

Global value chains and business models in the central and eastern European clothing industry

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1. Introduction

Recent years have been something of an ordeal for the central and eastern European clothing sector. Following two decades of steady and deepening integration into European production and contracting networks with their origins in European Union (EU) outward processing trade schemes (Pellegrin 2001; Begg et al. 2003), the sector has been struggling with three main challenges: the removal of quota-constrained trade,¹ associated competitive pressures from low-cost producers around the world (Smith et al. 2008; Pickles and Smith 2011), and the global economic crisis, which resulted in a significant reduction in demand in core European markets.

This chapter examines the range of regional economic and employment adjustments that have taken place in the clothing industry in central and eastern Europe, focusing on the Slovak case as it has responded to these challenges. It situates this case study in the context of wider changes in the industry and its adoption of particular business models in central and eastern Europe. The chapter explores the ways in which regional concentrations of export-oriented clothing production sustained employment in often peripheral regional economies when, particularly during the 1990s, de-industrialisation was occurring in other branches (Pickles 2002; Smith 2003). It examines how increasing competitive pressures started to unravel these regional production systems, leading to a much more differentiated landscape of firm-level strategies and uneven upgrading capacities among enterprises. Within the context of further economic crisis-induced restructuring over the past five years, the chapter highlights the ways in which proximity to key Western buyers, often through joint

1. The removal of quota-constrained trade at the end of 2004 was part of the phasing out of the Multi-Fibre Arrangement which had governed international trade in textiles and clothing for many decades. See Abernathy et al. (2006), Curran (2008a, 2008b), Gereffi and Frederick (2010) and Pickles (2006).

ventures and foreign direct investment, has been one way in which production has been sustained in some peripheral regional economies.

Reflecting on recent debates concerning industrial upgrading in the global value chain literature, the chapter makes two main conceptual contributions. First, it argues that too little consideration has been given to the wider political economy within which business strategies in global value chains are situated (see also Bair 2005; Selwyn 2012; Smith 2014). We seek to understand how the current global economic crisis is affecting the long-term sustainability of regionalised production systems and we highlight not only declining demand in core markets but the impacts that state policy frameworks for EU economic integration and the clothing industry's ownership structures have had on the changing landscape of competitiveness. We highlight the role of foreign ownership in firms' responses to these increasing competitive pressures; especially the roles that proximity to buyers, foreign investors and consequent connections to primary markets have in sustaining the production of particular products during times of liberalisation and crisis.

Second, the chapter examines the role of labour in the tightening landscape of 'relative competitiveness' in global value chains. We argue that labour's positional power² within export-oriented value chains has led to some temporary and partial improvements for worker remuneration and working conditions. In particular, we show how the industry negotiated contract prices to reflect the higher wage claims of workers as local labour markets tightened. However, labour's positional power also leaves it vulnerable to deepening competitive pressures as production costs have increased and trade liberalisation and the economic crisis since 2007 have exacerbated economic decline. Workers' ability to leverage higher wages and associated payments heightened vulnerability to the loss of key orders from western European buyers. As they responded to local labour market conditions, export-dependent firms faced further competitive pressures as other costs – such as energy, short-term credit, and inputs – increased and employment growth in other industrial and service sectors further tightened local labour markets. A common, though not universal, outcome was firm bankruptcy and factory closure.

2. By labour's 'positional power' we mean workers' ability to leverage improvements in wage rates and/or working conditions in an effort to enhance their 'conditions of social reproduction'. Recent work in the global value chain tradition has begun to argue that this constitutes a parallel process of 'social upgrading' running alongside 'industrial upgrading' (Barrientos et al. 2011).

The chapter is organised as follows. Section 2 highlights the need to consider the wider political economic environments within which value chains are embedded and the role of foreign direct investment, business strategies and labour in shaping the strategic behaviour of firms in these networks. These arguments are pursued in Section 3 through a consideration of the competitive pressures in the global and central and eastern European clothing industries, which is followed by an examination of the long-run trajectories of the Slovak clothing industry and its regional dynamics. These sections highlight the significance of international trade liberalisation, EU enlargement and euro-zone integration, as well as the role of ownership structures in explaining different regional trajectories. The chapter then turns to consider the impact of the global economic crisis, the ways in which vulnerability to market shocks has been articulated with increasing labour costs in the industry associated with wage bargaining and the variegated effects on employment and output: significant contraction and employment downsizing in some firms, alongside the sustaining of particular product niches for export production in others. The chapter concludes with a consideration of these dynamics for conceptualisations of business strategies in global value chains.

2. Global value chains, the economic crisis, and the global political economy

The integration of producers and workers in various parts of the world economy into export-oriented value chains has given rise to an extensive literature. It is not our intention to review this literature here, not least because a range of reviews already exist (Leslie and Reimer 1999; Smith et al. 2002; Bair 2005, 2009; Staritz 2011). As Bair (2005) notes, however, the earlier focus of much of this work on global commodity chains has shifted towards a consideration of the way that value chains are organised and governed and of the implications for industrial upgrading (see Sturgeon 2009; Gereffi et al. 2005). In this later literature a primary focus has been the mechanisms whereby firms and industries engineer a process of industrial upgrading to capture additional functions in supply chains that generate higher value added. Humphrey and Schmitz (2002), for example, distinguish between four types of upgrading in global value chains: product, process, functional and chain upgrading. Product and process upgrading involve firms retaining their position in a chain by enhancing productivity gains through adopting new production

processes or new configurations of product mix. Functional upgrading involves a movement 'up' the chain into newer, higher value added activity, such as full package and own design/own brand manufacturing in the clothing sector. Chain upgrading involves a movement to new activity, which may also imply higher skills and capital requirement and value added (see also Milberg and Winkler 2013). Consequently, the analytical focus has shifted from an earlier emphasis on the significance for economic development of the difference between buyer-driven and producer-driven commodity chains (Gereffi 1994) to one oriented towards understanding the mechanisms whereby industrial upgrading can be achieved and exploring the developmental implications of upgrading (Gereffi et al. 2005; Bair 2005, 2009).

Within research on the central and eastern European clothing sector, there has been an engagement with these wider debates, but attention has been focused mainly on the shifting economic geographies of the industry, its connections to issues of unequal power relations within European production networks (Smith 2003) and the variety of possible upgrading, downgrading and restructuring strategies at work, moving the debate away from a singular focus on upgrading (Pickles et al. 2006; Smith et al. 2008; Pickles and Smith 2011, 2015). As Plank and Staritz (2009: 66) have argued, for example, attention needs to be focussed beyond the 'black box' of the firm to consider also who benefits from upgrading: 'Even if firms gain rewards for their upgrading efforts, the rewards may not be passed on to workers in the form of higher wages, greater job security or improved working conditions. Firm upgrading may even be based on deteriorating working conditions' (see also Bair 2005; Barrientos et al. 2011; Smith 2015).

Recent work on global value chains and the economic crisis has suggested that one of the reasons that the 2008–2009 crisis became a global one so rapidly was 'the role of trade in the transmission of the economic crisis [which] was heightened by the predominance of business models based on global production and trade networks ... Specifically, GVCs [global value chains] can partially explain the apparent overreaction of international trade to the financial crisis' (Cattaneo et al. 2010: 9). Global value chains highlight the heightened interdependencies in the world economy and have become transmission belts for the economic crisis (Smith 2013). In Europe, central and eastern European integration in the European economy in the context of EU enlargement was driven in large part by export-led models of development organised through trans-

border value chains with important implications for the dissemination of the crisis (Smith and Swain 2010; Pavlínek 2012).

