different orientation (each exemplifying its own growth dynamics). Therefore, apparel is a good example of the opportunities and pitfalls facing producers around the world. It is also illustrative of the changing patterns of production and trade (HEINTZ, 2006).

Value chains are not homogeneous and opportunities for rent appropriation will vary. As competition intensifies, four possible types of response are open to economic actors:

- Increasing the efficiency of internal operations.
- Enhancing inter-firm linkages.
- Introducing new products and/or improving old products.
- Changing the mix of activities within the firm and/or moving the locus of activities to other links in the chain.

The last two tracks are the more demanding (being the repository of economic rent) and at the same time the more promising in spreading the gains from participating in global markets (KAPLINSKY, 2000, p. 31).

In the course of production relocation, new players acquire new roles and older players often have to modify their mode of operation. One of the ways through which developing country firms can respond to the challenges of globalization is upgrading.<sup>5</sup> In value chain analysis, upgrading usually involves higher skill and knowledge content leading to making better products, in better ways and taking up new – more demanding – functions.<sup>6</sup> But this is not always the case. Upgrading trajectories may co-exist with ‘downgrading’ dynamics (such as abandoning innovations developed within a firm or cluster of firms in order to

accommodate buyer demands and changing consumption patterns) (GIBBON and PONTE, 2005; PONTE and EWERT, 2009). It, thus, appears that upgrading is a tricky process involving both opportunities and traps over the medium- and longer-term. In other words, what may appear as upgrading today (meeting standards and securing an entry point in world markets by becoming a link in a global chain) may turn out to be an obstacle at a later stage if in the process the demanded standards become impossible to tackle and if a number of indigenous capabilities were abolished as unnecessary (or obsolete) in order to gain entrance in the first place.<sup>7</sup> The overall picture is rather mixed: there have been some rapid advances in product and process upgrading.<sup>8</sup> The new exporters to the world market have been successful in improving both their products and their production processes. Progress, however, has lagged in functional upgrading.<sup>9</sup> In view of the fact that global buyers are very powerful and utilize their bargaining power to lower the costs of garments in world markets, the dominant interpretation of the ‘big picture’ stresses the asymmetric relationships and the captive role of producers in low-wage economies. However, when trying to understand patterns of relationships (among buyers and producers and between the latter), there is the danger that ‘we miss change over time’ (SCHMITZ, 2006, p. 550). One of the changes over time is the *emergence of triangular trade*.

As manufacturing moves to new low-wage sites, the former producers become new intermediaries. GEREFFI (1999) showed that the East Asian garment industry shifted from a paradigmatic example of a buyer-driven chain to ‘triangular’ arrangements. While manufacturing production moved to low-cost sites in mainland China, the former producers from Hong Kong and Taiwan became the new intermediaries. And although the buyers remain very powerful, they tend to pass on some coordination functions to the new intermediaries, whose role becomes upgraded. Although there is little doubt that powerful players dominate the value chain scene, instances of triangular trade are becoming increasingly common. SCHMITZ (2006) argues that although it very difficult to quantify its actual size, there:

remains a significant share of garments that are exported through chains which are more symmetrical, in which both producers and traders are typically smaller and about which much less has been written.

(p. 550)

Could such a symmetrical network scenario apply to Greek production networks in the Balkans and Eastern Europe?

Therefore, the big picture of the evidence on the relocation of production to lower-cost economies is to some extent ambivalent. Relocation of production may offer some opportunities in the direction of upgrading within a global value chain. This involves new prospects

and new constraints. For instance, flexibility in sourcing decisions and competition among subcontractors has the effect of limiting the capacity of subcontractors to raise production costs without causing substantial loss of output. This is the result of the prevailing oligopolistic structures in advanced countries and of competitive conditions in developing country manufacturing (GEREFFI, 1994, 1999; KAPLINSKY, 2000; KAPLINSKY and MORRIS, 2002; KAPLINSKY and MESSNER, 2008; HENDERSON *et al.*, 2002).

The extent to which it is the opportunities or the constraints that eventually prevail is a matter that cannot be resolved theoretically or be applicable to all cases. Each case has its own specificities. Local producers do not export into an anonymous global market, but instead they often feed into chains governed by powerful players who set the rules of the game. Although not all chains are similar, they share a common feature: they rest on dense, yet changing, relationships between heterogeneous firms throughout the world. They influence market access; they may (or may not) enable the acquisition of new capabilities; and they specify the meaning of technological learning and upgrading. From the point of view of local producers, participating in a global value chain is an 'effort-intensive' process involving opportunities but also risks and unanticipated traps. Undoubtedly, crucial distributional issues are at stake stemming from the very unequal power of the various links of the chain. However, doing it alone does not seem to be a valid option in today's world. Furthermore, participation in a global value chain can act as a powerful antidote to what appears as the principal danger for the survival of local firms: to remain trapped in the inertia of introverted, zero-change strategies.

