Can Apparel Export Industries Catalyse Industrialisation?

Combining GVC Participation and Localisation

Lindsay Whitfield, Kristoffer Marslev and Cornelia Staritz

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DSI/NRF SOUTH AFRICAN RESEARCH CHAIR IN INDUSTRIAL DEVELOPMENT

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Abstract

For a long time, the apparel export sector has been recommended as a gateway to industrial development, as it played a fundamental role in the early stages of industrialisation in countries such as the UK, the US and Germany, and later in Northeast Asia. Apparel export sectors resulted in much more than employment and foreign exchange through which imports could be financed. They resulted in the generation and capture of wealth that was used for reinvestment in the same or other sectors, knowledge for local firms to build capabilities that the countries later built on to move into more technologically advanced activities and sectors, and a deepening of their economies through forward and backward linkages in the domestic economy. However, these benefits were gradually eroded as more and more countries developed apparel export sectors and as global competition increased, leading to changes in global apparel value chains. These changes include the purchasing and sourcing practices of retailers and branded manufacturers in the Global North, which have led to a 'squeeze' on supplier firms that now face lower prices and more stringent requirements. Large transnational supplier firms, mainly from Asia, that have developed economies of scale and scope in order to remain profitable in such conditions, now dominate production in the apparel global value chain. They set up factories in multiple countries that engage in assembly activities, keeping higher value activities in their home countries, which reduced the opportunities for domestic linkages in the host countries. This paper explains and documents the original industrial development benefits of Northeast Asian countries and the evolution of the global apparel value chain up to the present period, based on an analysis of international trade data combined with a systematic review of individual country case studies and extensive fieldwork in sub-Saharan African apparel-supplier countries. The analysis shows that there still is potential within the apparel and textile industry to drive industrialisation if it involves substantial localisation through the presence of local firms and intra-sectoral linkages. Local firms are critical for cumulative capability building and developing a local supply chain, and an extensive and diversified textile base is key to industry-level upgrading beyond competing based on labour costs and preferential market access.

Keywords: apparel global value chain, industrialisation, industrial policy, local firms, linkages

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1. Introduction

Scholars have long debated the question of how low-income countries can integrate into the global economy in the context of global value chains (GVCs) in ways that drive economic transformation rather than lead to 'thin industrialisation' and 'immiserising growth' (Kaplinsky 2005; Whittaker et al. 2020). The debate centres around the point that local firms with relatively low technological capabilities can enter GVCs by providing specialised parts and assembly manufacturing to global lead firms, and that local firms are compelled to build their capabilities given the higher requirements demanded in GVCs compared to domestic markets. This can be the basis for industrial or economic upgrading, moving into higher-value functions within the same chain or jumping into more technologically sophisticated but related chains, and for broader industrialisation in low-income countries. However, local supplier firms can also become trapped in segments of GVCs characterised by few linkages to their domestic economies and limited value capture in the context of large power asymmetries between lead firms and supplier firms, or export sectors can be dominated by foreign supplier firms without building local export firms and capabilities.

Related to this general debate about industrialising through GVCs is the discussion of industrial policy in the era of GVCs. Industrial policy played a crucial role in supporting the capability-building of local firms in countries in the Global North and Northeast Asia, but scholars are reassessing whether the policies used by these countries are still relevant. Milberg and colleagues (2014) argue that industrial policy linked to import-substitution industrialisation (ISI) and export-oriented industrialisation (EOI) strategies no longer fit the contemporary global economic context in which industrialisation occurs through vertical specialisation organised in GVCs, in which intra-industry trade in intermediate goods is important and governed by lead firms. Thus, industrial policy in the context of vertical specialisation industrialisation (VSI) needs to take into account the interests and power of lead firms, which control access to end markets in the US, Europe and Japan, and the material and knowledge flows in GVCs, which have important implications for the entry and upgrading of supplier firms. They also argue that VSI industrial policies need to focus on trade policy, exchange rates and foreign direct investment in different ways than it did under ISI and EOI policies (Gereffi and Sturgeon 2013).

While VSI generally entails entering GVCs in low-value segments and often through foreign supplier firms, economic transformation requires localisation of the supply chain through growing the production of inputs locally and the emergence of capable local supplier firms, and thus greater linkages of the apparel export sector with the domestic economy (Lee 2013). In this respect, GVC-oriented industrial policy may involve policies that are not that different from EOI policies in terms of intentionally supporting local linkages and local firm learning (Morris and Staritz 2019). Furthermore, Northeast Asian countries pursued a combination of EOI and ISI policies: supporting exports in specific sectors and allowing duty-free access to imported inputs for exporters, while simultaneously protecting other sectors and domestic markets, questioning the clear-cut distinction in ISI, EOI and VSI industrial policies (Hauge 2020).

Odijie (2019) argues that VSI industrial policy will lock local firms in Sub-Saharan Africa with very low capabilities into low-value segments, and thus advocates that local firms build capabilities

through supplying the domestic market first, using traditional ISI industrial policy, and then enter GVCs in higher-value positions. Other scholars disagree, arguing that accessing export markets was and is crucial for local firms and industries to access foreign knowledge with which to build their capabilities and compels local firms to do so, in ways that production for the domestic market does not. However, if (or when) local firms find upgrading to higher-value functions blocked in export markets, they should exit and engage in higher-value activities in domestic and regional markets, and later potentially recouple with GVCs in higher positions. This strand in the debate thus argues for strategic coupling, decoupling and then recoupling, or 'in-out-in again' (Coe and Yeung 2015; Lee and Malerba 2017; Lee et al. 2018). Hence, the risk that local supplier firms can become stuck in the lower-value segments of GVCs is significant, but not engaging in GVCs also comes at a cost to learning and technological catch-up by local firms.

To expand our understanding of the benefits and limitations of GVC-based industrialisation, we need to move beyond a generalised discussion to the level of specific GVCs. Despite often being aggregated into a single industry category by economists, manufacturing export sectors differ in the way in which they operate. GVCs vary in the relative importance of global lead firms and buyers and in the market power they wield, as well as in the dynamics driving the distribution of various productive activities around the globe. These variations have important implications for the potential upgrading paths of supplier firms, i.e. how supplier firms can move into higher-value and more complex economic activities within the chains, as well as for domestic linkages and value-capture potential. These differences have implications for the opportunities available to countries in the Global South and their local firms, and thus what kind of industrial policies are required to support local firm learning and localisation. Furthermore, manufacturing export sectors differ in the complexity of the production process and technology, with implications for knowledge spillovers and linkages. These attributes are important, as structural development economists have pinpointed the drivers of industrialisation and self-sustaining growth to come from local firms with high capabilities and from the intensity of linkages and knowledge spillovers among firms and industries.

This paper seeks to answer these questions in relation to the apparel GVC. The textile sector played a fundamental role in the early stages of industrialisation in the UK, and later in the US and a few European countries after World War I, when ready-to-wear apparel became the norm. After World War II, Japan and then other Northeast Asian countries produced apparel products for export to the US, which not only played a critical role in their early industrialisation efforts but also triggered the emergence of a globalised apparel industry (Dickerson 1999). However, changes in apparel GVCs altered the conditions that had been a critical part of the ability of countries to use apparel exports to spur industrialisation processes, calling into question whether participating in apparel GVCs still offers the same opportunities as in the past. Palpacuer and colleagues (2005) already posed this question in the mid-2000s, but it has become more salient for sub-Saharan African countries today. Global apparel buyers are evaluating their largely Asian-based sourcing strategies and searching for new supplier countries as a result of rising wages and social and environmental compliance issues in the main Asian supplier countries. SSA countries are seen as the last low-cost sourcing region, and countries where apparel industries can be built to be compliant from the beginning. At the same time, sub-Saharan Africa countries are still in the process of industrialising and face more adverse conditions than sourcing locations in the

Global South in the past. In this context, the paper asks if participation in apparel GVCs in the 21st century can still provide the basis for broader industrial development in low-income countries.

Section two of the paper provides the framework for assessing whether participation in apparel GVCs today can drive industrialisation in the ways that textile and apparel production did for early industrialisers in the Global North, and then for the late industrialisers in Northeast Asia. This framework explains that the importance of industrialisation, or structural transformation, has to do with characteristics associated with manufacturing sectors that lead to increasing wealth, improved standards of living and self-sustaining growth (growth that is not overly dependent on external markets). These characteristics are increasing returns in production, cumulative capability building and economic linkages within and across industries. Sections three and four describe how apparel GVCs emerged, their differences, and how they have evolved. In particular, they explain the strategies of buyers and suppliers and the implications for the distribution of wealth/value capture along the chain, as well as possibilities for learning and linkages. Sections five and six then examine the participation in apparel GVCs from the perspective of individual supplier countries in the Global South. They review the experiences of apparel-exporting countries in the second and third wave of offshoring since the 1980s, and distil key trends related to the conditions under which apparel GVC participation stimulated broader industrialisation processes, linking this synthesis to the theoretical framework in section two, which focused on increasing returns, cumulative capabilities and economic linkages.

Based on this review of country experiences, we argue that apparel exports cannot contribute to industrialisation unless there is a significant amount of localisation: local firms, local supply chains and linkages to other industries in the domestic economy. While the apparel export sector was the first manufacturing industry in most countries, the stronger industrialising potential came from textile production and not apparel assembly. This is because not only is textile production more capital-intensive and requiring higher technical capabilities, but it also has greater potential linkages to other industries and knowledge spillovers. Creating linkages to chemical industries was particularly important in Northeast Asian countries, more important than agricultural linkages to cotton production. A large, diversified textile base was also important for the competitiveness and upgrading of the apparel sector, as it made it possible for local apparel firms to reduce production costs and lead times, to engage in product development with textile mills, and to innovate in terms of fabric production.

The review shows that the emergence of local firms engaged in apparel exports has more to do with building production capabilities through linkages with foreign firms than with domestic market protection under import-substitution industrialisation policies. Thus, late-late industrialising countries can still use participation in apparel GVCs to build basic production capabilities of local firms. However, changes in apparel global value chains have made it more difficult for competitive local firms to emerge without government industrial policies, as global buyers now capture much more of the wealth that local firms gain from increasing returns in apparel production. Furthermore, global buyers and foreign suppliers in the past supported local firms in learning and building capabilities, but now they have less interest and incentives to support local firm learning processes due to the availability of a large pool of already capable supplier firms. Industrial policies were always necessary for the emergence of large, diversified textile sectors and innovation in man-made fibres, and remain so. However, the extent to which developing a textile sector can drive industrialisation is limited due to the narrow linkages to other

industries. In general, apparel and textiles have much less potential for linkages than other manufacturing sectors, such as automobiles and electronics, although the linkage potential in these industries has also declined related to developments in these GVCs.

Nevertheless, the apparel and textile sector is still important as a foundational industry for developing local firms with basic technological capabilities and creating a semi-skilled industrial workforce, leading to cumulative capabilities within the private sector and government through learning in industrial policymaking. Without this foundation, countries and their firms will find it difficult to move into industries that require using more complex technologies, more industrial linkages, and a highly skilled industrial labour force.

2. The Importance of Manufacturing: Increasing Returns, Cumulative Capabilities and Domestic Economy Linkages

Palpacuer and colleagues (2005) identify four important aspects of apparel exports for industrialisation in Japan and Northeast Asia. The industry employed large numbers of unskilled labour and produced goods that met the basic needs of the domestic population. This resulted in capital accumulation for investment in higher-technology sectors and generated foreign exchange to finance imports of capital goods for wider industrialisation processes. In turn, apparel exports, largely to the US, later to Europe and then to Japan, were able to play this role as a result of several features of the apparel trade at that time. The entry barriers for local firms were low due to the low initial financing required to start an apparel export firm, and low labour costs were the key competitiveness factor. Additionally, the US and then the EU placed quota restrictions on apparel exports coming from established supplier countries, which dampened international competition, allowing new supplier countries to compete on cheaper labour costs even though they did not yet have other competitive advantages such as high productivity. Lastly, local firms engaged in economic upgrading and some moved into other sectors based on capital and knowledge accumulated in the apparel and textile sector. While the apparel industry was not a high-margin business, it provided profits and learning opportunities for local investors in the early stages of industrialisation.

All of these features of the global apparel industry have changed, as Palpacuer and colleagues (2005) show and we elaborate in the following sections, making it more difficult to use apparel exports as a springboard for industrialisation. In this section, we aim to provide a deeper understanding of why the textile and apparel sector was a historical driver of industrialisation and the limits to doing so today. We build on the arguments of Palpacuer and colleagues (2005) by elaborating on the economic principles that underpinned the ability of manufacturing and manufactured exports in general in the late 19th and early 20th centuries to drive economic transformation. In doing so, we focus on three drivers: capital accumulation (creating wealth), the emergence of local firms with higher capabilities, and creating linkages in the domestic economy. This section concludes by returning to the characteristics of apparel exports by the mid-2000s, outlining how they changed, and the more limited potential for the sector to drive the early stage of industrialisation in terms of these three channels. It also becomes clear that it was not the apparel sector alone that drove industrialisation, but rather the central role of textile production as a locus of innovation and linkages, and that the ability of manufacturing to deliver

wealth hinges on the magnitude of increasing returns and whether local firms are able to capture the productivity gains in the context of changing global market structures and power relations.

Central to the argument that industrialisation is necessary to drive increasing incomes, a higher standard of living and more self-sustaining growth is the argument that manufacturing is a very special kind of economic activity compared to agriculture, minerals extraction and even services. Manufacturing is more capable of generating increasing returns, linkages, and a bias towards innovation.[1] Alfred Marshall introduced the law of increasing returns as an increase in labour and capital that yields a return that has increased more than proportionally to the inputs, and argued that it occurred due to improved organisation, which increased the efficiency of the work of capital or labour (Best 2018: 102–105). This improved organisation could be due to factors internal to the firm, such as inventive and organising power, or external to the firm. Thus, Marshall pioneered the concept of the learning firm, which Edith Penrose later developed and which has been used in the field of development economics under the concept of technological capabilities. Improved organisation outside of the firm could also result from the growth of correlated industries that assist one another, leading Marshall to highlight the importance of systemic economic relationships and the concentration of businesses of similar character in particular localities through spatial proximity, which was later developed in research on clusters and agglomeration benefits. Both internal and external factors lead to improved organisation within manufacturing firms that increase productivity.

Marshall's insights into increasing returns and what drives them underpin much thinking in evolutionary and structural development economics on the importance of the technological capabilities of local firms, their specialisation and networking, and the development of thick linkages within the economic structure as the key drivers of economic development and wealth creation. Thus, it is not manufacturing per se, but the characteristics of economic activity associated with it historically, that are important (Amsden 2001; Reinert 2007; Whitfield 2012).

The learning and capability-building processes of local firms are an essential aspect of industrialisation because they lead to organisational improvements within firms that drive increasing returns and cumulative capabilities within the industry, and within the national economy as a whole. A large literature has developed on the concept of technological capabilities, also leading to the work on national innovation systems. Technological capabilities refer to the technical, organisational and managerial skills that firms need, in addition to formal education and scientific knowledge, in order to achieve the level of productivity that established firms have achieved and thus that set the (international) market standard. Technological capabilities have a large tacit component, which is learned by doing, and are acquired and produced through members of a firm working together as an organisation. It is this knowledge and organisational asset that creates entry barriers. Thus, tacit knowledge must be acquired in order for local firms to become competitive, but this is not easy, as existing firms often do not want to share it and it cannot be learned through observation. This is why knowledge transfer, also referred to as technology transfer, is a key aspect of economic development and the most important potential benefit of foreign direct investment. Local expertise historically has been built up through various

[1] Recent reviews of the arguments around manufacturing can be found in Storm (2015) and Best (2018).

links with foreign firms. Hence, it is not enough for countries of the Global South to attract foreign firms to operate in and export from within their borders, but foreign firms need to be leveraged for local firm development and capability building. Local firm capabilities are cumulative within firms and are the source of inventiveness, and they are also cumulative at the sectoral and national level and have important positive externalities (Greenwald and Stiglitz 2013. Thus, they are key to self-sustaining growth. As W.A. Lewis (cited in Schrank 2005: 26) noted, the crucial test of an industrialisation policy is not how rapidly it increases employment or output, but how rapidly it builds up local expertise.

Individual firm-level capabilities are important for increasing returns, but so are inter-firm relationships. Firms drive innovation and sectoral transitions, but they do not do so alone but as members of networked groups. Allyn Young and George Richardson discussed the progressive division of labour and specialisation of industries as important for cumulative increasing returns, which foster more rapid technological change (Best 2018: 105–114). Networking among firms emerges as a means of coordination, in contrast to vertical internal organisation or the market. Sectors in which firms specialise by activity and then network as a means of coordinating complementary activities and sharing knowledge will have a different competitive advantage and development dynamic than sectors composed of identical firms engaging in the same activities. This is the dynamism underlying industrial clusters, and where small firms can achieve economies of scale.

Manufactured exports were important for developing countries of the Global South not only because they brought a more stable supply of foreign exchange with which to finance the import of intermediate and capital goods for broader industrialisation processes, but they also brought with them the compulsion to invest in learning, as local firms had to invest in building their capabilities to reach international competitiveness. Producing for export also helped local firms get around limited domestic demand due to low purchasing power or small economies, and to generate economies of scale that lowered production costs and resulted in learning. Albert Hirschman also noted that export demand could be the source of a 'takeoff', spurring investment in that sector, which then created a demand for intermediate goods and services from other sectors. If local firms meet these demands, then the export sector drives forward and backward production linkages in the domestic economy. However, he noted that linkages do not emerge automatically, but depend on the gap between the technological capabilities of local firms in the domestic economy and what is required in the new up- or downstream activity (Hirschman 1977). Thus, industrial policy will often be required for local firms to take advantage of the new demands and thus for linkages to emerge. Linkages lead to industrial thickening; they drive domestic demand for intermediate goods, creating more wealth and multiplier effects through which wealth circulates in the economy, creating greater domestic consumer demand. Without these linkages, export sectors have limited success in longer-term growth and in structural transformation. Smaller economies can leverage foreign purchasing power for consumer demand to reach economies of scale until the growth of the domestic economy leads to increasing domestic purchasing power and creates domestic market demand, but eventually domestic markets will need to play a role.

However, improvements in productivity leading to a sharp decline in learning curves (and increasing returns) occur in the 20 to 50 years from the beginning of the industry, and then gradually flatten out as the technology and the market for the particular industry mature (Reinert 1980). This is because the previously novel technology becomes commonplace and barriers to entry fall, leading to increasing competition as other firms emulate it. As a result, the rents from increasing returns are much lower in mature industries, which is why these manufacturing activities tend to be offshored and outsourced to countries with lower costs of production.

Thus, globalised production in which activities in the value chain are separated and carried out in different countries has several implications for the three channels through which manufacturing drove economic development in the past: increasing returns, cumulative capabilities and domestic economy linkages. As Whittaker and colleagues (2020) point out, the separation of manufacturing employment and output in the Global South from innovation in the Global North, where lead firms are concentrated, weakens the spillovers between manufacturing and innovation that were essential to wealth creation, cumulative capabilities and self-sustaining growth in the past. Furthermore, although GVCs make it easier for local firms in countries of the Global South to begin exporting, as they do not have to have the entire value chain in their national borders and export final goods, this is a mixed blessing, as export manufacturing has few domestic economy linkages. Thus, GVC participation has led to the proliferation of labour-intensive manufacturing sectors globally, driving up competition among supplier firms and countries while also creating an 'export trap' in which supplier firms often become stuck in these labour-intensive segments, as the barriers to entry into more capital- and knowledge-intensive segments are very high. These labour-intensive segments have few domestic economy linkages, as most inputs are imported. The increased competition among supplier firms in the basic segments, combined with consolidation among lead firms and buyers protected by high entry barriers, has accelerated asymmetric market power in lead firms-supplier relations. Global buyers, or other lead firms in GVCs, have oligopsonistic buying power, which means they can set prices for suppliers.