Understanding the economic crisis therefore requires that analytical attention be paid to processes operating within global value chains beyond the increasingly dominant focus on industrial upgrading. Across the world, clothing industries have been experiencing the real material limits of market contraction in the context of crisis,³ and significant concerns are emerging over the sustainability of some production complexes (Forstater n.d.; Gereffi and Frederick 2010; Leucuta n.d.; Smith 2015). Our argument is that much – although certainly not all – global value chain research has neglected full consideration of the wider political economy within which value chains are embedded; notwithstanding Smith et al.'s (2002), Bair's (2005) and Selwyn's (2012) critical evaluations, as well as work on global production networks (Henderson et al. 2002; Coe et al. 2004). This implies the need to consider a wider range of agents – other than firms and their managers – and a wider set of possible firm trajectories (other than upgrading) in the process of restructuring within global production (Smith 2015). This includes a consideration of workers in the establishment of competitive conditions within which firm- and regional-level trajectories play out (see Levy 2008; Selwyn 2012). In this chapter we explore the ways in which labour and labour costs in central and eastern Europe articulated with demand-side shocks associated with the crisis and inflationary pressures on the cost structure of the industry through integration in the euro zone. We consider the negative consequences of the 2008 economic crisis on consumer demand for clothing and how it became articulated with increasing production costs, including those associated with euro-zone accession. Those firms that were able to establish close relations with western European buyers through joint ventures with foreign investors were able to secure sufficiently long-term contracts, inter-firm know-how and access to investment to enable these firms to upgrade by implementing a fuller range of production activities beyond assembly production. As a consequence, they have been able to weather the crisis more effectively and even to implement technological and production upgrading programmes. However, this remains an uncertain strategy that has been possible only in a relatively small number of – nevertheless important – cases.

3. Gereffi and Frederick (2010) estimate that US consumer spending in clothing fell by 3.6 per cent in 2008 and by 10 per cent in the first quarter of 2009. In the EU, household expenditure on clothing fell by 6 per cent between 2008 and 2009 (calculated from Eurostat data).

In addition to a consideration of the political-economic dynamics in which global value chains are embedded, our theories also need to consider more fully the role of agents other than firm managers and buyers in value chain restructuring, particularly the role that labour plays in shifting landscapes of competitiveness and associated dynamics (Coe et al. 2008; Pickles and Smith 2011; Selwyn 2007, 2012). For example, as Bair (2005: 166) has argued, ‘firms that successfully participate in global value chains may not deliver benefits to workers in the form of higher wages, greater job security or improved working conditions’; which is most certainly the case at times of economic crisis. Smith et al. (2002: 47) go on to argue that labour must be analysed in global value chains as an active agent in the shaping of chain governance and competitiveness (see also Barrientos et al. 2011; Coe et al. 2008; Coe and Jordhus-Lier 2010; Cumbers et al. 2008). A key dimension of this more recent work has been to focus on the ‘social upgrading’ of the position of workers in global value chains in which improved working conditions (wages and formalisation of employment) and enhanced workers’ rights and entitlements (worker voice and freedom of association) are achieved (Barrientos et al. 2011; Posthuma and Nathan 2010). In this chapter we argue that some workers within export-oriented value chains in central and eastern Europe have been able to gain certain temporary, yet partial, victories, particularly in relation to wages. Firm managers have responded to tightening labour markets with wage increases and other enhanced employment benefits, but these have also created vulnerabilities to the wider competitive pressures which the clothing industry has been experiencing, especially as it became affected by trade liberalisation and the falling demand due to the global economic crisis. Improved wages were not always achieved through the action of organised labour unions, which in the Slovak context are relatively weak or even non-existent in clothing firms that are not former state-owned enterprises. Rather, changes in wages and working conditions reflected capital’s reaction to tightening local labour markets and workers’ ability to demand wage increases. The close geographical proximity to its main markets that underpins the ability of the Slovak clothing industry to sustain itself has been severely tested as a result of the embeddedness of this system in wider political economic systems affecting corporate demand, on one hand, and labour’s uneven ability to secure gains, on the other. In the following section, we situate the Slovak clothing industry in the wider context of the industry in central and eastern Europe and its reconfiguration after the collapse of state socialism. We then examine the global and pan-regional competitive pressures experienced within the clothing industry and their impacts on the sector in Slovakia.

3. Business strategies in the central and eastern European clothing industry: from state-socialist full-package production to export processing

Over the past twenty years, clothing producers in central and eastern Europe have been increasingly integrated into western export markets and European production networks. From the early to mid-1980s, producers in central and eastern Europe, particularly in Poland, Hungary, Bulgaria, and the former Czechoslovakia and Yugoslavia began producing under contract for manufacturing and retail companies in the EU (Fröbel et al. 1980; Lane and Probert 2009; Pickles and Smith 2011, 2016) and to a lesser extent in the United States. In the 1980s, state policy in western Europe – especially EU trade policies and customs agreements – played a vital role in encouraging European manufacturers and retail buyers to expand their production networks into central and eastern Europe (Pickles and Smith 2016).⁴ Full-bundle (later cut-and-make and cut-make-trim) production was encouraged under special preferential customs agreements known as outward processing trade (Pellegrin 2001; Begg et al. 2003).⁵ Full-bundle production refers to the system of exporting from the buyer country all the components of a garment, including patterns, pre-cut fabric, yarn, thread, buttons and packaging, to be assembled in an central and eastern European country and then re-exported to the buyer country. The system was designed explicitly to protect western European fabric and yarn manufacturers, while giving them access to lower labour costs in assembly plants in central and eastern Europe. This process was driven directly by European Economic Community (EEC) and EU trade and customs policies through outward processing trade regulations, which created trade quotas allowing for production sharing arrangements to be established between EEC countries and those in central and eastern Europe. Outward processing trade allowed the temporary export of fabrics and trim for outward processing in central and eastern European countries and the re-import of manufactured clothing with duties being paid only on the value added; that is, the cost of labour for sewing (Pellegrin 2001; Pickles and Smith 2016).

4. The 2001 ETUI volume *CEE Countries in the EU Companies' Strategies of Industrial Restructuring and Relocation* (Gradev 2001) was particularly important in detailing the relationship between company strategies and the effects of relocation and contracting decisions on labour throughout ECE.

5. In Germany and the Netherlands, the more common term for full-bundle and outward processing trade is the Lohn system. It remains the primary mode of contracting for many exporting firms in central and eastern Europe.

With the collapse of Soviet-bloc and domestic markets for central and eastern Europe textiles and clothing in the early 1990s, outward processing trade assembly production became the dominant form of production within a struggling state-owned and increasingly privatised industry (Pickles and Smith 2015). While the 1990s saw industry-wide collapse, some clothing enterprises were able to sustain minimal levels of state underwriting, contracting and production, and in some state and former-state firms managers were able to struggle along in generally unfavourable circumstances. In other cases, new small private locally-owned enterprises emerged based on ad hoc contracting or new buyer relationships. In the mid-1990s, as competitive pressures (and wage and other cost pressures) increased in central Europe, a second tier of producers in Bulgaria, Romania and the Baltic States began to emerge, with Romanian export production becoming the primary location for outward processing trade in the region.⁶

While most countries in central and eastern Europe experienced these same processes of reform and restructuring, each did so in distinctive ways, depending on the specific form and timing of the fiscal crises of the state, the policies and pace adopted for the state's withdrawal of enterprise investment and wage budgets, and the specific adjustment paths and privatisation processes attendant on the rapid loss of state socialist markets. Each of these circumstances had its own effects as firms restructured to new labour market conditions, ownership patterns and cost structures in highly competitive international contracting environments.