#### *Clothing production in Greece*

Clothing (together with textiles) is seen as the traditional manufacturing sector par excellence in Greece. Up till the mid-1980s, it was the backbone of Greek manufacturing in terms of production, the number of firms, employment, and exports. It hosts a wide variety of size classes, but consists mainly of small and medium-sized enterprises. Small average firm size is a fundamental attribute of the Greek economy as a whole, and clothing exhibits even smaller average firm size. Severe problems for the competitive position of the Greek clothing sector first appeared in the mid-1980s as a result of three factors. First, the abolition of export-promotion schemes. Second, increasing cost of bank borrowing. And third, the gradual lowering of protection from imports. These developments (in line with European Union regulations) brought about losses in employment, but not in export performance. Intra-European Union trade accounted for over two-thirds of total exports and imports. Nevertheless, production decline

accelerated in the 1990s, while further losses are anticipated in the near future as a result of full trade liberalization.

Therefore, the clothing production index declined from 100 in 1980 to 55.3 in 1995. This was the time of the *first exodus of productive activities*. The activities that relocated were the 'gains' of the earlier era (NIDL), when Greece was one of the low-wage economies in Europe and, hence, managed to attract orders from contractors (mainly German) (FRÖBEL *et al.*, 1980). The years 1995–2005 saw further declines in production. Greek clothing producers appear to be caught in an impasse: while their wage cost advantage gradually eroded, their quality characteristics remained poor for the demanding markets. Hence, they got 'stuck in the middle', halfway between up-market (and more costly) European competitors and low-cost peripheral European and/or new exporters (MAKRIDAKIS *et al.*, 1996). Greek garments were simultaneously too expensive (if compared with the production of low-wage economies) and too cheap (in quality terms) if compared with design-intensive competitors.<sup>10</sup> Fig. 1 illustrates the trend in production index (where the year 2000 = 100) for clothing, textiles, and manufacturing as a whole in Greece between 1995 and 2006.

Sensitivity to world market trends and import penetration are characteristics of the clothing sector in the European Union as well (BADEN, 2002). In 2003, imports accounted for 41% of total European Union garments consumption, while 636 000 jobs were lost in the EU-15 between 1995 and 2003, and a further 165 000 jobs between 2004 and 2005. Tens of thousands of smaller firms went out of business, while mergers and acquisitions accelerated (DUNFORD, 2002; STENGG, 2001). Greece and the other Southern European countries did not opt for a gradual abolition of earlier restrictions and maintained them for 82% of the products until the very end (BANK OF GREECE, 2004). This probably means that the effects of liberalization will be felt more severely in these economies. Import penetration from China is further facilitated by the prevailing trends in exchange rates. The real exchange rate weighted for unit labour cost in 2004 was down by 9% compared with 2001, while the exchange rate for Greece (and the Eurozone) was up by 11.1%, implying a 20% loss in competitiveness in three years (ALPHA BANK, 2005, p. 33).

Therefore, Greek garment producers – along with their European Union counterparts – have been facing increasing difficulties to remain in the market since the mid-1990s. In what follows, the paper examines structural characteristics and performance indicators based on balance-sheet data of all 169 Greek incorporated clothing firms operating throughout the period from the mid-1990s to 2004 (drawn from the ICAP database<sup>11</sup> and, hence, representative of the larger, more extrovert firms). The key structural feature is the small average size of clothing companies.

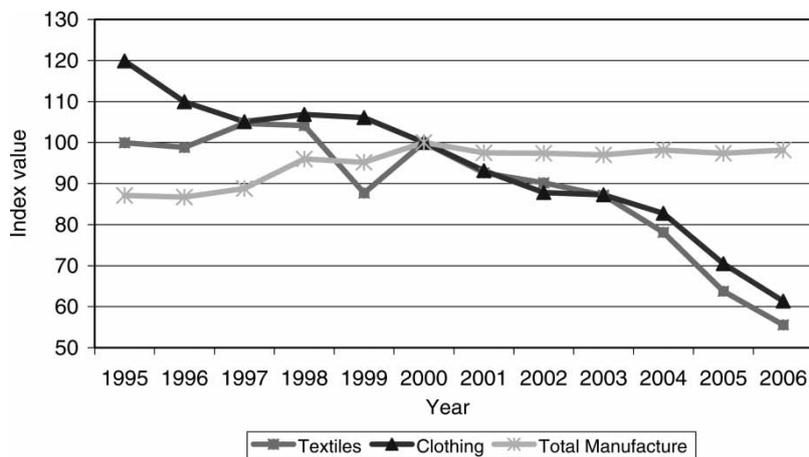


Fig. 1. Trends in the production index for manufacturing, textiles, and clothing in Greece, 1995–2006

Note: The year 2000 = 100

Source: National Statistical Service of Greece

Interestingly, size per se does not affect performance: firms of different sizes coexist both in the dynamic and in the laggards categories.<sup>12</sup> The main findings of the micro-picture of restructuring and forced adjustments can be summarized as follows:<sup>13</sup>

- *Variety in firm size*: The clothing sector comprises firms of all size categories. The co-existence of small, medium, and large firms has been a constant characteristic over time, while small and medium-sized firms continue to dominate the sector.
- *Geographical concentration*: The firms in the sample display a marked geographical concentration in the Athens area and in Northern Greece. It should be noted that job losses were more pronounced in Northern Greece.
- *Performance (in terms of profits, output expansion, and exports) is not linked to employment creation (or job cuts) in any systematic way*. Furthermore, the gross profit index (gross profit/turnover) shows no significant variation among different size classes.
- *Age and size matter for jobs*: Older firms (established before 1980) tend to be larger and suffer the highest job losses, especially after 2000. Smaller firms recorded fewer job losses and higher turnover per

employee (the opposite is true for the largest – over 100 people employed – firms).