These power relations between Global North buyers and Global South supplier firms are paradigmatic in the global apparel industry, in which apparel products have the characteristics of a 'commodity'. In the 20th century, the work of Prebisch and Singer pointed to the unequal trade relations between advanced capitalist countries and the less-developed periphery that led to declining terms of trade between manufactured good and primary commodities (Prebisch 1950; Singer 1950). Agriculture and natural resource commodity exports from the Global South were characterised by decreasing long-term prices, high dependence on low wages, and intense competition from many other countries, resulting in competition based on price. Any gains in increasing agricultural productivity were captured by countries dominated by oligopolistic industries with a substantial degree of control over the prices of their final goods; commodity producers were price-takers, putting downward pressure on wages. In contrast, rising productivity in manufacturing industries in advanced capitalist countries led to higher incomes, as unions and widely accepted social conventions dictated that rising work productivity be rewarded with higher wages. Prices for manufactured goods stayed high, while unit costs declined due to oligopolistic pricing by firms, leading to high profits. It was these characteristics that led

structural development economists to advocate in the mid-20th century that countries of the Global South needed to shift from agricultural commodity exports to manufactured ones, largely using ISI strategies.

The predicament is that many manufactured exports now also have the characteristics of commodities, especially in segments of GVCs characterised by high competition and few lead firms, as is the case in apparel exports. In section four we show the decreasing long-term prices for apparel in major end markets in the US and Europe. While barriers are low in apparel manufacturing compared to other manufactured sectors, the economic activities that apparel suppliers are expected to perform and the social and environmental standards they must meet have raised the level of investments required, resulting in higher requirements even in the low-value segments, and thus even smaller profit margins and limited capital accumulation. Suppliers compete based on the production costs of the highest productivity supplier in an almost perfectly competitive market. Rather than using increasing productivity to capture increasing returns, suppliers that cannot achieve the cost structures of the highest productivity suppliers sell for little to no profit, since they are price takers. The more basic and thus substitutable the apparel product, the stronger these competitive forces are. To escape them, supplier firms have engaged in vertical integration and economies of scope, branching into complementary activities where there is less competition, as well as more opportunities for increasing returns. Where local supplier firms stay in assembly production, there are limitations to the technological capabilities that can be acquired. The benefits of apparel exports are therefore reduced to employment and the generation of foreign exchange. However, working conditions are poor and wages are low due to buyers capturing much of the gains from increasing returns, as well as governments aiming to maintain low wages to remain competitive. Furthermore, foreign exchange generation is diminished by the amount of imported inputs used in production and the repatriation of profits by foreign firms.

Given this situation, apparel exports alone cannot drive industrialisation processes, but rather require localisation of the supply chain and technological capabilities. Apparel production may lead to general production and organisational capabilities within local apparel-exporting firms, but textile production was and is the stronger source of innovation and linkages to other industries. In the past, synthetic textile production linked to the petrochemical industry was very important; in the future, it will probably be recycled textile production linked to recycled fibre industries, as we discuss in the conclusion. While exports can stimulate demand, domestic and to a certain extent also regional demand are essential to allow local firms to develop further capabilities in product development and design, branding and retailing.

The remaining sections of the paper take up these ideas and arguments in more detail, explaining the emergence and evolution of the apparel GVC and how countries in the Global South were or were not able to benefit from apparel exports. They explain the changing business strategies of global apparel buyers and the shift to export-oriented development strategies in the Global South, both of which have led to increasing value capture in the Global North, as well as what can be learned about the conditions under which countries in the Global South have been able to use

apparel exports to drive industrialisation processes. These conditions resonate strongly with the economic principles discussed above.

3. Globalising the Apparel Industry: The Making of Apparel GVCs

The apparel industry globalised, developing apparel GVCs, as part of the geopolitical considerations of the US government and the business strategies of US apparel manufacturing and retail firms, but also related to development strategies of particularly Asian countries. In addition to emerging global sourcing relations with largely Asian firms and countries, the apparel industry also has a regional dimension, with US buyers increasingly sourcing from Central and Latin America, and European buyers later sourcing from Central and Eastern Europe (CEE) and North Africa. Apparel GVCs in Asia had different characteristics to the ones in Latin America, CEE and North Africa, resulting in different opportunities for supplier countries in those regions that had important path-dependent effects in the following decades. This section shows how firms in Northeast Asia were able to benefit from apparel exports, where buyer-supplier relations were key to local firm learning and building capabilities, and that local linkages were central to industrialisation, especially the development of a textile sector. Buyer-supplier relations in Latin American countries were distinctly different, especially in relation to building local textile sectors, as a result of regional trade agreements with the US. Similar trends were evident in CEE, Turkey and North Africa due to regional trade agreements with the EU. However, there were differences between the types of lead firms active in these regional sourcing arrangements. EU buyers and investors in CEE, Turkey and North Africa had a stronger focus on fast fashion and higher value products, whereas US buyers and investors in the Caribbean Basin largely sourced basic products.

Japan was the first late industrialiser to start its industrialisation process based on the apparel and textile complex. Japan was already the largest cotton textile exporter in the world by 1933 (Aggarwal 1985). However, the sector was destroyed during World War II and then reconfigured during the US occupation of Japan in the years after the war. For the US government, a key purpose of the occupation was to reconstruct Japan along capitalist and democratic lines in order to tie the country firmly to the Western bloc, and the reconstruction of Japan's textile and apparel industry was central to achieving that goal (Rosen 2002: 36). The US government funded loans to Japanese firms to produce simple textile and apparel products made from imported US cotton for shipment back to the US, and to a lesser extent to Europe, whose reconstruction was also largely funded by the US. US manufacturers, retailers and importers were involved in establishing the production of ready-made apparel in Japan. The first outsourcing effort was initiated by five US companies, which were apparel manufacturers in southern states in the US that sourced primarily from large Japanese trading companies, transferring knowledge to Japanese firms on how to make and pack garments (Bonacich and Waller 1994: 81).

During the 1950s, US and European manufacturers and trade unions pressured their governments to act against cheaper textile and apparel imports from Japan (Rosen 2002: 37). In 1957, Eisenhower gave in to the pressure and, in derogation of GATT principles, negotiated so-called voluntary export restraints (VER) with Japan. With quota constraints, US importers began sourcing from Hong Kong and then South Korea and Taiwan in the mid-1960s (Bonacich and

Waller 1994). The geopolitical positions of these countries were also central to the US policy of containment of communism, and they benefited from a heavy infusion of American aid. The governments in Hong Kong, South Korea and Taiwan pursued policies of outward-oriented industrialisation in order to generate foreign exchange via manufactured exports (Gereffi 1999). These countries developed domestic cotton textile and apparel industries and exported through Japanese trading companies to the US market. US importing companies were paying comparatively high prices, which were low compared to US production costs but high compared to production costs in the Northeast Asian countries, resulting in large profit margins (Bonacich and Waller 1994: 82). In the early 1970s, US retailers began sourcing directly from Northeast Asian countries and offered higher prices than the US manufacturer companies had, pushing the latter out of the GVC (Bonacich and Waller 1994: 83–84).

In parallel, Japanese manufacturers also began setting up or buying existing apparel factories in these neighbouring countries, exporting textiles for assembly there and exporting the final product to US and European markets. At home, Japanese cotton textile producers mainly moved into synthetic and man-made fibres, as a result of quotas on its cotton textile and apparel products. During the 1960s, Japan's newly restructured chemical *keiretsu* began to increase their production of man-made fibres and, by 1970, Japan had become the second largest manufacturer of man-made fibres in the world, exporting polyesters and acrylics to other Asian countries and the United States. These new fabrics could be substituted effectively for cotton fabric in apparel production and were cheaper, leading to the polyester revolution (Wade 1990; Rosen 2002: 52).

In Hong Kong, the apparel firms producing for the US importers were started by Chinese entrepreneurs who left the mainland and settled in Hong Kong (Bonacich and Waller 1994: 82). These apparel firms concentrated on learning how to produce ready-made garments for export, and as there was not much competition in the international markets, they had the leeway to do so (Lau and Chan 1994). The Japanese trading companies (*sogo shosha*) played an important role in transferring knowledge to apparel firms in Hong Kong, and later in South Korea and Taiwan. At that time, there was not a pool of readily available capable local suppliers for outsourcing and offshoring. The Japanese trading companies already played a large role in the Japanese textile and apparel sector as intermediaries in providing raw materials, distributing fabric, and financially supporting textile and apparel firms (Kato 2017). When they began offshoring, they often created joint ventures or supported local suppliers as a way of continuing their tight coordination of the industry chain, which was now becoming transnational.

The UK restrictions on textile imports in 1964 led Hong Kong apparel firms to shift production to Singapore, Taiwan and Macao in the late 1960s. These countries were selected because they had cultural and linguistic affinities through ethnic Chinese communities (Gereffi 1999). Overseas buying offices of the major US retailers also played an important role, creating a direct link to foreign factories and increasing their control over the quality and timing of their orders.

In Taiwan, Chinese mainlanders who had relocated to the island with their machines started the first textile firms. They developed yarn and fabric production through government support and with US foreign aid, which was used to import cotton and yarn from the US. The Taiwanese government encouraged vertical integration and economies of scale through cheap credit, which

limited entry to the sector. The domestic market was saturated by the mid-1950s, and firms began exporting yarn, especially to the US. Taiwanese textile firms faced quotas in the US market, starting in 1961, so the government supported the development of a synthetic fibre industry through a joint venture with a US synthetic fibre company and through technology licencing agreements (Wade 1990: 79-90). In both Taiwan and South Korea, US foreign aid financed a substantial proportion of total fixed investment and the purchase of imports, with Gereffi (1989) noting that neither country's economy would have survived without American assistance in the 1950s.

South Korea's apparel export industry was built on the foundations of Japanese colonialism and US foreign aid (Lee et al. 2018). Japanese firms set up textile factories in South Korea to take advantage of the availability of cotton and labour, with textile production representing 12% of industrial production in Korea by 1940. However, the Korean War (1950-1953) destroyed most of the factories. US foreign aid was crucial to rebuilding the textile sector, as it paid for the importation of machines and cotton, this time producing for the domestic market. As foreign aid dried up in the 1960s, the Korean government supported a shift to apparel exports. It created an industrial complex for which it attracted foreign investment, initially from Korean residents in Japan. This complex engaged in assembly production and exported through Japanese trading companies to the Japanese, US and European markets. In the 1980s, Korean textile firms moved into the production of chemical and synthetic fibres. Key to this localisation was technology transfer from Japanese firms through joint investment instruments, as well as the establishment of local petrochemical industrial complexes in the 1970s as a result of the government's Heavy and Chemical Industry Promotion Initiative (Lee et al. 2018: 324). A similar process occurred in Taiwan, enabling both countries to expand their textile production and create supply linkages from fibre to apparel.

After failed attempts to negotiate VERs with Hong Kong, the US government brought the issue to the multilateral table of the GATT, resulting in a Short-Term Arrangement Regarding International Trade in Cotton Textiles in 1961, and then three successive Long-Term Arrangements starting in 1962 (Dickerson 1999). Made under heavy lobbying from US cotton manufacturers as well as support from European manufacturers, these agreements sought to regulate the import of cotton textiles and apparel. To bring man-made fibres under the quota regime, the US pushed for an enforceable system including natural and man-made fibres. US President Nixon negotiated a four-year Multi-Fibre Arrangement (MFA) under the GATT, with effect from 1974 (Rosen 2002: 111). The MFA was renewed and extended four times: in 1977, 1982, 1986 and 1991. Hence, textile and apparel was exempted from trade liberalisation under GATT, mainly for the purpose of protecting manufacturers in the Global North (Hoekman and Kostecki 2013). Although the objective of this system was to protect US, Canadian and European markets by imposing quotas on the volume of certain imported products, and to allow these countries to restructure their sectors before opening up to competition, the MFA quota restrictions resulted in dispersing apparel production to an increasing number of countries and provided many countries in the Global South a way to establish an apparel industry.

In sum, the global economic context in the 1950s and 1960s was characterised by substantial support for apparel firms in Asian countries in the form of very favourable market access, but also technology transfer and capability-building efforts, particularly by the US, to tie these countries firmly to the Western bloc in the geopolitical context up to 1989. Quota-regulated international trade also played an important role, with quotas being an important source of capital accumulation. This international trade regulation was coupled with strong demand growth in the Global North, although it began declining already in the 1970s with the recession in Western markets, and the increased role of retailers and the new branded marketers sourcing directly from Asian suppliers, which initially resulted in higher prices. On the supplier country side, governments pursued industrial policies that focused on increasing local value capture through textile production, as well as ensuring technology transfer from foreign to local firms.

Hong Kong, Taiwan and South Korea remained the centre of gravity in the global apparel trade until the early 1980s, when production shifted and a second wave of apparel producers emerged in places such as China, Thailand, Indonesia, Bangladesh, Sri Lanka and Mauritius, as well as in Mexico, Costa Rica and the Dominican Republic. In the 1990s, there was a third wave, with new apparel supplier countries emerging, including India, Vietnam, Cambodia, Myanmar and Laos, as well as Madagascar, Honduras, Guatemala, Turkey, Morocco and Tunisia. These shifts were strongly motivated by 'quota hopping', in terms of which buyers encouraged their suppliers to source from or set up their own factories in countries with underutilised quotas or with no quotas, as well as by regional and bilateral trade agreements and the Generalised System of Preferences, which gave some countries preferential market access to the US, EU, Japan and some other high-income countries in terms of lower or zero tariffs. These trade agreements, however, were linked to rules of origin regulations that influenced their uptake and impact. The production shifts were made possible by economic liberalisation in many countries of the Global South, which was pushed in the 1980s under the GATT and by the Bretton Wood institutions in the context of structural adjustment. However, some countries kept domestic market protection, such as China and India, and developed local firms producing for the domestic market that then also started exporting.

The 'Big Three' played an important role as a source of foreign direct investment as well as textile inputs in new supplier countries (Gereffi 1999). They kept textile and shifted apparel assembly of cotton and synthetic products to these new supplier countries. In the Asian countries and Mauritius, joint ventures and sub-contracting with Hong Kong, Taiwanese and South Korean investors played an important role, facilitated by ethnic or familial ties, common language, or historical legacies such as British colonial ties.

Hong Kong, South Korea and Taiwan benefited from apparel exports through wealth capture, developing competitive local firms and broader economic linkages, as well as gaining experience in how to implement industrial policies (see Amsden 1994). These countries then moved into more complex and higher value-added export sectors, as well as up the apparel GVC, to become chain coordinators in a context of triangular manufacturing in Asia (Gereffi 1999). Lead firms in the Global North placed orders with the manufacturers they used to source from in Hong Kong, Taiwan or South Korea, who in turn subcontracted simpler production stages either to their own

network of subsidiaries, or to independent suppliers in countries with low labour costs. While attempts at moving into own design and branded products for US and European markets were generally not successful, Northeast Asian firms were more profitable at coordinating production for lead firms in those markets and developing designs and brands for Asian markets (Lee et al. 2018).

By the mid-2000s, a small number of Asian apparel supplier countries were in the top ten suppliers to *both* the US and European markets. These included China, India and Bangladesh. Beyond these countries, other countries supplied the US and the EU, with clear regional patterns (Bair and Peters 2005; Pickles et al. 2015). Other large suppliers to the EU market included Turkey and Romania, with CEE and North African countries generally supplying the EU market. Other large suppliers to the US market included Mexico and Honduras, with Central American and Caribbean countries generally supplying the US. The intensification of regional trade agreements in the US and Europe was a response to heightened competition from Asian countries, as the integration of peripheral regional countries to exploit lower labour costs was intended to enhance the competitiveness of the apparel and particularly the textile complex in core countries (Bair and Peters 2005; Dickerson 1999). As Bair and Peters (2005) note, there are different models of export-oriented production depending on the type of networks linking suppliers to global markets, and they generate important path dependencies. In concluding this section, we summarise the dynamics in regional networks in the US and the EU and their implications.

A different set of dynamics, although still emanating from the US, shaped the emergence of apparel supplier countries in Central America and the Caribbean that shaped the development of apparel industries in that region. In the mid-1960s and 1970s, several US companies established assembly plants in Mexico, Honduras, Jamaica and Costa Rica, followed by the Dominican Republic, El Salvador, Nicaragua and Haiti. This was done under US trade law 807 on production-sharing that allowed US firms to export cut parts of garments to low-wage countries for assembly and re-import. Notably, this 'production-sharing' scheme did not have quotas if the apparel had been assembled from fabric made and cut in the US. Reagan's Caribbean Basin Initiatives accelerated the process in 1983 and 1986, seeking to curb Soviet-Cuban influence in the region (Rosen 2002). The production-sharing scheme was superseded in Mexico by the North American Free Trade Agreement in 1994, which allowed firms in Mexico to source fabric from Mexico or Canada. Apparel-exporting countries in the Caribbean Basin worried that exclusion from NAFTA would hurt their competitiveness and succeeded in getting 'NAFTA parity' through a series of free trade agreements signed in the 2000s. Much discussion of these agreements has focused on the restrictions that they placed on Mexico and the Caribbean Basin countries to use fabric from the US and then later from regional members of the free trade agreements (Bair and Peters 2005; Sanchez-Ancochea 2006; Bair and Werner 2011). This literature argues that initially having to use fabric from the US undermined the development of local textile production, which had path dependencies. Even though the rules of origin under NAFTA and later initiatives in the Caribbean Basin should have encouraged domestic and regional textile production, they did not. The limited textile base that exists in these countries is often in the form of vertically integrated US firms producing in these countries, and often in basic knit and woven fabric.

The development of regional suppliers to Western Europe followed a similar macro-regional integration process driven by regional trade agreements, although the transformation of the European apparel industry to offshoring took longer, accelerating in the 1990s (Plank and Staritz 2015; Grumiller et al. 2018). Launched in the late 1970s, EU trade agreements with CEE and North African countries were similar to the production-sharing arrangements that the US had with Central America, allowing preferential market access to the EU as long as yarns and fabrics were sourced from the EU. These outward processing trade agreements were a major driver behind the thriving regional apparel trade, particularly after the collapse of state socialism (Begg et al. 2003). They led to a division of labour between Western Europe and peripheral countries in CEE and North Africa based on assembly production, which generally involved the export of inputs (fabric or semi-finished apparel) from Western Europe to CEE or North Africa, where they were assembled into apparel for reimport into the EU. These rules of origin were relaxed in the course of EU accession for CEE and the Euro-Mediterranean Partnership for North Africa to include sourcing inputs domestically and from the region, but this was not enough to encourage significant backward linkages.

