SSOAR

Open Access Repository

www.ssoar.info

How Global Governance Structures Shape Economic Growth and Poverty Reduction: The Case of Textile and Apparel Value Chain

Ishengoma, Esther K.; Kappel, Robert

Veröffentlichungsversion / Published Version
Arbeitspapier / working paper

Zur Verfügung gestellt in Kooperation mit / provided in cooperation with:
GIGA German Institute of Global and Area Studies

gesis
Leibniz-Institut
für Sozialwissenschaften

Mitglied der
Leibniz-Gemeinschaft

How Global Governance Structures Shape Economic Growth and Poverty Reduction: The Case of Textile and Apparel Value Chain

Esther K. Ishengoma and Robert Kappel

GIGA German Institute of Global and Area Studies

Hamburg 2007

Abstract

Given the increasing disintegration of production and integration of trade, the industrial cluster literature's view that localised market linkages are important in enhancing the growth of small enterprises seems insufficient as it ignores global linkages and fails to differentiate different categories of linkages. The global value chain (GVC) literature stresses the insertion of developing countries' producers in GVCs as a precondition for upgrading/growth. However, GVCs are differently organised due to, among others, different structures governing them. Hence, producers/economies integrated into GVCs are likely to attain different levels of economic upgrading/downgrading and decreased/increased poverty. Based on previous findings, this paper explores how the interactions between governance structures within and outside the global textile and apparel chain shape producers' growth and poverty reduction. The paper proposes options for producers to earn a relatively more return from the GVCs and attain sustainable poverty reduction strategies.

Key Words: Governance structures, small enterprises, textile, apparel, value chain, poverty, economic growth

JEL: L5, O17, O4, D2, E26, I3

1.   Introduction

The literature on industrial clusters/districts emphasises the importance of localised market linkages and technology spill-over in enhancing the growth of micro, small and medium enterprises (MSMEs). However, this literature ignores global linkages and assumes that all active localised linkages are homogeneous, and therefore result in the same level of firms' growth/upgrading (Ishengoma and Kappel, 2005). Given the increasing disintegration of production and integration of trade, the cluster literature seems insufficient to address the development of MSMEs.

Some studies emphasise the adoption of export-oriented strategies for economic development and poverty reduction given limited domestic market in developing countries (DCs) and less developed countries (LDCs). The GVC literature also stresses the insertion of producers in DCs/LDCs into GVCs as a precondition for upgrading since they get linked to global buyers who provide resources (Gereffi, 1999; Kaplinsky et al., 2003).[1] Cooperation among firms in GVCs is also seen as higher than that of firms in localised value chains (Rabellotti, 1999). Recent studies, however, emphasise that GVCs are differently organised due to different governance structures, models of outsourcing and levels of capabilities of chain participants (Humphrey and Schmitz, 2004; Nadvi, 2004). Thus, the insertion of producers into GVCs may not necessarily result in upgrading them and poverty reduction.

DCs and LDCs embarking on export promotion strategies for economic growth and poverty reduction may need to look at how their MSMEs are integrated into the global market, what value chain activities are they involved in, what factors influence their growth potential and the distribution of returns among chain participants. The GVC approach can be utilised to explore these issues.

Most of the GVC and strategic management studies have reported the likely relationship between bilateral governance structures and the performance of chain participants, particularly suppliers/producers. However, the majority of these studies are based on exploratory findings and descriptive analysis.[2] The literature (Nadvi, 2004; Nadvi and Barrientos, 2004) addressing the link between these structures and poverty reduction is scant (see ILO, 2003).

According to the strategic management literature, the decisions (what to produce, where to be produced, how to produce and how much to charge) undertaken by chain actors are influenced by external factors, viz., regulations, policies and standards set by government(s) and private institutions. The literature addressing how these factors influence poverty reduction is also scant.

Drawing from the previous findings, this paper explores how the interactions between governance structures within and outside the GVC chain shape producers' growth and poverty reduction. More specifically, the paper tries to answer the following questions.

---

[1]   Resources refer to material inputs, technology, knowledge, and marketing information.
[2]   See Ishengoma and Kappel (2005) for more detailed observations.

a) How chain governance structures influence DCs and LDCs' producers' growth and poverty reduction?[3] While addressing this question, the paper highlights different alternatives/conditions for firms to earn relatively more return from the GVCs.

b) How governance structures outside the chains (particularly global public governance structures) shape the GVC and influence poverty reduction strategies? More specifically, the paper looks at how these structures affect governance structures within the chain, global sourcing models utilised by lead firms, geographical distribution of chain activities and upgrading potential of chain actors.

To address the above questions the paper focuses the global textile and apparel value chain since it is a buyer-driven, a major source of foreign exchange revenue to some DCs and LDCs, a source of manufacturing employment to relatively more poor people (Oxfam International, 2004; USITC, 2004; Nathan Associates Inc., 2002). It is also well integrated into the global market, and involves manufacturing MSMEs in DCs and LDCs. [4] Conclusions drawn by this paper may be applicable to other GVCs integrating MSMEs in DCs and LDCs into the global market.

In relation to poverty reduction strategies, the paper addresses the likely effects of external governance structures on sustainable income improvement and employment creation. Some of its observations associating governance structures with poverty reduction are based on assumptions since they lack documented empirical justifications. Despite of the observed short-backs the paper proposes initiatives that can be taken to facilitate poverty reduction by enhancing the competitiveness of MSMEs in DCs and LDCs.

The rest of the paper is organised as follows. Section 2 addresses the importance of the GVC approach in answering the above questions, defines major concepts and theorises the relationships between firms' growth or poverty reduction and governance structures at different levels. Section 3 offers an overview of the textile of apparel GVC. Section 4 and 5 discuss how governance structures within and outside the chain shape the integration of producers in DCs and LDCs into the GVCs and influence their growth potential and poverty reduction. Section 6 concludes and proposes measures that can be taken to enhance the way producers in DCs and LDCs are integrated into the GVCs and consequently enhance their economies and reduce poverty.

---

[3]   The paper discusses economic growth of producers in relation to their upgrading/investment strategies.
[4]   Note that the next paper applies the analytical approach adopted by this paper but it focuses on an industry in the agricultural sector.

2 Value chain approach as a tool to analyse determinants of economic growth and poverty reduction

2.1 Why value chain approach

As defined by Gereffi (1995), GVCs consist of series of cross-organisational networks grouped around products. They comprise four dimensions: an *input-output structure*, understood as the tangible (raw materials, intermediate goods) and intangible (knowledge) flows linked together in the process of value creation; territoriality, understood as the *geographic concentration* or dispersion of production and marketing networks; a *governance structure*, understood as authority and power relationships that determine how financial, material, and human resources are distributed within a chain; and an *institutional framework* that provides the national and international context for the interaction of chain segments. The GVCs link households, firms, and countries within the global economy. The networks are situation-specific, social constructs, and anchored in the local context.

From a development perspective, the utilisation of a value chain approach helps to address several questions: How enterprises of different size categories and formality are linked together in a process of value creation? Which countries (industrialised and developing ones) participate in which activities of a product's value chain? What structures govern exchange among actors within the value chain and how these structures influence the distribution of returns, share of information and knowledge, and therefore upgrading of small producers? How the institutional frameworks (governance structures outside the chain) interact with governance structures within the chain and therefore influence the decisions of key actors (i.e. lead firms) within the chain? Answers to these questions may facilitate the formulation of development policies addressing different possibilities of integrating developing countries' producers in GVCs as well as enhancing their economic growth and reducing poverty.

2.2 Determinants of economic growth and poverty reduction. The value chain perspective

Studies utilising the GVC approach try to show broadly that effective and thus poverty-alleviating strategies and economic growth in DCs and LDCs are not conceivable without access to large and differentiated markets of industrialised countries (ICs). However, the access of these markets to producers in the former countries may not necessarily assure the attainment of relatively high economic growth and poverty reduction. This is simply because producers in these countries are differently integrated into the global market due to different attributing factors: governance structures within and outside the chains, producers' capabilities, and regional/domestic backward linkages. Though the paper focuses on the former two factors, it also implicitly addresses the latter two factors since all four factors are in one way or another interrelated. Section 2.2.1 briefly

describes governance structures, economic growth and poverty reduction. Section 2.2.2 addresses some conditions for producers in LDCs and DCs to have a sustainable access to the GVCs, appropriate a reasonable share of the value added, and draw non-tangible benefits (technological and organisational learning) from their integration into GVCs.

2.2.1 Conceptual definitions

According to the discussion by Humphrey and Schmitz (2004, 2000), the governance structure can be viewed as the mechanism put on place to control, coordinate and facilitate the accomplishment of exchange between two (or more) technologically separate business units. It can be identified at chain level (i.e. between actors within the chain) and outside the chain.

Governance structures within the chain. At the chain level, transactions under non-arm's length market relations are governed by lead firms, which according to Gereffi (1994; 1995; 1999) are buyers. These firms offer specifications, and decide on who (a firm/country) has to be involved in which activity of the value chain, when and how returns are distributed.

There are different classification and names of governance structures within the buyer driven chain.[5] The paper follows Gereffi's *et al.* (2003) four types of governance structures. These include *modular* – attributed with supplier's ability to make a product according to a customer's specifications, supplier's responsibility for competencies surrounding a process technology and capital outlay for material inputs when providing 'turn-key services', and the use of generic machinery that limits transaction-specific investment; *relational* – characterised by high level of interactions and mutual dependence between a supplier and a buyer, high level of asset specificity managed through reputation or family and ethnic ties. Others are *captive* – related to small suppliers being transactionally dependent on larger buyers, suppliers' high switching costs, and high degree of monitoring and control by lead firms; and *hierarchy* characterised by the total ownership of (and control over) a supplier's operation by a buyer, the provision of product specifications by the buyer and high operating risk that lead to high transaction costs.

Under arm-length market relations, none of the transacting parties dictate terms of exchange. Transactions are governed by market institutions; products traded are relatively highly standardised; the market is volatile and competitive; transaction costs are low (Galvin and Morkel, 2001; Clemons et al., 1993; Walker and Weber 1984).

Governance structures outside the chain. According to the strategic management literature, decisions (e.g. what to produce, where to be produced, how to be produced, how much to charge and earn) undertaken by chain actors are influenced by external factors, among others, include

---

[5]   For example, Humphrey and Schmitz (2000) identify three categories: network, quasi-hierarchy, and hierarchy; and Sturgeon and Lee (2001) utilise two categories on non-hierarchy chain governance structures, which are captive and turnkey.

regulations, policies and standards set by government(s) and private institutions.[6] Governance structures outside and inside the chain sometimes interact to form private-public partnerships aiming at improving the performance of MSMEs in LDCs and DCs, and reducing poverty (see ILO, 2003).