Core factories were therefore able to sustain production and employment, at the same time as employment in the western European textile, clothing and footwear industries more generally had declined precipitously as sourcing moved to lower-cost locations (ILO 1996) resulting in a loss of employment in the EU clothing sector between 1985 and 1995 of 40 per cent (Stengg 2001: 3). But even in central and eastern Europe after 1989 some policy-makers quickly wrote off entire industries, with state authorities in Bulgaria, for example, going as far as to declare the clothing industry moribund (Pickles and Begg 2000) and state policy-making

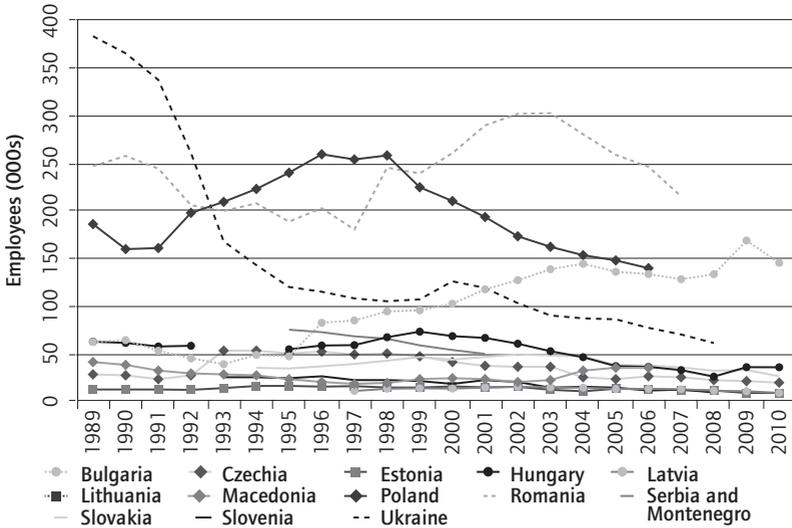
6. By 2006, the European Working Conditions Observatory estimated that about 80 per cent of orders placed in Romania were based on the Lohn system (EWCU <http://www.eurofound.europa.eu/ewco/2006/05/RO0605NU03.htm>). See also Plank and Staritz (2009) for a discussion of the Romanian experience.

formations in Slovakia almost completely rejecting any industrial policy relating to the clothing sector in preference for more capital intensive industries, such as automotive assembly (Pavlínek 2002; Drahekoupil 2008; Smith and Ferenčíkova 1998). Policy-makers throughout the region adopted similar 'commonsense' understandings that these were footloose 'sunset' industries whose likely demise should be reflected in state policies, or their absence (see Pickles and Smith 2016).

Industry analysts were largely misinterpreting employment declines in western Europe and intense intra-enterprise struggles for capital and power in central and eastern Europe as industrial decline. In fact, what was occurring was a recomposition of the industry, involving new international divisions of labour, which themselves were being partially opened around new forms of trade regulation. This was far from a tale of industrial decline, although it was one in which labour was becoming differentially repositioned in relation to the (re)creation of international production networks and the reconfiguration of new geo-economic borders in Europe and beyond. As a result, at the very time the state-run clothing industry in central and eastern Europe was experiencing difficulties associated with the collapse of centralised planning and domestic demand, factories and workshops were being rapidly integrated into the supply chains of European buyers as the nearest export processing zone for the western European clothing industry, embedding production in outsourcing networks supported by state and EU near-shoring policies (Graziani 1998; Pellegrin 2001; Pickles and Smith 2016).

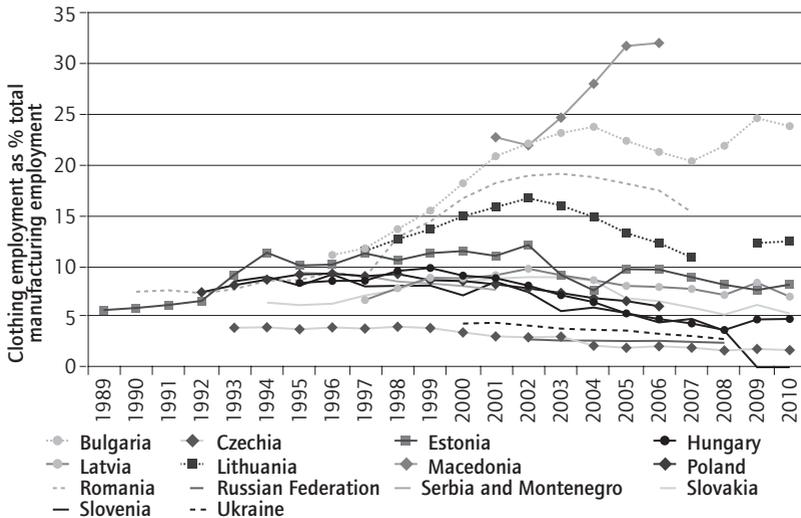
In these contexts employment shifts occurred in the textile and clothing industry. Except in Ukraine, Russia and Poland, clothing employment first stabilised and then grew across central and eastern Europe (Figure 1), and soon accounted for almost one-fifth of total manufacturing employment in Romania and one-quarter in Bulgaria (Figure 2). By the latter part of the first decade of the twenty-first century, in most central and eastern European countries employment in the industry continued to account for at least 5 per cent of manufacturing employment. But, unlike the fully integrated textile and apparel production systems before 1989, the re-emergent clothing industry after 1989 was inserted into fragmented global value chains as low-cost sewing workshops and export processing platforms.

Figure 1 Clothing employment in central and eastern Europe, 1989–2010



Source: Based on International Labour Organization databases

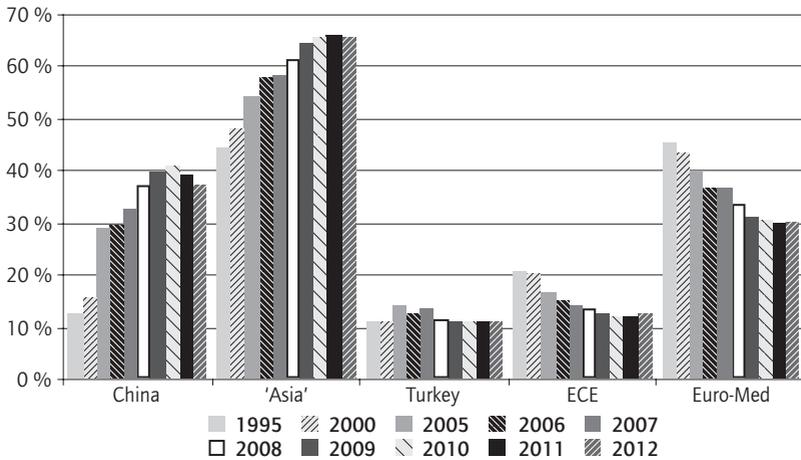
Figure 2 Clothing employment as a percentage of total manufacturing employment in central and eastern Europe, 1989–2010



Source: Based on International Labour Organization databases

The consequence was that for much of the mid-1990s clothing exports to core markets in the EU15 continued to grow, mostly via outward processing trade mechanisms. However, as trade became increasingly liberalised between the EU and the countries of central and eastern Europe (notably those themselves undergoing EU accession), outward processing trade regimes became less significant as manufacturers struggled to upgrade their functions and systems, and to capture higher profits from their contracts. Between 1995 and 2005 the phased removal of trade quotas resulted in increasing competition from producers in China and other lower cost locations which were able to undercut higher cost production on the margins of the EU (Curran 2008a, 2008b; OECD 2004; Pickles and Smith 2011; Staritz 2011). For example, Chinese and ‘Asian’ exports to EU markets increased rapidly (Figure 3). Exporters in Turkey, central and eastern Europe and North Africa continued to play an important role, but they also experienced a relative decline, with somewhat of a stabilisation of regional sourcing from the Euro-Mediterranean region in recent years.