- *The overall performance deteriorates after 2000*. Fewer firms recorded growth in production and profits after 2000 (compared with 1996–2000 period). A similar picture emerges with regard to gross profit trends.
- *High performance is not linked to job creation*: Good performance (output and profitability) can be compatible both with job creation and with job losses. Two of the top performers (output) recorded substantial job losses, while the top four profitability growth firms witnessed job losses.

Table 1 presents an overview of the main trends characterizing the 169 clothing firms of examined the 1996–2004 period.<sup>14</sup> A clear discontinuity between the two subperiods is plainly visible for all magnitudes.

To wind up the previous discussion, the available evidence points to a single observation: eroding competitiveness dictates a process of painful adaptation for survivors. Alongside changing trade rules and adverse real exchange rates, two other factors have also contributed to the difficulties in the Greek clothing sector: firstly, the escalation in production costs; and secondly, the stock exchange crisis of the year 2000.

Table 1. Economic performance of the selected clothing firms, 1996–2004

Change in real terms	1996	2000	2004	
	1996–2000	2000–2004	1996–2004	
Sales	Mean change (%)	78.2	33.4	137.6
	Firms with a positive change (%)	63.2	58.0	65.1
Profits	Mean change (%)	110.9	28.7	171.3
	Firms with a positive change (%)	67.0	59.7	63.2
Employment	Mean change (%)	6.5	–11.4	–5.7
	Firms with a positive change (%)	50.9	46.2	48.1

Note: The sample is all joint stock (SA) companies in the clothing sector operating throughout the period ( $n = 169$ ). No unincorporated businesses are included.

Source: Greek Financial Directory 2007 (ICAP) (<http://dir.icap.gr/financial/>), author's calculations.

Production costs are determined by the level as well as by the rate of increase in labour costs in combination with the level and rate of change in productivity. In spite of gains in productivity, there has been a clear increase in unit labour costs in Greece over the past five years. This increase becomes all the more important if compared with other garments exporters, such as Turkey and China. Fig. 2 illustrates this point. Increasing unit labour costs underpin the 12% decline in clothing exports (against an average decline of 3.5% of total manufacturing exports) over the 2000–2004 period. Imports increased by 10% (National Statistical Service of Greece).

The second factor undermining competitiveness was the adverse effects of turbulence in the stock exchange in 2000. This has had important negative implications for many Greek leading firms in the sector. It is hard to overstate the impact of the stock exchange bubble in 1999 and the subsequent drastic decline of the stock exchange value of listed companies in 2001 and 2002. Some of the firms hit most were those with ambitious restructuring projects based on new investment and on mergers/acquisitions. The stock exchange crisis in combination with the appreciation of the euro culminated in dire conditions for many listed (well-established and relatively large) Greek companies. Some of them found themselves in a situation where the continuation of their planned investment projects became untenable (AKERLOF and SCHILLER, 2009; EL-ERIAN, 2008; GIANNITSIS *et al.*, 2001).

Therefore, restructuring after 2000 acquired two main characteristics:

- Firstly, there was a continuation of rationalization trends, favouring exit from non-productive activities and the closing down of the least productive plants.
- Secondly, the relocation of labour-intensive production processes to neighbouring low-wage/low-

tax economies (a trend which started a few years earlier) gained further impetus.

By 1998, approximately two hundred Greek clothing manufacturers had shifted part of their production into the Balkans and Eastern Europe in order to benefit from lower labour costs and to secure their markets in the face of increased global competition. By 2001, 14 620 jobs were created in Greek firms in South Eastern Europe. Today, the respective number of relocators should exceed five hundred.<sup>15</sup> The preferred location is Bulgaria, although the networks of subcontractors (affiliates or partners) cover the whole of the Balkans and numerous Eastern European economies. This can be seen as *the second exodus* of productive activities in search of cheaper wages and more favourable tax regimes.

This second relocation wave has a lot in common with the first wave: the search for competitive advantage abroad as the situation at home deteriorates. It also has a significant difference. It seals the ‘coming of age’ of domestic producers and their taking up of new roles. Whereas their earlier involvement in international subcontracting networks was in their capacity as final subcontractors (at the end of the value chain), their role in the course of the second wave appears to be more central and more decisive. To what extent this process will lead to more symmetrical relationships and mutually beneficial outcomes is still early to say. The window of opportunity, however, appears to be there and half open . . .