Economic growth/development. The growth/development of an economy can be viewed at macro or micro level. At macro level, economic growth can be referred to as an increase in an economy's ability to produce goods and services, which brings about a rise in standards of living.[7] An increase in real GDP and per capita income are among the indicators of a country's economic growth. At micro-level, one may look at the increase in a firm's ability to produce goods and services. Based on the objectives of this paper and the analytical approach it adopts, it views economic growth at micro level. Following the GVCs literature (see Humphrey and Schmitz, 2000), the paper looks at the firms' possibilities to upgrade in different spheres: product, process, functional, and sectoral upgrading. These may reflect the kinds of investment strategies undertaken by firms. In some cases, the paper may touch economic growth at macro-level since the two levels are interrelated.

Poverty reduction. As documented in the literature from diverse disciplines, there are three main ways of addressing poverty: *income poverty* defined as an household's or individual income below the poverty line (see Ahmed *et al.*, 1991); *subjective well-being poverty* described as an individual/household's dissatisfaction of the life he/she lives in (see Stutzer, 2004, Kingdon and Knight, 2003, Nadvi and Barrientos, 2004); and *capability poverty* defined as limited capacity (such as physical assets, human capital, savings) of an individual, which in turn constrains him/her to participate in community life (e.g. be employed), avoid shame or to maintain self-respect (see Sen, 1983; Habitat, 2000; and Sethuraman, 1997). The three views of poverty have been criticised under different grounds: the income poverty excludes the health of people; the subjective well-being is very subjective and therefore difficult to quantify; while the capabilities poverty does not indicates at what level of capabilities a person is considered poor. Since the paper is exploratory, and tries to link poverty reduction with governance structures as well as economic growth based on existing literature, it adopts income and capabilities poverty. It only considers likely improvement in incomes, job creation, and knowledge. This is simply because the existing literature addressing poverty reduction from the view of the GVC approach is exploratory in nature and still lacks a thorough empirical analysis.

---

[6]   Note that what the paper views as governance structures outside the value chain are referred to by Humphrey and Schmitz (2000) as multilateral governance structures categorized into public and private governance structures, whereby the former comprises policies, regulations, and standards set by government(s) while the latter consists of standards and regulations set by private institutions such as business associations and NGOs.

[7]   http://www.nmlites.org/standards/socialstudies/glossary.html.
     http://www.gruposantander.com/pagina/indice/0,,618_3_2,00.htm.

2.2.2 *Governance structures, economic growth and poverty reduction*

A.   Governance structures and firms' economic growth

From the perspective of GVCs literature, the insertion of LDCs' and DCs' producers in GVCs is seen as a precondition for upgrading since they get linked to lead firms (e.g. global buyers) which are the sources of material inputs, technology transfer, and knowledge (Gereffi, 1999; Kaplinsky *et al.* 2003; Noor, *et al.* 2002). This also enables them to access high income, differentiated markets and marketing information[8], a situation that decreases transaction costs and increases potentials to upgrade. It is also reported that cooperation among firms involved in global chains (suppliers, producers, and buyers) is higher than those involved in local chains (Rabellotti, 1999).[9]

Apart from the positive effects that can be realised from participating in GVCs, the GVC literature also reports the possibilities of firms involved in GVCs to undertake diverse upgrading spheres or to fail to upgrade and compete in the world market. This is simply because the GVCs are not homogeneous due to the factors explained below.

Different levels of pressure and cooperation[10] from lead firms. Producers involved in quality-driven as well as dynamic chains get more cooperation from lead firms, which pressurise them to upgrade. Thus, these firms are likely to attain higher level of upgrading than those in price-driven/non-dynamic chains (Knorringa, 1999; Schmitz and Knorringa, 1999).

Types of buyers, their capabilities, and forms of selection of chain participants. From the discussion by Schmitz and Knorringa (1999), buyers can be categorised into immediate (final buyers) and intermediaries (traders and agents). They argue that when producers sell directly to final buyers, they may fail to upgrade in sectoral and functional spheres since upgrading in these sphere conflicts with the interests of the buyers. Thus, firms accessing global value chains through intermediaries have more possibilities to upgrade in these spheres. However, it is noted that some of the intermediaries have limited capabilities in product design and development, and sometimes do not offer technical feedback or support to producers (Nadvi, 1999a). This may limit their ability to stand dramatic market changes and producers connected to them may fail to upgrade (Knorringa, 1999).

With respect to mechanisms exercised by buyers on the selection of chain participants (producers), Gibbon (2000) reports that producers integrated into the GVCs through traders (i.e. intermediaries) exercising loose form of co-ordination, with typically inclusionary rather than exclusionary quality conversion, fail to upgrade.

---

[8]   Examples of marketing information include the needs of high demanding customers, international standards for pricing, quality and delivery.

[9]   Cooperation between producers and suppliers is in information exchange, product development, quality improvement, respect of delivery time and payment sometimes in advance; and between producers and buyers, cooperation is extended to include quality control, setting of product specifications and production organisation.

[10]   E.g. close follow-up, strict quality control, investing in process and product upgrading (Schmitz and Knorringa, 1999).

The mode of outsourcing. Gereffi (1999) identifies three categories of sourcing models: assembly, which involves outsourcing assembly activities only, since firms are provided with inputs for assembly; the original equipment manufacturing (OEM) is a subcontracting model whereby producers make products according to specifications, and therefore they are free to source inputs and logistic services from the suppliers they identify or those identified by buyers. The last one is the original brand name manufacturing (OBM) characterised by producers making and selling products with their own brand names (see Gereffi and Memedovic, 2003).

Governance structures within the chain. Chain governance structures and arm-length market relations are said to have different effects on the upgrading of producers. Arm-length market relations are appropriate when the market is perfectly competitive, whereby there is free flow of information and exchanges are co-ordinated by the market forces. However, the global market for different products, particularly those produced in LDCs and DCs is imperfectly competitive. Thus, there are loose connections between suppliers (producers) and buyers, and some buyers may try to weaken other participants in the value chain in order to ensure their own control of profits. This may result in antagonistic relationships, opportunistic behaviours and a lack of information sharing, hence limited market knowledge (Johnston and Lawrence, 1988; Walker and Weber, 1984) and upgrading potential.

Given imperfect market situation coupled with governance structures outside the chain (to be discussed later), buyers in ICs have relatively more access to marketing information as they are located in ICs, more capabilities (finance, strategic assets, organisational, marketing and technical knowledge)[11]. This situation gives them the leverage to control DCs' and LDCs' producer/suppliers through either captive or hierarchy governance structures. These structures are characterised by high transaction cost, and hence high switching costs due to producers' high investment in relation-specific assets. Producers operating under these structures and connected to buyers whose competitive advantage are based on product design and marketing, may fail to upgrade in sectoral and functional spheres. This is because upgrading in these spheres may conflict with buyers' interests (see Schmitz, 1999; Humphrey and Schmitz, 2000; Schmitz and Knorringa, 1999).

On the other hand, when producers have relatively high capabilities and access to market, they are more likely to participate in linkages under modular and relation governance structures.[12] Since these producers have relatively more power, they are likely to get involved in some downstream activities, viz., product design and logistic services (Kaplinsky *et al.,* 2003). Firms operating under modular governance structure have a broad customer base, tend to maintain their autonomy, and have higher possibilities to upgrade in all spheres. The existence of modular and relational

---

[11] According to Gereffi (1999) strategic assets include tangible (machinery), intangible (bands) and intermediate (marketing skills).

[12] See the discussion by Humphrey and Schmitz (2000) comparing chain governance between Italian shoemakers and Brazilian ones.

governance structures between global buyers and producers/suppliers located in DCs/LDCs is not well explored by the literature.

Governance structures outside the chain/multilateral governance structures. Government institutions and business associations set some rules/regulations, trade policies and standards that govern firms' activities, their interactions and transactions. Therefore, they influence firms' choices of linkages (whether local or global) to utilise and the governance structures that may emerge to coordinate transactions among trade partners from the same or different countries/regions. Consequently, they are likely to affect producers' growth potential and poverty reduction.

Besides setting rules and regulations, the cluster literature notes that business associations (private governance structures) and government institutions may facilitate transactions between buyers and producers by offering business development services (BDS): technology centres that offer technical training, consultancy, and technical services (e.g. common equipment for measuring quality standards of products); and information and marketing centres, which facilitate the participation of members in trade fairs, offer marketing information and facilitate contract creation and enforcement.[13] These services are important especially when the bilateral vertical linkages are insufficient to bring about major upgrading (Humphrey and Schmitz, 2000). The success of these institutions/associations in offering BDS depends on the level of homogeneity of interests and trust among members, and the capabilities of the institutions/associations (Nadvi, 1999a; McCormick, 1999; Kaplinsky *et al.,* 2003).

At global level, transactions and collaborating activities among trade partners (suppliers and buyers) interact with global governance structures outside the chain.[14] These structures determine the possibilities of firms/countries to get involved in the GVCs (Gibbon, 2000), sourcing models applied by lead firms, chain governance structures as well as the division of labour among firms, which in turn affect their growth potential (see Gibbon, 2000; Gereffi, 1999).

B.   Governance structures and poverty reduction

One option to reduce poverty is to improve the economic performance of the sources of poor people's incomes (e.g. the informal sector, MSMEs) (Sethuraman, 1997; Nadvi and Barrientos, 2004). This can be achieved, if the economic activities employing poor people are, among others, integrated into relatively rich economies at the local and global level; and have access to productive resources (see Habitat, 2000; Sethuraman, 1997). The value chain approach can be used to address these possibilities.

---

[13]   See several articles in World Development (1999), Vol. 27, No. 9.

[14]   Examples of global governance structures outside the chain include national/regional/international regulations/rules and policies governing trade. Those set by private institutions include international campaigns on environmental protection, burn for child labour and fair trade. At the public level, governments of different countries or regions may come together and set some standards and policy measures, free/preferential trade agreements.

Nadvi (2004) reports that workers in firms integrated into GVCs earn more than those not integrated into GVCs. However, some studies (e.g. Habitat, 2000) note the possibilities of small producers not to benefit from their integration into the GVCs. Habitat (2000); Sethuraman (1997) and Tokman (1978) emphasise the consideration of: i) how value-added is distributed among GVC participants; and ii) chain governance structures as they influence the distribution of returns and the division of labour. When small producers play a subordinated role in the GVCs, they are likely to be exploited. The presence of many middlemen in the chain also reduces returns to small producers. If small producers upgrade sector-wise and functionally, they are likely to offer better wages (see Nadvi, 2004) and sustainable employment to their workers.