Figure 3 Share of EU15 clothing imports by macro-region, 1995–2012



Notes: Asia: China, India, Bangladesh, Hong Kong, Indonesia, Vietnam, Sri Lanka, Pakistan, Thailand, Cambodia, Macau, South Korea, Lao, Taiwan, Malaysia.

Central and eastern Europe: Romania, Bulgaria, Poland, Hungary, Czechia, Slovakia, FYR Macedonia, Baltic States, Ukraine, Slovenia, Belarus, Croatia, Bosnia & Herzegovina, Albania, Moldova.

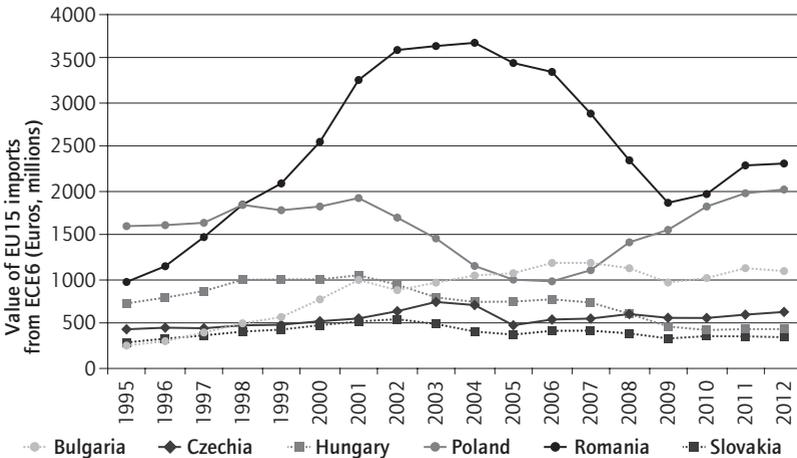
Euro-Med: Turkey, Central and Eastern Europe, Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, Palestinian Authority, Syria, Tunisia.

Source: Based on Comext database

However, this macro-regional set of changes masks important national-level changes. For example, while Poland and Hungary saw an absolute

decline in the level of clothing exports to EU15 markets during the 1990s and early 2000s, exports burgeoned in Romania and Bulgaria (Figure 4). A wave of crises was also experienced around the 2005 quota phase-out, with Romanian clothing exports falling precipitously, although recovering immediately following the 2008 global economic crisis. Polish clothing exports, once written off as a fading industry, have returned to positive growth since 2006, as they have also following the economic crisis in Romania and Bulgaria.

Figure 4 Clothing exports from selected central and eastern Europe suppliers to EU15 markets, 1995–2012



Source: Based on Comext database

The incorporation of proximate assembly producers in low-wage countries on the margins of the EU was part of a broader EU strategy of labour market reform orchestrated under pressure from large industry and retailer associations. As these fractions of western European capital sought to extend the frontiers of accumulation opportunity by eastwards expansion, national and EU policies created ever more conducive policy frameworks for them. This so-called ‘golden bands’ approach was a driving motif for both enlargement and trade integration in and beyond Europe. The EU market became embedded within ‘three golden bands’ of clothing production and exports, which were increasingly important to the accumulation strategies of western European industrial and retail capital in the clothing sector: core EU/European, central European and North African and wider eastern European locations. Beyond these three

golden bands, and in the context of the significant trade liberalisation that the end of quota-constrained trade in 2004 and 2008 represented, the effect of the rise of certain Asian production sites was profound (Figure 3). While many central and eastern European countries saw a relative reduction in their exports to the EU over this period, many continued to operate in those markets and some even saw absolute growth of clothing exports. These macro-regional systems of ‘golden bands’ production were, of course, part of wider geo-political and geo-economic integration projects between the EU and its neighbouring states. Partly concerned with restricting migrant labour flows, partly connected to the consolidation of dictatorial governments controlling the rise of radical Islam in North Africa, and partly connected with the geographical expansion of the economic interests of EU capital to enable EU-based firms to access cheaper labour reserves in neighbouring states, these frameworks underpinned in important ways a much larger system of macro-regional integration (see, for example, Smith 2014, 2015).

4. Competitive pressures, EU enlargement, the state and euro-zone integration: transformations of the Slovak clothing sector

In order to examine the changing divisions of labour in the European clothing industry we examine the case of Slovakia. Slovakia exemplifies some of the broader trends in the industry in central and eastern Europe as it has responded to increasing competitive pressure and trade liberalisation (see Pickles and Smith 2016 for a fuller exploration of some features of the Slovak case). The replacement of the state socialist full-package model of clothing production by the outward processing trade-dominated, export-oriented form of integration into EU production networks and markets sustained the clothing industry in Slovakia at around 6 per cent of total industrial employment (30,000 employees in 1995⁷), at a time when the post-socialist economy was going through major recession. However, since the mid-2000s there have been

7. These data from the Slovak Statistics Office only include firms over 20 employees and thus under-represent the total employment in the clothing sector in which small firms are also found. For example, ILO LaborSta database figures suggest that employment levels in the clothing industry in 1995 were around 35,000, albeit a similar proportion of total manufacturing employment. SARIO (the Slovak Investment and Trade Development Agency) reports that over 40,000 people were employed in textiles and clothing industries in 1999 <http://www.sario.sk/?textile-and-clothing>

sustained job losses in the industry as competitive pressures increased (16,000 jobs lost between 2002 and 2011), and industrial value added has declined. While export activity sustained industrial production in regions that were dependent on clothing production, the recent economic crisis has been particularly damaging to this model of export dependence, and now threatens the survival of major parts of the industry and the economic vitality of its regions.

Around the time of EU enlargement the industry also experienced increasing wage pressure, which impacted on the shifting geography of clothing production. The prioritisation by the state of EU membership (2004) and euro-zone (2009) accession added to the cost pressures for clothing producers. The relative export competitiveness of Slovak firms was further undermined by the appreciation of the Slovak koruna against the euro in the run up to euro-zone integration.⁸ The effects of this were heightened because many production contracts with western European buyers had already been negotiated in euros.⁹ While some firms were able to negotiate currency appreciation and wage inflation pressures through twice yearly systems of contract price renegotiation with EU buyers,¹⁰ the export competitiveness of many firms was affected.

Currency appreciation occurred at the same time as national legislation increased the minimum wage in Slovakia, which raised wage levels for the lowest paid segment of industrial workers in Slovakia, among whom clothing workers were a significant group. Following an eight-year period of wage limitation under the neoliberal Dzurinda governments (see Stenning et al. 2010), the social democratic-nationalist/populist coalition which came to power in 2006 increased the national minimum wage by 10.2 per cent in October 2006 (to 220 euros) (Barošová 2007) and by a further 4.1 per cent to 308 euros in January 2010.¹¹ This reflected not only changing national political priorities but also a political settlement following the 2006 election involving a stronger role for national trade unions and greater positional power for organised labour.

8. Between 2005 and 2008 the Slovak koruna appreciated in value against the euro by 24 per cent (Kubosova 2008; see also Plank et al. 2009), and this continued in 2008 (16 per cent in May 2008 alone), just prior to the European Central Bank locking the euro/koruna exchange rate for the 1 January 2009 conversion to the euro.

9. Interview with senior manager, German-Slovak joint venture, Prešov, June 2008; interview with senior manager, German-Slovak joint venture, Spišska Nová Ves, June 2008.

