Competitiveness, the State, and Labor in Global Value Chains

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The Dilbert Paradox

As requested, I put together a list of functions we should outsource.

I limited my list to things we don’t do well.

Management, sales, marketing, quality control, engineering, finance, human resources, and customer support.

That leaves us with our core competence...

...sitting around a brown table.

And, of course, our ability to speak honestly without fear of retribution.

You will never get another raise as long as I’m alive.

Well, that puts a lot of pressure on the brown table strategy.
Apparel Industry in Europe

- Delocalization and outsourcing to CEE
- Shifting employment patterns
- The role of state policies
  - OPT
  - EU Competitiveness Policy
  - Global Europe
  - Structural Funds
  - Trade Facilitation
  - Security Controls
- Upgrading in post-socialism
Outsourcing, delocalization, and state policies

• Outward Processing Trade
• EU and State Competitiveness Policies
• Production Networks
Outsourcing, delocalization, and state policies

- Outward Processing Trade
- EU and State Competitiveness Policies
- Production Networks
### Job losses in textiles and clothing between 1970 and 2000

<table>
<thead>
<tr>
<th>Country</th>
<th>Textiles</th>
<th>Clothing</th>
<th>Total loss</th>
<th>Total loss %</th>
<th>Employment Levels in 2000</th>
</tr>
</thead>
<tbody>
<tr>
<td>France</td>
<td>-337,000</td>
<td>-238,000</td>
<td>-575,000</td>
<td>72.9%</td>
<td>241,000</td>
</tr>
<tr>
<td>Germany</td>
<td>-333,000</td>
<td>-262,000</td>
<td>-595,000</td>
<td>67.6%</td>
<td>285,000</td>
</tr>
<tr>
<td>Japan</td>
<td>-997,000</td>
<td>-140,000</td>
<td>-1,137,000</td>
<td>66.4%</td>
<td>576,000</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>-486,000</td>
<td>-248,000</td>
<td>-724,000</td>
<td>73.7%</td>
<td>258,000</td>
</tr>
<tr>
<td>United States</td>
<td>-585,000</td>
<td>-531,000</td>
<td>-1,116,000</td>
<td>49.0%</td>
<td>1,161,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>-2,738,000</td>
<td>-1,419,000</td>
<td>-4,147,000</td>
<td><strong>62.2%</strong></td>
<td><strong>2,521,000</strong></td>
</tr>
</tbody>
</table>

Clothing employment in the ten most important London boroughs, 1998-2002

Source: Evans and Smith 2004
EVOLUTION OF TRADE IN TEXTILE AND CLOTHING
TRADE WORLD-WIDE
Dependency by ratios

Concentration on particular markets for T&C exports

Share of T&C exports to the EU in % of T&C exports to the WORLD

T&C Dependency

Trade policy has a key role to play

Trade opening is a major source of productivity gains through:

- Greater competition
- Better specialisation
- Innovations
- Technological content of imports and investments
- Economies of scale

Estimates: ¼ of productivity gains due to trade opening in the last period
The Lisbon Agenda

• Make the European Union “the most dynamic and competitive knowledge-based economy in the world” by 2010

• The Union should become, by 2010

  - the most competitive and dynamic **knowledge-based economy** in the world..
  - capable of **sustainable** economic growth
  - with more and **better jobs**
  - and greater **social cohesion**
The Lisbon Agenda

9 core tasks:

- Extend and deepen the internal market
- Improve European and national regulation
- Ensure open and competitive markets inside and outside Europe
- Expand and improve European infrastructure
- Increase and improve investment in Research and Development
- Facilitate innovation, the uptake of ICT and the sustainable use of resources
- Contribute to a strong European industrial base
- Attract more people into employment and modernise social protection systems
- Improve the adaptability of workers and enterprises, and the flexibility of labour markets
Overall policy aim

……..to increase prosperity for all………..

• by driving up productivity and competitiveness through:
  – successful business;
  – world class science and innovation; and
  – fair markets.

The European social model of late liberalism?
The Wish Image of Competitive Europe

- High value economy
- High wage economy
- High quality economy
Convergence-Objective: Regions below 75% of EU25 GDP Average 2000-2002

86 Regions
124 million inhabitants
27.3% of EU population

Allocation: EUR 177.8 bn
Convergence Objective: Regions below 75% of EU15 GDP (statistical effect/ phasing-out regions)

16 Regions
16.4 million inhabitants
3.6% of EU population

Allocation: EUR 12.5 bn
Objective Regional Competitiveness and Employment: Phasing-in regions (covered by Objective 1 between 2000-2006, now above 75%)

13 Regions
19 million inhabitants
4.2% of EU population

Allocation: EUR 10.38 bn
Objective Regional Competitiveness and Employment:
(all other regions)

156 Regions
296 million inhabitants
65.1% of EU population

Allocation: EUR 38.4 bn
The state, supply chains, and capital-at-risk

• EU Trade facilitation
  – Road and rail integration and expansion
  – Distance, time and changing sourcing geographies

• U.S. Security state:
  – Port transit time
  – Adriatic ports: 24 days to 14 days
Global Europe

- Gordon Brown, Chancellor of the Exchequer, UK -- *Global Europe 2005*
- Peter Mandelson, DG Trade October 2006 -- *Global Europe*
Global Europe

- Gordon Brown, Chancellor of the Exchequer, UK -- *Global Europe* 2005
- Peter Mandelson, DG Trade October 2006 -- *Global Europe*
Clusters, Districts, and Post-socialist Industries?