3.   An overview of the global textile and apparel value chain

3.1   The structure of global textile and apparel chain

The global textile and apparel value chain comprises i) the suppliers of fibres, viz., agricultural sector (cotton, wool and fine animal hair, silk, and ramie) and chemical industry (synthetic such as polyester, nylon, acrylic and artificial rayon and acetate); ii) the textile industry which produces inputs (yarns and fabrics) for the apparel industry as well as final made-up textile articles such as home textiles (towels, sheets, pillowcases, curtain and drapes) carpets and rugs, luggage, tents, and bags; and iii) the apparel industry which is involved in making clothes (Figure 1) [US International Trade Commission (USITC), 2004). Other activities of the chain, which are not directly involved in production, include research and design, marketing, distribution and retailing (Nordas, 2004).

Figure 1: (insert here)

3.2   The global division of labour

Among others, some factors determining the division of labour in the global textile and apparel value chain include the multilateral, bilateral and regional trade agreements governing the chain; the level of investment/capabilities (e.g. financial and human capital) of participating countries; and access to market and technical information, which is quite limited among LDCs and some DCs. Additional factors related to the geographical location of production operations include labour cost, proximity to market, efficiency and cost of transportation from the exporting countries (Ahmad, 2005), local capacity in textile production (Nathan Associates Inc., 2002) as well as backward linkages.

The activities along the global textiles and apparel value chain differ in their required levels of investment, human capital and technology; geographical location; scale and type of enterprises.

These factors seem to determine market power and distribution of rent among firms in the chain. The spinning, weaving, dying and printing activities are capital intensive, thus require relatively high investment and human capital to manage fabric design and the presence of extensive network of raw material suppliers. During the period when the textile and apparel industry was strongly governed by the Multifibre Agreement (MFA), these activities were dominated by ICs, NICs[15] (see Gereffi and Memodovic, 2003) and some clusters in DCs such as Ludhiana Woolen Cluster in India (Tewari, 1999).

The sewing activities are labour intensive and utilise low and unskilled labour, particularly poor women and migrant workers (Oxfam International, 2004; Nathan Associates Inc., 2002). Thus, these activities are located in and have been migrating to LDCs and some DCs to take advantage of abundant cheap labour and preferential trade policies (Gereffi, 1999; Nathan Associates Inc., 2002; Nordas, 2004; USITC, 2004).[16]

Retailing activities involve marketing research and product design to enable them offer specifications to textile and apparel producers. Therefore, they require access to market and high human capital, high financial capacity to be able to offer letters of credit to producers, and relatively high investment in information technology to effectively and efficiently manage stocks. Firms involved in these activities utilise intangible assets (e.g. brand names) to earn higher rents (Gereffi and Memedovic, 2003). These activities are performed by global buyers, who by virtue of their origins/locations have more access to technical and marketing information on high income and major markets for apparel and textile products (i.e. ICs) (see Humphrey and Schmitz, 2002; Gereffi, 1999).

3.3   Global production

During the phasing out of MFA, the world yarn spinning and fabric weaving activities have been shifting from ICs to DCs, particularly China and India (USITC, 2004). The data on mill fibre consumption, which indicates the size of textile industry, reveals that during 1997-2001, the industry rose by 11 percent. Asia accounted for 60 percent of the world growth, of which China contributed one-half. Mill consumption in the US fell by 14 percent, while those in Western Europe remained the same (USITC, 2004).[17] Asia countries (particularly China, followed by India, Pakistan, Indonesia, and Thailand) are becoming dominant world producers of yarn and fabric as they have the highest global investment (more than 50 percent) in textile production equipment (USITC, 2004). Investment in these countries is attracted by the presence domestic supply of raw materials,

---

[15]   NICs include Hong Kong SAR, Taiwan Province of China, and the Republic of Korea.
[16]   In Canada, USA, France and Japan, the cost of unskilled labour as percentage of gross output in apparel industry is around 26, 21, 22 and 22 respectively, while in some developing countries, China, Vietnam and Morocco, it is 18, 9 and 15 respectively (Nordas, 2004).
[17]   US is the second world consumer of apparel and textile products, while Western Europe is the third important consumer (USITC, 2004).

clusters with relatively long-term experience in textile and apparel industry and strong backward linkages. Though a large percentage of production activities are conducted in DCs, they still account for lower percentages of the world value-added of textile and apparel than ICs as in the 1990s ICs accounted for 67 to 75 percent (USITC, 2004).[18]

3.4   Global trade and employment

During 1997 to 2000, the global textile and apparel trade rose by 6 percent to $374 billion, and fell by 3 percent in 2001 (USITC, 2004). In 2001, it accounted for 6.2 percent of the global merchandise trade. The major world markets for apparel items have been the ICs, particularly the US followed by the EU, which together accounted for more than 50 percent of the world apparel imports during 1998 to 2001.

DCs and LDCs account for around 70 percent of world apparel exports (Oxfam International, 2004). Some of them rely heavily on the textile and apparel exports as their sources of foreign exchange revenue. For Bangladesh, Pakistan, Cambodia (Oxfam International, 2004), Lesotho, Macao, Haiti (USITC, 2004), and Honduras (Nathan Associate Inc., 2002), export of textile and apparel items accounts for more that 70 percent of manufactured exports and between 40 and 65 percent for other LDCs and DCs.[19]

During 1997 to 2001, the world exports of apparel increased by 7 percent, to $199 billion; of which China accounted for 18 percent, followed by EU (8 percent), Hong-Kong, Mexico, Turkey, India, and Bangladesh (each supplying between 3 and 5 percent) (USITC, 2004). During the same period, the world exports of textile from China and the US increased by 21 and 8 percent respectively, while those from Korea, Taiwan and Japan decreased by 18, 23, and 8 percent respectively. This trend is an indication of a shift of apparel production operations from the latter three countries to China and other Asian countries. The US's increase in export was associated with its free trade agreements with Caribbean and Latin American countries.

In some DCs and LDCs, the textile and apparel sector is the major source of manufacturing employment. It accounts for more than 40 percent of total manufacturing employment in Honduras and Sri Lanka and between 25 and 40 percent in Turkey, Morocco, and Egypt (Nathan Associate Inc., 2002). Employment in ICs has been decreasing. Between 1995 and 2002, employment in textile decreased by 44 and 29 percent in Germany and the US respectively, while in apparel it fell by 14 and 56 percent.

---

[18]   Note that the data for textile and apparel include leather and footwear; and the word statistics exclude China.
[19]   Other developing countries include Egypt, Turkey, Morocco, Guatemala, Sri Lanka, Nepal (Nathan Associate Inc., 2002), Dominica Republic, El Salvador, Mauritius, Madagascar, Hong Kong (USITC, 2004).

4.   Governance structures within the chain, firms' growth and poverty reduction

As elaborated below, the governance structures that seem to co-ordinate transactions between MSMEs in DCs and LDCs and buyers are captive and hierarchy. The discussion on modular and relational governance structures draws some experience from producers in relatively more DCs, and those targeting domestic or regional markets. Examples are also drawn from some experience from producers in shoe industry as the organisation of its GVC is similar to the chain under discussion. The section also discusses the probable consequences of operating under arm-length market relations and the implications of the types of buyers and their sourcing models on firms' growth and poverty reduction.

4.1   Governance structures within the chain and firms' growth

Given the requirements of sewing activities and their low entry barriers, the majority of MSMEs in DCs and LDCs are involved in them. Competition in these activities has been increasing, while on the other hand, there has been increasing concentration of downstream activities (see Humphrey and Schmitz, 2000; Gereffi, 1999). This situation has raised market dependence and lowered bargaining power of firms/countries involved in sewing (assembly) activities. Thus, the majority of producers/suppliers in DCs and LDCs are involved in transactions governed by hierarchy/quasi-hierarchy and captive governance structures.

The possibilities of MSMEs involved in sewing activities to upgrade functional and sectoral seem to depend on the types of buyers which they are linked to and the sourcing models utilised by the buyers. According to Gereffi (1999), there are three types of global buyers: i) retailers which are linked to producers through intermediaries (traders and overseas buyers) involved in product design, fabric selection and procurement. They offer specifications for their own labels or store-brand lines; ii) brand marketers who concentrate on design and marketing and externalise other value chain functions to contractors; and iii) brand manufacturers are those that supply intermediate inputs (e.g. ready cut-fabrics, and threads) to overseas producers and re-import finished goods.

A.   Retailers, brand marketers, OEM and governance structures
Retailers and brand marketers utilise full-package sourcing networks (OEM). OEM allows for local learning about all functions of a product's value chain and therefore gives higher possibilities for producers to undertake functional and inter-sectoral upgrading. The empirical evidence - the case of Torreon Blue Jeans industry in Mexico (Bair and Gereffi, 2001) and the case of Ludhiana Woolen Knitwear cluster in India (Tewari1999) - reveals that firms in these clusters are relatively more successful, because they are connected to brand marketers and retailers who utilise OEM

model of sourcing. East Asian NICs' apparel producers were also able to upgrade from assembly to full-package supply (Gereffi, 1999), since firms in these countries were connected to buyers utilising diversified sourcing models.

Drawing from the theoretical views on the types of buyers, the above discussion seems to confirm that producers connected to final buyers through intermediaries have more potential to upgrade in all spheres. These intermediaries are likely to have relatively more capabilities. The structures governing transactions between producers and brand marketers as well as retailers utilising OEM are likely to be relational or modular. Producers are likely to have relatively more access to marketing information since according to Gereffi (1999), they are more likely to produce apparel items under their own brand names, and thus, get involved in OBM sourcing networks.

Additional factors that seem to attract brand marketers and retailers who utilise OEM sourcing model include the level of development of localised industrial linkages, experience and capabilities of the cluster, and support from the local government and business institutions. Torreon Blue Jeans industry and Ludhiana Woolen Knitwear cluster have strong backward linkages and long term-experience. The Ludhiana Woolen Knitwear has been receiving major supports from the public and private institutions/associations.