10. Interview with senior manager, Italian-Slovak joint venture, Prešov, June 2008.

11. See http://www.sktday.com/content/2088_minimum-monthly-wage-slovakia-rose-307-70.

Integration in the euro zone, membership of the EU and wage pressures were connected to expectations about future national economic growth and the ability of labour to leverage wage increases. Together these forces generated intense pressure on factory managers to increase wages during the mid-2000s. The managing director of one large, former state-owned enterprise in eastern Slovakia, for example, estimated that wage inflation (despite the fact that clothing workers remained the lowest paid of all manufacturing employees) and currency appreciation increased total operating costs by 22 per cent in 2008 alone.¹² This was compounded by the loss of workers from labour-intensive industries as both migration to EU15 states and sectoral restructuring increased, particularly as small firm development and shifts into tertiary sector employment became more important (see also Plank et al. 2009). Despite the fact that for many workers the expected benefits of migration to the EU15 were not always realised,¹³ out-migration and sectoral restructuring both served to create a situation in which factory managers found themselves having to provide additional wage and non-wage benefits in order to deal with a tightening labour market for clothing workers.

The global economic crisis had a significant impact on these regional production systems, as core markets in Western Europe contracted and orders were lost. According to data from EURATEX,¹⁴ 2008 and 2009 EU household consumption in textiles and clothing fell for the first time in seven years, and 2011 consumption remained below the level of 2007. The economic crisis increased pressure on the industry, which in the case of Slovakia led to a significant reduction in exports to core markets in EU15 countries. This was accompanied by extensive downsizing and bankruptcy in the industry, estimated to have resulted in the loss of approximately 12,000 jobs since 2005. During the height of the economic crisis, national production fell by 36 per cent in textiles and clothing at the lowest point in February 2009 and by 10.7 per cent in 2009 as a whole (compared with 2008). Exports to the main EU15 markets fell by 7 per cent between 2007 and 2008 and did not return to early 2008 levels.¹⁵ Overall, Slovakia's share of the EU15 clothing market fell from 1 per cent in 1995 to 0.5 per

12. Interview with managing director, former state-owned enterprise, Michalovce, October 2009.

13. Interview with senior manager, German-Slovak joint venture, Prešov, June 2008.

14. Interview with senior personnel, EURATEX, Brussels, July 2012.

15. Industrial production data for February 2009 are derived from ŠÚSR (2009a) and for 2009 as a whole from ŠÚSR (2009b). Trade data are extracted from Comext, the Eurostat trade database.

cent in 2011, although – as we note later – there are certain product niches that have proved very resistant to these wider changes.

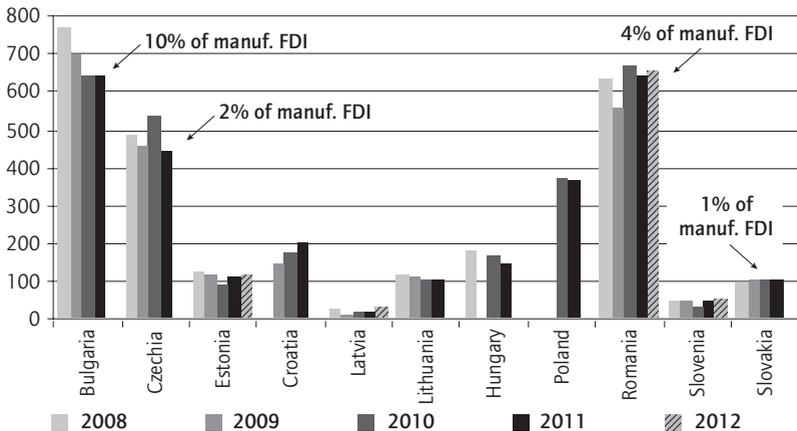
What these transformations mean for the sustainability of labour-intensive clothing production in Slovakia and more generally across central and eastern Europe remains an open question, but the reliance on a model of development wedded to EU15 export markets integrated through European production networks exposed producers across the region to demand-side shocks (Smith and Swain 2010). Export demand in some sectors of Slovakian industry has started to rebound, mainly in electronics, machinery and transport equipment (ŠÚSR 2010), but sectoral restructuring and the broader recomposition of the economy are creating new opportunities for workers to put further pressure on clothing firm managers who are trying to retain their workers, with important regional consequences. In the following section we turn to regional trajectories in the clothing industry and their relationship to the business strategies of lead firms in wider production networks.

5. Foreign investment and regional trajectories in the Slovak clothing industry

In the context of these changing competitive pressures in the clothing industry in this section we examine some of the ways in which regional economies are being re-positioned and the primary business strategy drivers of these changes. It documents an eastward regional shift in the industry, which occurred from the mid-1990s to the crisis of 2007, during the period of intense trade liberalisation and EU enlargement. It also explores the implications of liberalisation and enlargement for employment levels and worker livelihoods in the main centres of production. Our argument is that foreign ownership of firms and deep integration into western European production networks and corporate structures have been central to determining the sustainability of key firms during a period of intensifying competitive pressure and decline in core markets. While overall levels of FDI in the textiles and clothing industry remain relatively low across central and eastern Europe (with the exception of Bulgaria and Romania; Figure 5), there are important firm-level and sub-national regional concentrations of FDI. Firms with significant levels of foreign investment and joint ownership have had some success in sustaining employment, benefiting from inter-firm learning and investment, and have been able to reposition themselves in

international markets as competitive pressures increased, resulting in some stability in product-level export profiles. This contrasts with the more precarious position of firms which operate as contract manufacturers for western buyers who have not developed a deeper engagement with the region.

Figure 5 Stock of FDI in the central and eastern European textiles and clothing industry, 2008–12 (million euros)



Source: Eurostat

At national level, the Slovak clothing industry has seen a steady loss of employment since 2000. The biggest decline in district-level clothing employment occurred in the main centres located in western and central Slovakia, where wage costs have tended to be highest and increasing, although employment decline has also been occurring in some lower cost regions of east Slovakia.¹⁶ Several of the main districts in western and central Slovakia have seen an almost complete collapse of employment in the sector. For example, the district of Trenčín, which used to be known as the ‘fashion capital’ of Slovakia, dropped from being the second most important employer of clothing workers in 1997 to twenty-fourth position in 2007, as 92 per cent of employment in the sector was lost.¹⁷ This was associated with significant downsizing of production and employment in

16. These districts are Trnava, Trenčín, Banská Bystrica, Revúca, Žilina and Púchov. Two of the districts experiencing the largest decline (Trenčín and Banská Bystrica) also experienced the highest percentage wage increase between 1997 and 2007.

17. Between 2007 and 2011 there was modest growth of clothing employment in the region.

the Ozeta Neo enterprise, which, like other large former state-owned enterprises, had an extensive branch plant structure in surrounding districts. The significance of the decline in the Ozeta Neo enterprise also affected other districts around Slovakia because of the branch plant structure of the firm, so typical of former state-owned enterprises.¹⁸ Similarly high levels of employment loss have been experienced in Banská Bystrica (–92 per cent) in central Slovakia with the collapse of the former state-owned Slovenka enterprise, which meant that the district fell between 1997 and 2007 from eighth to forty-first, and Trnava in western Slovakia saw employment loss of –91 per cent over this period.¹⁹ In the regions with the highest levels of employment decline in the clothing sector, such as Trenčín, mass regional unemployment has been avoided largely through sectoral restructuring into electronics, electronic engineering and automobile components associated with new foreign investment (SITA 2010). In this way, the downgrading of the clothing sector has, in part, accompanied a process of sectoral restructuring through the growth of employment in new sectors, although it remains unclear as to whether this involves the shift of capital and labour from clothing to these ‘new’ sectors, not least given the very different range of skills, knowledge and experience required, and the very different gender balance of employees in these sectors.