### GOING GLOBAL: A CASE STUDY OF THREE STRATEGIC RESPONSES

This section presents case study material on relocating Greek garment producers. Examining concrete cases

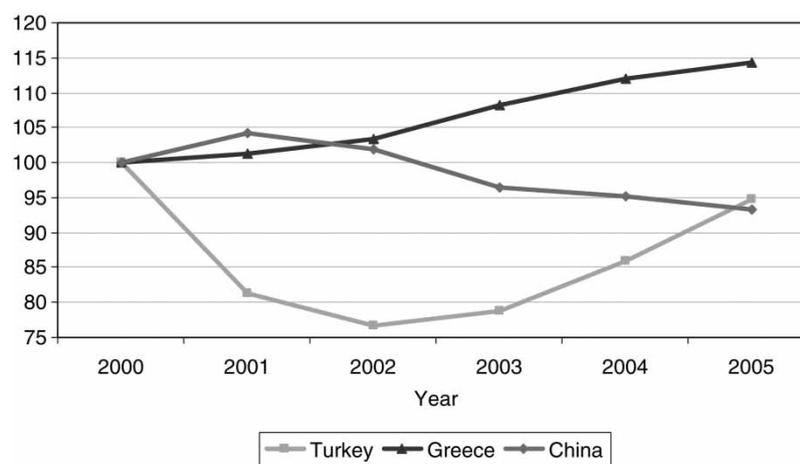


Fig. 2. Comparative trends in competitiveness indicators based on unit labour costs for Greece, Turkey, and China, 2000–2005  
Note: The year 2000 = 100

Source: International Monetary Fund (IMF), International Financial Statistics (available at: <http://www.imfstatistics.org/imf/>)

is important in order to understand the precise reasons that propel individual relocation strategies. After all, general trends are made up by the actions (and omissions) of individual actors. Fig. 3 shows the evolution of trade balance in three specific three- and four-digit subsectors corresponding to the three specific case studies. The three graphs are unequivocal in portraying drastic transfer of Greek trade activities from the EU-15 to South Eastern Europe and the Balkans.<sup>16</sup> The trade balance in all cases conceals an increase in volumes to South Eastern Europe.

In the cases examined below, one finds all four categories of ‘competitive advantage seeking behaviour’: access to cheaper factors of production, lower cost of

production function, access to new networks of distribution, and product differentiation. The firms included in the sample are active in production relocation in their broader geographical region in their own distinct ways. Most of them started as subcontractors performing assembly work for large foreign firms. Almost all of them are developing their own brands, and all have moved their assembly operations to the Balkans and Eastern Europe at some earlier or later point in time. What makes these firms interesting for the purposes of studying delocalization of production processes is that they all managed to acquire a new position in the international value chain in clothing. They have been described as ‘mini-multinationals’, driven by the need to tackle