B.   Brand manufacturers, assembly and governance structures

The brand manufacturers tend to utilise assembly mode of outsourcing, whereby the buyers supply intermediate inputs (cut fabric, thread, buttons, and other trim) to producers (i.e. firms involved in assembly) in neighbouring low-cost countries with reciprocal trade agreement. The agreement allows for goods re-imported being only charged import tax on the value added by an assembling country. The assembly mode of outsourcing can be observed in the US and EU whereby brand manufacturers in the US subcontract sewing activities to Mexican,[20] Central American and Caribbean firms; and EU brand manufacturers subcontract assembly activities to firms in Tunisia, Morocco and Eastern Europe (Gereffi and Memedovic, 2003). Transactions between brand manufacturers and producers seem to be governed by either hierarchy/quasi-hierarchy or captive structures. Brand manufacturers may share information with producers on how to efficiently and effectively produce apparel items but not on product design, marketing, and sourcing networks of material inputs since these are their competitive advantage. Since producers do not make decisions on the sources of material inputs and the market for their products, they have limited potential to learn and upgrade in functional and sector spheres.

---

[20]   According to Bair and Gereffi (2001), this kind of production sharing arrangement between the US and Mexican producers is referred to as *maquila* networks

C.   Arm's length market relations

Arm's length market relations can be observed at local level. In some cases they seem to be characterised by antagonistic behaviour of large buyers that source from MSMEs and informal firms. Schmitz (1999) reports the experience of U.S garment manufactures in the 1980s, which were on one side pressurised by textile firms to buy in large quantity and to offer favourable credit terms (high price and payment schedules), and on the other, by larger concentrated buyers who demanded low prices and additional considerations[21]. Knorringa (1999) also reports the presence of antagonistic relationship between producers and traders (buyers) in Agra cluster in India, which was characterised by an extremely limited co-operation, powerful traders trying to extract more surplus at the expense of declining growth of small producers.

4.2   Governance structures within the chain and poverty reduction

Based on the theoretical views and the above discussion, it is possible to assume that the integration of activities involving poor people into the GVCs is likely to increase their incomes, knowledge and create more jobs. Drawing from the previous studies, Nadvi (2004) reports that workers in exporting garment industries in Bangladesh and Vietnam earned higher wages than those in non-exporting activities. Moreover, export garment production in Bangladesh generated 1.6 million new jobs; a garment industry in Vietnam increased employment by 132 percent during the 1990s to nearly 320,000 in 1999 (Nadvi, 2004).

The levels and sustainability of the benefits accrued from the integration of poor peoples' activities into the GVC are diverse since they depend on the structures governing transactions between these activities and global buyers, in that those under modular and relational governance structures are likely to offer more income, new jobs, and knowledge than those under hierarchy, captive, and arm's-length market relations. Gereffi (1999) associates the economic growth and improvement of incomes (i.e. income per capital) of new industrialised countries in Asia to their participation in GVCs characterised by OEM model of outsourcing. Nadvi and Barrientos (2004) associate the involvement of blue jeans cluster of Torreno, Mexico, in full package garment export to the US, with job creation and mean income improvement.

When transactions between apparel producers and global buyers are governed by hierarchy/quasi-hierarchy or arm's-length market relations and characterised by assembly mode of outsourcing, the producers have less bargaining power. Given the structure of the global value chain, they are more vulnerable to changes in the global market. To meet the changing demands of global buyers, they tend to squeeze their employees for long working hours and lower wages (Schmitz, 1999). Due to

---

[21]   For example, to offer varieties of clothes, to share marketing costs, and to buy back unsold clothes. Additionally, powerful firms may also dictate shipping schedules, force others to pay for freight on their shipments, influence styling and promotion policies, of downstream firms, urge distributors to perform selling tasks specifically for them (Harrigan, 1983).

increasing global buyers' demands for high quality and low price, Bangladesh garment exporters, and SMEs garment producers in Vietnam try to increase the utilisation of casual and seasonal contract labour in order to avoid costs related to permanent employment benefits and social protection (Nadvi, 2004). Thus, despite of the integration of garment enterprises into GVCs, employment and working conditions in the majority of them are still poor (Oxfam International, 2004).

5.   Governance structures outside the chain, firms' economic growth and poverty reduction

On answering the second question stated in Section 1, this section addresses how global governance structures outside the chain shape the decisions of lead firms on where to source apparel items and the sourcing models to utilise. The section also discusses how local governance structures facilitate the upgrading potential and the integration of producers into GVCs as well as regional value chains.

5.1   Local level governance structures

Local level governance structures outside the chain include mechanisms applied by cluster associations (i.e. private structures) and public support services to facilitate transactions. The discussion on these structures in relation to a global textile and apparel is based on a successful cluster i.e. the Ludhiana's Woollen Knitwear in India.

A.   A brief overview of Ludhiana's Woollen Knitwear cluster

This cluster has been in operation since before the World War I. In 1991, it accounted for 80 percent of India's knitwear firms, 90 percent of the nation's woollen and acrylic output, and 95 percent of woollen knitwear exports. It is located in a region dominated by small and medium firms producing sewing, hosiery, embroidery, knitting and overlock machines and other metal products. Accordingly, the woollen knitwear firms have relatively strong local backward linkages. The majority of exporting firms are involved in OEM sourcing model with foreign buyers and OBM for domestic and regional markets (See Tewari, 1999).

Despite of its good performance, the cluster (particularly MSMEs) still face constraints such as limited access to information technology (IT) services, principally customised planning systems, information deficiencies (UNIDO, 2004), and limited networking within the cluster (Clara et al., 2000). These constraints were caused by limited provision of BDS. Micro and small firms did not

have access to IT services since it was very expensive for a single firm to get connected to major providers and to buy software customised to its production system (Clara et al., 2000). This might have limited the access of MSMEs to the market (UNIDO, 2004), slowed down their rate of response to meet buyers' orders, and increased overhead cost related to inventory management. Due to trade liberalisation, the cluster was exposed to high competition in domestic and foreign markets. These taken together might have resulted in limited competitiveness and integration of MSMEs into the GVC.

B.   Public governance structures

The Indian Government has been strengthening the product design and technology of manufacturers in the cluster. Since the early 1980s, it has run programs that brought in European and US designers, whose design services were utilised by Ludhiana's manufacturers at subsidised rates. This helped them to strengthen their brand names (e.g. Monte Carlo, and Casablanca), which managed to penetrate differentiated market segments in ICs. The Small Industries Development Bank of India and the State Bank of India launched projects (e.g. the UPTECH), which aimed to upgrade management, quality, technology and marketing of MSMEs. These initiatives shaped the way Ludhiana manufacturers were integrated into the GVC in that they enhance their participation in OEM and OBM sourcing models. These models further strengthen backward linkages, which have more positive implication on sustainable poverty reduction.

C.   Private governance structures

In cooperation with the private and public sector, UNIDO facilitated the provision of BDS in IT and human resource development (UNIDO, 2004; Clara, 2000). In 1998, the Knitwear Development Group (KNIDGRO) was established to strengthen the provision of IT services in the cluster; to develop linkages with an Italian textile information centre (CITER) and a fashion design institute; to enhance the human capital of clustered firms in fashion design and forecasting of fashion trends, technical knowledge and technology benchmarking. KNIDGRO started with 130 firms, of which 30 have computerised their systems and started using IT applications, 12 have developed new products and designs, while 2 have modernised their production system (Clara et al., 2000).

The Apparel Exporters' Association of Ludhiana (APPEAL) was established to organise buyer-seller meetings and the participation of SMEs in international fair in New Dehli; to facilitate the provision of specialised training to workers, particularly women; to enhance firms' capabilities in quality management (e.g. ISO 9000), brand building and cost management (Clara et al., 2000; UNIDO, 2004). The project has trained 350 women, of whom 90 percent obtained a paid employment; it improved the level of technical knowledge of over 80 supervisors and benefited around 75 firms (UNIDO, 2004). Based on the discussion here, the KNIGOR and APPAEL

initiatives have not only directly contributed to poverty reduction, but also increased the potential for MSMEs to be integrated into regional and global markets.

5.2   Global level governance structures

For more than forty years, trade in textile and apparel was regulated by complex bilateral agreements and different rules and tariffs under preferential and free trade agreements. The study focuses on the Multifibre Agreement (MFA), the Agreement on Textile and Clothing (ATC), the EU's and US's structure of tariffs, the requirements of the rules of origin under the EU's and US's preferential and free trade agreements. The section also briefly addresses other public governance tools, viz., non-product related PPM (Processes and Production Methods) requirements, eco-labelling (a form of SPS and environmental measures) and other labelling schemes, which are likely to be crucial after the end of MFA.

A.   Multifibre Agreement

The MFA (1974 to 1994) replaced a long-term Trade in Cotton Textiles Agreement (LTA), which was introduced in 1962 to limit the quantities of textiles and cotton exported to the US and other ICs. It covered wool, man-made fibre and cotton textiles and clothing and was extended to include major developing exporters to the US, the EU (Nordas, 2004) and other ICs. It aimed at governing the expansion of trade and reducing barriers to trade, while ensuring orderly and equitable development of this trade, and avoidance of disruptive effects in individual markets (WTO, 1998). The MFA offered rules for imposition of quotas, either through bilateral agreement or unilateral actions, if imports caused market disruption. The quota was allowed to increase by six percent annually, but in practice, it was less than that. Major importers of textiles and clothing used the MFA to protect their markets for local producers (WTO, 1998; Oxfam International, 2004).

The MFA forced major producers in restricted countries to relocate their production facilities to less/unrestricted countries.[22] It also resulted in the development of triangular global trade. Since MFA focused on cheaper and low quality products, it forced producers in DCs to upgrade their products and earn more return from the value chain (Nordas, 2004).

On restricting exports from some DCs, MFA strengthened the importance of free trade agreements and preferential treatments. This facilitated the integration of smaller and less competitive countries into global textile and apparel value chain.[23] These countries benefited from foreign exchange

---

[22]   In the early 1980s, the three big suppliers (Hong Kong, Taiwan and Korea) accounted for 30 percent of world apparel exports, and after the relocation of production operations (see Gereffi, 1999), in 2001, they accounted for 8 percent (USITC, 2004).

[23]   Example of smaller and less efficient countries with less domestic production capacities in textile include Bangladesh, Macao, Sri Lanka, Nepal, AGOA beneficiaries, Central European and North African countries with

revenues, foreign direct investment (FDI), employment creation and income generation (Nathan Associates Inc., 2002; USITC, 2004; Oxfam International, 2004). Contrary to these positive effects on poverty reduction, it is argued that the relocation of production operations from more to less efficient countries resulted in an inefficient production system. A study by IMF and World Bank (2002) reports that quota restrictions costed LDCs and DCs 19 million job losses, while high tariffs decreased their employment by 8 million.