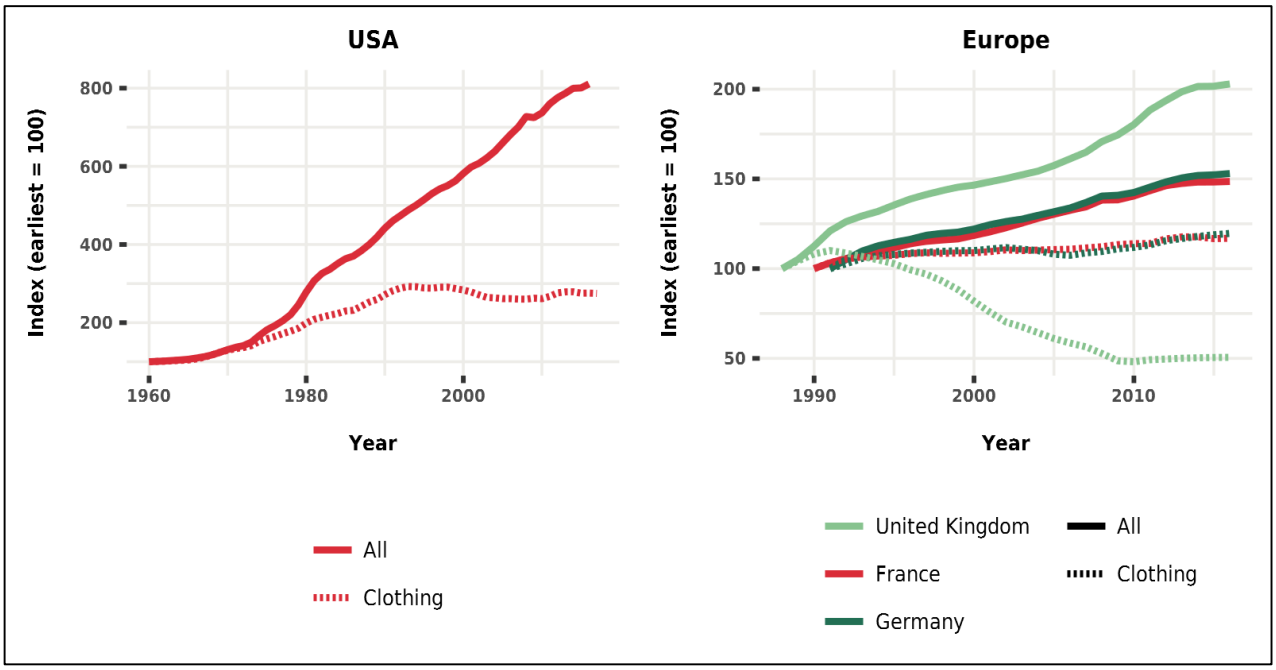
With regard to Turkey, the EU signed an agreement on a customs union in 1996, which decreased average tariff rates on textile and apparel products to 3.6%, and also lifted quantity restrictions. In 1999, Turkey joined the pan-European system of rules of origin, which allows the use of intermediary inputs from other countries of the Pan-Euro-Med zone, as well as from the EU and Turkey (Tan 2001; Augier et al. 2004). However, unlike in the Caribbean Basin, governments in CEE and also in Morocco and Tunisia supported upgrading and linkages to some extent in the runup to the MFA phase-out, resulting in some foreign investments in textiles. In general, regional trade agreements allowed European lead firms to access regional suppliers in CEE and North Africa that offered lower costs but also relatively high capabilities, as well as short lead times and flexible manufacturing. This was particularly important for the fast fashion segment on which regional sourcing is focused, with time and flexibility being crucial sourcing criteria, along with quality and costs. However, regional supplier firms often were still stuck in low-value activities dependent on Western European markets and textile inputs (Plank and Staritz 2015). The exception to this trend is Turkey, which was able to chart a path to higher value fashion products on the back of its extensive textile sector. Notably, Turkey's path out of the low labour cost 'export trap' became an inspiration for firms in other countries, such as China and South Africa (Zhu and Pickles 2015).

4. Evolution of Apparel GVCs and the Supplier Squeeze

By the 21st century, apparel GVCs had evolved as a result of four interrelated processes that affected the accumulation strategies of lead firms in the Global North: (1) the consolidation of apparel retail; (2) sluggish demand and the adoption of aggressive pricing strategies; (3) the rise of lean retailing and fast fashion as the dominant business model; and (4) the financialisation of lead firms. These trends began earlier, but at the turn of the millennium they worked together to significantly reshape the distribution of value along apparel GVCs.

Since the 1970s in the US and the 1980s in Europe, the apparel retail sector – as other branches of the economy – became concentrated in the hands of fewer and larger players (Gereffi 1999; Rosen 2002). In the US, the share of sales accounted for by the four largest general merchandise stores jumped from 33% in 1972 to 74% in 2012 and, by 2017, the four largest retailers – Walmart, Amazon, Target and Kohl's – accounted for a fourth of *all* apparel sales, while the top 20 accounted for 60%.[2] The European markets also were affected by retail concentration. By 2005, the ten largest retailers accounted for more than 40% of apparel sales in the UK, Germany and France (Bocconi University et al. 2007). All major end markets saw an extraordinary concentration of market power in a relatively limited number of lead firms.

The consolidation among apparel brands and retailers translated into more rather than less-intense competition. Beginning in the US in the 1970s, most apparel-consuming countries broke with their post-war economic models, which were characterised by high and relatively equitable growth, and entered low-growth regimes with rising inequality and stagnant real wages, leading to less purchasing power among lower- and middle-class consumers (Duménil and Levy 2005). Competing over shares of slower growing markets, retailers turned to aggressive pricing strategies, which is evident in the development of consumer price indices (CPI) of the major end markets. As shown in Figure 1, apparel prices in the US began departing from general consumer prices in the mid-1970s and flattened out and declined from the 1990s onwards. As a result, even nominal prices paid for apparel by US consumers remain lower today than in the 1990s. Similar trends are evident for the largest European markets. While detailed CPI data is not available for previous years, it is clear that apparel prices have diverged substantially from overall consumer prices since the early 1990s. In the UK, nominal apparel prices were cut in half, while in Germany and France, they grew moderately but still at a much slower pace than general consumer prices.



[2] Data from Economic Census, US Census Bureau (available at https://www.census.gov/programs-surveys/economic-census/data/tables.html) [accessed 27 Jan 2021] and Statista (available at https://www.statista.com/statistics/613229/market-share-of-the-leading-apparel-retailers-in-the-us/) [accessed 27 Jan 2021].

Figure 1: Consumer prices – clothing and all items

Source: Data downloaded from OECD.Stat, except for the US, which was obtained from the Bureau of Labor Statistics.

The combination of sluggish demand and overcapacity in retail, and the consequential pressure to cut prices, led to a profitability crisis in the US retail sector in the 1980s, with a series of bankruptcies, leveraged buyouts, mergers and acquisitions (Abernathy et al. 1999). It was in this context that retailers adopted the new business strategy of lean retailing, in order to avoid the costs of maintaining large inventories, by leveraging new communication technologies to forge a deeper integration between distribution and production (Appelbaum 2008). This retail revolution substantially transformed the relationship between retailers and manufacturers. Increasingly, suppliers were expected to restructure their production to respond to retailers' demands for greater flexibility, shorter lead times and faster delivery (Rosen 2002: 180-181). Lean retailing, which became the industry norm by the late 1990s, allowed retailers to shift some of their risks and costs onto suppliers, while the bulk of the benefits from these innovations (such as sales increases, stock reduction and reduced forecasting errors) accrued to lead firms (Taplin 2014). The principles of lean retailing were developed further and evolved into the fast fashion business model by a number of low-cost, fashion-oriented retailers such as Zara and H&M (Europe), Forever 21 (US) and Uniqlo (Japan).

The incessant pursuit of cost-cutting and risk-offloading was not driven only by intensifying competition in consumer markets, but also by the financialisation of lead firms. With the traditional mechanism (using market power to set higher prices) through which firms captured super-profits under oligopoly eroded by the intensification of price competition among retailers, lead firms turned to the reduction of *input* costs as the main way to deliver value to their shareholders. Under the new conditions, oligopsony in input markets replaced oligopoly in product markets as the main source of rents (Milberg and Winkler 2013). Retailers not only expected suppliers to absorb price reductions and provide shorter lead times and greater flexibility, but also started requiring higher-level manufacturing and non-manufacturing services from suppliers (Gibbon 2002; Palpacuer et al. 2005; Palpacuer 2008). In these ways, as Milberg (2008) has argued, financialisation and the globalisation of production were interrelated processes: the search for financial returns acted as a driver of global sourcing, while the deepening of GVCs in turn allowed retailers to sustain their financialised accumulation strategies, even in slower growing markets.

These transformations of the main consumer markets and of the capital accumulation strategies pursued by lead firms coincided with important shifts in the conditions under which producing countries engaged with apparel GVCs. These shifts include (1) the diffusion of productive capacities and increased South-South competition; (2) the emergence of transnational Asian apparel producers; and (3) the phase-out of the MFA quota regime. While the brand/retail end of apparel GVCs was characterised by a substantial concentration, the estimated global number of apparel manufacturing firms more than doubled from the 1990s to the early 2010s (Mahutga 2014). Hence, a limited number of brands and retailers select their suppliers from among a vast number of potential candidates. In this way, the oligopsony relations within GVCs coexist with

high degrees of competition at both ends of the chain. At the same time, the mass offshoring and outsourcing of apparel manufacturing to the Global South, and the near-extinction of domestic apparel industries in the Global North, has intensified South-South competition.[3] In previous decades, emerging apparel manufacturers could simultaneously grow their exports at the expense of Northern manufacturers; now, the growth of one group of exporters comes at the cost of another supplier from the Global South (Chan and Ross 2003; Staritz 2012).

Related to this competition at the supplier level and the increasing demands of buyers linked to the retail revolution and fast fashion, highly capable firms in Asia emerged as first-tier suppliers of lead firms, organising their own production and sourcing networks. The internationalisation of Asian apparel manufacturers was driven by rising wages and used-up quotas at home, and allowed these firms to take on the role as pivotal brokers (Azmeh and Nadvi 2014). The ability of these pivotal firms, such as Hong Kong-based Luen Thai, Taiwanese Nien Hsing and Chinese Dishang, to coordinate and manage supply chains for their customers, was instrumental in delivering the flexibility and short production runs required by fast fashion (Merk 2014). These transnational producers follow a global strategy: exporting long-run, basic products almost exclusively to the US market, with manufacturing plants in low-income countries, often with preferential market access in different regions. They keep higher-value activities in their headquarters, including relations with buyers, merchandising and textile sourcing, or their own textile production, and only pursue assembly operations abroad with limited linkages in host countries.

Competition was further intensified with the MFA phase-out in 2005, and the expiration in 2009 of the temporary safeguards erected against China by the EU, the US and a number of middle-income countries (Staritz 2012). Global buyers could now source apparel in any amount from any country without any quota restrictions. However, tariffs remained high in the apparel sector, and hence preferential market access still plays an important role in structuring apparel GVCs (Pickles et al. 2015). Together with the higher requirements that buyers demanded from suppliers, this led to a restructuring of global apparel exports. Asian suppliers, especially in China, gained at the expense of regional suppliers to the US and the EU, as well as suppliers in smaller, low-income countries, particularly manufacturers in sub-Saharan African, whose apparel industries were not priced competitively with China and had been kept alive by quota protection.

This restructuring in the distribution of apparel exports among supplier countries can be shown in the development of the modified version of the Herfindahl-Hirschman index (HHI).[4] In the index, a decline reflects a greater degree of spatial dispersion of export sourcing, and an increase

[3] Across the apparel-consuming countries, import penetration ascended towards 100%. The share of imports in US apparel consumption rose from 19% in 1980 to 95% in 2006; in the UK, it grew from 39% in 1980 to 92% in 2001; and by 2006, Germany and France imported, respectively, 95% and 85% of their apparel consumption (Chan and Ross 2003; Jones and Hayes 2004: 265; Staritz 2012: 14).

[4] The HHI is calculated by taking the total sum of the squared market shares of all countries exporting apparel, i.e. $HHI_j = \sum (S_{ij})^2 \cdot 10,000$, where S_i is the share of country i expressed as a percentage of total world exports of product j (see also Mayer et al. 2002; Milberg 2004; Milberg and Winkler 2010).

represents a greater degree of spatial concentration.[5] Figure 2 shows that the HHI in the US and the EU-15 remained quite stable until 2000, but then increased considerably, particularly in the context of the MFA phase-out in 2005 and in the context of the global economic crisis in 2009. After 2010, however, dispersion increased again for both end markets, which is explained largely by the declining share of China in recent years, but also by shifts to some new supplier countries in the context of rising wages and compliance issues in core Asian supplier countries. But concentration is still substantially higher than in the early 2000s under the MFA quota regime.

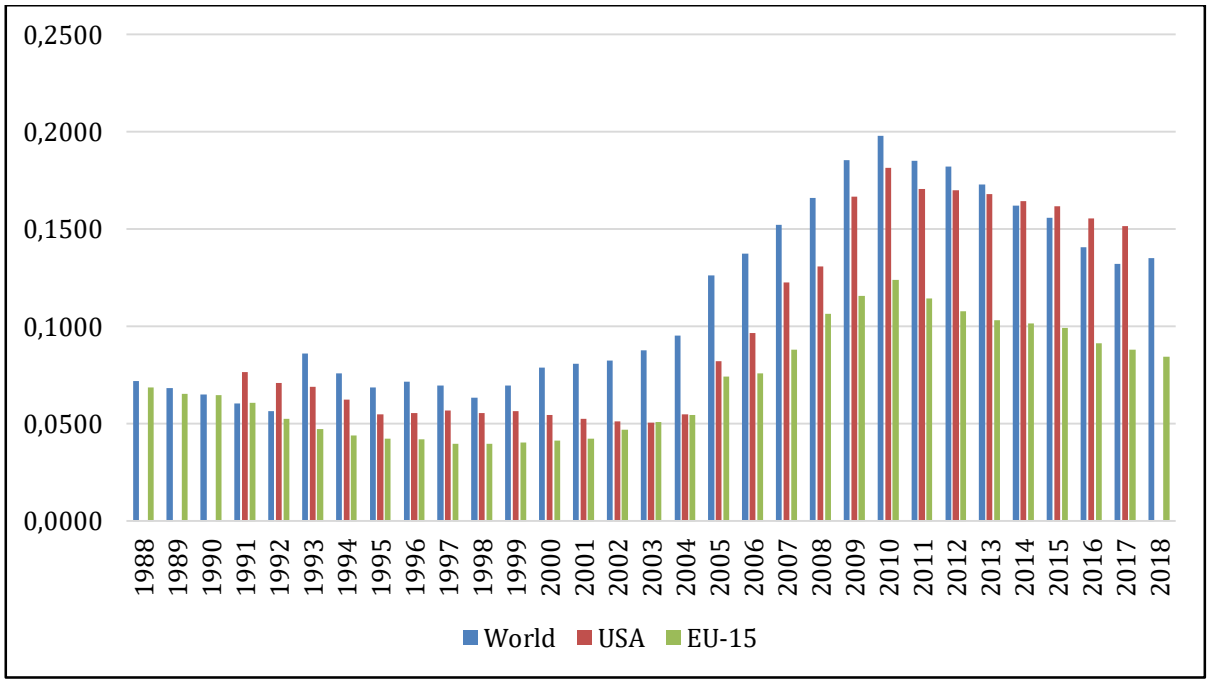


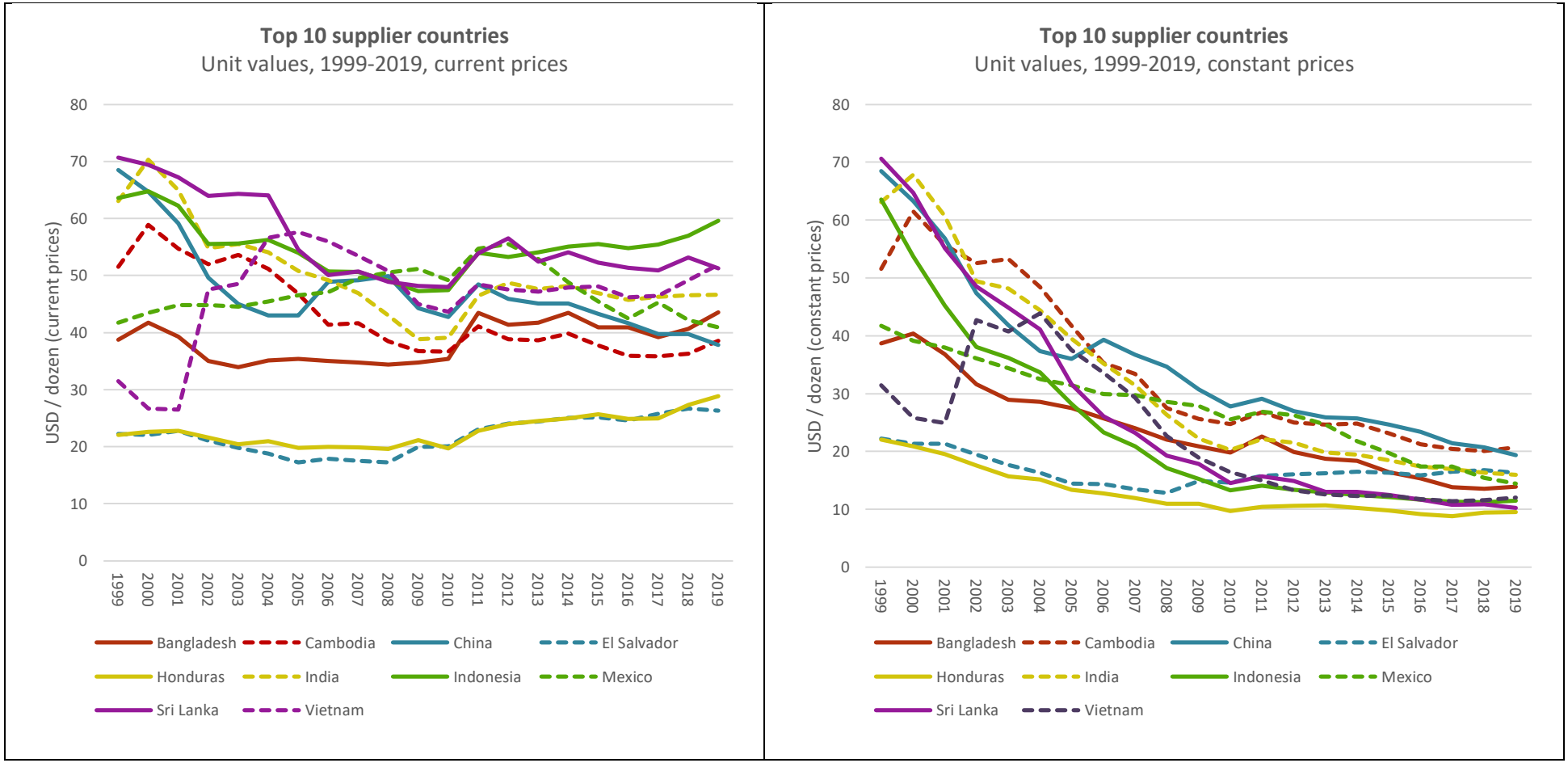
Figure 2: Herfindahl-Hirschman index for apparel imports to the world, the US and the EU-15

Source: UN COMTRADE 2019.

The combined effect of these changes in the consumer and producer ends of apparel GVCs was an escalation in competitive pressures in apparel manufacturing. The existence of a 'supplier squeeze' is observable from international trade data. Figures 3 and 4 plot the unit value of the ten largest supplier countries and the ten most imported apparel products to the world's two largest consumer markets, the EU and the US. For the US, it is shown in US$ per dozen, while for the EU it is Euros per piece. The upper-left panel of Figure 3 shows that six of the ten largest countries supplying to the US experienced declining unit values over the past two decades – in some cases quite drastically. These trends are in nominal terms. If inflation in supplier countries is taken into account (deflating values by GDP deflators, upper-right panel), price deflation is much more pronounced, with falling real unit values across the board. If supplier country inflation is taken into account, this will be much more pronounced, as inflation rates are generally lower in the US compared to typical apparel supplier countries. For the top 10 apparel product categories, the picture is similar: six of ten saw declining nominal terms (lower left); all of them in real terms (lower right).