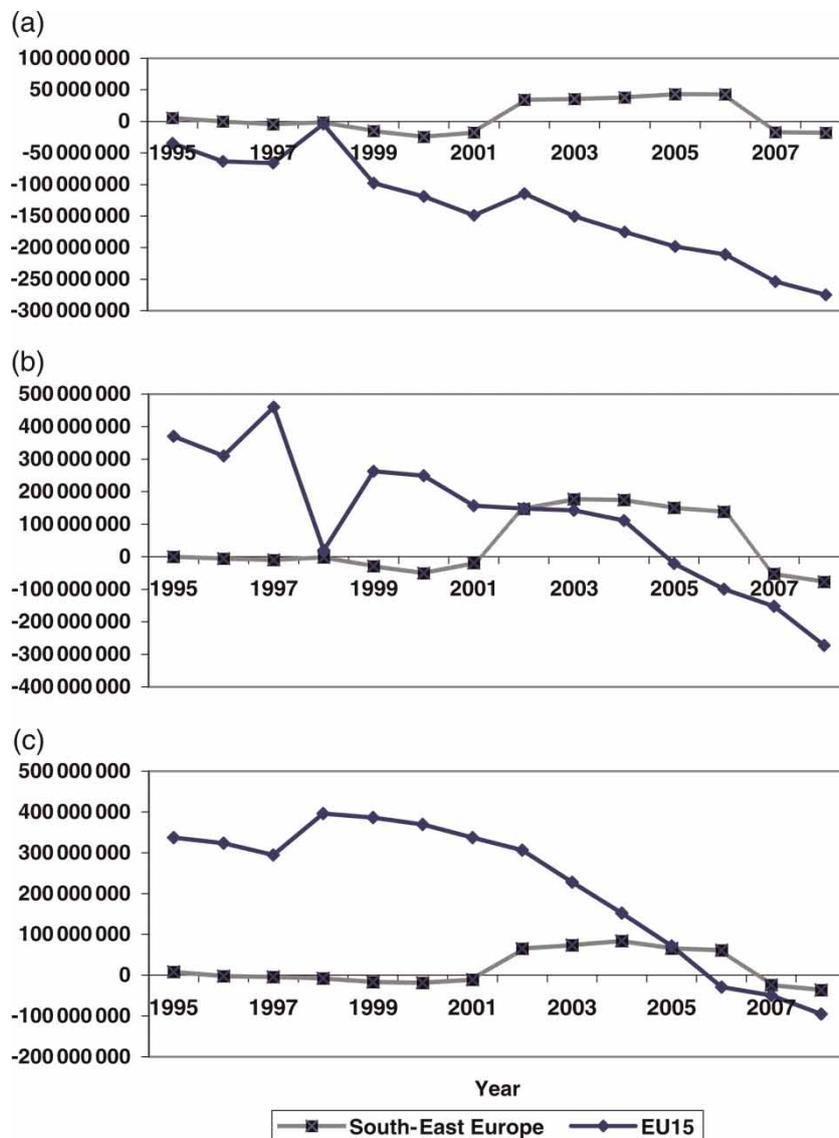


Fig. 3. Greece's trade balance (€, millions) with the EU-15 and South East Europe for selected apparel products, 1995–2008  
 Note: (a) Apparel for men (Standard International Trade Classification (SITC) subsectors 841 + 843): Greece's trade balance (exports – imports; €, millions); (b) apparel for women (SITC subsectors 842 plus 844): Greece's trade balance (exports – imports; €, millions); and (c) SITC subsectors of underwear and lingerie: Greece's trade balance (exports – imports; €, millions). Includes the following four-digit SITC codes 8416, 8428, 8438, 8448, 8454, 8455, 8456, and 8462

Source: ComExt external trade data set

rising wage costs, red tape, and increasing costs of doing business in Greece. In what follows, the author intends to draw a very brief sketch of the three cases by paying special attention to the rationale and preliminary outcomes of the relocation of production initiative, in particular issues of change over time, governance, and functional upgrading (if any). For the purposes of illustrating the discussion, evidence on one firm per strategy will be presented; the firms will be named A, B, and C. Firms B and A were ranked as the largest and the second largest clothing firms by the end of the 1990s, while firm C is a medium-sized family business.

*Strategy A: A subcontractor going global in the Balkans*

Firm A, a sportswear manufacturer established in 1988, is one of the Greek pioneers in international outsourcing. It produces in Greece (in its own factory, but also outsources to domestic subcontractors), in Albania, in Bulgaria, and in the former Yugoslav Republic of Macedonia (FYROM). It is heavily dependent on a main customer (accounting for a share ranging from 45% to 70% of its production), while maintaining links with five other important customers. In the 1990s, it trebled both production and sales, while production abroad started with a modest 15% in the early 1990s, gradually reaching 86%. Jobs in Greece were maintained, while another five hundred jobs were created in the Balkans. This particular 'going global strategy' has enabled a drastic reduction of production costs. The path was not problem-free, but it can be unequivocally labelled a 'success story': price competitiveness improved and so has its bargaining power.

Being from the outset a subcontractor of leading multinationals such as Nike, Reebok, and Adidas, it started its outsourcing as early as four years after its own creation (first in Bulgaria, then in Albania). The first step was outsourcing to two Bulgarian subcontractors (independently owned). The company pursued more than just 'narrow subcontracting'. Participation in the ADAPT European Union Programme financed the development of a system of sending 'travelling technicians' from its factory to transfer specialized expertise to its subcontractors, thus aiming simultaneously for flexibility, low cost, and guaranteed product standards.

The second step was to invest in companies in Albania and subsequently in Bulgaria. This does not mean that it abandoned its previous subcontractors; the idea was to combine both forms of networking at the same time. The Albanian factory started with a staff of twenty-five local workers, and after a turbulent initial four-year period, production facilities were expanded to employ 220. Upgrading of production capabilities and skills abroad led to a situation in which the Albanian factory is capable of performing the finishing stage in a number of products. Nevertheless, quality controls to ensure compliance with

customer requirements continue to be carried out in the Greek factory. Investing in Bulgaria was a much smoother process by comparison. The firm converted an old property into a modern factory. It started with seventy-five employees and by 2001 employed 250 (while daily output capacity reached six thousand pieces). The Bulgarian factory soon developed its own quality-control systems (equivalent to the original factory in Greece), while it continues to cooperate with a small number of local subcontractors. As the head of human resources department put it:

we keep passing know how to the partners of our network, so that we can certify that production complies with European standards.

To recap, by the turn of the millennium, firm A's performance was impressive. In the span of fifteen years, change and upgrading were fast and strong. Sound economic performance and success was not a linear process. It involved short- and medium-term divergences around the upward trend. Last year, the main domestic production site ceased operations. Production takes place within a network of interrelated firms involving twenty locations in five neighbouring countries. As BITZANIS (2006) convincingly argues, although cost containment is linked to increased productivity (improvement of production methods, equipment, and machinery), it is the 'migration of production to the Balkans' that made the big difference.

*Firm B: A former subcontractor transformed into an intermediary*

Established in 1971 as a small subcontractor performing assembly on behalf of Swiss and German firms, the company today is one of the leading actors in clothing production in Greece. It now concentrates on its core competences (design, the purchasing of raw materials, management, marketing, and sales), while all the other stages of production (cutting, sewing, quality control, ironing, packaging, and storing) are carried out in smaller factories in Greece and Bulgaria. Only four out of the twenty subcontracting units are owned by the firm (one of them in Bulgaria). This number is likely to increase in the near future as the company intends to acquire more companies in the same line of business in Greece and abroad. Today, production abroad represents no less than 90% of the total output, while independent Greek subcontractors carry out most of the rest.

The company has been active in developing five distinct trademarks, targeting specific market niches. Design is carried out exclusively in France, while product patterns are made in France and in Greece. Two are the main strategic objectives: to introduce new products; and to enter new markets in the European Union, the Balkans, and the Black Sea region.

