Upgrading in the European Periphery

Bulgarian and Turkish textile and apparel exports to the EU market

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Overview

- The European context, country cases, research question
- Theory
- Research methodology
- Macro, meso and micro-level quantitative analysis
- Qualitative analysis
- Conclusion
The European context

- EU (25) represents 33% of world textile imports and 45% of world clothing imports (ITS, 2005);

- The sector grew to 2.7 million employed in over 230,000 enterprises as of 2005, hence EU has become the major global actor in T/C;

- The fifth EU enlargement and the WTO liberalization of textile trade since 1 January 2005 has affected the regional actor.
Country cases, research question

- Growth of the Turkish T/A industry between 1983 and 2003
- Growth of the Bulgarian T/A industry between 1991 and 2003
- Research questions: a) how do you operationalize the study of industrial and firm upgrading and b) under what conditions is upgrading of the leading export sector possible?
Theory

- Challenges for peripheral states today
- Industrial and Firm upgrading
Research methodology

- How to study upgrading?
  - Profits
  - price markups
  - or value added
Research methodology

TABLE 1 Unit value comparison of apparel product groups between
Average Extra-EC imports and EC imports from Bulgaria (1991)

<table>
<thead>
<tr>
<th>Product group</th>
<th>Value (000)</th>
<th>Volume (000)</th>
<th>UV (BG imports)</th>
<th>UV Extra – EC import</th>
<th>Quality Level</th>
<th>% UV variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>620112</td>
<td>923</td>
<td>43</td>
<td>21.5</td>
<td>22.2</td>
<td>MM</td>
<td>- 3 %</td>
</tr>
<tr>
<td>620113</td>
<td>685</td>
<td>24</td>
<td>28.5</td>
<td>18.45</td>
<td>UpM</td>
<td>+ 35 %</td>
</tr>
<tr>
<td>620192</td>
<td>1976</td>
<td>72</td>
<td>27.4</td>
<td>18.3</td>
<td>UpM</td>
<td>+ 33 %</td>
</tr>
<tr>
<td>620193</td>
<td>3986</td>
<td>224</td>
<td>17.79 (40 % OPT)*</td>
<td>20.82</td>
<td>DM</td>
<td>- 15 %</td>
</tr>
<tr>
<td>620211</td>
<td>1019</td>
<td>67</td>
<td>15 (80 % OPT)</td>
<td>29.7</td>
<td>DM</td>
<td>- 49 %</td>
</tr>
<tr>
<td>620293</td>
<td>2509</td>
<td>80</td>
<td>31.4 (60 %)</td>
<td>22</td>
<td>UpM</td>
<td>+ 30 %</td>
</tr>
</tbody>
</table>

In 000 ECU

Total OPT import from Bulgaria (CN 50-63): 62,942
% of total EC import from Bulgaria: 56%
Total OPT 62: 41,247

11/9/2006
Research methodology

- Sectoral level: Unit Value Analysis
- Network level: Global Apparel Value Chain
- Firm level:
  - Product upgrading
  - Process upgrading.
  - Functional upgrading.
  - Organizational/managerial upgrading (Yoruk D., 2001).
Similarities at the macro level

<table>
<thead>
<tr>
<th>Initial condition</th>
<th>Final condition</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Export</strong></td>
<td><strong>T/C labor as % of industrial labor</strong></td>
</tr>
<tr>
<td>Turkey</td>
<td>37 %</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>15 %</td>
</tr>
</tbody>
</table>

*textile experts consider that labor involved in T/C is much higher in both countries

- Turkey and Bulgaria are peripheral to the EU market, which is their main export market.
- Both countries have market economies and have experienced transition crisis.
- Both countries are involved in the European integration (Europe Agreement for Bulgaria since 1995 and Customs Union agreement for Turkey since 1996).
Differences at the firm level

A) higher dependency on buyers, suppliers and trade agents in the case of BG compared to TR;