[5] The HHI can range between 1/n2*10 000, i.e. all countries have the same share, and 10 000, i.e. one country exports all, where n designates the total number of countries exporting this product.

For the EU market, the price squeeze seems less intense, although exchange rate movements might complicate it. As payments to suppliers in apparel GVCs are typically denominated in US dollars, import data from ComExt, denominated in euros, may be an imprecise reflection of the dollar values received by suppliers. This is important, as the euro exchange rate against the dollar rose by around 50% from 2000 to its peak prior to the global financial crisis, after which it gradually deteriorated by 30%. The upper-left panel in Figure 4 shows that a drop in unit value was experienced by only one of the ten largest supplier countries of apparel to the EU, and the lower-left panel shows a drop in the unit value for four of the top 10 apparel product categories. However, the picture looks different when adjusted for inflation in supplier countries, with declines in real unit values for all countries and product categories.


Top 10 supplier countries
Unit values, 1999-2019, current prices
USD / dozen (current prices)
0
10
20
30
40
50
60
70
80
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019
Bangladesh
Cambodia
China
El Salvador
Honduras
India
Indonesia
Mexico
Sri Lanka
Vietnam
Top 10 supplier countries
Unit values, 1999-2019, constant prices
USD / dozen (constant prices)
0
10
20
30
40
50
60
70
80
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
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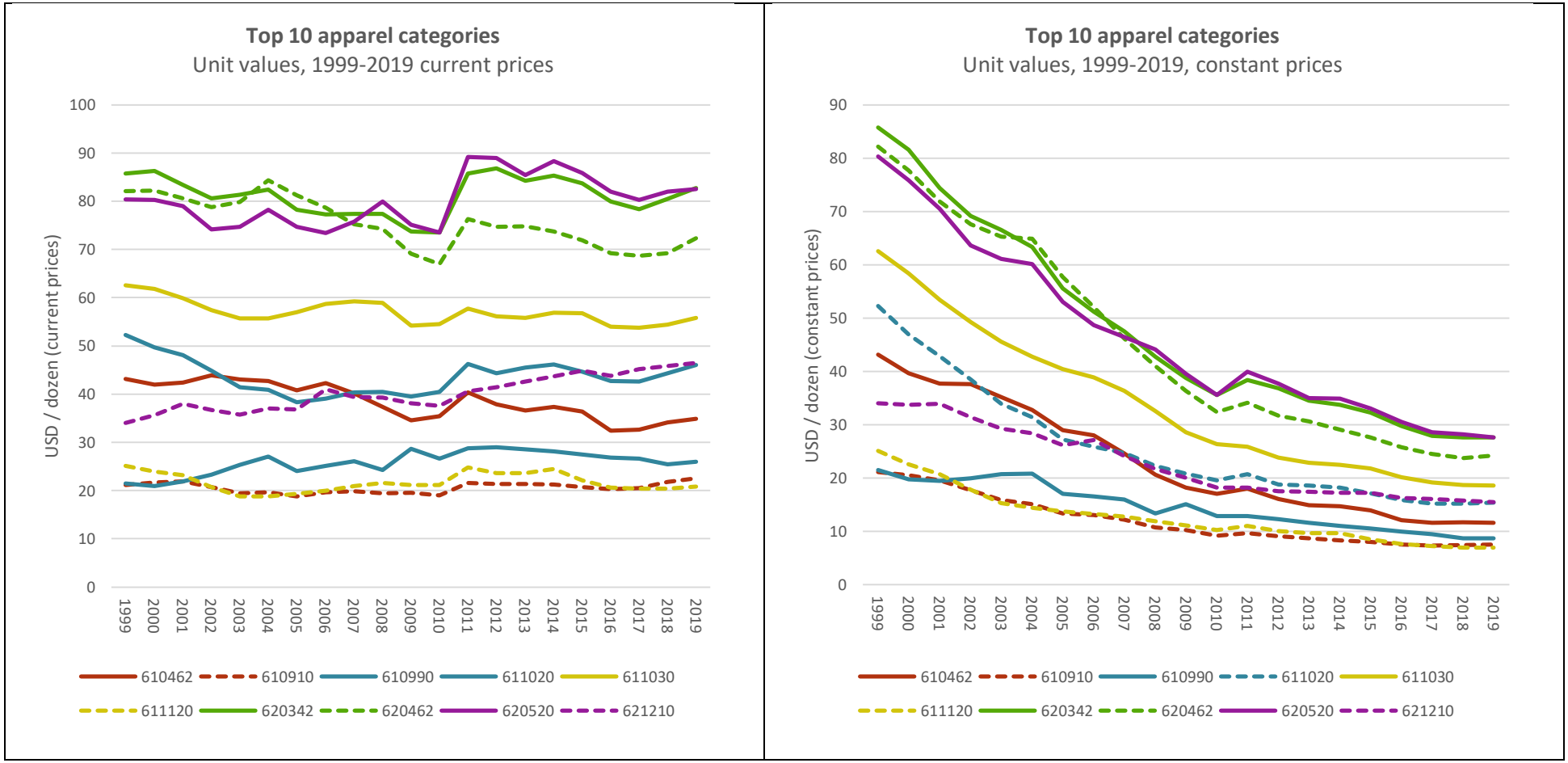
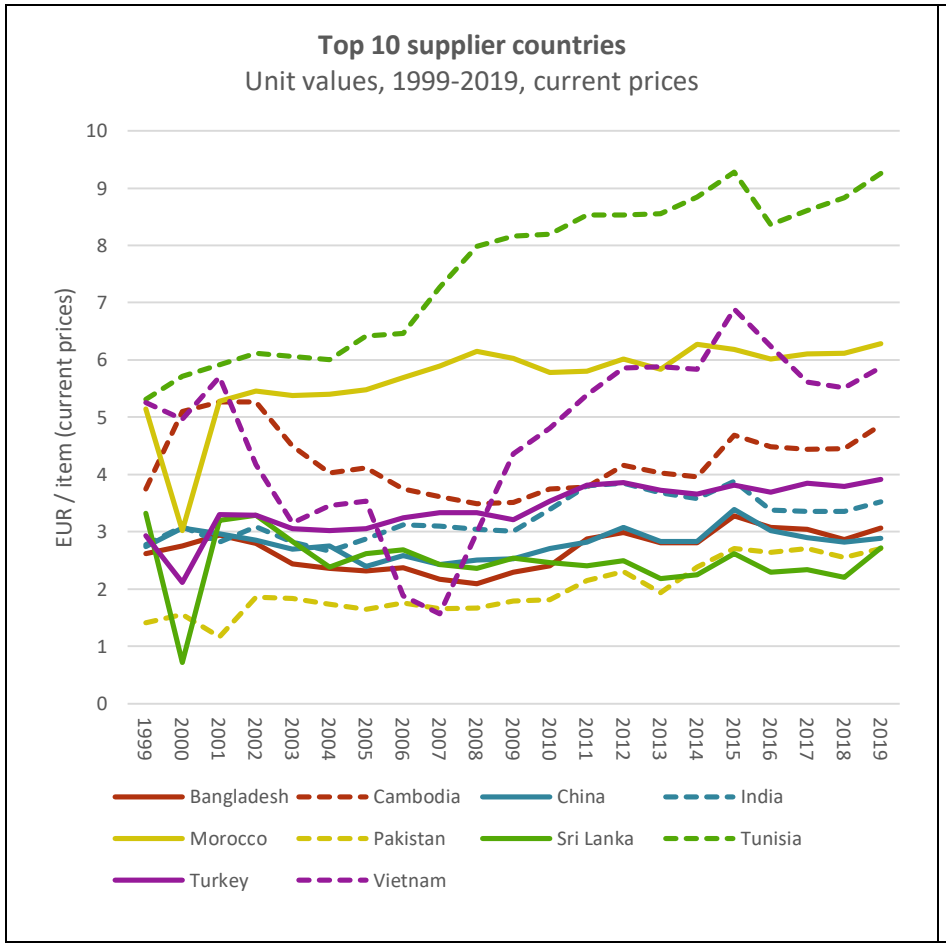


Figure 3: Imports of clothing to the US – unit values

Note: Data on unit values ($/dozen) was downloaded from USITC. Commodities were selected at the six-digit level of HS, based on their import values over the period 2010 to 2019. Values in the upper-right panel are deflated by the GDP deflator for the supplier countries, obtained from the World Development Indicators. Values in the lower-right panel are deflated by the average GDP deflator for the top 10 supplier countries.


Top 10 supplier countries
Unit values, 1999-2019, current prices
EUR / item (current prices)
0
1
2
3
4
5
6
7
8
9
10
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
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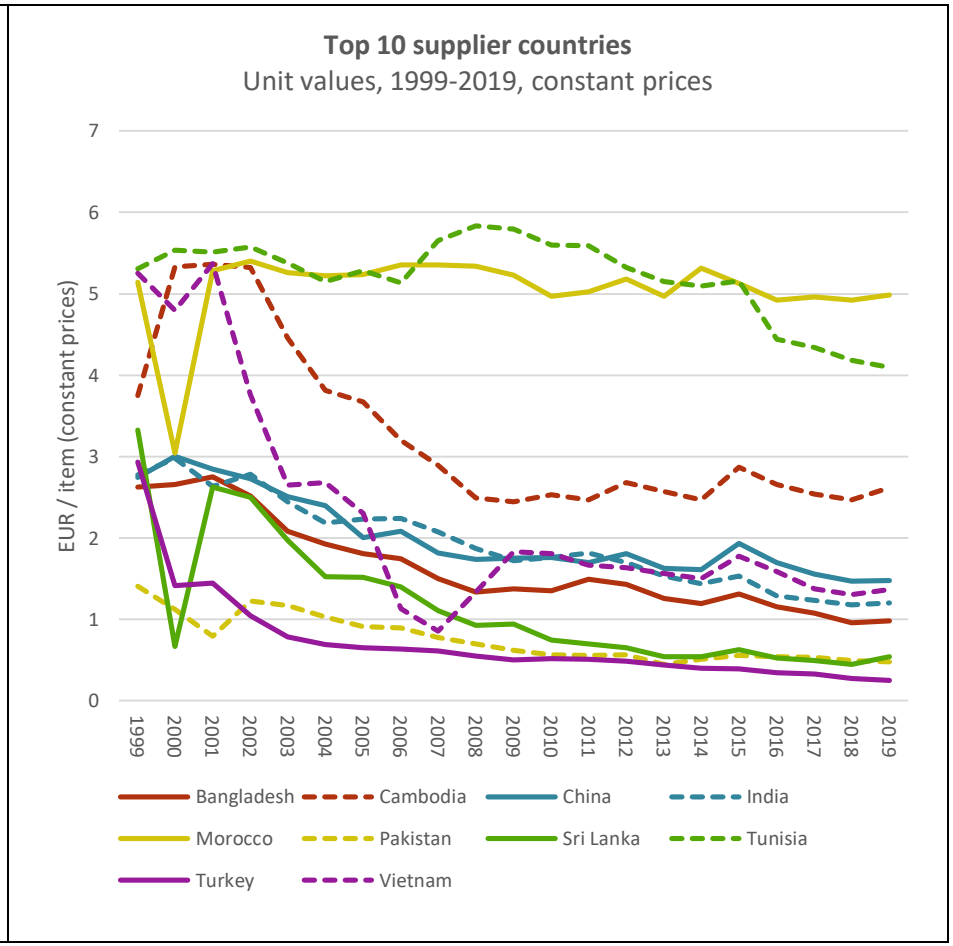
Bangladesh
Cambodia
China
India
Morocco
Pakistan
Sri Lanka
Tunisia
Turkey
Vietnam


Top 10 supplier countries
Unit values, 1999-2019, constant prices
EUR / item (constant prices)
0
1
2
3
4
5
6
7
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
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2011
2012
2013
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Bangladesh
Cambodia
China
India
Morocco
Pakistan
Sri Lanka
Tunisia
Turkey
Vietnam

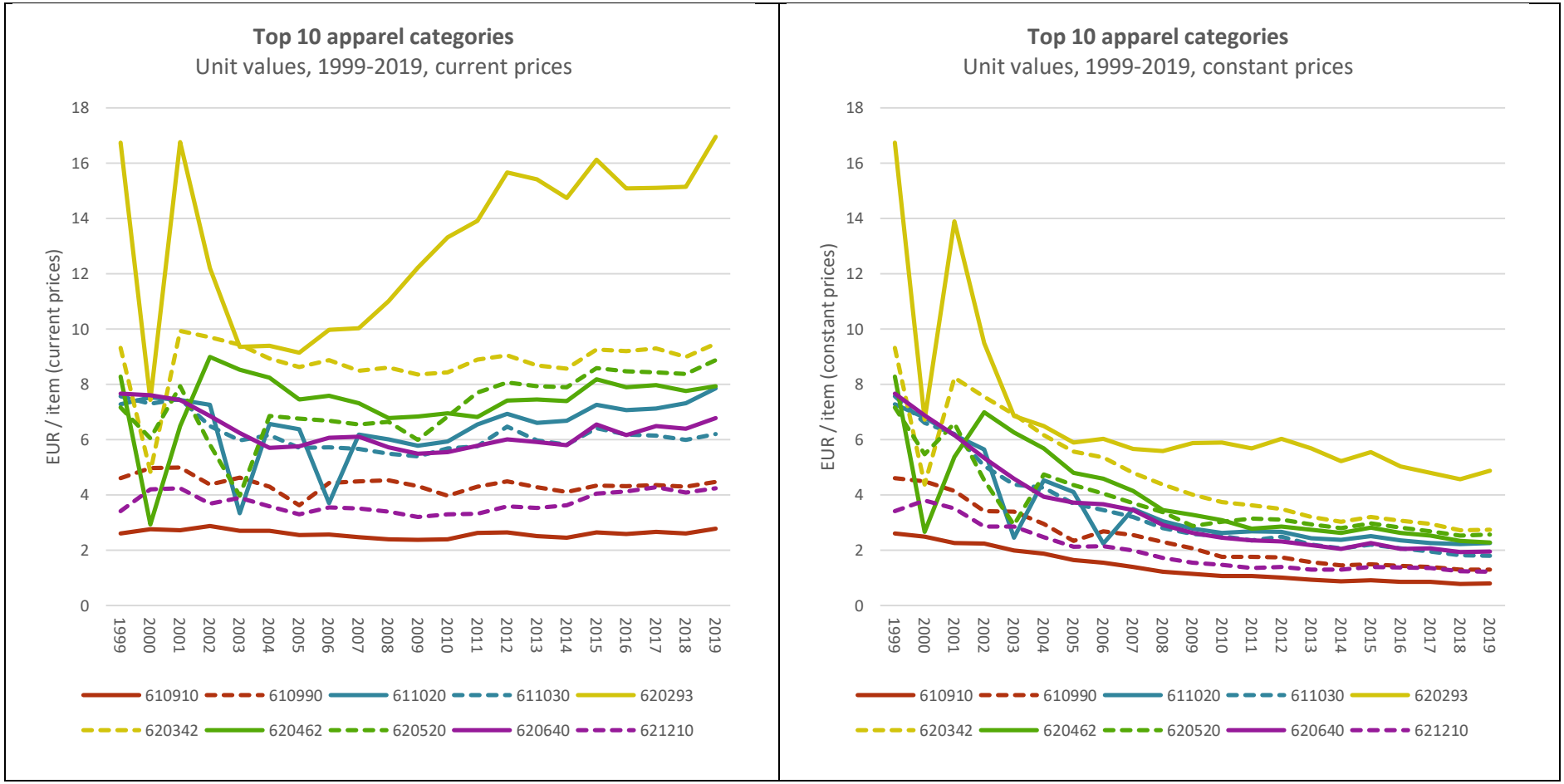

Figure 4: Imports of clothing to the EU – unit values

Note: Data on unit values (€/item) was downloaded from ComExt. Commodities were selected at the six-digit level of HS, based on their import values in the period 2010 to 2019. Values in the upper-right panel are deflated by the GDP deflator for the supplier countries, obtained from the World Development Indicators. Values in the lower-right panel are deflated by the average GDP deflator for the top 10 supplier countries.

The existence of a supplier squeeze is also supported by a 2016 survey on purchasing practices, conducted jointly by the ILO and the Ethical Trading Initiative (ILO 2017). Based on responses from 1 454 suppliers in 87 countries, a fifth of which were in the apparel and textile industries, the survey confirms that price is a key concern of global buyers, especially in apparel and textiles, where more than half of the suppliers had accepted prices that did not even cover their costs. When asked about their reasons for taking such loss-incurring orders, 81% cited the need to secure future contracts, 49% saw it as an attempt to gain advantages vis-à-vis competitors, and 46% said they had been under threat by buyers. The survey also found that just 17% of suppliers considered orders as having sufficient lead times, that lead times were getting ever shorter, and that a third of all suppliers in apparel and textiles faced penalties if they failed to meet order specifications (ILO 2017).

The 2018 report of the Purchasing Practices Index of Better Buying provides further evidence to support the supplier squeeze (Dickson 2018a, 2018b).[6] More than half of the 363 participating suppliers reported exposure to "high-pressure" cost-negotiation strategies; a third responded that buyers demanded "level prices" year by year; while a sixth was asked for across-the-board price cuts.[7] In addition, the ratings suggest that the price squeeze is greater on suppliers headquartered in East Asia, and that US buyers are more price-sensitive than European ones, who rather tend to place more fluctuating and less-predictable orders. The research of Mark Anner (2018, 2019, 2020) on suppliers in Vietnam, India and Bangladesh also shows a dual 'price and sourcing squeeze', evident in a simultaneous decline in prices as well as an increase in requirements, including lead times and flexibility.

In sum, global buyers in the main end markets of the US and EU are pursuing aggressive pricing strategies at the same time that they are placing greater demands on apparel suppliers in terms of quality, lead times, flexibility and compliance with labour and environmental standards. The result is not only a squeeze on the profit margins of established suppliers. These higher requirements, combined with lower unit prices, make the initial financial investments larger and the risk higher for local firms in low-income countries seeking to enter apparel GVCs. Thus, apparel assembly, the lowest node in apparel GVCs, is no longer an easy entry manufacturing sector: it takes more capabilities and economies of scale to be profitable. These developments also have important implications for the learning and linkage potential of entering and participating in apparel GVCs. The limited value capture provides limited sources for (re-) investment in upgrading, and the high competition and availability of a large pool of capable supplier firms globally and the emergence of transnational Asian producers coordinating supplier networks have limited technology transfer, capability building and local linkage possibilities in supplier countries. These external dynamics have also made it more difficult for governments in the Global South to pursue industrial policy aimed at GVC participation and localisation in order to stimulate broader industrialisation.

[6] Purchasing Practices Index of Better Buying is a third-party initiative collecting anonymous supplier ratings of brands and retailers in the apparel, footwear and household textile sectors.

[7] Common ways to add pressure were "take it or leave it" tactics (26%), comparing suppliers exclusively on price (23%), and playing competing suppliers out against each other (20%).

5. Apparel Exports, Localisation and Industrialisation: Lessons from the Global South

The experiences of Northeast Asian countries in the first wave of apparel supplier countries provided empirical support for the theoretical arguments in section two, showing how Japan, and then South Korea, Taiwan and Hong Kong, used their participation in apparel GVCs to build local firms, accumulate capital and create broader linkages in the economy, particularly through the textile sector. These are small countries, and exports were used to drive demand, especially for intermediate goods such as textiles. Later, trade protection through quotas drove innovations in man-made textiles that had linkages to other manufacturing sectors in their domestic economies. Furthermore, apparel firms in these countries internationalised rather quickly, taking on new economic activities such as coordinating global supply chains and managing design, while offshoring production to lower-income countries through local firms or their own factories. Industrial policies played an important role, as did the specific global context that supported learning, linkages and internationalisation.