Large buyers (big retail stores in Greece and in France) account for up to 5–7% of total sales, while

the five brands of the company are sold to over 160 (independently owned) shops in Greece, to 540 shops in France, and to forty shops in other parts of the world (Cyprus, Spain, and Canada). Exports have been rising quickly, from 25% in 2001 to 50% five years later. Employment, on the other hand, declined slightly over the same period. More significantly, the profile and characteristics of the labour force changed at the expense of manual workers: their number declined by half, while the number of white-collar workers doubled. This coincided with significant shifts in market orientation: from 2003 onwards the main bulk of production was for exports.

The trend favouring the relocation of production activities in the Balkans and Eastern Europe is expected to continue in the future at the same stride. What is more important, producers from the Balkans and Eastern Europe will increasingly undertake more demanding tasks and functions.

The upgrading of the capabilities of our subcontractors is a central aspect of our strategy [says the sales manager]. There is a clear improvement in their performance over the past few years. They are becoming more reliable and better equipped. In the future more and more demanding functions will be assigned to them. This is how it goes. We intend to maintain only the coordinating functions.

Therefore, firm B is developing into an 'intermediary' in the triangular manufacturing sense. It is evolving into a leader of a more 'symmetrical' network of geographically dispersed companies, while it maintains its medium-sized status. It is moving along this path intentionally, in a well-planned fashion. Its takeover strategy started with the acquisition of Greek firms, and the next step was the acquisition of a factory in Bulgaria 'in order to minimize labour costs' in production. In 1995, it was listed on the Athens Stock Exchange (ATHEX) and managed to raise capital to finance its expansion. Design is still exclusively carried out in France; raw materials are purchased both from high market (France and Italy) and from cheaper (China) sources; and the intermediary (the Greek firm) coordinates and, more significantly, controls the branding of products.

*Firm C: Relocation of production via a joint venture leading to buy-out*

Firm C is a medium-sized company and the leader in Greek lingerie manufacturing. A family business, established in 1962, it became an S.A. (Société Anonyme; a public-limited company) in 1987 as part of a broader restructuring plan, which, however, did not alter family control. Unlike many of the companies in the field, its history in subcontracting is very limited. Production was always carried in-house and targeted the niche of high-quality, own-brand products. Over the past twenty years it participated in numerous European

Union-funded programmes and invested mainly on information technology systems (85% of orders placed by its customers are carried out electronically), human resource development, and quality-control certification systems.

There are two milestones in the course of its business history. The first, in the early 1980s, was a shift in favour of the distribution and retailing of imported brands. This shift was very common among clothing firms at the time. As profit margins eroded (due to fast increasing wage costs), a number of clothing firms attempted to take advantage of their knowledge of the market and their distributive networks by switching from production to distribution. Therefore, they abandoned production and became increasingly involved in the sales and distribution of imported branded products. The other popular strategy at the time was to continue production via subcontracting for European suppliers. This trend was a rational short-term reaction to the generous subsidies offered to exporting firms at a time when branded products crowded out standardized items and in view of the difficulties of many domestic firms to enter the deep waters of design and branding. Firm C did not follow this strategy. It continued to develop its own branded products while also being involved in the distribution of imported brands.

The company is also a pioneer in relocation. This is the second milestone in its history. As early as 1989, it established a fifty/fifty joint venture in Hungary for the production of its own branded products. The original partner was bought out in 1997; the factory has been renovated and staff increased from thirty to forty-five. Sales in Hungary represented almost 20% of the total sales of the company, while their annual increase was three to four times higher than those of the Greek plant. The Hungarian plant initially specialized in the lower priced 'affordable' lingerie line, while gradually it became the sole production site of the company (by 2001, production in Greece was restricted to the partial manufacturing of samples). In addition to its own subsidiary in Hungary, the company also cooperates with seven other independent subcontractors located in Hungary. They employ approximately twenty persons each and their business relation lasts for four months a year. They have a stable cooperation over the years and they have been very carefully chosen so as to be able to meet the company's high standards.

Its main suppliers of raw materials are both European (Italy and France) and Chinese. The exports of its own brands account for one-third of total sales and are directed to the United States, Canada, the UK, France, Switzerland, Poland, Hungary, Russia, Japan, Honk Kong, and the United Arab Emirates. It participates regularly in the International Fair in Paris, Le Salon International de la Lingerie. And last, it has set up an affiliate firm (owned and managed by the family) for the distribution of imported brands.

The relocation of production initiative proved a success. The managing director offered two main reasons: cost minimization and a more favourable (and less costly) business environment, free from the burdens of over-regulation.

The cost advantage is loud and clear: comparative wage costs in Greece and Hungary are now in a ratio of four-to-one. In other words, wages in Hungary represent 25% of wages in Greece (ten years ago the difference was even wider). Although wages have gone up in Hungary and are expected to continue doing so in the future, the wage gap is still very wide. Furthermore, in the course of the interview, it transpired that although Hungarian workers did not have a skill advantage in the beginning, they nevertheless possess a work culture that makes them more prone to training and skills upgrading.