Despite this loss of employment in western regions, several districts experienced an increase or stabilisation of clothing employment levels. All were in eastern Slovakia where wage levels in the sector are lowest. These regions have been able to cope with increasing competitive pressures as they have benefitted from the shift of production to lower labour cost locations, a process that continued in the 1990s as firms in some of the more costly districts in western, and more recently eastern Slovakia set up outward processing arrangements across the border in western Ukraine (see Kalantaridis et al. 2008; Smith et al. 2008; Pickles and Smith 2016). Driven in large part by wage and other – for example,

18. Ozeta Neo inherited a branch plant system of four other plants in addition to the main factory in Trenčín (located in Hlohovec, closed in 2004 with the loss of 570 jobs), Topoľčany (180 jobs lost in 2009), Tornaľa (bankrupt in 2007) and Skalica (reduced employment in 2007 and then closed). The bankruptcy in late 2007 of the Tornaľa branch (district of Revúca in east Slovakia) resulted in the district falling from tenth position in 1997 to forty-second in 2007 as employment fell by 90 per cent. Ozeta Neo also reduced employment at its plant in Skalica in 2007. Reports suggest that unemployment in the town is around 22 per cent as a result of this factory closure; according to the local mayor, ‘1,200 women used to work in the ... Ozeta factory’ (Liptáková 2009).

19. Between 2007 and 2011 there was modest growth in clothing employment in Trnava.

energy – cost differentials, these cross-border production networks allowed Slovak producers to sustain cost-competitive production for western European production networks by allowing firms to upgrade into full-package production utilising lower cost suppliers in Ukraine. At the same time, pre-existing industrial infrastructure and relatively lower wage rates in districts in eastern Slovakia provided parallel cost advantages for some western contractors looking to relocate production away from the increasingly costly locations in western parts of the country.

Low labour costs are, however, not the *only* determinant of locational and sourcing decisions in the clothing sector (see Abernathy et al. 2006; Pickles 2006; Pickles and Smith 2010), nor are increasing wage costs the *only* element in determining district-level employment decline (Pickles and Smith 2016). For example, in some regions – such as the Humenné district in eastern Slovakia – there have been overall increases in clothing employment alongside wage increases. The key to employment growth in such areas has been foreign direct investment in several factories producing high quality, highly capital-intensive clothing products, such as hosiery for Italian markets. It is to the role of foreign investment and joint ventures that we turn in the following section.

5.1 Foreign investment, market proximity and uneven upgrading

The sustainability of the clothing sector at firm and district levels in selected eastern Slovak regions during the crisis has in part been related to the ownership structure of firms, the associated degree of integration into western European production networks and corporate structures and the resulting product specificity. Firms with significant levels of foreign investment and ownership have had some ability to sustain employment and to reposition themselves in international markets as competitive pressures increased. Several of these key firms in eastern Slovakia are positioned in western European markets as producers of relatively high quality and high value clothing products, often designer brand men's suits and trousers, men's shirts and hosiery. For example, one former state-owned factory in eastern Slovakia has until recently been able to sustain production in part due to close relations with an Italian investor and brand owner. Despite significant formal changes in ownership over time, production of higher value men's tailored clothing in association with a range of local sub-contractors in eastern Slovakia and firms across the

border in western Ukraine (Smith et al. 2008; Pickles and Smith 2016) enabled the development of close production arrangements with the Italian market. This has also meant increasing local economic dependency on the factory as the main local employer. The local industrial structure in this primarily rural region is highly dependent on the industry, with 67 per cent of local manufacturing employment in the clothing industry. However, even this proximity to foreign buyers in production networks is coming under pressure and some job losses are occurring, particularly among factories in the sub-contracting network used to sustain production at peak times.²⁰

Foreign ownership of firms is important to their ability to sustain employment levels. Such linkages provide organisational knowledge and capacities, as well as links to key EU markets. As a result, they have deeper levels of integration in European production networks than is found in other districts. The main examples of FDI have enabled relatively stable employment levels in relatively peripheral districts. These firms have benefitted from close relations and joint ventures with Italian and German buyers, which have enabled factories to sustain production as *preferred suppliers*, and to work with their respective Italian and German partners to respond to increasing cost pressures by deciding to out-source elements of production, notably in a set of emergent cross-border relations with factories in western Ukraine. Close buyer proximity also allowed for sustaining year-round orders, and thereby reduced seasonal fluctuations, provided greater financial stability to producers and enabled product upgrading through shifts into new product areas to diversify firm portfolios.²¹ Geographical proximity to the main market also underpinned the survival of these firms: as one managing director argued, ‘our one advantage compared to Asia is that we are able to react [to orders] in two weeks, sometimes within one week, and when this flexibility is combined

20. Interview with joint owner, small clothing producer, Prešov, October 2009. This firm’s employment in the district continued to decline over the late 2000s and early 2010s and is estimated now to be around 300 employees primarily involved in finishing work (labelling and packaging) for production from Ukraine.

21. For example, in one firm a shift into women’s trouser production had been agreed with the German joint venture partner and main customer so that the firm continued to produce men’s trousers as it had for nearly twenty years but diversified into this new segment to provide greater financial stability and to build on its emerging production capacity in western Ukraine (interview with senior manager, German-Slovak joint venture, Prešov, October 2009). Another example, involving a process of shifting into new activity has involved an Italian-Slovak joint venture manager establishing leisure industry activity in the local area (interview with managing director, Italian-Slovak joint venture, Prešov, October 2009).

with quality in terms of both sewing and finishing [colour-fastness and washing specificities], we are more competitive'.²²

Forms of process upgrading have also been introduced in some of these firms to increase production flexibility to meet the demands of quick response supply and fast fashion from buyers, even in segments such as tailored suits. In order to deal with reduced stock inventory among retailers, joint venture firms have been able to adopt quick response approaches to supply orders in two to three weeks.²³ As noted by Plank et al. (2009), higher value production has provided producers with some flexibility to manage the increasing cost and competitive pressures that all firms have been experiencing. However, where this has also taken place in a context of an unrelenting attention to cost reduction, even in some of these more successful firms that have been able to sustain regional export production worker benefits have recently been eroded to keep cost increases as low as possible.²⁴ Not surprisingly, the extent to which such suppliers have been able to reposition from a situation of being 'captive suppliers' to more relational forms of interaction with their main customers is limited (see Gereffi et al. 2005). Some greater functional downgrading of tasks to suppliers has occurred (especially washing, packaging, labelling, quality control), but other key functions – such as design and fabric sourcing – remain largely the responsibility of the buyer located in western Europe. Designs are provided to the firms electronically for them to complete the garment (cut-make-trim or CMT production). As a result, only limited design activity or other higher value added activities have emerged within these firms, posing real limits to firm upgrading. Some firm-level upgrading away from CM and CMT production has occurred but the ability to break into own brand and own design manufacturing has been limited. The Slovak branches of these foreign firms have been able to exploit their close proximity to Italian and German buyers (who are often direct owners or co-owners) and their particular product niche (high quality men's trousers, suits and shirts, and women's pantyhose) in order to ensure some stability in orders and exports during a period of dramatic tightening of competitive pressure.

22. Interview with senior manager, German-Slovak joint venture, Prešov, October 2009.

23. In one Italian-Slovak joint venture firm, quick response–tailored garment manufacturing accounted for up to one-third of production in 2009 (interview with managing director, Italian-Slovak joint venture, Prešov, October 2009).