There is a fallacy of composition aspect to national economic development in a global context. Apparel GVC participation brought wealth to these early supplier countries through increasing returns, cumulative capabilities and domestic economy linkages, but this is not a strategy that other countries can simply replicate. As competition increased for both buyers and suppliers, apparel GVCs evolved in ways that changed the opportunities for future apparel supplier countries. Increasing returns create barriers to entry, and thus imperfect competition. Increasing competition drives down rents, leading companies in the Global North as well as in Northeast Asia to retreat to economic activities in which high entry barriers can be created and to outsource and offshore the rest. As new waves of apparel supplier countries emerged, especially China, competition increased further, and innovations in global transport allowed fabrics and other inputs to be shipped around the world at low costs and short lead times, thereby changing the incentives for localisation of intermediate input production, the key driver of linkages. Changing global political economy dynamics linked to structural adjustment led low-income countries to liberalise their economies and trade, initially often with export-processing zones that operated under different, more liberalised policies than the rest of the economy. These special liberalised zones were meant to attract foreign direct investment, increase exports and thus foreign exchange, and balance trade accounts, with generally limited strategic industrial policy to support localisation. Hence, they easily led to apparel export sectors being driven by foreign firms importing all inputs and exporting finished products, with little benefit to the domestic economy, except for low-wage employment, minimal managerial training and some foreign exchange. In Central America, this was largely driven by US manufacturing firms; in North Africa and the Middle East, by European firms; and in Asia by Northeast Asian firms.

In order to break out of this satellite status, textile and apparel industries in new apparel supplier countries need to contain a large number of local firms that eventually move beyond competition based on price to capture more value based on capabilities. But individual firm-level upgrading success does not drive industrialisation. The latter is driven by linkages and cumulative capabilities, which foster technological change. This means firm networking and complementary

capabilities, and the upgrading of industrial clusters in addition to individual firms. It means forward and backward linkages within the apparel and textile sector, as well as across sectors, and the creation of synergies between domestic and export markets that foster capability building and innovation, rather than exporting enclaves and segmented markets. In sum, it means that countries have to embed GVC participation in dynamic processes of localisation. This is easier said than done, as it requires collective action and public-private partnerships driven by targeted industrial policies.

To what extent were countries that began exporting apparel and textile from the 1980s onward able to break out of the satellite status, and how? How much localisation did the second- and third-wave apparel suppliers, and now the fourth wave beginning in the 2000s, achieve, and what factors explain it? We attempt to answer these questions in this section based on a systematic review of the existing literature. We did not examine all apparel-exporting countries, but included the most important suppliers in terms of market share, and covered countries in all regions (except for Central and Eastern Europe). The review is based on the country case study literature, which is presented in the Appendix by region. Most of this literature takes a GVC approach and is focused on buyer-supplier relations and firm-level upgrading outcomes. As a result, there are few individual country studies that consider the industry as a whole, and even fewer that discuss the implications for a country's industrialisation processes. Furthermore, there were not always recent studies on the countries reviewed that could provide information on the current state of their apparel and textile industries. We tried to address this by looking for recent news articles and checking databases for quantitative indicators of the current state of the industry, but these are imperfect solutions and it could be that some of the country summaries do not reflect very recent trends. Thus, the analysis presented in this section is based on the available literature and is as thorough as it could be, based on that literature.

In the analysis, we first identified the number and nature of local firms, the extent of a local supply chain and linkages within the domestic economy, and the extent and nature of domestic market production. We then considered the kinds of industrial policies pursued by supplier countries, as well as the GVC dynamics discussed in sections two and three (particular buyer strategies and different types of foreign investment), and identified how they shaped the emergence of local firms, technology transfer and local-supply chain linkages. We then highlighted the implications of localisation for the competitive advantages of different apparel- exporting countries. Table 1 presents a summary of the findings of this qualitative analysis.

Table 1 also contains data on apparel exports for all the supplier countries reviewed, including export values, global market shares in 2019, and global market shares in the year that the country's apparel exports peaked. The table indicates the shifting centre of gravity in apparel GVCs, reflecting the evolution in the competitive advantages of supplier countries. In Asia, the first group of countries in the second wave of apparel suppliers includes Indonesia, Thailand and Sri Lanka, which saw their market shares peak in the 1990s and early 2000s. India and China also have lost market position in recent years. The share of China in global apparel exports declined steeply, from a maximum of 39.17% in 2013 to 30.71% in 2019, while the share of India has

declined since 2016, accounting for only 3.48% in 2019.[8] Within Asia, and on a global level, buyers are sourcing more from Bangladesh, Vietnam, Cambodia and Myanmar, all of which experienced their highest market shares in 2019. The regional suppliers to the EU all peaked in the decade before the MFA phase-out (1995 to 2004): Tunisia in 1995, Morocco in 1998 and Turkey in 2004. The same is the case for most of the regional suppliers to the US, including the Dominican Republic (1999), Mexico (2000), Honduras (2002) and El Salvador (2002). However, Nicaragua and Haiti saw their global market shares peak in 2019, as they are the newest low wage-sourcing locations for the US end market. In sub-Saharan Africa, the first generation of exporters – Mauritius and South Africa – lost ground in the early 1990s, while Madagascar, Kenya, Lesotho and Eswatini peaked in the first half of the 2000s. Ethiopia is the newest low wage-sourcing location, but so far has a low global market share, of only 0.03%.

Despite the decline in its market share, China remains the largest apparel exporter, with an export value of $152 billion. It therefore represents almost a third (30.71%) of the global export market. The next largest apparel-exporting countries in terms of market share are Bangladesh (6.70%), Vietnam (6.26%), India (3.48%) and Turkey (3.32%). Notably, China, India and Turkey are not the cheapest locations in terms of labour costs. In contrast, Vietnam and Bangladesh have retained orders based largely on low labour costs, but combined with high productivity and the product quality of basic and mid-range apparel. Importantly, all of these countries have a significant number of local firms producing and exporting apparel; in fact, local firms are the majority or dominate the export sector in all of these countries, except for Vietnam.

Based on the individual country experiences, we have identified clear trends relating to the importance of localisation for competitive advantages in apparel exports, as well as in driving broader industrialisation processes, but also the conditions under which they emerge. This section presents those trends and then discusses them in more detail in the context of regional experiences and specific countries, which allows us to explain the nature and extent of localisation and the factors driving it. The development of apparel export industries in sub-Saharan Africa's main exporters is examined separately in section six, where we consider the general trends presented here, but also the challenges specific to the sub-continent.

[8] Data on export values and shares comes from the WTO database, https://data.wto.org/

Table 1: Overview of the localisation and competitive advantages of apparel supplier countries

	Exports					Country income level	Localisation			Industrial policy	Competitive advantage
	Started exports	Export value 2019 (B USD)	Peak export value	Global share 2019	Peak global share		Local export firms	Local supply chain	Domestic market production		
Asia											
China	1990s	151.54	186.61 (2014)	30.71%	39.17% (2013)	HMIC	Yes: Majority local firms (?)	Yes: industrial product-specific clusters	Yes: design, brand, retail. Large domestic market	Privatisation of SOE/TVEs; industrial upgrading and relocation policies at central & local govt levels. Public financing and joint investment with private firms.	Industrial clusters and local supply chains; functional upgrading in high-wage locations, moved low-value activities to low wage locations inland or offshore; fast fashion suppliers for Western and local retailers in domestic market.
India	Mid-1980s	17.16	18.31 (2017)	3.48%	4.03% (2016)	LMIC	Yes: Local firms dominant the sector	Yes: entire textile chain localised & diversified textile base	Yes: design, brand, retail. Large domestic market. Retailers supporting network of SMEs	ISI liberalisation & export promotion through financing & tech assistance in upgrading & expanding. FDI restricted initially. Gov't institutions in research, development & training, including design.	High valued-added (design & handiwork), small batch products to smaller buyers; extensive & diversified textile base; technical textiles.
Sri Lanka	1980s	5.47	5.47 (2019)	1.11%	1.42% (2000)	HMIC	Yes: Local firms dominant the sector	Yes. Fabric, mostly knit, & ancillary inputs	Did not play significant role	FDI attraction. Not much industrial policy. Industry developments driven by buyer relations, joint ventures, and local firm collaborative efforts.	Product specialisation in high-value fashion; design; local supply chain EU preferential market access (GSP+)
Bangladesh	1980s	33.07	33.07 (2019)	6.70%	6.70% (2019)	LMIC, LDC	Yes: Majority local firms	Yes: mostly VI	Yes: OBM, retail	Financing for T&A investments	Economies of scale & cheap labour costs. EU preferential market access (EBA)
Indonesia	1980s	8.59	8.93 (2018)	1.74%	2.72% (1993)	LMIC	Yes: Majority local firms	Yes: Low quality & expensive	Segmented; domestic market production competes with imports and smuggled goods	Import tariff protection on T&A; Export-processing zones	Low labour costs in some regions; stagnating industry

Thailand	1980s	3.89	5.01 (1995)	0.79%	3.24% (1993)	HMIC	Yes: Majority local firms	Yes Exports textile in ASEAN region	Segmented; some local brands	Import tariff protection on apparel	Low labour costs with migrant labour, higher value products. Increased investments & exports in ASEAN
Vietnam	1990s	30.89	30.89 (2019)	6.26%	6.26% (2019)	LMIC	Yes: But majority foreign firms	Limited, mostly VI	Yes, but largely segmented markets	Modernising apparel SOEs & privatising them	Low labour costs; relatively high productivity & wide product mix
Cambodia	1990s	8.33	8.33 (2019)	1.69%	1.69% (2019)	LMIC, LDC	No	No	No	FDI attraction	Low labour costs EU preferential market access (EBA)
Myanmar	1990s	5.06	5.06 (2019)	1.03%	1.03% (2019)	LMIC, LDC	Yes: Majority foreign firms	Very limited.	Segmented; some local design for domestic market	In early 1990s, FDI only allowed through JVs with state or military companies. From 1995, full FDI allowed. Foreign exchange restrictions until 2012.	Low labour costs EU preferential market access (EBA) Japan is an important end market. Sanctions prohibited exports to US and EU markets from 2003 to 2013.
Laos	1990s	0.21	0.21 (2019)	0.04%	0.05% (2010)	LMIC, LDC	Yes: Majority foreign firms	No	Not significant: Domestic market very small	FDI attraction	Low labour costs; small volumes to EU. EU preferential market access (EBA). Regional production network: most foreign firms from Thailand and Japan
Central American Basin											*Mexico, Central America, DR and Haiti benefited from trade preferences to US*
Dominican Republic	1980s	0.59	2.56 (2000)	0.12%	1.30% (1999)	HMIC	Yes	Limited, but largely VI through JVs	Yes	FDI attraction; import tariff protection on apparel.	DR firms largely relocated to Haiti
Costa Rica	1980s	0.04	0.66 (2000)	0.01%	0.33% (2000)	HMIC	Dominated by foreign firms	No	No	FDI attraction	Government & local capital lost interest in apparel assembly in mid-90s & moved to medical device assembly and significantly upgraded in that GVC by 2017.
Mexico	1980s	4.30	8.63 (2000)	0.87%	4.37% (2000)	HMIC	Yes	Limited, woven (mostly denim)	Yes	FDI attraction	Failed to upgrade and diversify products & develop extensive textile base; regional supply chain in cotton woven

Honduras, El Salvador, Guatemala	1990s	4.26 2.14 1.46	4.26 (2019) 2.24 (2018) 1.65 (2004)	0.86% 0.43% 0.30%	1.28% (2002) 0.90% (2002) 0.63% (2004)	LMIC	Limited: Dominated by foreign firms	Yes, yarn & knit fabric, mostly VI	Dominated by imports	FDI attraction	Low-cost labour, for basic knit products; regional supply chain in knit
Nicaragua	2000s	1.50	1.50 (2019)	0.30%	0.30% (2019)	LMIC	No	No	Dominated by imports	FDI attraction	Low-cost labour for basic knit products; exemption under CAFTA to access fabric from Asia
Haiti	1970s/ 2008	0.97	0.97 (2019)	0.20%	0.20% (2019)	LIC, LDC	No	Limited	Dominated by imports	FDI attraction	Low-cost labour; special TPL that allows access to fabric from Asia
Middle East & North Africa											
Turkey	1980s	16.38	16.67 (2014)	3.32%	4.30% (2004)	HMIC	Yes: Local firms dominate the sector	Yes: Extensive knit & woven; wool, cotton, polyester	Yes: Design, brand, retail	Government support for locally owned textile industry, including financing, in decades before apparel exporting began.	Extensive textile base; proximity to EU; upgrading to design in city factories & Low-value production in rural factories & offshoring, e.g. to Morocco.
Morocco	1980s	3.21	3.52 (2007)	0.65%	1.37% (1998)	LMIC	Yes: Majority local firms	Limited. Textile from EU & Turkey. Foreign VI in denim	Yes, segmented: Domestic textile capacity mostly SOEs & declined	Government financing for restructuring & upgrading of local firms to FOB in mid-2000s; subsidies for foreign VI investments.	Regional supplier: Supply fast fashion EU retailers with higher-value fashion products. Mostly CMT, with foreign firms doing FOB
Tunisia	1980s	2.27	3.77 (2008)	0.46%	1.47% (1995)		Yes: Approximately half of firms in the sector are locally owned	Limited, mostly VI	Limited: Decline in domestic market textile firms; significant apparel imports	FDI attraction; support modernisation of local firms (product & process upgrading in CMT)	Regional supplier: Short lead time and flexible, higher value fast fashion products; mostly CMT
Sub-Saharan Africa											

South Africa	1990s	0.45	0.50 (2013)	0.09%	0.16% (1993)	HMIC	Local firms too skilled for mass market, but without skills & conditions for EU mid-market	Textile sector narrow, and parts of it shifted to non-apparel textiles. Could not support mid-market	Only domestic market prod. Design houses, CMT producers, brands & retail chains	Extended protection of T&A sector, only liberalised after 1994. From 2010, financing for upgrading, but mainly to supply local retail chains & reduce imports.	No longer exporting: high labour costs, currency appreciation & limited textile base. To export, firms moved to Lesotho. Local firms compete with imports to supply South African retailers. Regional end market for SADC member countries.
Mauritius	1980s	0.55	0.98 (2003)	0.11%	0.56% (1990)	HMIC	Yes: Local firms dominate the sector	Yes, VI, in response to EU trade rules, but sell to other firms	Yes: design, brand, retail. But struggle to compete with foreign retailers	FDI attraction	Offer product design & development for EU buyers; low-cost production in Madagascar; also supply South Africa. EU, US and South Africa preferential market access
Madagascar	1990s	0.50	0.53 (2008)	0.10%	0.18% (2001)	LIC, LDC	Yes: Approximately half of firms in the sector are locally owned	Very limited	Limited, dominated by imports	FDI attraction	Specialised in specific higher-value products to EU. EU, US and South Africa preferential market access
Kenya	2000s (minimal in 1990s)	0.34	0.34 (2018)	0.07%	0.08% (2006)	LMIC	Very limited	No	Segmented; limited domestic market prod; dominated by imports	FDI attraction.	Basic products. Comparatively high productivity in the SSA region. US preferential market access
Lesotho	2000s	0.48	0.50 (2007)	0.10%	0.18% (2004)	LMIC, LDC	Very limited	Limited, VI	Segmented; dominated by imports & South African retailers	FDI attraction	Low labour costs; trade preference to US; sell to South Africa. US and South Africa preferential market access
Eswatini	2000s	0.20	0.50 (2003)	0.04%	0.21% (2003)	LMIC	Very limited	No	Segmented; dominated by imports & South African retailers	FDI attraction	Low labour costs; sell to South Africa. US and South Africa preferential market access
Ethiopia	2010s	0.16	0.16 (2019)	0.03%	0.03% (2019)	LIC, LDC	Very limited	Limited, but increasing	Segmented; dominated by imports	Eco-industrial parks; financing	Low labour costs; industrial parks; EU and US preferential market access

Notes: VI: vertically integrated textile and apparel within the firm. CMT: Cut, make, and trim; the firm is responsible only for assembly of apparel products according to the requirements of and with inputs provided by buyers, or if it a subsidiary of a foreign firm, then by branches of the firm located in other countries. FOB: Free on board (or full package, or original equipment manufacturing (OEM)); the firm is responsible for financing and sourcing inputs, all production steps, finishing and packaging.

Source: Export data comes from the WTO (https://data.wto.org/). Other data is based on the literature listed in Appendix A.

5.1 Trends

Local firms are critical for cumulative capability building and developing a local supply chain. Local firms can move less easily than foreign firms when the low-cost advantage of the industry changes and have more incentives to invest individually and collectively in increasing capabilities to move into higher-value economic activities that can sustain the higher production costs but also drive productivity increases. Movement into these economic activities may lead to more intra-sectoral linkages within textile and apparel supply chains, and possibly inter-sectoral linkages. Where there are no local firms, there is no local supply chain or a limited one. Foreign firms tend to set up as apparel firms in new low-cost supplier countries, and not as textile firms; if they invest in textile, it tends to be vertically integrated, which makes their internal production more competitive but typically does not provide a supply of textile inputs to other firms in the sector. Stand-alone local textile investments for apparel exports require a minimum size of the apparel sector and thus generally also a large number of local apparel-exporting firms.

Large numbers of local export firms emerged in countries with a long history of textile and apparel production linked to cotton growing and the domestic market protected by ISI policies, but textile firms were supported by government industrial policies. In smaller countries, and those with no cotton production, local firms in countries with a socialist history emerged initially in the form of state-owned enterprises that were then privatised, or in non-socialist countries they emerged through various linkages with established foreign firms in the sector. In Southeast Asian countries, Japanese trading companies and apparel manufactures played an important role through establishing joint ventures with local investors, often moving into lower-income neighbouring countries when wages rose. ISI firms did not make the shift to exporting easily or at all and, where they did, it was the result of government support. Local firms that emerged after the shift to export-oriented industrialisation most often did so with the support of specific foreign firms or buyers, facilitated through colonial networks and social relations.

An extensive and diversified textile base is key to industry-level upgrading beyond competing based on labour costs and preferential market access. The nature of a country's textile base has implications for the products buyers prefer to source. In the non-fashion and time-insensitive segments, such as t-shirts, underwear and other basic knits and woven, unit prices are very low and profit margins razor thin, unless firms are large and benefit from economies of scale and scope, which generally include being vertically integrated. For the development of higher-value apparel, good-quality fabric manufacturing capabilities are critical. The availability of high-quality fabric at competitive prices in the domestic economy is also essential for firms to move to flexible manufacturing, which is required in fashion-oriented and time-sensitive markets. Flexible manufacturing means the ability to customise a product, to produce an order, or to shift quickly from production of one model to another on the same line in order to serve relatively small, specialised niche segments. Further upgrading

to design and product development is also strongly linked to domestic textile production, as it allows for experimentation, cost savings and product development, and for designers who are able to work with textile producers to create fabrics required to bring ideas to reality and to innovate into technical textiles.

Industrial policy is key to develop an extensive and diversified textile base, given the amount of capital involved. Without financing, local firms may be able to invest in knit, but not usually in woven textiles, which is a much bigger capital investment. Foreign firms do not tend to set up textile mills in new supplier countries, given their established global sourcing networks or textile mills in their home countries or region. If they invest in textile, it is usually vertically integrated. The apparel sector must be considerably large for foreign firms to consider investing in stand-alone textile mills. In Ethiopia, the newest apparel-supplier country and one far from access to textiles in Asia, there has been some foreign investment in stand-alone textile mills in anticipation of high demand from firms in the new apparel industrial parks, in combination with a proactive government in terms of attracting and incentivising textile investments.