Substantial saving in wage costs is only part of the attraction. Bureaucratic, red tape, and corruption expenses are considerably lower in Hungary compared with Greece. According to the director:

over the last 17 years we paid in fines and other bureaucratic expenses 1,000 euros. The estimated equivalent 'administrative' costs had these operations been carried out in Greece would have been at least 200,000 euros over the same period.

Turning now to the prevailing governance pattern, the choice of a local manager in Hungary (with a superior knowledge of the market and local conditions) is seen as a key element in business success. Furthermore, there has been continuous upgrading in the role and functions of the Hungarian plant. It appears that one is faced with a relocation strategy involving the creation of a network of a 'symmetrical nature': knowledge is diffused, quality is maintained, international cooperation is carried out via marketing networks, and responsiveness to changing market conditions is safeguarded through a very close cooperation between the parties. Part of this strategy rests on training and skills upgrading (for all layers of employees, mainly at the shop floor), minimization of employee turnover, and the utilization of information technology at all stages of the business activity.

### CONCLUSIONS: DISTRIBUTION OF GAINS AND WINDOWS OF OPPORTUNITY

Production relocation polarizes opinions. Who gains, and by how much and what is to be done, are still largely unresolved questions. Much of the debate on the gains from the formation and functioning of global value chains stresses concentration among global buyers and the splintering of production among captive domestic producers. As was argued in the second section, reality may be more complex and change over time may lead to the emergence of more

symmetrical relationships among actors. Roles change and former subcontractors may acquire the role of new intermediaries.

What came out from the third section on Greek clothing production is that intensified competition propels a variety of restructuring responses. Although the sector appears to be 'stuck in the middle', the trend favouring the relocation of production towards lower wage economies in the broader geographical region appears to be strong and accelerating. Wage costs are part of the explanation. Business environment and geographical proximity are also important factors. Although this trend is often portrayed as a sign of danger leading to desperate exodus, it should rather be seen as a symptom of strength and dynamism. Put differently, production relocation can be seen as *Developmental De-Industrialization Deluxe*.

Furthermore, it seems that what is happening now with relocating Greek companies is different from what happened with German contractors and Greek subcontractors in the late 1970s and the 1980s. Whereas the German firms at the time kept tight control that inhibited the upgrading of their subcontractors, Greek contractors tend to adopt a much more 'open' governance stance. The transmission of knowledge and competences occurs more freely and generously (KALANTARIDIS, 2000; LABRIANIDIS, 2006).

The three examples of restructuring in garment producers have a lot in common. Having previous experience with export markets, at some stage they opted for relocation of the labour-intensive processes in lower-wage economies. They rely increasingly on subcontractors for intermediate activities, both at home and – more often – abroad. Almost all developed their own brand at some stage; quality is a prime concern; and they target medium-priced market niches. They develop networks of cooperation whereby the firms involved are more or less of the same size. In other words, they form 'symmetrical' networks where information and know-how are diffused in all directions. And last, although they attempt to maintain aggregate numbers of jobs in Greece, the composition of their workforce is clearly altered (in favour of design and monitoring functions).

Their common features go well beyond what they actually do, and encompass what they do not do. Hiring immigrants is the most obvious strategy they do not embark upon. In spite of the ready availability of large numbers of migrant workers in Greece from the early 1990s onwards, the firms presented herein have been relatively slow in hiring them; clearly, they did not try to solve their competitive requirements via low-paid immigrant labour. Another thing they do not opt for is to abandon production at home immediately after relocating abroad. All three of them tried to preserve aggregate employment at home, albeit of a different skills mix. Furthermore, none actually embarked on a strategy of lowering costs and product

quality, neither did they compromise their extrovert profile (by seeking refuge to less demanding market segments).

Globalization means increased openness of markets as well as the internationalization of capital flows. Openness, however, is a double-edged sword in the sense that it creates a new constellation of constraints and opportunities. Smaller economies are mere takers of the constraints and conditions of globalization. Gone are the times of closed economies susceptible to traditional industrial policy tools. New instruments of intervention need to be found. Globalization processes often involve 're-specialization' opportunities for countries and regions if the latter manage to develop a new 'savoir faire' related to specific functions and products (STORPER *et al.*, 1998). Participating in global networks and triangular manufacturing arrangements may be part of this re-specialization. The three case studies fit into this pattern to a large extent. As their relocation strategy has been successful thus far, the continuation of production at home is highly unlikely. It appears that symmetrical networks of cooperation constitute an attractive option for smaller firms and may act as a powerful antidote to loneliness and marginalization. It is questionable, however, to what extent this relocation option is open to firms with a more introvert background. For them, further attempts to contain production costs by means of utilizing cheaper immigrant labour may reinforce the established 'zero-change strategies' of the past. Such a course may alleviate pressures in the short run, but it fails to address the bigger issues in the long-term.