B.   Agreement on Textile and Clothing

The expiration of MFA in 1994 was followed by the ATC, which came into force in 1995. It aimed at progressively eliminating quotas on textiles and apparel articles subject to MFA restrictions and thereby fully integrating trade in textile and apparel into GATT. The transition process of integration was structured into four phases for a period of 10 years (1995 to January 2005). Several studies (e.g. WTO, 1998; Nordas, 2004) reviewing the ATC reveal that in the first two phases, textile and apparel items covered for the integration were either not subject to MFA restrictions or had low quota utilisation. This resulted in contradicting views as the restricting countries (the US, EU, Canada) reported that the ATC was progressing successfully, while the restricted countries (i.e. DCs/LDCs) complained that the process did not significantly improve market access (WTO, 1998; Nordas, 2004).

Despite of the above weaknesses, the ATC has resulted in world trade changes: the share of textile imports in the U.S increased from 14 to 21 percent in 2002, while the EU share remained stable;[24] the EU share of apparel imports declined from 32 to 30 percent, while the US share increased from 30 to 35 percent. The DCs and LDCs (e.g. Honduras, Mexico, Turkey and Bangladesh) which, in the 1990s, emerged as among the main exporters of textile and apparel to the US and EU, started to loose after the phase out MFA.

The increasing elimination of quotas (i.e. during the last two phases of ATC) has weakened the importance of free trade agreements and Generalised System of Tariff Preferences (GSP) schemes (e.g. North America Free Trade Area -- NAFTA and US African Growth and Opportunity Act --AGOA) in shaping global actors' decisions on where to locate the production operations and source material inputs. This is said to have affected global actors and the global division of labour in several ways as stated below.[25]

a) Production operations are slowly being relocated to low cost production areas - China, India, and Pakistan - with more domestic capacities in textile production, (Oxfam International, 2004).

---

production sharing arrangements with the EU producers, and Latin American countries with similar arrangements with the US producers (USITC, 2004; Nathan Associates Inc., 2002).

[24]   The data for EU excludes intra EU trade.

[25]   Though the ATC was in operation for the past ten years, it is only the last two phases that have tried to cover restricted textile and apparel items. The fact that these phases have recently been completed, the available literature has stated the likely implications of ATC.

The closure of apparel enterprises in Latin America, the Caribbean [e.g. Mexico (Nordas, 2004) and Saipan (Brooke, 2005)] and sub-Saharan African (SSA) countries has been taking place. This has been connected to the increasing export of textile and apparel items from China, which are said to be relatively cheaper than those from other countries. For example, in January 2005, Chinese apparel exports to the US increased by 75 percent (i.e. to US$ 1.2 billion) of the earlier year's exports (Brooke, 2005). Apart from the closure of enterprises, among which the majority are said to be owned by foreigners, manufacturers are struggling to cut down production costs. Some of them have resulted in downsizing (Broohe, 2005) and probably increasing casualisation of labour.

b) The majority of actors from LDCs and DCs are likely to be eliminated from the global textile and apparel value chain. This is simply because it is expected that major textile and clothing buyers will reduce by half (or even more) the number of countries they source apparel items.[26]

c) Enterprises' transaction costs related to the administration of quota system are said to have declined.[27]

d) The EU and US are expected to increase the use of antidumping measures to continue protecting their domestic industries,[28] since these measures take a long time to resolve, impose heavy costs of arbitration, can be prolonged by small changes to the case (see Oxfam International, 2004), are unpredictable and not transparent.

e) SPS and TBT forms of measures such as labelling schemes are gaining importance in offering access to the global market.

In relation to poverty reduction, scholars have reported different consequences of the above effects. The closure of production operations in some DCs and LDCs with less comparative advantages in labour cost, proximity to market, large internal capacity or strong backward linkages and capabilities (Nathan Associates Inc., 2002), has increased unemployment and reduced foreign exchange revenue (Oxfam International, 2004). In January, 2005, about 1,600 workers in Saipan, majority being women and migrants, lost their jobs. (Brooke, 2005). From 1999 to 2004, Saipan's value of exports decreased from US$ 1.05 billion to US$ 821 million. The exclusion of enterprises in DCs/LDCs from the GVC may affect their learning potential in this industry as it limits their access to global marketing information and technology.

Contrary to the negative outcomes, the relocation of production operations from less efficient countries to efficient ones may increase economic efficiency and welfare. The challenge is how the returns may benefit people at global level, particularly poor countries. Moreover, if the expected global producing countries (China and India) dominate the world market, global consumption and production will be negatively affected since these countries may limit production in order to charge

---

[26]   International Trade Centre (ITC), (www.intracen.org/textilesandclothing/quota_phase_out.htm).

[27]   http://www.intracen.org/textilesandclothing/quota_phase_out.htm, "Quota Phase Out: T&C Sector Uncertainties".

[28]   http://www.intracen.org/textilesandclothing/quota_phase_out.htm.

higher prices. This will result in allocative inefficiency hence misallocation of resources and increased poverty.

C.   Free trade agreements and Generalised System of Tariff Preferences

There are several multilateral and bilateral free trade agreements as well as different schemes under the GSP[29]. This section focuses on the GSP schemes (e.g. AGOA and everything but not arms -- EBA) and free trade agreements (e.g. NAFTA) and production sharing schemes organised by the US and the EU. Technically, free trade agreements and GSP schemes have diverse rules of origin and tax concessions. The section starts by addressing the normal tariffs charged by the EU and the US.

The EU and US tariff rates. According to Oxfam International (2004), the average tariff rate charged by ICs on textile and apparel items is 12 percent,[30] but it increases up to 30 and 40 percent on certain items. In 2004, the US tariff rates charged on imported cotton products (knit shirts, trousers woven shirts) ranged between 15 and 20 percent, while those for the same products made from man-made fibre ranged between 25 and 32 percent (Ahmad, 2005). The EU current average tariffs for textiles and apparel products range between 10 and 36 percent, but was expected to decrease to 5 and 10 percent, with a few items between 12 and 14 percent.[31] LDCs' qualifying for exports to EU face duty free rate while others under special GSP schemes face a tariff reduction of 15 percent (Getman, 2005). Generally, tariff rates charged on textile and apparel items are higher than those charged on industrial products, which on average is 3.8 percent (Oxfam International, 2004).

AGOA. This is a US GSP scheme initiated to allow SSA-countries to export textiles and apparel items at duty free charges to the US regardless of the sources of fabrics used (Nathan Associates Inc., 2002). Through AGOA, during 2000 to 2004, SSA-countries' exports increased from $776 million to 1738 million (Ahmad, 2005). However, the world share of these countries' exports to the US is still insignificant. Exports from the majority of AGOA beneficiaries (excluding South Africa and Mauritius) depend on a significant amount of imported inputs.[32] Activities located in these countries are mainly assembly. The value-added by these countries seems insignificant, and therefore they accrue a small share of returns from the chain.

NAFTA. This was established in 1994 by the US, Canada and Mexico. The NAFTA rules of origin (i.e. yarn forward) require exporters to the US to source their inputs from domestic or the US.

---

[29]   In order to encourage developed countries' exports to developed countries, the United Nations Conference on Trade and Development (UNCTAD) established GSP in 1968. It authorised the developed countries to offer tariff preferences on goods imported by less developed and developing countries.

[30]   See also Brenton (2003).

[31]   http://europa.eu.int/comm/trade/goods/texti le/whatson11.htm.

[32]   In 2004, the percentage of the value of exports (from Lesotho, Madagascar, Kenya, Swaziland, Namibia, Malawi and Botswana) made with foreign fabric to the US (under AGOA) was above 92 percent (Ahmad, 2005).

Given limited domestic production capacities in textiles, Mexico was forced to source inputs from the US. During 1995 to 2002, Mexican world share of apparel export to the US increased from 7 to 12 percent. However, because of the accelerated phase-out of MFA (i.e. between 2002 and 2005), its exports to the US have been decreasing overtime. Some Caribbean and Central American countries (e.g. Dominican Republic, Honduras and Guatemala) under the GSP schemes (e.g. the Caribbean Basin Initiatives -- CBI) with rules of origin closely similar to that of NAFTA are facing the same experience (Ahmad, 2005).

EBA. This and other special arrangements are organised by the EU to encourage LDCs' exports.[33] Under EBA, the EU grants LDCs' goods duty and quota free, if and only if, they fulfil the rules of origin requirements, which emphasise that the goods should originate from the beneficiary country. Manufactured products like textile and apparel are considered originating from the beneficiary country only if they have undergone sufficient processing within the country. Even under cumulation of origin, the value-added by exporting country must exceed the customs value of any of the inputs used from the countries in the regional grouping (Brenton, 2003).[34] The rules of origin further state that beneficiary countries may use fabrics from the EU. Goods from countries in the regional grouping receive diverse reductions of tariff and quotas.[35]

The majority of LDCs (ACP countries in particular) have not managed to access the EU market because of several reasons, viz., i) restrictive rules of origin which do not consider LDCs' limited domestic production capacities in textile and the structure of the global textile and apparel value chain, which involves different countries/regions (See Gereffi, 1994); and ii) high administrative cost to prove conformity with the rules of origin (Brenton, 2003). The ACPs' exports are subject to restrictive rules of origin, which under EBA, the value of non-originating materials used should not exceed 10 percent of the products' ex-works prices, while under the Cotonou Agreement, they should not exceed 15 percent. As addressed in GVC literature, the global textile and apparel value chain covers LDCs participating assembly; DCs with higher textile production capacities, thus offering material inputs; and ICs providing access to global markets, marketing activities and design (See Gereffi, 1994, 1999, 2003). The value-added by assembly activities ranges between 25 and 30 percent of the total value-added (Oxfam International, 2004). Thus, the EBA and Cotonou Agreement crowd out LDCs (particularly the ACP countries) from the global value chain (see Brenton, 2003).

---

[33] Other special arrangements include the ones combating drug production and trafficking, those protecting labour rights, and those protecting the environment. The latter two are available on request.

[34] Regional groupings benefiting from regional cumulation include Group I – Brunei Darussalam, Indonesia, Cambodia, Laos, Malaysia, the Philippines, Singapore, Thailand, and Vietnam; Group II – Costa Rica, Honduras, Guatemala, Nicaragua, El-Salvador, Panama, Bolivia, Columbia, Ecuador, Peru and Venezuela; and Group III – Bangladesh, Bhutan, India, Maledives, Nepal, Pakistan, and Sri Lanka.

[35] While Bangladesh's apparel are eligible for tax free, that of India receive a 20 percent reduction from the MFN rate (i.e. 9.6 percent) (Brenton, 2003). If Bangladesh exports to the EU has utilised inputs from India, and their value-added is less than that of inputs, then the exports are subject a tariff rate of 9.6 percent.