• State-owned enterprises
  - guaranteed inputs suppliers
  - state quota demand and political networks
  - Regulated markets

• Worker-states:
  – Labor Inspectorates,
  – Health and Safety Inspectorates
  – Technical Training and Design Schools

• Full-package industries?
Proportion of total national apparel exports to the EU comprised by men’s and women’s suits, trousers, etc. (6203 and 6204) for the top 20 apparel exporters to the EU, 1990 and 2000.

<table>
<thead>
<tr>
<th></th>
<th>1990</th>
<th>2000</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>27.5</td>
<td>19.8</td>
</tr>
<tr>
<td>Turkey</td>
<td>24.8</td>
<td>26.3</td>
</tr>
<tr>
<td>Tunisia</td>
<td>54.7</td>
<td>49.7</td>
</tr>
<tr>
<td>Romania</td>
<td>40.2</td>
<td>46.9</td>
</tr>
<tr>
<td>Morocco</td>
<td>43.3</td>
<td>48.9</td>
</tr>
<tr>
<td>Poland</td>
<td>39.6</td>
<td>46.4</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>24.5</td>
<td>25.5</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>9.5</td>
<td>19.7</td>
</tr>
<tr>
<td>India</td>
<td>24.9</td>
<td>19.4</td>
</tr>
<tr>
<td>Hungary</td>
<td>51.2</td>
<td>38.4</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>22.2</td>
<td>35.9</td>
</tr>
<tr>
<td>Pakistan</td>
<td>26.9</td>
<td>39.7</td>
</tr>
<tr>
<td>Indonesia</td>
<td>19.9</td>
<td>13.0</td>
</tr>
<tr>
<td>Slovakia</td>
<td>50.9</td>
<td>46.9</td>
</tr>
<tr>
<td>Lithuania</td>
<td>n.d.</td>
<td>47.5</td>
</tr>
<tr>
<td>Czech Rep.</td>
<td>50.9</td>
<td>41.4</td>
</tr>
<tr>
<td>Croatia</td>
<td>44.7</td>
<td>44.1</td>
</tr>
<tr>
<td>Slovenia</td>
<td>44.7</td>
<td>54.5</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>23.8</td>
<td>22.6</td>
</tr>
<tr>
<td>Ukraine</td>
<td>n.d.</td>
<td>50.2</td>
</tr>
</tbody>
</table>

Source: EUROSTAT, 2001
ODEVA Shop,
Trencin, Slovakia
Technical and Domestic Support Services
Italian textile maker Lanificio Marcolana is to invest €8.0 million euro in a new textile plant in western Bulgaria.
Just Style 21.07.2004

Italy’s Lanificio Marcolana is to invest EUR 8 mln ($10m) in its wool producing plant, based in the Mezdra.

The Italian company has hired local textile maker Vitex 2000 to produce the woollen fabrics under outsourcing agreement that will take advantage of the country’s lower labour costs.

Lanificio Marcolana will pay for the installation of new weaving machines at the factory.
BG Textiles 2004
Building Value in Domestic Markets
Local Knowledge and Skills

Professional modeling agency, Sofia
Hubbing Logistics

- **E Walters UK**
  - Leominster Hub
  - Lithuanian Hub
    - Prienai*
      - E Walters Baltic
        - Prienai*
          - Lithuania
          - Satrija***
            - Lithuania
        - Uzhgorod**
          - Ukraine
          - Mirey**
            - Ukraine
          - Ozex**
            - Slovakia
          - Luta**
            - Ukraine
          - Brezney**
            - Ukraine
      - Ulagan**
        - Ukraine
        - Trikotex***
          - Bulgaria
          - Freshtex**
            - Bulgaria
          - Turkey***
  - Slovakian Hub
    - Trencin*
      - E Walters sro Int
        - Trencin*
          - Slovakia
          - Morrocco***
      - Uzhgorod**
        - Ukraine
        - Mirey**
          - Ukraine
          - Ozex**
            - Slovakia
          - Luta**
            - Ukraine
          - Brezney**
            - Ukraine
      - Morrocco***
  - Bulgarian Hub
    - Karlovo*
      - E Walters Baltic
        - Karlovo*
          - Bulgaria
          - Slanze**
            - Bulgaria
            - Trikotex***
              - Bulgaria
              - Freshtex**
                - Bulgaria
                - Turkey***
  - Others

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

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Upgrading in value chains

Economic dimension
Social dimension

How to integrate the two dimensions?

Role of state and non-state actors in fostering competitiveness and upgrading
Competitiveness and Governance

- CSR and Codes of Conduct
- Minimum labor standards
- China’s Year of CSR and the 11th 5 Year Plan
- Collegiate Apparel and Designated Supplier Program