Industrial clusters play an important role in capability building and local supply chain development. Industrial clusters can lead to specialisation and support stand-alone textile investments, rather than vertical integration within single firms. The availability of such clusters also makes it more likely to lead to a competitive advantage in high-value fashion and they support small and medium firms to source inputs locally and to collaborate in order to achieve economies of scale and scope external to their firms. Inter-firm collaboration and networks, whether within clusters or not, drive industrialisation, not only single firm-level upgrading. Firm networks in industrial clusters make exchanging information and knowledge spillovers easier and enable firms to imitate and learn from local pioneers.

Synergies between domestic and export markets, ***rather than segmentation, can help local firms and industries to grow and build a broad set of capabilities, as each market has different requirements***. In export markets, firms need to develop new systems to organise production that raises productivity and product quality, as well as the means to meet shorter delivery times through organisational change and the management of information. Functional upgrading to design, product development and branding is generally blocked, as these are core competencies of global buyers. In domestic markets, firms can develop design and product development, marketing and branding capabilities, as well as innovative channels of distribution and experience with retailing. Local firms almost always developed own products, designs and brands, and also retail chains for the domestic market, before moving into these activities (if at all) in other markets. A more capable group of local firms emerges when firms produce for both the domestic and export market and are able to produce apparel that competes with imports as well, than when local firms are divided into groups that only exporting and those producing only for the domestic market.

Segmentation often occurs due to continued high domestic market protection of the textile and apparel sector. However, the sequencing of liberalisation and retaining lower levels of protection, coupled with learning and upgrading requirements, were important; quick liberalisation led to the shutdown of local firms and the loss of local capabilities. Hence, as difficult and partly contradicting as it is, export orientation and import substitution have been addressed together with the aim of stabilising the balance of payments and improving the foreign exchange situation, as well as for learning purposes, which require liberalisation, albeit in a balanced manner and linked to the upgrading of support.

5.2 Relatively successful cases: China, India, Turkey and Sri Lanka

Turkey, China and India have a long history of manufacturing textiles based on cotton production, and local firms producing ready-made garments first emerged under protected markets during ISI strategies. Their governments gradually implemented economic liberalisation policies and enacted various policies to support local textile and apparel firms to modernise in order to become internationally competitive. Industrial policy played a major role, as did the large size of their domestic market, in supporting the growth and upgrading of local firms. In China and India, industrial clusters with assistance from local and national governments were important for supporting small and medium enterprises to achieve economies of scale and build technological capabilities, as were synergies between producing for the large domestic market and exporting. The literature discusses cases of textile and apparel firms in China and India moving into other sectors, and linkages from the textile sector to other industrial sectors, especially in China, although less so in Turkey. Industrial policy has been very prominent in China, especially at the provincial and local government levels, which have financed and supported such linkages, and less prominent in Turkey, with India somewhere in the middle. Sri Lanka is a very different successful case in that it is a small island country with a limited domestic market, and unique relationships between local firms and US and EU buyers, rather than substantial government industrial policy. This led to highly capable local firms and a large degree of localisation, where local firms later moved to produce for large regional markets in India and other Asian countries.

China. Foreign direct investment played a large role in driving apparel exports in China in the early decades. Firms from Japan, Hong Kong, Taiwan and South Korea invested heavily in Guangdong province in the 1980s, and brought buyers interested in sourcing from China. However, local apparel-exporting firms did not emerge from this development, but rather from a parallel, albeit not unrelated, set of drivers. By the mid-1990s, the state-owned textile industry became the worst performing industrial sector in China. It was characterised by overcapacity, but at the same time failed to evolve with changing consumer tastes for higher-quality textiles, and SOEs found it increasingly difficult to compete with private firms, especially foreign apparel firms, which were characterised by higher productivity (Wang 2013: 38–41). As a result, central and local governments began implementing policies in the second half of the 1990s to create a new system for the textile and apparel industry: restructuring

and privatisation of the state-owned enterprises (SOEs), reducing the number of textile SOEs, and encouraging textile exports as well as joint ventures and private firms. After the open-door policy in 1978, town and village enterprises (TVEs) developed rapidly and became private firms after 1999, when the status of the private sector was officially recognised. By 2007, 133 textile and apparel clusters had developed in 57 cities and 74 towns in China, mainly located in the coastal provinces, where hundreds of firms clustered together; two-thirds of the apparel clusters are in Guangdong province and one-fifth in Zhejiang province (Wang 2013: 49).

For example, Ningbo city is one of the three major apparel-production bases in China, and in 2012 accounted for one-twelfth of the national output, with the largest production base of men's wear globally (Wang 2013: Ch. 5). The apparel industry in Ningbo city has a long history, with cooperatives in the 1930s producing men's suits for foreigners living in Shanghai. These cooperatives became TVE factories, which produced military uniforms and dresses from the 1950s to the 1970s. After the gradual market reforms started in 1978, the TVEs grew rapidly as Ningbo City became one of the processing bases for apparel companies headquartered in Shanghai, and in the early 1990s some of them established their own brands. When the status of the private sector was officially recognised in 1999, the number of local apparel firms increased. These local firms updated their technology, and local commodity trading markets were an important distribution platform for them, lowering information costs and providing supporting services. Local governments built industrial parks where apparel firms agglomerated, firms improved their collective efficiency and created their own brands for local markets. Their focus remained on the domestic market until the 1990s, when it became relatively saturated, and local firms turned more to export markets. Joint ventures and partnerships with foreign firms played a role in establishing high-quality textile and apparel production, which are important for technology transfer and marketing channels. Some TVEs gradually developed into holding companies, and then into large-scale diversified business groups that included other manufacturing sectors, as well as multi-shareholder companies with investments from the state or foreign firms that allowed them to move into capital- and technology-intensive areas, such as the production of chemicals used as inputs in the production of synthetic fibres (see Wang 2013).

By the mid- to late-2000s, the low wage model was challenged by rising labour costs and labour shortages. Buyers pressed local supplier firms to move to lower-wage locations. Firms relocated large-volume, low-cost production into cheaper locations in China and to low-income countries in Asia, but kept their factories in coastal China, where they focused on more flexible manufacturing and higher value-added activities (Zhu et al. 2019). Zhu and Pickles (2015) explain how specific firms in the Ningbo apparel cluster, with support from the local government and the local garment industry association, learned the fast fashion flexible manufacturing business model through direct contact with Turkish firms. Turkey was a key sourcing location for global fast fashion firms, producing small batches quickly and with the involvement of suppliers in the design process. A few firms in Ningbo built capabilities in the

design and management of production cycles through linkages with foreign firms that had design capabilities, and through technological innovation in managing information and data. Other firms in the cluster learned from them. These new capabilities were also used for their domestic market business.

Turkey. Cotton textile production has a long history in Turkey, and a long history of state support – from the first SOE in 1933 to active support for private sector investments through public financing and technical assistance (Tokatli and Kizilgün 2009). The country had factories capable of supplying textiles based on high-quality local cotton, as well as woollen, synthetic and blended textiles, and firms could draw on this base when they started exporting apparel. Turkish suppliers produced on a FOB basis until the mid-2000s, when global retailers that pioneered the fast fashion business model, such as Spanish Zara and Mango, looked to Turkish suppliers to provide design. This opportunity coincided with the MFA phase-out and the anticipation of intensive competition from China, so Turkish suppliers invested in the shift to producing fast fashion, which required building design capabilities and creating a system of production that delivers quickly. Local apparel firms worked with textile mills to develop fabric, and then interpreted the ideas of buyers into designs. However, the research by Tokatli and Kizilgün (2009) shows that there was still an asymmetric relationship between buyers and suppliers that allowed buyers to shift more risks to suppliers and reduced the space for suppliers to negotiate on price. Exporting firms also produce extensively for the domestic market, with their own brands and retail operations. Some firms have even established brands and private label stores in Europe (Tokatli 2013). However, Turkish firms seem to face brand saturation in their domestic market, which is not as large as that of China or India.

India. The apparel and textile industry in India historically had small scales of operation and fragmented production capacities as a result of the government's policy of reserving these activities for small firms under high import protection. As the Indian government gradually reduced protection and import controls, it put in place rules and policies to help local firms transition towards exports, providing subsidised credit for investments in modernisation and technical assistance, and closely monitored the industry's export performance (Tewari 2006, 2008). Tewari notes that India is unique among apparel-exporting countries because foreign direct investment was restricted in the sector and not allowed until 2003/2005, and thus did not play an important role, even in joint ventures. Regional and preferential trade agreements were also notably absent. As with China, the large domestic market in India played a key role in providing a demand stimulus and allowing local firms to reach the economies of scale required for learning and profitability.

In contrast to China, where government industrial policy was key, buyers were more important in India. Tewari (2006, 2008) shows that India's small and medium apparel firms attracted a specific kind of global buyer: smaller retailers and importers in European markets who sought greater variety and flexible orders. Buying agents and Indian merchant exporters were important in linking small suppliers to end markets, with merchants often going into manufacturing and buying agents setting up offices in India by the 1990s. The smaller

European buyers who went to India often valued continuity over price, and provided technical support to improve the products of the Indian suppliers. They also welcomed design inputs from the suppliers, supporting them to build design and product development capabilities. These smaller Indian apparel firms eventually became exporters of high-value products to European and US markets, including products with large amounts of handiwork and embellishments. Some knitwear clusters of small and medium firms emerged that collectively drew on local institutions and a skilled workforce to attain economies of scale and scope, which defrayed risks. The Indian national government invested in institutions to support technical training, design and finishing centres in the apparel clusters. These institutions produced a pool of local designers (Tewari 2006).

Indian textile mills took a different track; they were large scale and produced more mainstream products. For example, Arvind started as a cotton textile mill in the 1930s, and in 1987 became the first mill to produce denim in India. The firm grew through supplying the domestic market in denim and is now among the top manufacturers of denim in the world (Kumar 2020). The company owns cotton mills, apparel factories, and the distribution and retail outlets of cotton shirts, knits, khakis and denim for major transnational brands. By integrating various phases of the value chain, Arvind kept its costs low, allowing it to invest heavily in research and development, leading to technological advances in machinery as well as technical textiles. It owns retail chains in the domestic market, where it promotes its own brands. Arvind uses its retail chains to sell the brands that it produces for US buyers, as foreign retailers were prohibited in India, which enhanced the firm's bargaining power with buyers (Kumar 2020). However, laws on foreign single-brand retailers were deregulated, with H&M having 40 stores, Zara 22 stores (through joint ventures with Tata) and Uniqlo recently opening stores, yet foreign retailers still account for a small share, and multi-brand retailers are still prohibited.[9]

In general, Tewari (2008) notes that nearly all successful apparel and textile exporters in India now have a domestic strategy. Purchasing power in the domestic market rose due to growth in jobs in the IT and business process-outsourcing sectors. Urban consumers wanted more fashion apparel, leading local firms to create brands and open retail stores. Apparel and textile firms are able to use experience in one market to help their business in the other. There are also many firms producing only for the domestic market, with no export strategy, which also explains the rather small global export share of India, even though the sector is of large importance in the country.

Sri Lanka has had relative success in using apparel exports to spur industrialisation, but it is a small island country with a limited domestic market. It needed only a few growing industries to drive up average incomes to middle-income country status in 1997 and reached high middle-income status in 2019. Notably, local firms learned through sub-contracting for

[9] https://www.thenationalnews.com/business/economy/breaking-into-india-s-apparel-market-is-not-as-easy-as-it-seems-1.880532.

foreign firms and through support from buyers, some of which formed joint ventures with local firms. The ten largest local firms have their own design centres and use the latest technology in apparel manufacturing. In the post-MFA era, they carved out niches in several product lines with higher values, such as lingerie and swimwear. The three largest local firms moved into textile and design and even their own brands that they marketed in South Asia. They internationalised in the 1990s already to avoid quota restrictions, and more substantially in the post-MFA period, opening factories in South and Southeast Asian countries (Athukorala 2018).

The apparel export industry in Sri Lanka started after economic liberalisation reforms in 1977, with Sri Lanka being the first country embarking on these reforms in South Asia. By 1982, firms from Northeast Asia, especially Hong Kong – due to British colonial trade and business ties, had set up apparel factories (Gereffi 1999). Local firms had experience in textile trading and then moved into apparel production, some first for the domestic market and then through sub-contracting for foreign firms; a few firms set up during the import substitution period continued after liberalisation and became exporters, including one of the largest local firms (Athukorala 2018). Apparel exports quickly exhausted MFA quotas due to the small size of Sri Lanka, and firms had to produce non-quota products. Many of the Northeast Asian firms began leaving in the early 1990s, but investors from Europe came. From the mid-1990s, local firms increased.

From the beginning, foreign and local firms in Sri Lanka exported to specialty retailers and brands, which sought greater variety and smaller orders (Athukorala 2018). These buyers worked closely with local firms to build their technical, managerial and merchandising capabilities. Some of these buyers even became joint venture partners, which is a rare business strategy of buyers that has not been observed on a similar scale in any other country. The two largest local apparel-exporting firms emerged through such joint ventures in the late 1980s with Mast Holdings, the parent company of the retail firm The Limited. There is no research examining the strategy of these buyers at that time and why they chose to support local firms in Sri Lanka. The parent company of Victoria's Secret encouraged its input suppliers to set up production in Sri Lanka in order to be able to provide the many inputs that go into making lingerie.

Sri Lanka started apparel exports without a domestic textile base. From the mid-1990s, the three largest apparel firms (MAS Holding, Brandix and Hidramani) set up textile subsidiaries and other subsidiary plants producing inputs such as hangers, labels, buttons, packaging material, as well as the specialty inputs for lingerie, in anticipation of the MFA phase-out. They had the volume of exports to support such investments, especially for the less scale- and capital-intensive production of knitted fabric. Many of these subsidiary factories were joint ventures with foreign firms that were already major international input suppliers, and the local firms often invested together. Furthermore, a number of independent fabric and embroidery firms emerged to serve the apparel firms. In sum, 80% of knit fabric and 20% of woven fabric in apparel production was produced locally, along with the bulk of the ancillary

inputs (Athukorala 2018). For the production of lingerie, many ancillary inputs are needed, such as laces and elastics, as well as dyeing capabilities, and more knit than woven fabric, and these needs drove the nature of local firms' investments in developing a local supply chain.

5.3 Moving to different degrees beyond the low labour cost advantage: Indonesia, Thailand, Bangladesh, Vietnam

Indonesia, Thailand and Bangladesh have a substantial share of local apparel export firms that now dominate exports, with Vietnam being the exception, but they have no large and diversified textile base. Countries without such a textile base compete mostly on low labour costs. When wages rise and labour shortages in the apparel export industry emerge as a result of success with the early stage of industrial development, the competitiveness of apparel export firms declines. In this situation, the *main responses* of foreign and local firms in these countries have been to move much of their production to lower-cost regional neighbours or use migrant labour from those countries, as well as to squeeze workers' wages where labour laws and their enforcement are weak. Notably, textile production in these countries is undertaken mostly within vertically integrated apparel and textile firms, and their industries generally do not have the kind of industrial clusters seen in India and China to support collaboration, complementary activities and innovation, with some exceptions. There has also been limited industrial policy to support local firms to move into design, branding and marketing, except in Vietnam, where there was more support, but it largely has targeted the remaining SOEs that have been more successful than private local firms in upgrading . What seems to be emerging is a regional production network around the ASEAN economic community, established in 2015, with apparel production shifting further from the ASEAN-6 to the ASEAN-4, while the ASEAN-6 countries will potentially retain management and more capital-intensive stages.[10]

Indonesia. The government pursued economic reforms in the mid-1980s that enabled export-oriented apparel manufacturing while retaining domestic market protection. These reforms attracted foreign direct investment from Northeast Asian apparel firms (South Korea, Hong Kong, Japan, Taiwan, Singapore) looking for quota allocation. There were local apparel firms that had emerged in the late 1970s in response to increasing domestic demand for apparel. Ethnic Chinese owned a vast majority of these firms, and had connections to overseas Chinese business networks, with some ethnic Indian, but few indigenous (*pribumi*), owners (Dicken and Hassler 2000). However, exports were dominated by foreign firms, which imported a majority of the fabric and exported most production. Local firms that exported initially did so primarily as sub-contractors for foreign firms, but a few managed direct exports.

[10] The ASEAN integration process is taking place at different speeds for ASEAN-6 (the original members: Brunei, Indonesia, Malaysia, Singapore, Thailand and the Philippines), who formed the ASEAN Free Trade Area (AFTA) in 1992, and ASEAN-4 (Cambodia, Laos, Myanmar and Vietnam), who joined in the late 1990s. The ASEAN Trade in Goods Agreement entering into in 2015 eliminated all import tariffs.

Indonesia had textile mills prior to exporting. Textile firms invested in new technology, but largely to increase production for long runs. They had low productivity, and could not supply the short runs and high-quality fabric needed for exporters. Hence, the domestic textile firms needed to upgrade their production facilities in order to produce higher-quality fabric more quickly (Hassler 2003). In a few cases, buyers worked with textile mills to develop fabric for their products (Dicken and Hassler 2000).

Segmented markets emerged, with little overlap between firms that were internationally competitive and export-oriented and those that were not and produced for the domestic market. The anti-export bias led many local firms to produce for to the domestic market, where they enjoyed a high level of protection. Local firms used mostly local fabric, but did not export a majority of their production (Dicken and Hassler 2000). Local apparel companies producing for the domestic market established brand names in the low- and medium-fashion segment after the Asian financial crisis in 1997 led to a slump in domestic demand as a competitive strategy to differentiate their products. They also exported these branded products to markets in South America and the Middle East, but only because buyers from these markets approached Indonesian firms looking for unsold stock to supply their low-to-medium fashion markets, where consumer expectations of product and brand image are not as high as in Europe, the US and Japan. But most Indonesian brand owners did not expand internationally in a strategic move and never attempted to establish a marketing network for their brands.

The apparel cluster in Bali is an exception within the Indonesian apparel industry. The cluster emerged in the mid-1970s as a result of unique relations between local firms and foreign firms and investors (Thee 2015). The firms were small and run by indigenous (*pribumi*) entrepreneurs, producing garments made from domestic material inputs. Foreign buyers and businessmen from Australia and later the US, Japan and Europe, many of whom initially came as tourists, established direct contacts with local entrepreneurs and provided information, technical and managerial assistance that allowed these small firms to produce for them: 'This assistance was provided on a for-profit basis, as it was specifically tied to tangible product output results' (Thee 2015: 257). These relations led to a cycle of learning and technological improvements in the local firms that was largely self-financing. The terrorist attacks in Bali in 2002 and 2005 led to a drastic reduction in foreign buyers, and there is little information on whether this industrial cluster developed further, but it showed that local firms could produce high-quality garments such as designer clothes and beach wear.

Growth in the Indonesian apparel export industry stagnated from the mid-1990s due to several factors: quotas were utilised; competition from China, India and Bangladesh; and rising wages due to government minimum wage policies. Dependence on imported fabric due to a lack of export-quality fabrics reduced the competitive advantage of Indonesia compared to other countries. The existing textile mills were also unwilling to service apparel firms that placed frequent small orders. Many large local apparel firms invested profits in other sectors instead of back in their apparel business (Thee 2015).