Countries like Bangladesh, Cambodia, Nepal and Maldivec have managed to access the EU market for apparel (Brenton, 2003). This is because their regional groupings consist of countries with relatively high production capacities in textile.[36] However, not all exports from these countries access the EU market at a duty free rate. Because of restrictive rules of origin and high administrative costs, only 36 percent of exports from Cambodia (Oxfam International, 2004) and 50 percent of those from Bangladesh (Brenton, 2003) had qualified for duty-free access to the EU.

Production sharing schemes. Through production sharing agreement with the EU producers, in 2002, the share of Tunisia, Morocco and Romanian export of textile and apparel products to the EU was above 80 percent, and they all together accounted for 18 percent of EU total imports. The EU share in these countries' imports ranged between 84 and 91 percent for textile and 79 and 96 percent for apparel (Nordas, 2004). Thus, these countries highly depend on the EU as their source of inputs and the market for their finished goods.

As presented below, the above free trade agreements and GSP schemes coupled with tariff structures seem to have several outcomes, viz., the integration (disintegration) of DCs/LDCs into (from) GVC, shaping chain governance structures, division of labour, the sourcing models and cost of production.

The integration/disintegration of DCs/LDCs into GVC. In the presence of MFA, preferential trade agreements and tariffs were stronger in shaping the decisions of lead firms on where to outsource apparel items. Thus, during the MFA period, global producers tried to locate their production operations in preferential countries to take advantage of tariff concessions. In this respect, enterprises in LDCs and some DCs (e.g. beneficiaries of AGOA, EU production sharing arrangements, CBI and Mexico) managed to participate in the global market. The rules of origin under AGOA are expected to change in few years to come. Thus, the AGOA scheme seems temporary in nature and may not successfully facilitate sustainable growth of firms and poverty reduction. This is simply because the AGOA beneficiaries have limited domestic capacity in textile production, and the time provided for its development may be inadequate given the changing global production and governance structures. Though EBA crowds out majority of LDCs (i.e. ACP countries), under the regional grouping arrangements, it has enhanced the global participation of a few Asian countries, viz., Bangladesh and Cambodia.

Shaping chain governance structures, division of labour and sourcing models. The EU and US production arrangements encouraged the relocation and development of assembly activities in DCs and LDCs. In this case they promoted transactions between brand manufacturers and producers in DCs and LDCs. These transactions are said to be governed by captive and hierarchy/quasi-hierarchy governance structures. Actors in these countries stand minimum chances to maintain their competitive position. They also lack incentives to acquire knowledge for

---

[36]   In 2002, Bangladesh was among the 10 major importers of textile and apparel items to the EU, accounted for 5 percent of world textile imports and 3 percent of world apparel imports to the EU (Nordas, 2004).

other value chain activities and to become independent in strategic decision making related to high value adding, procurement and financing.

EBA seems to encourage OEM and OBM sourcing models, which are connected to relatively high value-added of a product accounted for by an exporting country. However, the scheme is unrealistic given the experience of ACP producers in the textile and apparel industry, which needs to be accumulated over time. According to Gereffi (1994, 1999) and Bair and Gereffi (2001), the participation of DCs and LDCs in assembly activities is their first step in their integration into the GVC.

High cost of production. Based of the rules of origin under production sharing arrangements, NAFTA and CBI, apparel producers are supposed to utilise inputs from partner countries (i.e., the EU, and the US). Given global changes in the production of textiles, the EU and US are said to be less competitive sources of intermediate inputs (fabrics and thread) than some Asian countries (e.g. India and China). Thus, the utilisation of intermediate inputs from the EU and US increases producers' production costs and limits their competitiveness. Consequently, it reduces returns to producers and tax revenues to their respective countries. It also results in inefficient production system.

Though ICs try to offer preferential treatments to LDCs, they still charge high tariff rates on manufactured products exported by these countries. In 2001, the US charged average tariff rates of around 16 and 14 percent on exports from Cambodia and Bangladesh respectively, while it charged about one and 0.5 percent on exports from France and Norway respectively (Oxfam International, 2004). High tariff rates on manufactured exports from LDCs not only discourage the development of the manufacturing sector in these countries, but also extract income from these countries if the tariff charges are born by exporters/producers and increase poverty.

D.   Emerging forms of SPS measures and technical barriers to trade (TBT)
Labelling schemes are forms of SPS and TBT measures that are gaining importance in providing access to the global market and likely to shape the future competitiveness of global actors (Hyvarinen, 1999; Jacka, 2000). Some of these schemes are discussed below.

Eco-labels. The European "Eco-label," was created in 1992 to encourage the production and consumption of goods and services that respect the environment, but its use is not yet mandatory. It is awarded by an independent organisation, the European Eco-labelling Board (EUEB), to textile and apparel products if substances with harmful effects on the aquatic environment and air have been limited during fibre production, the risk of allergic reactions has been reduced, the product does not shrink more than conventional products, the product is as colour resistant against washing, drying friction and light exposure as conventional products.[37] The fact that Eco-labelling is

---

[37]   http://www.eco-label.com/default.htm, http://europa.eu.int/comm/enterprise/textile/intlmarket.htm.

not yet mandatory but entails application cost,[38] by 1999, only nine producers of T-shirts in the EU were awarded the EU Eco-labels. However, since 1999, 70 EU textile manufacturers have adapted their product lines to the schemes.[39]

Apart from the EU eco-label, there are several national and private labelling schemes.[40] Most of these labels were developed based on non- standardised and non-harmonised approaches, and therefore have different characters and focus on different parts of a product life cycle (Hyvarinen, 1999; Nimon and Beghin;[41] Nieminen-Kalliala, 2003). While the EU and Nordic labels are based on the life cycle analysis, the Oeko-Tex is based on the idea of user safety, which focuses on determining possible harmful effect of finished products (Nieminen-Kalliala, 2003).

Fibre content labelling. The EU fibre content labelling (i.e. directive 96/74/EC on textile names) requires exporters to the EU market to indicate the fibre content in all stages of the industrial processing and commercial distribution of products. The legislation is mandatory and covers all products containing at least 80 percent weight of textile fibres, including raw, semi-worked, worked, semi-manufactured, semi-made, made-up products.[42]

Care labelling. Care labelling is mandatory when exporting to Austria but not to the EU. However, the European Textile Association recommends its use since manufacturers can be held liable under another EU Directive (Product Liability Directive) if a problem occurs. Care labels consist of symbols/logos only (i.e., ISO care labels) and are protected by a national agency; thus, manufacturers exporting to certain countries may need to pay fee to obtain the logo.

Registration, Evaluation and Authorization of Chemicals (REACH). In October 2003, the EU adopted a proposal for a new EU regulatory framework for chemicals, which is currently reviewed by the European Parliament and the Council of Ministers. Besides importers and manufacturers of chemicals, REACH requires downstream users such as textile producers to provide information on the use of chemicals.[43]

Dye Standards. In 2003, the EU Directive 2002/61/EC came into force, restricting the marketing and use of certain dangerous substances (azocolorants in particular) in the manufacturing of some

---

[38]   For example, it takes about 20 grams of synthetic dyestuffs to dye 1 kg of textile fabrics to a medium shade colour, while it requires 1 kg of dried leaves vegetable dyes or 5-10 kg of fresh leaves to obtain the same colour, hence the latter dying option is not attractable to producers/traders and price fashionable consumers (Hyvarinen, 1999).

[39]   http://www.deltha.cec.eu.int/en/news_2004.

[40]   Examples of national labelling schemes are Blue Angel (Germany), Eco Mark (Japan), Environmental Choice (Canada), White Swan (Nordic countries); and the private labelling schemes are eco-text, Oeko-Tex (textile and clothing), Britta Steilmann Collection, Marke schadstoffgeprüfter Textilien (MST), Marke umweltschonender Textilien (MUT) (Germany), Green Seal (USA), Bra Miljöval (Sweden) (Hyvarinen, 1999; Nimon and Beghin, http://www.card.iastate.edu/publications).

[41]   http://www.card.iastate.edu/publications.

[42]   Exporting Textiles and Textile Products to the EU, http://europa.eu.int/comm/enterprise/textile/intlmarket.htm.

[43]   http://strategis.ic.gc.ca/epic/internet/inimr-ri.nsf/en/gr121942e.html.

textile and leather articles.[44] For textile articles made of recycled fibres, a maximum concentration of 70 ppm (for the amines listed in point 43 in Appendix to Directive 76/769/EC) is applied. This was applicable during the transitional period until January 1, 2005 if the amines were released by the residues deriving from the previous dyeing of the same fibres. The aim of dye standards is to allow for the recycling of textiles.

Fair trade label. A fair trade label focuses on the improvement of living and working conditions of employees in LDCs/DCs where labelled products are coming from. An example of this label is the Trans Fair International, which was established in 1992 by the EU free Trade Association and Trans Fair Germany. The market for fair trade labelled products is still small but has been gradually growing. In some cases, major supermarket retailers (e.g. MIGRO in Switzerland and ICA in Sweden) are becoming environmental friendly. In cooperation with eco-tex in Germany, MIGRO extends its assistance (e.g. paying extra money for textiles and clothing items) to suppliers in developing countries to improve the working conditions of their workers.

As presented below, labelling schemes (e.g. eco-labelling and REACH) requiring manufacturers to comply with technical standards may have different effects on global actors in relation to their participation in GVC, chain governance and sourcing, production costs and upgrading.

Participation in global value chain. Eco-labelling schemes are in one way or another viewed by LDCs and DCs as technical barriers to trade since the process of setting the schemes involved value chain participants located in ICs (labelling countries) and ignored other actors in the chain located in LDCs and DCs (Nimon and Behgin[45] ; Hyvarinen, 1999). Accordingly, the schemes did not incorporate the environmental needs and production practices of ignored actors/nations, which are said to be different from those of ICs (Nimon and Behgin[46]). Since manufacturers in labelling countries were involved in setting schemes, they are likely to have the technology and know-how required to meet the labelling standards (Nimon and Behgin[47]). On the other hand, LDCs and some DCs not only lack this advantage but also have limited technical know-how, infrastructure, and financial capacity to test, audit, verify the procedures and control various stages of products' life-cycles (Hyvarinen, 1999). Failure of LDCs and DCs' manufacturers to comply with eco-labelling may reduce their level of access to the global market.