24. In one firm this involved the cancellation of several employee benefits including free massage and sauna usage and subsidised vacations and other leisure activities, and reduced pension benefits (interview with senior manager, German-Slovak joint venture, Prešov, October 2009).

By contrast, many domestically-owned firms lacking such market proximity have struggled. This has especially been the case for some of the large former state-owned firms, even when they have occupied a similar product niche in export production. At times this has been due to particular forms of ownership and management relations, including the asset-stripping of some key firms, leading to branch plant closure or a loss of key markets and orders. As the general director of one large, former state-owned enterprise argued, 'our mistake was that we focused on export markets and not so much on the domestic market'.²⁵ Faced with a significant increase in costs due to wage increases and currency appreciation, this firm lost its key orders from long-standing western European buyers. As a result, total employment in the firm fell from 1,300 in 2002 to 700 in 2005, and 260 in 2010. It is doubtful that a focus on the relatively small domestic market would have improved this firm's prospects; rather it was their lack of close connections to other foreign buyers that resulted in declining orders as the firm could not meet the price requirements of their main buyers.

Increasing wage levels, the attendant increasing costs of production in central and western Slovakia and exchange rate appreciation have underpinned the decline of some segments of the clothing industry in this part of the country. As western and central regions declined in the late 1990s and early 2000s, clothing employment in eastern Slovakia stabilised. More recently these regional production complexes have suffered from increasing wage pressure, exchange rate appreciation prior to joining the euro zone, sectoral restructuring into new industrial activity – such as electronics and automobile production – and increasing tertiary sector activity. On top of this comes the impact of the global economic crisis and the resulting demand slumps in core markets (discussed further in the following section). These cost pressures have been articulated with a set of firm organisational structures that have contributed to the range of trajectories identified. Many of the large former state-owned firms that were at the core of the outward processing trade systems developed from the 1980s onwards have experienced increasing competitive pressures and the loss of key orders from main customers in EU15 markets. Those that have been able to forge connections with western buyers through joint ventures or buy-outs have weathered this storm more easily, partly by having privileged access to western buyers and markets. However, those

25. Interview, general director, large former state-owned enterprise, Michalovce, October 2009).

that have experienced a shift towards ownership structures involving private equity investors have experienced asset stripping, while others have lost key contracts and orders because of the organisational distance that they experienced as part of large contracting networks across Europe. In the clothing sector it is the combination of product specificity and the political economy of ownership structures which matter most in understanding the ability of firms to negotiate increasing labour costs, some of which result from the growth of higher wage levels in sectors undergoing growth, such as automobiles and electrical/electronic engineering taking also the differential landscape of upgrading/downgrading in the restructuring of global production networks into account.

5.2 Workers, labour markets, the economic crisis and regional shifts

We have argued that research on industrial and regional upgrading in global value chains requires an understanding of the wider political economy and ownership structures within which production networks are embedded. Thus far we have focused on the role of foreign investors and state projects of macro-regional and financial integration – EU accession and euro-zone integration – in the ability of firms to cope with processes of global trade liberalisation. While functional and other forms of upgrading may be apparent across central and eastern Europe (Pickles et al. 2006), these have been articulated with a range of other causal mechanisms related to wider and changing political-economic conditions that are central in assessing the extent to which a process of industrial and/or regional upgrading is possible in a context of rapid trade liberalisation and restructuring (Pickles and Smith 2016). Furthermore, the global economic crisis is setting real limits to possibilities for industrial and regional upgrading. In other words, there is a need to move away from a firm-level and agency-focussed approach to upgrading towards a framework that recognises the embeddedness of firm and sectoral-level change within the context of wider political economies, and state and non-state institutional action (Smith et al. 2002; Coe et al. 2008; Wallerstein 2009; Smith 2014). This suggests the need for a framework that seriously takes into account ‘the forces external to the chain that structure (enable and limit) what actors in the chain do’ (Sturgeon 2009: 128). In the current conjuncture, a consideration of the political economy of the economic crisis is crucial when considering the trajectories of regional economies and industrial upgrading.

What does a reliance on export-led models of development and the current economic crisis mean for the sustainability of worker livelihoods in the clothing industry in Slovakia? Worker livelihoods in the industry have been significantly affected by the economic crisis since 2008 as jobs have been shed and unemployment has increased. However, in their search to sustain their social reproduction in a rapidly growing economy up until the economic crisis, workers in the clothing industry also had an impact on the sustainability of the industry through the wage gains that they were able to attain. Interviews with a range of firms highlighted the ways in which managers had to respond to pressures from workers to increase wages and other non-wage benefits in order to continue to secure the workforce in the face of other national (due to the development of sectors such as automotive assembly and electronics and electrical engineering) and international (post-EU enlargement) job opportunities and to maintain production in order to meet orders. In these contexts, workers in the clothing industry were able to achieve marginal gains in real wages and non-wage benefits, including an extension in some cases of social wage provision, although this is not always through the action of organised labour and trade unions. For example, average monthly wages in the clothing industry increased by 16 per cent between 2009 and 2011, compared with a 12 per cent increase for manufacturing wages as a whole.²⁶ Improvements in working conditions were often the response of firm managements to a tightening of labour supply in order to retain key workers, as discussed above.

In the context of the current crisis, these moments of relative positional power have been undermined by increasing price squeezing throughout the supply chain and the tightening of demand in the main EU markets. Together these have produced pressures for further rounds of outsourcing, creating significant limits to worker agency and its ability to benefit from upgrading strategies.

Particularly in large former state-owned factories, integration into international production networks provided important opportunities for worker mobilisation and for managers to garner contracts from buyers who were concerned about their compliance with the codes of conduct demanded by their customers. Pickles and Smith (2010: 114) identified a

26. Calculated from ŠÚSR (2012). These figures are for enterprises with more than 20 employees and therefore do not cover smaller workshops, where wage levels are likely to be much lower and worker exploitation higher.

bifurcation of experience between non-unionised new firms and former state-owned factories. They found that in factories where unionisation rates were high, workers benefited from wage and non-wage conditions that had their roots in state socialism. Firm managements retained the social wage partly because of continuing trade union presence and the social pact between the union and management, and partly because of the increasingly tight labour markets as skilled workers have been recruited away to other factories which are perceived to have longer term prospects than former state-owned firms or have left the industry for higher-paying jobs in other sectors. Continuing commitments to the social wage enabled management to maintain some workforce stability and thereby guarantee in-factory skill capacities, but also put pressure on factory cost structures at a time when contract prices are being squeezed downwards. One way in which some of the larger clothing enterprises – including both former state-owned and newly established factories – have been dealing with these pressures is to provide extra support to sustain core workers, while also engaging in secondary outsourcing to lower-cost producers in countries such as Ukraine (see above).

In conditions in which regional unemployment levels are increasing, clothing factories are still finding it difficult to recruit skilled and trained workers. In part this is due to the *relative* attractiveness of employment in other sectors compared with clothing, and the loss of employees to other EU countries following enlargement. This is in contrast to the period prior to EU enlargement when clothing production sustained many local economies based on former state-owned enterprises and alternative job opportunities for clothing workers were more limited.²⁷ The increasing relative tightness of labour markets in the clothing sector has also been connected to a steady erosion of training and apprenticeship opportunities across Slovakia in the textiles and clothing sectors, leading to erosion in the supply of skilled workers.²⁸ Workers were choosing other employment opportunities but together these forces have meant that clothing workers were able to establish certain enhancement to working conditions and benefits as labour markets tightened and at the same time as the industry was facing increasing competitive pressure.