Indonesia's limited textile sector is apparently still a constraint on the ability of the sector to create a new competitive advantage, with outdated machines as well as high energy costs and multiple taxes as a result of regional government policies.[11] It seems that local firms are producing basic products with their textile base, which is mostly vertically integrated, and less fast fashion. However, there could have been some improvement in the textile base that supported a move into more high-value products, because the unit value statistics for the US market show that Indonesia has the highest unit value of the top ten suppliers in the period 2010 to 2019.[12] Based on the list of suppliers in Indonesia for H&M, we can see that many suppliers are locally owned, and there are still some Northeast Asian suppliers operating there.[13] Furthermore, some of these local firms have internationalised, with factories in Myanmar and more recently in Ethiopia.[14] The government is only recently pursuing industrial policy to help the industry move beyond a low labour cost advantage. It adopted an industry 4.0 strategy aimed at improving the textile mills. There have been several new foreign direct investments in state-of-the-art areas, but local firms are hampered by a lack of access to financing.[15]

Thailand also lost its competitive advantage as a low-wage apparel supplier by the late 1990s with the rise of new exporters such as China, Vietnam, Bangladesh and Cambodia. The first response of local firms was to move to rural areas and the border with Myanmar, where cheaper labour was available. Some firms also relocated production to Laos and Cambodia.[16] Goto and Endo (2014a, 2014b) argue that local apparel-exporting firms had not been able to get out of the middle-income trap through upgrading, indicated by stagnating unit values in the 2000s, but rather had sought to cut costs on labour. However, a study undertaken in the mid-2010s showed a somewhat different picture, but it focused on exports to the Japanese market, noting that the unit values of Thailand's main apparel products were high for the Japanese market, and that, while the volume of exports to the EU was lower, the products had diversified and had higher unit values (Mizuno 2020). On this basis, Mizuno concludes that upgrading has occurred, and then gives examples of firms producing small quantities of higher-value products with a short lead time, more automated production systems and more design. However, the firms in Thailand use a large amount of migrant labour from Myanmar. The study shows a picture of an emerging regional production network as a result of the establishment of the ASEAN economic community in 2015. Japanese firms already in

[11] https://www.thejakartapost.com/news/2020/08/27/covid-19-fallout-exacerbates-noncompetitive-outdated-textile-industry-experts.html

[12] Data on unit values ($/dozen) downloaded from USITC, https://dataweb.usitc.gov/

[13] https://hmgroup.com/sustainability/leadoil*,ing-the-change/supplier-list.html

[14] Information based on own research. Interviews with firms in Hawassa Industrial Park in Ethiopia.

[15] Lenzing has opened a research and development facility, bringing its state-of-the-art fibre testing and full fibre-to-fashion innovation capabilities to Asia, and Asia Pacific Rayon built the largest integrated rayon facility in the country and uses sustainable viscose rayon fibre from renewable, traceable and biodegradable raw materials that are supplied by a firm that co-located to Indonesia with APR, https://international.thenewslens.com/article/131895

[16] We were unable to find information about the origins of local firms in Thailand, other than there were some joint ventures with Japanese firms (see Mizuno 2020).

Thailand, some of which were joint ventures, boosted their investments and moved more functions to Thailand, including investments in textile, with lower-value production situated in Cambodia, Laos, Myanmar and Vietnam. Thailand's textile exports to ASEAN countries increased, as did its apparel exports within ASEAN.

However, Thai suppliers had not taken advantage of their domestic market, which remained segmented from firms supplying export markets and largely supplied by an entirely different set of local firms that produce low-quality products. While they use brand labels, they do not differentiate products sufficiently and do not have design capabilities (Goto and Endo 2014a). This situation offers opportunities for export-oriented suppliers to turn to the domestic market for developing design, marketing, distribution and retail capabilities and that could then be used in the ASEAN economic community. Furthermore, industrial policy would be required to help domestic market-oriented firms to increase their process- and product-related technologies through links to export-oriented firms and training institutions.

Bangladesh had textile and apparel production for the domestic market. Its apparel export industry started in the late 1970s and early 1980s, when South Korean, Taiwanese and other Northeast Asian apparel firms invested in Bangladesh to access quotas. Some of the first local apparel-exporting firms developed from domestic market-oriented firms, but others emerged through links with foreign firms. Unlike in other countries, where foreign firms followed liberalisation reforms, research shows that South Korean firms played a large role in influencing the policies needed within the existing market restrictions in order to create apparel-exporting firms in Bangladesh (Rhee and Belot 1990).

In 1978, a Korean apparel manufacturer (Daewoo) partnered with a local investor, Desh, because it was moving out of apparel but wanted to sell its textiles. It was not a joint venture, but a collaborative arrangement in which Daewoo helped to set up the factory with short-term credit and consultancy advice, train workers and managers, provide inputs, and carry out the marketing in return for a certain percentage of sales revenue and a commission for the marketing services. Desh managers learned the system of production, management and marketing from Daewoo. The two companies were instrumental in the Bangladeshi government's adoption of the bonded warehouse scheme, where imports to be used for producing exports were exempted from duties in the context of severe import restrictions, as well as the back-to-back letters of credit, which allowed local firms to get credit for importing inputs based on proof of an export order contract, despite strict foreign exchange controls (Rhee and Belot 1990; Wuddus and Rashid 2000). Notably, these are the two government policies usually associated with the state's role in supporting the emergence of Bangladesh's apparel export industry. Over one hundred of the employees trained by Daewoo left Desh at the end of the collaborative arrangement to set up their own apparel export firms (Rhee and Belot 1990).

Local apparel-exporting firms invested in backward integration into knit fabric-making in order to meet the double transformation rules of origin for the preferential access of least

developed countries to the European market under the Everything But Arms initiative launched in 2001, which was in place until 2011, when it changed to single transformation. Knit fabric-making is relatively less capital intensive and can be undertaken on a smaller scale than weaving. By 2010, 85% to 90% of knit fabric and 75% of yarn was sourced locally, while this was the case for only 25% of woven fabric, leading firms to focus on knitwear products and on the European market. Prices in the EU were also more than twice as high as those in the US for the top two products exported from Bangladesh. However, textile imports into Bangladesh increased after 2011 (Curran and Nadvi 2015). Most of the demand for accessories and support services are met locally. A dyeing and finishing sector emerged to support the knit industry. Almost all fabric production is cotton-based, and cotton is imported from India.

Most local apparel export firms are family firms, where family members occupy top management positions and are directly involved in strategic decision-making. Rana and Allen (2021) argue that firms of this kind tend to have low levels of innovation and diversification capability in a dynamic global business environment. Some large conglomerates in the Bangladeshi business system are potential exceptions. In Bangladesh, where trust in business relations and transactions is low due to weak contract enforcement mechanisms and property rights protection, business relationships and interdependencies between firms in the apparel export industry and between industries are weaker, leading to reduced value-adding activities in external networks. This condition leads firms to focus on internalising the high value-added activities within their legal boundaries. While firms require considerable investment to develop their internal value chains in such a situation, they tend to exploit social capital and political connections to access power networks and bank financing to sustain competition. Local firms sought to take advantage of their social capital and political affiliations to access incentives or discounts on bank finance to diversify, entering sectors unrelated to their core expertise. By developing multiple companies in different, unrelated areas, owners established identity, higher legitimacy and access to political recognition that provides them with access to political power and social recognition (Rana and Allen 2021). The result is silos instead of industrial clusters that can foster cumulative increasing returns and innovation.

Bangladesh's apparel export industry still competes on low labour costs and tends to produce basic, low-end products. Local firms responded to falling unit prices in the post-MFA period by squeezing profits and wages to remain competitive (Rana and Allen 2021). Bangladeshi apparel suppliers, especially medium-sized and small firms, now have a tendency to receive considerable orders from Chinese buyers, who source products either for the Chinese market or for US and EU buyers who have contractual agreements with large Chinese suppliers. These Chinese firms often complete part of their production processes in China, using robotic or artificial intelligence technologies, and bring the semi-processed products to Bangladesh for finishing because of the availability of cheaper labour and other institutional incentives, and then export especially to EU markets from Bangladesh under duty-free access (Rana and Allen 2021).

Bangladeshi apparel suppliers, regardless of their size, also have begun to export to neighbouring countries such as India, Pakistan and Thailand; exports to India in particular are increasing due to the labour cost differential. This creates a regional value chain in which Bangladesh uses low-cost cotton from India and exports finished products back to India. In some cases, Bangladeshi firms go to India to produce for the Indian market (Rana and Allen 2021). The domestic market in Bangladesh is growing due to increased purchasing power, leading local firms to produce apparel for local consumption, and some firms have become successful in establishing their own brands.

Vietnam began a transition from a socialist economy with market liberalisation reforms in 1986. It had a state-owned textile and apparel industry that exported to the Soviet bloc until the late 1980s, when this trade collapsed along with the USSR. The economic reforms led to foreign direct investment by apparel firms from Hong Kong, South Korea and Taiwan. The Vietnamese government signed a bilateral trade agreement with the EU in 1992, but the US market was closed to Vietnam until 2001 due to an embargo. The Japanese end market was important for apparel exports in the 1990s, as were those of Taiwan and Korea, which probably reflected apparel production in Vietnam by Korean and Taiwanese firms that was rerouted to the US. Japanese buyers focused on high-quality, smaller orders, and paid higher unit prices (Goto et al. 2011). Notably, these are the capabilities that local firms built and which gave them a competitive advantage in that area.

The government played a large role in the initial stages of the apparel industry's integration into export markets. Large SOEs, particularly those that were part of the central government SOE group Vinatex, were linked with foreign buyers. Vinatex apparel companies were modernised in the 1990s with state financing and technical assistance from Japanese trading houses and brands. Japanese buyers are known to work more closely with their suppliers than US and EU buyers, to finance their learning, and thus to stay committed to their suppliers and not switch easily based on price. Japanese technical staff trained Vietnamese production line managers at firms in Japan, and provided advanced machinery (Goto et al. 2011). This transfer of knowledge increased the productivity of Vietnamese SOEs that were then semi-privatised, starting in the 2000s. SOEs and former SOEs also had state support in establishing buyer contacts, which independent private firms did not get. Almost all local export-oriented firms are partly owned by Vinatex, which is still partly owned by the government. There are 120 of these Vinatex-related companies. Few new private local apparel-exporting firms have emerged since 2005 (Frederick 2017).

Production for export and domestic markets was segmented in the 1990s and early 2000s (Goto 2017). Private small and medium local firms produced for the domestic apparel market, competing with imports from China. They had a relatively vertical integrated production and distribution structure, carrying out their own production, branding and marketing, and most had their own outlets in major markets in urban areas. They also sometimes outsourced production to micro (household) firms. However, their products were low quality compared to those of the exporting apparel firms, and their designs, branding and marketing strategies

tended to imitate other firms, resulting in a lack of differentiation. Some of these firms upgraded into more expensive products and operated retail outlets in major commercial streets. Domestic brands made up around 40% of formal apparel retail in Vietnam by the early 2010s (Frederick 2017). In the late 2000s, export-oriented firms started producing designed branded apparel for the domestic market as well, as domestic demand was growing, but they lacked design and marketing knowledge and hired professionals in these areas, including foreigners (Goto 2017).

The majority of textile companies in Vietnam were locally owned and produced fabric primarily for the domestic market, with limited availability of export-quality fabrics (Frederick 2017). There were also few incentives to develop the textile sector due to the country's proximity to China. However, since Vietnam's WTO accession in 2007, investment in, and output from, domestic textile production have increased. This was driven by both foreign investors and SOEs in the Vinatex group, which invested in vertically integrated production, aiming for a complete local supply chain (Tran 2012). More recently, textile investments were motivated by the rules of origin related to free trade agreements with the US and the EU. The Trans-Pacific Partnership free trade agreement was signed by Vietnam and 11 other countries along the Pacific Rim, but was never realised due to the withdrawal of the US in 2017 under the Trump administration. To enjoy preferential tariff treatment under the Trans-Pacific Partnership, apparel exports were required to be produced with yarn and fabrics made domestically or in another country in the trade agreement (the "yarn-forward" rule). The "yarn-forward" rule was retained in the agreement signed without the US (the Comprehensive and Progressive Agreement for Trans-Pacific Partnership), but it allowed for non-originating materials up to 10%. The EU-Vietnam free trade agreement that was concluded in 2015 and entered into force in 2020 requires fabrics to be produced domestically or in another country with which both the EU and Vietnam have signed free trade agreements (including South Korea) to qualify for preferential market access (the "fabric-forward" rule). As both agreements rule out China (from which the bulk of textiles to Vietnam are imported) and other ASEAN countries, they created strong incentives to 'localise' textile production in Vietnam.[17] The Trans-Pacific Partnership spurred textile investments, but firms that invested in textiles plan to use these capacities now for the EU-Vietnam free trade agreement (Grumiller et al. 2018). Foreign investments in fabric production in 2014 and 2015, especially by Taiwanese and South Korean firms, to comply with rules of origin in the free trade agreements, were almost three times higher than in the entire period from 2000 to 2013.[18] As a result, the local content ratio of Vietnamese apparel exports grew from 20% to 25% in the early 2000s to 50% in 2018.[19] Despite these improvements in backward linkages, textiles

[17] https://vietnamnews.vn/economy/281359/firms-to-seek-local-suppliers.html.

[18] *Vietnam Textile Industry & Fabric Production Without TPP*, 2017, Vietnam Cotton & Spinning Association.

[19] https://customsnews.vn/vietnams-textile-and-garment-industry-still-has-a-long-way-to-catch-up-with-other-countries-7681.html.

produced in Vietnam remain insufficient for the growing demands of the export market, in terms of both quantity and quality. Knitted exports use a substantially higher share of local fabric than woven exports because the spinning and knitting segment is better developed, with the main bottlenecks being the weaving and finishing/dyeing segments.

Thus, Vietnam still competes based on low labour costs, but with a diverse product mix and increasing backward linkages (Frederick 2017; Grumiller et al. 2018). Wages are rising, posing a threat that the country could lose orders to countries paying lower wages. On the other hand, wages in apparel export are lower than in other industries, and apparel export firms face labour shortages now that low-skilled workers have other options (Goto 2017). Goto (2017) argues that, to some extent, local firms are refocusing from export to the domestic market. However, given rising costs and shifts to higher-value sectors in China, buyers, especially European buyers, see Vietnam as a key country for sourcing higher-value products.

To promote industrial upgrading and localisation, the Vietnamese government has pursued a relatively proactive industrial policy (Anh et al. 2016). The government has encouraged investment in textile, with a focus on the bottlenecks in weaving and dyeing/finishing. The strategy for the period 2015 to 2020 set specific targets for the production of cotton fibres, synthetic fibres, yarn and fabrics, as well as an overall localisation rate of 65% by 2020, but it remained unclear what steps the Vietnamese government took to achieve these objectives, and several of the targets have not been met.[20] Furthermore, textile investments by local firms seem to be limited due to a lack of capital and knowledge (Grumiller et al. 2018). Additionally, the government has shifted its focus to new sectors, particularly electronics, which has become the number one export sector of Vietnam (in terms of value; regarding employment, apparel remains number one).

5.4 Latecomer low-income Southeast Asian countries: Weak or no local firms

Since the 1990s, another group of Southeast Asian countries – Cambodia, Laos and Myanmar – have emerged as suppliers in apparel GVCs. Following long periods as socialist economies, all three countries embraced market liberalisation and foreign direct investment from the late 1980s. Apart from creating attractive investment regimes, however, governments in these countries made little attempt to promote industrial upgrading and localisation through active industrial policies. As a result, despite decades-long participation in apparel GVCs, the apparel export sectors in these countries remain dominated by foreign investors, with limited or non-existent spillovers to local firms and the domestic economy. Foreign firms are engaged mainly in the lower-value segments of apparel GVCs and are heavily reliant on imported materials, thus backward linkages are weak, with practically no local textile production. As least developed countries, this group of suppliers enjoy duty- and quota-free access to the EU under the Everything But Arms initiative; all three are covered by Japan's GSP; while only

20 https://investvietnam.gov.vn/FileUpload/Documents/EN.%20Quy%20hoach%20phat%20trien%20nganh%20det.pdf

Cambodia and Myanmar have preferential access to the US market. In sum, competitive advantages stem mainly from low labour costs and preferential market access.

Cambodia. The apparel export sector in Cambodia was set up in the mid-1990s, soon after the end of the civil war and the first democratic elections. Foreign apparel firms flocked to the country, attracted by an investor-friendly legal regime, low-cost labour and preferential access to major end markets, including a 1999 bilateral trade agreement with the US and a cooperation agreement with the EU, extended under the Everything But Arms scheme in 2001 (Slocomb 2010). The apparel export industry became dominated by foreign ownership from Hong Kong, Taiwan, South Korea and China (Staritz 2012). According to the Garment Manufacturers' Association of Cambodia, Chinese investors now account for more than half of all apparel firms, and local firms represent just 5%, most of which are de facto under foreign control.[21]

Most apparel factories are part of East Asian transnational producers that outsource assembly to Cambodia, while the sourcing of fabrics, logistics and design are managed from headquarters abroad. The majority of inputs are imported, primarily from China and to a lesser extent from Vietnam, Taiwan, Hong Kong and other countries in the region. From the beginning, the sector was concentrated in the lower-value segments of apparel GVCs. A combination of low labour costs and high profitability created little incentive for firms to invest in production technologies, and the bulk of profits were repatriated rather than reinvested. Over the past decade, the profitability of apparel exporters has come under pressure from both the price squeeze, discussed in section four, and substantial increases in minimum wages in Cambodia in the context of widespread labour mobilisation. This has encouraged some apparel manufacturers to seek out higher-value products and to implement labour-saving technologies (i.e. product and process upgrading) (Marslev 2019). However, the Cambodian government has made little attempt to encourage economic upgrading or localisation of the export apparel sector through specific industrial policies (Slocomb 2010).

Laos has some small and medium private local apparel export firms, as well as medium and large joint ventures. The small firms export only indirectly. There is no more information on the local firms, so we do not know their origins and the nature of the joint ventures, and thus if they are likely to drive the industry. However, the apparel export sector in Laos began after economic reforms in the mid-1980s, so it has existed for a significant period. The foreign firms still producing in the country are largely from Thailand, followed by Japan and then Australia (World Bank 2012). The current foreign investors seem driven by the ASEAN economic community and its free trade agreement with Japan. Over half of the exports go to Europe, with smaller percentages going to Canada and Japan, and a small percentage to Thailand (probably destined for re-export).

Myanmar. After the military takeover in 1988, the government of Myanmar introduced gradual economic liberalisation. Northeast Asian apparel firms were eager to invest in order

[21] http://gmac-cambodia.org/our_member

to access quotas. Formally, foreign direct investment was allowed, but in practice only if foreign investors formed joint ventures with state-owned or military-owned firms (Kudo 2009, 2013). There was one state-owned firm in the textile and apparel sector, set up during the previous government. Hong Kong firms formed several joint ventures with the state-owned firm in the early 1990s. The Korean firm Daewoo formed a joint venture with a military-owned firm in 1990, exporting to the US and Japan. Private locally owned firms were allowed to enter apparel production, as state-owned firms focused on the upstream activities of spinning and weaving. Some private local investors entered due to the low technological and financial requirements. The government did not promote the apparel export sector; it only allocated quotas. The government lifted the restrictions on foreign investment in 1995, and many Hong Kong and other Northeast Asian firms set up wholly foreign firms. However, Kudo (2013) notes that, even then, Taiwanese firms established linkages with local investors in which the Taiwanese firm provided finance, machines and managers to help set up the factory, and procured orders and inputs for the local firm. He speculates that they were just interested in accessing quotas and would rather support local investors than take the political risk of owning the firm. Local investors brought access to land and labour, and to the banking system.