The presence of different labelling schemes (private, national, regional) with diverse standards, terminologies, and limited transparency are said to confuse producers in LDCs and some DCs (Hyvarinen, 1999). Moreover, given the structure of the textile and apparel value chain, the lack of harmonised labelling process and standards as well as the exclusion of LDCs' and DCs' actors in the process setting labelling schemes have effect on the whole GVC including textile manufacturers in ICs. In Finland, textile manufacturers are unable to fully comply with EU/Nordic

---

44   http://strategis.ic.gc.ca/epic/internet/inimr-ri.nsf/en/gr121942e.html.
45   http://www.card.iastate.edu/publications.
46   http://www.card.iastate.edu/publications.
47   http://www.card.iastate.edu/publications.

eco-labelling procedures since they lack information on the contents of chemicals and dyestuff utilised by their suppliers of fibre located in DCs and LDCs (Nieminen-Kalliala, 2003).

Manufacturers incur costs to obtain eco-labels. REACH is also expected to inflate their overhead costs since it will involve cost of registration and testing process of substances of chemicals. The number of suppliers of chemicals might be reduced due to high registration cost. This may not only reduce textile and apparel manufacturers' choices on chemicals to utilise but may also increase the price of available chemicals.[48] Compliance with eco-labelling standards may force manufacturers to utilise the technology that incorporates clean environmental process, which in turn is expected to result in major capital outlay and increased overhead cost (Nimeon and Beghin[49]). All of these require a producer to have a sound financial capability. Thus, small producers in LDCs and DCs might fail to comply with eco-labelling and REACH due to their limited financial capacities and knowledge. Consequently, their access to global market is likely to be reduced.

Governance structure, division of labour, and global sourcing. Increasing importance of eco-labelling schemes coupled with the likely limited know-how and financial capacity of small producers in LDCs and DCs may force them to depend on lead firms (buyers in industrialised countries) to upgrade their technologies and cover compliance cost if they want to access the market in labelling countries. In the absence of recognised labelling schemes in LDCs and DCs, buyers with high financial capacity may also be forced to upgrade their suppliers. Since, the exchange of assistance may be related to high transaction cost, together with limited access to market and marketing information may result in captive or hierarchy governance structure.

The decision to fully comply with labelling schemes may force buyers to source material inputs, textile and apparel items from suppliers/producers that can provide sufficient information on environmental and chemical data. This may mean excluding MSMEs, particularly those in LDCs/DCs; forcing textile and apparel manufacturers in LDCs and some DCs to utilise material inputs and technology from efficient labelling countries (Nimeon and Beghin[50]); disfavouring OEM and OBM global sourcing models.

Process and product upgrading. To comply with eco-labelling schemes, firms may need to invest in new technologies and cleaner processes (Jacka, 2000), hence process upgrading. Environmental friendly consumers are likely to place more value on labelled products. Consumers are likely to have more choices since there will be non-labelled and labelled products (Nimon and Behgin[51]). REACH is assumed to lead to product reengineering in the textile industry.[52]

Increase efficiency in production. A fair trade labelling scheme has a direct effect on poverty reduction since it aims to improve the living and working conditions of workers in LDCs. The

---

48   http://strategis.ic.gc.ca/epic/internet/inimr-ri.nsf/en/gr121942e.html.
49   http://www.card.iastate.edu/publications.
50   http://www.card.iastate.edu/publications.
51   http://www.card.iastate.edu/publications.
52   http://strategis.ic.gc.ca/epic/internet/inimr-ri.nsf/en/gr121942e.html.

improvement of living and working conditions has a positive effect on workers' motivation, which in turn may raise firms' productivity, hence firms' growth.

The labelling schemes aiming to improve the quality of products, to apply environmental friendly production process hence low rate of infection, and to protect consumers' health are likely to have a positive effect on poverty reduction. However, this is undermined by the lack of harmonised labelling schemes, which raises the question: who benefits from the current labelling schemes? A lack of incorporation of environmental needs and production practices of LDCs/DCs in the schemes, which are different from those in ICs (i.e. labelling countries), may mean that the schemes benefit more ICs than LDCs/DCs. For example, waste reduction is an environmental priority in the EU, thus its schemes reward the use of technology that may lead to recycled textile and apparel items, while exporting countries may benefit more from natural resource management/protection, viz., reforestation, protection of animals and land management. Given differences in marginal utilities of consumers in ICs and DCs, what may be considered a green good in DCs may no longer be considered green in ICs (Nimon and Behgin[53]). As a result, all costs related to compliance with labelling standards may be regarded by LDCs and DCs as unnecessary costs which reduce their returns, and therefore increase poverty.

6.   Conclusion and policy recommendations

6.1   Conclusion

Based on the previous findings and exploratory discussions, the paper tried to find out how global governance structures shape producers growth and poverty reduction. It is observed that the majority of producers, particularly in DCs and LDCs benefiting from different schemes but have limited domestic capacity in textile production and weak backward linkages are involved in sewing/assembly activities. These producers seem to be integrated into the GVC through brand manufacturers or triangular global networks. The structures governing transactions between these producers and global buyers are captive and hierarchical. Given the interests of brand manufacturers, producers may accrue temporary benefits from their participation in a GVC. Poverty reduction is also likely to be temporary in nature.

The MFA strengthened the importance of free trade agreements and GSP schemes in shaping global actors' decisions on where to source apparel items. Consequently, the beneficiaries of GSP schemes and free trade agreements were able to participate in the GVC. The phase out of MFA is said to have resulted in the migration of apparel production operations from the beneficiaries with weaker domestic capacities, hence income and job losses.

---

[53]   http://www.card.iastate.edu/publications.

Benefits from AGOA seem to be temporary. EBA crowd out majority of LDCs from the GVC as it is unrealistic. Production sharing schemes and tariff rates charged by the EU and the US seem to discourage LDCs and DCs' producers to participate in activities earning higher value-added and limit their growth and sustainable poverty reduction.

Labelling schemes are gaining importance in providing access to the global market and likely to shape lead firms' decisions on where to source textile and apparel items. However, compliance with different schemes is said to be problematic because their developments were non-harmonised and ignored the participation of DCs and LDCs. The fact that DCs and LDCs seem to lack the technology/infrastructure and technical know-how to offer labelling services, their MSMEs are likely to be eliminated from the global market.

6.2   Policy recommendations

DCs and LDCs may overcome the mentioned deficiencies by creating the environment that can facilitate the development of producers' own brand names for domestic and regional markets and attract brand marketers and retailers to facilitate the utilisation of OEM and OBM model of outsourcing. Among the options that may be undertaken to attain this are as follows.

Provision of BDS. Localised governance structures outside the chain need to offer them BDS in product design and marketing information, link produces to international designers and facilitate the provision of valuable IT services. They also need to facilitate the development of networks between producers at the local, regional and global level by facilitating producers' participation in regional/international trade fairs. These proposals are in line with the experience of the Ludhiana Knitwear clustered firms in India (Tewari, 1999); Sinos Valley shoe manufacturers in Brazil (Schmitz, 1999).

Joint action in textile capacity building. Countries in their regional cooperation may need to be encouraged to promote regional production capacities in textile and raw materials (i.e. natural and man-made fibres) to enable producers be connected to diversified types of global buyers Gereffi, 1999; Tewari, 1999; Gereffi and Memedovic, 2003) and utilise the preferential trade agreements, which most of them have currently not benefited.

Infrastructure development. The competitiveness in textile and apparel activities and the integration of actors into GVC require efficient economic infrastructure and the provision of subsidiary services to reduce transaction cost. The application of quick response mechanisms, viz., the use of electronic data interchange (Gereffi and Memedovic, 2003; Tewari, 1999) requires the presence of telecommunication system.

Labelling infrastructure. The process of setting harmonised and transparent labelling schemes requires cooperation between the labelling institutions and all actors in the value chain. Governments and agencies at national/regional level may need to set up the labelling

infrastructure, facilitate the provision of technical know-how for labelling process. BDSs may need to incorporate labelling training modules to sensitise MSMEs on labelling issues and their importance.

The importance of environmental labelling needs to be communicated to consumers to increase the demand of labelled products. Policy makers may need to increase campaign on fair trade labels.

References:

Ahmad, M. (2001): Textile and Clothing (A Paper Presented to UNCTAD Meeting on Strengthening the Participation of Developing Countries in Dynamic Sectors in World Trade: Trend Issues and Policies).

Bair, J. and G. Gereffi (2001): Local Clusters in Global Chains: The Causes and Consequences of Export Dynamism in Torreon's Blue Jeans Industry, in: *World Development* 29: 1885-1903.

Brenton, P. (2003): Integrating the Least Developed Countries into the World Trading System: The Current Impact of EU Preferences under Everything But Arms, Washington, D.C.: World Bank, International Trade Department.

Brooke, J. (2005): End of Textile Trade Quotas Forces Cruel Choices, in: The New York Times, April 25, 2005: 8.

Clara, M., F. Russo, and M. Gulati (2000): Cluster Development and BDS Promotion: UNIDO's Experience in India, A Paper Presented at the International Conference on Business Services for Small Enterprises in Asia: Developing Markets and Measuring Performance in 2000, Hanoi.

Clemons, E. K., S. P. Reddi and M. C. Row (1993), The Impact of Information Technology on the Organisation of Economic Activity: The 'Move to Middle' Hypothesis *Journal of Management Information System* 10: 9-35.

Galvin, P. and A. Morkel (2001): The Effect of Product Modularity on Industry Structure: The Case of the World Bicycle Industry, in: *Industry and Innovation* 8: 31-47.

Gereffi, G. (1994): The Organisation of Buyer-Driven Commodity Chains: How US Retailers Shape Overseas Production Networks, in G. Gereffi and M. Korzeniewicz (eds.), *Commodity Chains and Global Capitalism*, Westport, 95-122.

Gereffi, G. (1995): Global Production Systems and Third World Development, in B. Stallings (ed.), *Global Change, Regional Response: The New International Context of Development*, Cambridge: 100-142.

Gereffi, G. (1999): International Trade and Industrial Upgrading in the Apparel Commodity Chain, in: *Journal of International Economics* 48: 37-70.

Gereffi, G. and O. Memedovic (2003): The Global Apparel Value Chain: What Prospects for Upgrading by Developing Countries, Vienna: UNIDO, Sectoral Study Series.

Gereffi, G., J. Humphrey and T. Sturgeon (2005): The Governance of Global Value Chain, in: *Review of International Political Economy Vol. 12, No. 1, pp. 78-104.*

Gibbon, P. (2000): Global Commodity Chains and Economic Upgrading in Less Developed Countries, Kopenhagen: CDR Working Paper 002.

Harrigan, K. R. (1983): A Framework for Looking at Vertical Integration, in: *Journal of Business Strategy* 3: 30-37.