To conclude, pricing pressures on garment producers generated chain reactions. These pressures are not a new phenomenon: price competition has been felt by Greek producers at various stages over the last thirty years. Indeed, these same pressures had transformed some of them into international subcontractors in the early 1980s ('The New International Division of Labour' – NIDL). Acute pricing pressures propelled the first exodus of European contractors away from Greece in the mid-1990s, and Greek firms (some of which were former subcontractors) relocated to the Balkans and Eastern Europe around the turn of the millennium (second exodus). In view of the intensifying global competition in garment production, the sustainability of this strategy over the longer-term is open to speculation. In terms of policy implications, it appears that in order to remain in place as new intermediaries, Greek garment producers need to concentrate on activities that benefit from Schumpeterian innovation rents. In other words, they have to focus in rent-rich activities. Only time will tell if upgrading strategies via triangular manufacturing will prove sustainable in the long run for Greek garment producers. These firms, by their actions, appear to have overcome the specific disadvantages faced by Greek firms in this

very competitive market. The most successful ones have little to separate them from other European firms. Nevertheless, the jury is still out and the story is still unfolding for the prospects of the European clothing industry in general.

## NOTES

1. On the history of the concept from the 1960s (mainly a descriptive construct) to the 1990s (when it became widely used and acquired an analytical content), see KAPLINSKY (2000, pp. 8–9).
2. Extending GEREFFI'S (1994) concept, Kaplinsky distinguishes between three types of governance in ascending order of intervention: legislative governance (setting standards), judicial governance (monitoring performance), and executive governance (including functions of assistance to producers).
3. This finding echoes the terms of trade literature pioneered by PREBISCH (1950) and SINGER (1950) (for a review, see KAPLINSKY and SANTOS-PAULINO, 2006).
4. These arguments can be traced back to SINGER (1971/1975) and more recently to SARKAR and SINGER (1991).
5. Upgrading can be defined in a broader sense as any trajectory leading to a positive impact on developing country firms (PONTE and EWERT, 2009), or in a more narrow sense as 'innovation producing an increase in the value added' (MORRISON *et al.*, 2008, p. 45).
6. Indeed, for GEREFFI (1999), upgrading is about acquiring capabilities and gaining access to new markets by participating in global value chains.
7. The value chains and clusters literature is sensitive to these problems when distinguishing between product, process, functional and inter-sectoral upgrading (HUMPHREY and SCHMITZ, 2002, 2008; SCHMITZ, 2006; BAIR and GEREFFI, 2001) and prioritizing the last two types. It has been argued, however, that there remain numerous difficulties with this four-type classification (difficulties in separating the product from process upgrading; problems in valuing properly the variety of products; as well as missing the importance of economies of scale, which may lead to downgrading) (PONTE and EWERT, 2009, pp. 2–3).
8. *Product upgrading* involves moving into more sophisticated product lines (with higher unit values). *Process upgrading* refers to the reorganization of production in order to transform inputs into outputs more efficiently. Often, it involves the introduction of superior technology.
9. Functional upgrading refers to the organizational succession from producing for the low end of the market to targeting more sophisticated and higher value-added market segments. This means acquiring new functions in the chain.
10. In 2000, unit labour cost in Greece was estimated to be 13.4; while for Spain it was 13.7; for the UK, 21.5, for France, 25.2; and for Germany, 13.7. In contrast, in Bulgaria and Romania it was 1.2 and 1.5, respectively (EUROSTAT, Long time series covering enterprises with twenty persons or more). At the same time, labour productivity in Greece was 19.9; whereas in

Italy it was 26.6; in France, 31.1; in the UK, 33.6; and in Germany, 39.8. The above suggest that in the years to come the advantage of Greece over its low-wage competitors might not be sufficiently large to compensate for huge differentials in wage costs.

11. See <http://dir.icap.gr/financial/>.
12. The sample comprises 169 clothing firms drawn from the ICAP data set. It is a widely utilized data set and the only one that provides a time series after the discontinuation of the census of manufacturing industry by the National Statistical Service of Greece in 1988. The present 'sample' includes all clothing firms that published financial results in 2004 (the last year available) and which operated with the same legal status in 1996.
13. The sample covers the vast majority of firms of S.A. and Limited liability status, but small personal companies are less well represented. The sample analysed here has been constructed by including all clothing firms with a continuous presence from 1996 to 2004. Obviously, there exists bias in favour of the survivors, but otherwise it offers a reliable picture of the sector and its firms over a turbulent period. All changes reported are statistically significant at

conventional significance levels. Calculations are available upon request from the author.

14. A note on data problems is warranted here. As pointed out in numerous studies, industrial branch data – at national level – and trade statistics tend to be problematic because they blur the picture of value added. Export statistics show the aggregate gross value of exports without any reference on the import content. Hence, effective value chain analysis requires the participation of different disciplines (economics, industrial sociology, management studies, and engineering) (WOOD, 1999, p. 24; KAPLINSKY, 2000, p. 17). In addition, problems with traditional economic analysis Heckscher–Ohlin factor price equalization theorem cannot account for the role played by mobile skills, while the focus of the individual as the unit of analysis fails to capture the role of institutions (KAPLINSKY, 2000, p. 17).
15. According to the moderate estimates of the President of the ASSOCIATION OF CLOTHING AND KNITTING FIRMS OF GREECE (2001).
16. The countries included are Bulgaria, Yugoslavia, Hungary, Albania, and Romania.

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