**Bulgarian firms**

- Relative share of the two most important buyers in total exports
  - <30 %, 11%
  - 30-60 %, 29%
  - 60-90 %, 35%

**Turkish firms**

- Relative share of the two most important buyers in total exports
  - <30 %, 7%
  - 30-60 %, 33%
  - 60-90 %, 23%
Survey results of 106 observations:

A) High % of assembly exports in the case of Bulgaria;

B) High % of OEM exports in the case of Turkey.
Results from multivariate analysis

* The test is conducted by the author, using data from own research in BG and TR (2002/2003) and applying SPSS. The research finding is that BA and State support VAR, Investment scale and turnover and firm’s nationality explain firm’s upgrading.
Differences at the Network level


- Original Design Manufacturing
- Original Brand-name Manufacturing
- Original Equipment Manufacturing
- Export Processing Assembly
- Primary Commodity Exports

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Differences at the Sectoral level
Eurostat, Comext (1983-2005)

UVA of EC textile and apparel imports from Turkey (1983-2005)

Unit value distribution

- upm
- mm
- dm

Differences at the Sectoral level

UVA of EC textile and apparel imports from Bulgaria (1991-2005)
Prior becoming leading export sector

**TURKEY**
- *Estatist* State before 1983 (ISI strategy and key role of the State)
- Limited exports to the EC market

**Bulgaria (before 1991)**
- Serious modernization of the T/C industry in the 1970s and especially 1980s, due to the New Economic Model (NEM);
- Key role of the State and Industrial State Associations (ISAs);
- Limited exports to the EC market (Soviet Union market is the most important).

- State withdraws from support of the T/C
- ISAs are dissolved but new private T/C Associations appear
After becoming leading export sector

- **Internal factors:**

  **A) State capital investment and State incentives for private investment**

  The Turkish State withdraws from capital investment in 1983 due to IMF but starts to grant investment certificates and export incentives to boost private initiative; FDI is insignificant (about 3% of total FDI), but private Turkish investment is high (total of 7.7 b. USD imports of textile machinery in 1996-2000).

  In Bulgaria, privatization of SOEs and encouragement of investment of the private sector failed. FDI represents 3.3% of total FDI until 2003.

  Textile expert confirms…“for the State, the sector is in foreign hands and should not be taken care of”
B) Exchange rate regime: devaluation of the Turkish lira helped the international competitiveness in TR, while the Currency Board Arrangement in Bulgaria has been at a disadvantage for the T/C industry;

C) Specific policies towards T/C industry:
- Turkey: special districts, Free Trade Zones
- Bulgaria: no specific policy

D) Domestic Supply of raw materials:
- Turkey: one of the biggest cotton producers due to GAP
- Bulgaria: there is strong dependence on foreign supplies

E) Specific problems: existence of two-tier system in Turkey, whereas in the case of Bulgaria there is a similar problem and in addition, the State was highly reluctant to support the T/C industry.
**External factors:**

In Turkey

A) EU has not been benevolent to Turkey and its T/C exports to the Community market;

B) Customs Union has facilitated Turkish exports, but not in full, due to the usage of non-tariff barriers, which posed a great obstacle on the competition of the products in which Turkey is more advantageous in EU;

In Bulgaria

The country signed Europe Agreement with EU on 1 Febr. 1995, but received freedom from customs duties or quotas only from Jan. 1998. Moreover, the obligation for analysis and testing of the products of every fabric remained operational until 1 Jan. 2000, while EUR 1 Certificate still has to be issued by Bulgarian manufacturers until the full membership to the EU.
SSAB: Qualitative Analysis

- The role of BAs is important in the case of Turkey, while BAs in Bulgaria are just formal structures without any power;

- The State intervenes and cooperates with the BAs in the case of Turkey, while this is not the case in Bulgaria;

- State willingness and cooperation between State and BAs has to be consistent over an extended period of time in order to achieve local upgrading.
Conclusion

- Unit Value Analysis as a useful tool to measure industrial and firm upgrading
- The institutional context can open new horizons for the GVC framework