Humphrey, J. and H. Schmitz (2002): Developing Country Firms in the World Economy: Governance and Upgrading in Global Value Chains, Duisburg: INEF Report 61.

Humphrey, J. and H. Schmitz (2000a): Governance in Global Value Chains, in: H. Schmitz (ed.), *Local Enteprises in the Global Economy: Issues of Governance and Upgrading*.

Humphrey, J. and H. Schmitz (2000b): Governance and Upgrading: Linking Industrial Cluster and Global Value Chain, Brighton: IDS Working Paper 120.

ILO (2003): Defining Strategies for Improving Working and Employment. Conditions in Micro and Small Enteprises and the Informal Economy. Overview of the ILO Learning and Research Agenda, Geneva: ILO.

International Monetary Fund and World Bank (2002): Market Access for Developing Country Exports. Selected Issues. Washington, D.C.

Ishengoma, E. K. and R. Kappel (2005): Linkages as Determinants of Industrial Dynamics and Poverty Alleviation in Developing Countries, Eschborn: GTZ, Report.

Jacka, C. (2000): Standards and Responsibilities for Green Textile Production in an Emerging Economy, in: Pursuit Magazine.

Johnston, R. and P. R. Lawrence (1988): Beyond Vertical Integration - The Rise of the Value Adding Partnership, in: *Harvard Business Review* 1988: 94-98.

Kaplinsky, R., O. Memodovic, M. Morris, and J. Readman (2003): The Global Wood Furniture Value Chain: What Propects for Upgrading by Developing Countries: The Case of South Africa, Vienna: UNIDO, Sectoral Study Series.

Kingdon, G. G and J. Knight (2003): Well-being poverty versus income poverty and capabilities poverty? Oxford: CSAE WPS, 2003-16.

Knorringa, P. (1999): Agra: An Old Cluster Facing the New Competition, *World Development* 27:1587-1604.

Nadvi, K. (1999): The Cutting Edge: Efficiency and International Competitiveness in Pakistan', in: *Oxford Development Studies 27:* 81-107.

Nadvi, K. (2004): Globalisation and Poverty: How can Global Value Chain Research Inform the Policy Debate? In: *IDS Bulletin* 35: 20-30.

Nadvi, K. and S. Barrientos (2004): Clusters and Poverty Reduction: Towards a Methodology for Poverty and Social Impact Assessment of Cluster Development Initiatives, Vienna: UNIDO.

Nathan Associate Inc. (2002): Changes in Global Trade Rules for Textiles and Apparel: Implications for Developing Countries, A Research Report Submitted to USAID in 2002, Washington, D.C.

Nieminen-Kalliala, E. (2003): Environmental Indicators of Textile Products for ISO (Type III) Environmental Product Declaration, *AUTEX Research Journal* 3: 206-218.

Noor, H. M, R. Clarke and N. Driffield (2002): Multinational Enterprises and Technical Effort by Local Firms: A Case Study of the Malaysian Electronics and Electrical Industry, in: *The Journal of Development Studies* 38: 129-141.

Nordås, H. K. (2004): The Global Textile and Clothing Industry Post the Agreement on Textiles and Clothing, Geneva: WTO, Discussion Paper No. 5.

Oxfam International (2004): Stitched Up: How Rich-Country Protectionism in Textiles and Clothing Trade Prevents Poverty Alleviation, in: Oxfam Briefing Paper 60.

Rabellotti, R. (1999): Recovery of a Mexican Cluster: Devaluation Bonanza or Collective Efficiency? Brighton: IDS Working Paper 71.

Raikes, P., M. F. Jensen, and S. Ponte (2000): Global Commodity Chain Analysis and the French Filière Approach: Comparison and Critique, Kopenhagen: CDR Working Paper 003.

Schmitz (1999): Global Competition and local Co-operation: Success and Failure in Sinos Valley, Brazil, in: *World Development* 27: 1627-1650.

Schmitz, H. (2000): Does Local Co-operation Matters? Evidence from Industrial Clusters in Southern Asia and Latin America, in: *Oxford Development Studies* 28: 323-336.

Schmitz, H. and P. Knorringa (1999): Learning from Global Buyers, Brighton: IDS Working Paper 100.

Sen, A. K. (1983): Poor, Relatively Speaking, in: *Oxford Economic Papers* 35: 153-69.

Sethuraman, S. V. (1997): Urban Poverty and the Informal Sector. A Critical Assessment of Current Strategies', New York: UNDP.

Sturgeon, T. and J. R. Lee (2001): Industry Co-evolution and the Rise of a Shared Supply-base for Electronic Manufacturing, Aalborg: Paper Presented at Nelson and Winter Conference.

Stutzer, A. (2004): The Role of Income Aspirations in Individual Happiness, *Journal of Economic Behaviour and Organisation* 54: 89-109.

Tewari, M. (1999): Successful Adjustment in Indian Industry: the Case of Ludhiana's Woolen Knoghtwear Cluster, in: *World Development* 27: 1651-1671.

Tokman, V. E. (1978): An Exploration into the Nature of Informal-Formal Sector Relationships, *World Development* 8: 1065-1075.

UNIDO (2004): Inserting Local Industries into Global Value Chains and Global Production Networks: Opportunities and Challenges for Upgrading with a Focus on India, Vienna: Working Paper.

United States International Trade Commission (2003): Textiles and Apparel: Assessment of the Competitiveness of Certain Foreign Suppliers to the U.S. Market; Investigation No. 332-448, Publication 3671).

Walker, G. and D. Weber (1984): A Transaction Cost Approach to Make-or-Buy Decisions, in: *Administrative Science Quarterly* 29: 373-391.

Internet sources

A. Hyvarinen, The Introduction of The Agreement of Textiles and Clothing (ATC) and its Implications on Developing Country Producers/Exporters: Eco-labelling and Environmentally Friendly Products and Production Methods Affecting the International Trade in Textiles and Clothing', (1999) Internal Trade Centre, Geneva http://www.intracen.org/worldtradenet/welcome.htm.

EU, 'Generalised System of Preferences. User's Guide to the European Union's Scheme of Generalised Tariffs Preferences', (February 2003) http://europa.eu.int/comm/trade/issues/global/gsp/gspguide.htm.

http://www.eco-label.com/default.htm, http://europa.eu.int/comm/enterprise/textile/intlmarket.htm.

http://www.intracen.org/textilesandclothing/quota_phase_out.htm, "Quota Phase Out: T&C Sector Uncertainties".

S. Getman, 'Exporting Textiles and Textile Products to the European Union - Frequently Asked Questions', International Market Insight (2005) http://www.buyusainfo.net.

W. Nimon and J. C. Behgi, 'Eco-Labels and International Trade in Textiles', http://www.card.iastate.edu/publications.

WTO, 'The World Trade Organization: A Training Package. Module 1-5 (1998)', WTO Geneva http://www.wto.org.


Abbreviations

ACP	Africa Caribbean Pacific
AGOA	African Growth and Opportunity Act
APPEAL	Apparel Exporters' Association of Ludhiana
ATC	Agreement of Textile and Clothing
BDS	Business Development Services

CBI	Caribbean Basin Initiatives
DCs	Developing Countries
EBA	"Everything but Arms" initiative
EUEB	European Eco-labelling Board
FDI	Foreign Direct Investment
GSP	Generalised System of Tariff Preferences
GVC	Global value chain
ICs	Industrialised Countries
ITC	International Trade Centre
LDCs	Less Developed Countries
LTA	Long-term Trade in Cotton Textiles Agreement
MFA	Multi-fibre Agreement
MSMEs	Micro, small and medium enterprises
NAFTA	North America Free Trade Area
NGO	Non-governmental Organisation
NICs	Newly Industrialised Countries
OBM	Original Brand Name Manufacturing
OEM	Original Equipment Manufacturing
PPM	Processes and Production Methods
SMEs	Small and medium enterprises
SPS	Sanitary and Phytosanitary Measures
TBT	Technical Barriers to Trade
USITC	US International Trade Commission
WTO	World Trade Organization

Figure from the main text

Figure 1:   The global textile and apparel value chain
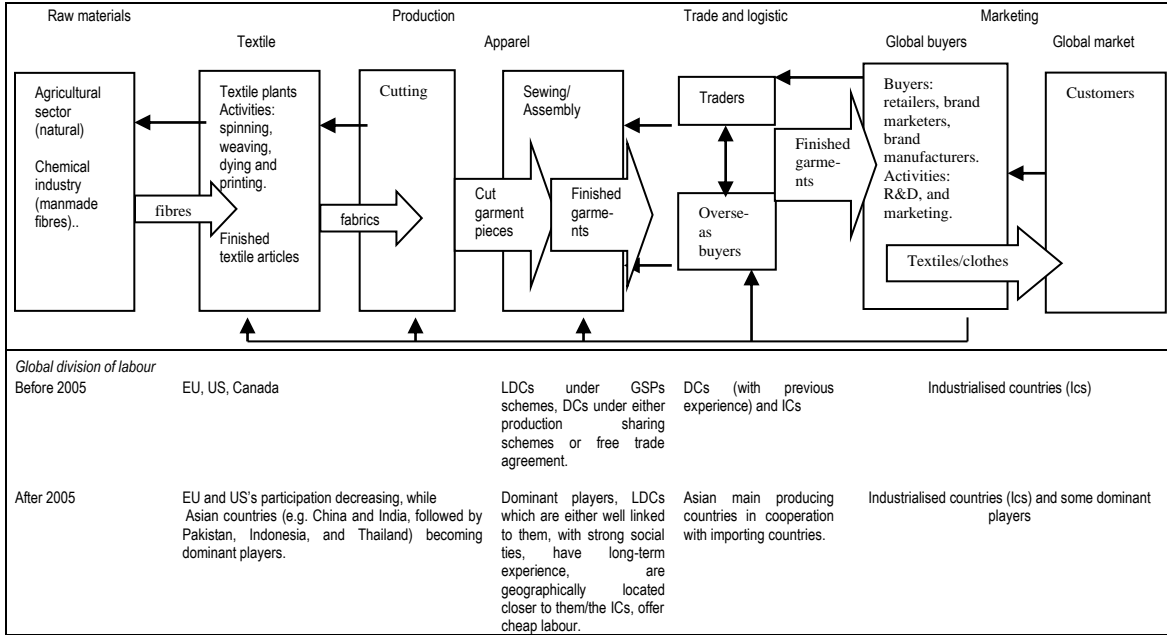
Source: Own figure

Note: the solid arrow indicates the flow of information.