The ability of workers to leverage improvements in wage levels and working conditions even during the economic crisis and a period of

27. Interview with head of trade union, former state-owned enterprise, Púchov, November 2003.

28. Interview with director, Stredné odborné učilište, Trenčín, November 2003.

tightening competitive pressure is illustrated by the week-long strike in August 2010 by clothing workers in two Italian-owned factories in the Vranov nad Topľou district in east Slovakia, resulting in a 15 per cent increase in wages, partly related to performance.²⁹

The timing of the growth of wage pressure coincided with the government's increases in the national monthly minimum wage in October 2006 (Barošová 2007) and in January 2010. In labour-intensive industries such as clothing, these minimum wage increases were important to sustain workers' wages, but also affected firm competitiveness in the wider context of liberalisation.³⁰

The implications of these pressures became even clearer in the context of the global economic crisis. The increasing fragility of contracting relations and supply chains during the crisis in a liberalised trade environment became apparent as the industry witnessed increasing pressure on contracting prices and as the volume of orders was reduced. Interview evidence has highlighted the tightening of contract prices across the industry, notably during the economic crisis.³¹ In a number of key examples, the inability of producers to meet tighter pricing of contracts from western European buyers has meant a significant loss of orders, reductions in employment and closure of branch plants (see also Doktor 2009). Consequently, the positional power of workers which had enabled the leveraging of improved wage and other payments is fragile given the wider structural logics of contracting in the global clothing industry. Moments of change that enabled the leveraging of improvements for workers in terms of social wage benefits, the minimum wage and wider social conditions (provision of subsidised or free transportation) have come rapidly undone in the context of the global economic crisis as firms were either unable to survive or moved eastwards as they sought out new contracting opportunities.

Firms in global value chains that involved a strategic partnership with a foreign joint venture partner generally withstood these crises more readily than firms operating for domestic markets or those with more

29. See Buzinkay (2010a, 2010b) and Anon (2010). These two firms, only established in spring 2010, are owned by Italian investors also associated with another local clothing firm with a major interest in nearby Humenné.

30. Interview, general director, large former state-owned enterprise, Michalovce, October 2009.

31. For example, interviews with managing director, major retailer and franchise company, eastern Slovakia, 2008 and with senior manager, German-Slovak joint venture, Prešov, 2008 and 2009.

tenuous contractual relations with buyers. But participation in global value chains created its own problems, as such producers were often being constrained by outward processing trade and rules of origin requirements and, as a result, had limited opportunities for upgrading. In this sense, participation in global value chains, far from fostering inter-firm learning (as it had done in the 1990s and early 2000s), exacerbated the effects of the crises of the late 2000s and constrained the options available to resolve them. In some cases, upgrading of production processes involving shifts into retailing and brand development were accompanied by flexible business strategies and generated success until the financial crises undermined cash-flow and led to bankruptcy independently of profitability.³² The impact that this restructuring is having on worker livelihoods is clear with increasing levels of regional unemployment; increasing pressure on firms is being translated into job losses and downward pressure on wages relative to other manufacturing wages,³³ with consequences for the workers in terms of increasing labour market precariousness.

6. Conclusions

The global economic crisis has radically transformed worker livelihoods and firm competitiveness across central and eastern Europe, especially in the clothing industry, which had been one of the mainstays of industrial and regional resilience in late socialism and during the first 15 or so years of post-socialist transformation. This rapid transformation is taking the form of increasing mass unemployment and precariousness among workers in the context of the global economic crisis. In Slovakia, the industry is being sustained in smaller numbers and specific locations, usually in circumstances in which close relations with EU15 buyers through joint ventures and FDI have been established, and where particular product- and market-niches have been established, particularly in higher quality and higher value products (Pickles and Smith 2011; see also Plank et al. 2009: 30–31). In other national contexts evidence suggests that the resumption of export growth in recent years has been accompanied by continuing employment decline, suggesting an emerging pattern of jobless growth.

32. Interviews with managing director, major brand clothing retailer, eastern Slovakia, 2008.

33. Between 2000 and 2010, average monthly wages in textiles and clothing relative to average manufacturing industry wages dropped from 71 per cent to 65 per cent and were consistently the lowest among all manufacturing industry branches (490 euros in May 2010).

These developments require a reconsideration of global value chain models focused primarily on upgrading trajectories, to allow consideration of two elements. First, understanding the dynamics of global value chains necessitates that consideration be given to the full range of agents (foreign ownership structures and management, state policy frameworks – for example, EU strategies for regionalised sourcing in the wider Europe (see also Begg et al. 2003; Pickles and Smith 2011, 2016) and regional state-aid programmes – and workers, and their positional power in global value chains. The experience of the majority of workers in the Slovak clothing industry appears to be paradoxical. Some groups of workers have been able to increase wage levels and social benefits, which over time – in the context of the crisis-induced decline in demand for products – led to a reduction in the number of workers in this position as employment shrank due to increasing uncertainty about long-term sustainability.

Second, consideration is required of the wider political economy that structures the forms of capitalist relations found in global value chains, shorter lead times, lower contract prices and higher quality requirements between buyers and suppliers, not to mention the implications for workers (see also Smith et al. 2002; Selwyn 2012; Smith 2015). The economic crisis, political-economic integration into wider geopolitical units (EU enlargement and euro-zone integration, for example), state policy frameworks relating to international exchange rates and national minimum wage regulations have all played critical roles in changing the competitive pressures in the Slovak clothing industry in pan-European production networks. We have focused attention on ownership relations and how these have structured certain relations of proximity to core markets for some export-oriented firms, enabling them to weather the storms of trade liberalisation and economic crisis. Together, these forces suggest that a focus on dynamics of industrial upgrading alone is insufficient. We have stressed the importance of understanding the range of repositioning experienced by firms integrated into pan-European production networks, as they articulate with wider economic trajectories and fluctuations in demand in core markets and with state projects of social regulation and macro-regional integration. Our analysis suggests that a bleak future lies ahead for significant parts of the Slovak clothing industry and its associated production networks, especially because of the economic crisis and decline in demand in its major markets. However, the analysis also suggests that stabilisation and even growth in certain product areas and particular regional economies has been achieved, not least leading to a recent positive growth in value added in the industry.

For some firms, particularly those that have upgraded both their products, processes and social conditions of work, the immediate future seems more secure, particularly where international buyer networks remain strong and longstanding.

While at an aggregate national scale the relative decline and restructuring of the clothing industry, when set alongside the growth of higher value added sectors such as automobile production, may not be particularly problematic for the national economy, this restructuring does present a number of structural problems for economic development. In particular, it tends to enhance dependency on a smaller range of industrial export activities vulnerable to external shocks, such as the on-going European crisis. It also does little to alleviate problems of sub-national regional uneven development, because the loss of clothing jobs, especially in the poorer regions of eastern Slovakia, has tended to take place in regional economies where clothing has been the key sector and diversification has not occurred.³⁴ Finally, sectoral restructuring or upgrading into new industrial activities does not necessarily resolve the unevenly gendered nature of clothing employment decline. For example, while women occupied 39 per cent of industrial jobs in Slovakia, 90 per cent of clothing workers and only 21 per cent of automobile assembly workers were women, while average female wages in clothing were just 53 per cent of total average manufacturing wages. These issues become all the more important given the uncertainties over the nature and form of any post-crisis recovery in the main export markets and the continued and prolonged stagnation in core export markets.

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34. With perhaps the exception of the Trenčín region in western Slovakia which has – despite the decline of the clothing sector – been recipient of sizable inward investment in the automobile sector. Whether this sectoral restructuring has created employment for the workers who are no longer employed in the clothing sector is, however, unclear.

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