The US government enacted sanctions on the military government in 2003, which prohibited imports from Myanmar, and the EU soon followed suit. From 2003 to 2013, when the US lifted sanctions, many local firms collapsed. The joint ventures and local firms (predominantly with Taiwanese links) exported to Japan, with support from Japanese buyers to produce the high-quality products required. Gelb et al. (2017) cites an industry association source that estimates that only one-fifth of local firms in the early 2010s were actually locally owned and managed. Exports to the US and Europe began again in the mid-2010s, with US and European buyers interested in Myanmar as one of the main new (cheap) sourcing locations (Gelb et al. 2017).

Localisation in Myanmar is very limited, despite the sector being established in the 1990s and continuing to export to Japan during the sanctions period. Almost all inputs are imported. There is some local sourcing of thread and packaging, and a factory was established in 2015 to produce hang tags and labels (Gelb et al. 2017). There are few locally owned and operated export firms, and the joint ventures have not led to local spinoffs as occurred in Bangladesh. The main benefits of the sector are employment and foreign exchange.

The ASEAN free trade agreement so far has resulted in a regional production network where activities are dispersed by wage levels. The low-income countries of Myanmar, Laos and Cambodia provide cheap labour, and firms in the higher-income countries of Thailand and Indonesia organise marketing, merchandising and the production of fabric. This situation resembles the triangular manufacturing of the 1990s that provided little benefit for countries unless they developed local firms and local supply chains. In addition to exporting to the US and Europe, Japan is also an important end market in the region, and South Korea to a limited extent.

5.5 Central American trap: The challenge of localisation

Central American countries have followed an apparel export path strongly tied to the US and regional trade agreements. In the beginning, these trade agreements demanded that firms use US textiles in order to support US textile production, and thus only apparel assembly took place in the Central American countries. This contributed to the decline of existing textile production in these countries, where it existed. Even when these rules-of-origin regulations were changed, textile production remained limited. US manufacturers had not only a role as buyers, together with US retailers, but were also the major investors initially. Local apparel and textile firms had emerged under ISI strategies, but they generally struggled to build the capabilities required for exporting. Only Mexico and the Dominican Republic had one dynamic export cluster, with local firms and some textile production as a result of local firm linkages with foreign investors, but these clusters declined after the MFA phase-out. In general, the number of local firms and the extent of the textile base remained too small to drive localisation; the type of foreign investors and buyers in this region did not encourage it, and governments focused on remaining or improving preferential market access to US, and not on supporting localisation.

Costa Rica's apparel export sector took off after the 1980s' debt crisis, when the government began promoting non-traditional exports through the reduction of tariffs, expansion of export subsidies and export-processing zones and currency devaluation. Foreign direct investment came mostly from US apparel firms. There were local apparel firms that had emerged under the ISI in the 1960s and 1970s to produce for the domestic market. After trade liberalisation, they could not compete with imports and some shifted to apparel assembly for export. However, there were never many local firms in apparel exports, as local firms preferred to focus on the export of manufactured goods within the Central American region (Sanchez-Ancochea 2006).

Apparel firms exporting to the US had to use US inputs in order to benefit from preferential access to the US market until the trade regime changed in 2000, as discussed earlier. Thus, no local supply chain was created. Increasing wages eroded competitiveness in Costa Rica. Local firms needed to move into more value-added activities, but banks perceived apparel exports as high risk and were not willing to lend to local firms. The government did not have an industrial policy strategy for supporting the industry and integrating local firms, as different groups in society disagreed about economic development paths. Thus, the apparel export sector did not make a significant contribution to the creation of the knowledge and organisational assets required for the expansion of exports into sectors with higher technological content and high value added (Sanchez-Ancochea 2006).

The Costa Rican government decided in the mid-1990s that apparel exports had limited potential and shifted its focus to high-tech sectors. However, it used the same policies to promote exports, which depended on FDI attraction. It was successful in attracting foreign firms, such as Intel, Microsoft, and Procter and Gamble, but these foreign firms established assembly factories in electronics and pharmaceuticals that also had few linkages to the

domestic economy (Sanchez-Ancochea 2006). A more recent study on the medical devices sector in Costa Rica that began in the late 1990s, primarily in assembly, still showed few linkages and no local firms by 2017, even though foreign firms had upgraded the nature of their production in Costa Rica. The benefits are largely in creating a skilled workforce (Bamber and Frederick 2018).

The ***Dominican Republic*** developed apparel exports to the US in the 1980s, and they grew substantially between 1989 and 1998, as US firms left Costa Rica and went to the Dominican Republic. The government established export process zones with policies to attract foreign investment. However, exports decreased after 1998 and the country lost competitiveness before the end of the MFA. US firms located to other Central American countries, as did local firms.

Local apparel export firms emerged in the Cibao Valley in the north due to unique circumstances (Schrank 2005). A group of wealthy agro-commercial elites in the north opened apparel export firms alone or in joint ventures with US partners, or provided finance and advice for local entrepreneurs of different origins to open their own firms. Some of these local entrepreneurs had worked in small foreign apparel firms in the early 1980s. In this region there was a network of traders, processors and bankers, centred on the production of coffee, cocoa and tobacco, who encouraged indigenous capital accumulation. In other regions, local apparel firms that had been producing for the domestic market tried to shift to export assembly, but did not succeed in adapting to foreign quality, pricing, delivery and standards, and returned to the domestic market, which was still protected in the 1990s. In contrast, the northern firms that were most successful had experience working for export-oriented firms in agriculture sectors and were able to learn how to organise production for export before establishing their own firms.

A few of these local firms grew into large apparel exporters. One became vertically integrated, producing fabric and thread, and entered joint ventures with foreign firms. They moved into full package production (Schrank 2004). However, they remained in the production of low-value, basic products, and overall linkages to the domestic economy were limited. When wages rose, these firms shifted their production to neighbouring Haiti. The largest apparel-exporting firm built an industrial park in the Dominican Republic in an attempt to move into the information technology and electronics commodity chain rather than upward within apparel (Schrank 2004). It seems to have been only partially successful, with foreign investments in medical devices, similar to Costa Rica, but the linkages to the domestic economy are unclear (Bamber and Frederick 2018).

Mexico. Economic liberalisation began in Mexico after a period of ISI and started in the mid-1980s after the debt crisis, just as in most countries in the Global South discussed here. Trade liberalisation led to imports of apparel, primarily from Asia, and local firms producing for the domestic market struggled to compete. NAFTA, signed between the US and Mexico in 1994, was followed by a massive devaluation of the peso, reduced domestic purchasing power and

made the situation worse for domestic market-oriented local firms. At the same time, NAFTA increased opportunities for local firms to export apparel to the US market, as US firms were eager to offshore and outsource production there, and Asian foreign firms were eager to use Mexico as a platform to access the US market (Bair and Peters 2006).

The ability of local firms to switch from producing for the domestic market was uneven. One of the most successful areas was La Laguna in north-central Mexico, where a cluster of local, foreign and joint venture apparel and textile firms emerged around the production of jeans. It was also an important case of domestic market firms being able to shift to apparel assembly for export and then to full package production (Bair and Peters 2006).

Similar to the dynamic cluster in the Dominican Republic, the initial success of local firms in the La Laguna story was due to a unique combination of factors within the Mexican context and linkages to foreign firms (Bair and Werner 2011). The area had a long history of growing cotton and cotton textile production, and a parallel but separate path of local and immigrant capitalists producing workwear for agricultural and mining sectors. This nascent cluster of capable local apparel firms attracted US brokers seeking to source products for US manufacturers under the 807 law on production-sharing in the 1970s and 1980s (see earlier discussion in section three). The implementation of NAFTA raised the importance of Mexico as a location for offshoring labour-intensive manufacturing. US manufacturers established direct buying links with local firms and also set up their own factories. NAFTA also changed the rules of origin and encouraged the use of local fabric. Two denim textile mills were set up as joint ventures between local and US firms. The presence of local fabric brought even more buyers and led more local firms to emerge. Stable relations with a set of US apparel firms helped local firms learn how to produce for export, but also increased price competition among them. This competition incentivised some firms to upgrade to full package, but most local firms sought to escape competition through minimising labour costs through sub-contracting to rural sewing cooperatives. The cooperative scheme did not work as planned and, in the long term, did not increase the competitiveness of the local firms in La Laguna.

Denim blue jeans dominated Mexico's apparel exports, for several reasons (Bair and Peters 2006). It is a heavy woven fabric and thus expensive to ship, giving an advantage to local fabric production, and it was one of the few export-quality fabrics produced in large quantities in Mexico, largely due to foreign investment in denim textile mills. However, this dependence on one product was risky. US orders to Mexico declined rapidly between 2001 and 2008, by which time some buyers had ceased sourcing from Mexico and many factories were closed (Bair and Werner 2011). Mexico lost its competitiveness in the post-MFA period, as buyers shifted to sourcing from China. However, suppliers did not invest in creating a new competitiveness strategy other than reducing labour costs. Furthermore, the narrow textile base in Mexico did not provide opportunities for diversification into higher-value products or fast fashion based on the speed of delivery and product development using local fabric and design capabilities. The country needed more local content and a local supply chain in order

to compete with China, and there was no industrial policy to support that, especially in terms of the financing required.

Honduras, El Salvador, Guatemala, Nicaragua and Haiti are the lowest-cost supplier countries in Central America. Although the company Sears set up production in Honduras already in 1965, export apparel only really took off in the late 1980s, after the Caribbean Basin Initiative, as was also the case for El Salvador and Guatemala. While Haiti had export apparel production for the US market in the 1970s and 1980s already, this was interrupted due to political instability in the 1990s and only picked up again in the second half of the 2000s (Rosen 2002, Ch. 8). Nicaragua, as the latest supplier country in Central America, has exported apparel since the early 1990s, with particularly strong growth in the 2000s (Rosen 2002, Ch. 8; Frederick et al. 2015). All of these countries have a few local exporting firms, except for Nicaragua. In Honduras and El Salvador, the main foreign investors are US firms in basic knit products, while there are also Korean investors in Guatemala and Nicaragua. They are principally assembly industries producing basic knit products, with some local knit textile production by vertically integrated foreign firms. El Salvador and Guatemala also produce more sophisticated sportswear and fashion products from vertically integrated foreign firms that have woven textile production. These countries overwhelmingly export to the US, where they benefit from preferential market access under trade agreements (Bamber and Frederick 2018).

6. Localisation in Sub-Saharan African Apparel Exporters

Similar to the country experiences discussed in section five, many sub-Saharan African (SSA) countries adopted economic reforms that moved away from ISI strategies in the 1980s and related incentives to attract foreign investment. However, apparel export industries only emerged in a few SSA countries – Mauritius, Madagascar, Kenya, Lesotho, Eswatini[22] and Ethiopia – meaning that other factors were central in their emergence. The SSA region was largely marginalised in the early waves of apparel exports because it was neither in close proximity to major end markets in the US, Europe and Japan, nor to the textile-producing countries that led to the emergence of triangular manufacturing (or regional production networks) in Asia. Thus, MFA quotas alone were not enough to make SSA countries attractive investment and sourcing locations.

As a small island country in the Indian Ocean, Mauritius seems an unlikely candidate to have been the first SSA country to develop an apparel export industry and to have become the most successful in terms of localisation. Mauritius was an early mover, with economic reforms in the late 1970s, but the key to the emergence of apparel exports was the attraction of apparel manufacturing firms from Hong Kong, as well as from European countries that were beginning to offshore apparel production facilitated by colonial networks. The development

[22] The official name was changed from the Kingdom of Swaziland to the Kingdom of Eswatini in April 2018, mirroring the name commonly used in Swaziland.

of an apparel export sector in Mauritius spilled over into the neighbouring large island of Madagascar after economic liberalisation there in the late 1980s, as labour shortages and rising wages began to hit Mauritius' sector in the early 1990s.

In the mainland of SSA, apparel exports did not emerge on a larger scale until the US government passed the African Growth and Opportunity Act (AGOA) in 2000/2001, which gave preferential market access to SSA countries with only single-transformation rules of origin for those SSA countries that met the AGOA criteria. In the EU market, SSA countries had to compete with Asian Least Developed Countries such as Bangladesh and Cambodia, which also had duty-free access though the Everything But Arms initiative (Kaplinsky and Morris 2008).

Kenya was the main country to benefit from AGOA. It had passed an export-processing zone law in the 1990s and was also the most advanced economy in SSA after South Africa. Export-processing zones were not actually created in other East African countries and West African countries until much later, and many SSA economies had suffered a significant decline during the 1970s and 1980s, which did not make them attractive places for investment. Ethnic, colonial linkages also facilitated investments in Kenya by Indian owners of apparel firms in Gulf countries, which were losing their competitive advantage.

Lesotho and Eswatini are small, land-locked countries within Southern Africa; Lesotho is actually an enclave country within the borders of South Africa. Proximity to South Africa and its good infrastructure played a role in the emergence of the apparel export sectors of these two countries, with South African firms producing there for the South African market. Another factor that played a role was special diplomatic relations with Taiwan, which facilitated Taiwanese investments (Morris et al. 2011). South Africa, the SSA country with the most extensive modern textile production, continued with ISI strategies until the mid-1990s, and afterwards had challenges in switching from domestic market orientation to producing export-quality apparel and textile. Thus, South Africa did not act as a catalyst for other SSA countries in terms of supplying textile to the region. As a source of foreign direct investment, South African firms were seeking to produce in neighbouring countries with lower production costs in order to compete with imported apparel products in supplying South African retailers (Gibbon 2002; Morris and Barnes 2014; Morris and Levy 2016). Neighbouring countries benefited from preferential market access to South Africa.

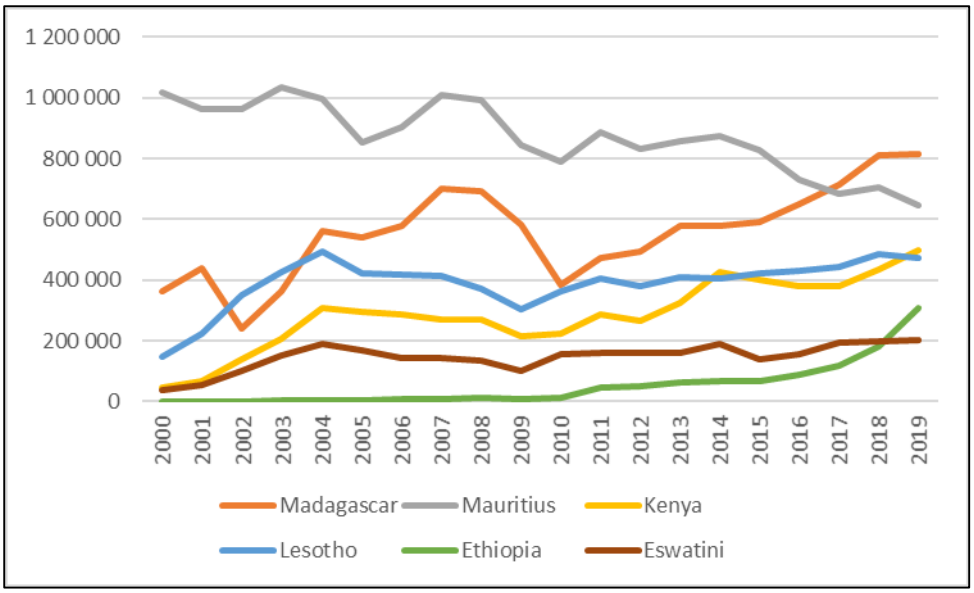

Figure 5: Apparel exporters from top sub-Saharan Africa exporter countries (USD '000)

Source: UN COMTRADE 2021.

As Figure 5 shows, Mauritius was the largest apparel exporter until 2017, when Madagascar began to pull ahead, but this was largely due to the relocation of Mauritian apparel producers to Madagascar using fabric produced in Mauritius. Figure 5 also shows that apparel exports increased in Kenya, Lesotho and Eswatini after 2001, supplying mainly the US market. Given the more restrictive rules of origin in the EU market until 2011, which demanded double transformation, only Mauritius and later Madagascar exported to the European Union. Local firms in Mauritius invested in fabric production in the 1990s, which firms in Madagascar also used. After the MFA phase-out at the end of 2004, the apparel industry in these countries declined quite drastically, as many quota-hopping Asian investors left (Morris et al. 2016). The global economic crisis accelerated these developments through a downturn in global demand (Staritz 2011). The AGOA and EU preferential market access provided some buffer, and the regional South African market emerged for countries with preferential market access and proximity, including Lesotho, Eswatini, Mauritius and Madagascar. Furthermore, rising wages in Asia in the 2010s and compliance issues in key Asian supplier countries led some large EU and US buyers to seek new suppliers outside Asia in order to reduce their dependence on a few Asian countries. This led to the emergence of an apparel export industry in Ethiopia, in combination with the Ethiopian government's industrial policies.

The apparel export industry has peaked and declined in Mauritius, as local apparel-exporting firms moved assembly production to Madagascar, or turned to producing for the domestic market and tourism sector. The large apparel and textile local firms also invested in other sectors. Nevertheless, Mauritius still had the highest number of textile and apparel firms in 2019 (131 firms), of which 97% were locally owned and 11 had textile production. This is in large contrast to the other countries, where the total number of firms was lower, largely concentrated in apparel assembly and dominated by foreign firms. Madagascar's apparel

export sector is the only other one in SSA with a significant share of locally owned firms, accounting for 42% of the 76 textile and apparel firms operating in 2019.

With regard to vertical integration and local supply chain linkages, Mauritius is the only country that has fully developed vertical integration with knit and woven fabric, and also with yarn production. Mauritian firms export fabric to Madagascar, not only to Mauritian firms but also to local firms, shaping the products that they export based on what can be produced with fabric sourced regionally. Of total yarn and fabric imports to Madagascar, 9.1% and 14.6% come from Mauritius. Madagascar has only one local textile mill, producing a range of woven fabric for large orders to US buyers. While it will produce woven fabric for other local firms, it only does so for large volumes; otherwise, local firms must select from its existing stock of fabrics, which are only suitable for local firms producing their own collections of designer children's clothes. Other than Madagascar, Mauritian firms export only a limited share of yarn and fabric to South Africa and Eswatini, as shown in Tables 2 and 3. Altogether, regional trade in textiles is limited, with only 10.6% of total SSA yarn imports and 9.9% of total fabric imports coming from the region.

This section elaborates on the factors accounting for the emergence of apparel export sectors in these six SSA countries, the extent to which localisation has occurred and why. In addition to the published literature cited and listed in the Appendix, this section draws on fieldwork conducted by Cornelia Staritz and Lindsay Whitfield in all six countries between 2012 and 2019. This work has been published in various versions in Whitfield et al. (2020a, 2020b), and in Whitfield and Staritz (2020a, 2020b, 2020c). The fieldwork included interviews with almost all of the apparel export firms in Ethiopia, Madagascar, Kenya, Lesotho and Eswatini, and with four out of the 11 large firms in Mauritius that accounted for the majority of exports. In all countries, the fieldwork also included interviews with government officials, buying agents, and other actors with knowledge about the apparel and textile industry.

Table 2: Yarn imports of top SSA apparel exporters

	Yarn		
Country	Import value (USD)	% SSA	Top import partners, SSA
South Africa	239 217 120	10.5%	Lesotho (3.1%) Mauritius (3.0%) Zimbabwe (2.2%)
Mauritius	75 197 654	2.1%	South Africa (2.1%)
Madagascar	46 198 949	9.4%	Mauritius (9.1%)
Kenya	107 383 612	3.9%	South Africa (2.0%) Uganda (0.5%) Tanzania (1.3%)
Lesotho	12 966 905	21.2%	South Africa (21.2%)
Eswatini	44 019 552	80.6%	Lesotho (38.9%) Mauritius (32.0%) South Africa (9.8%)
Ethiopia	96 609 434	0.0%	

Source: UN Comtrade (2021); 2018 values, except for Lesotho (2017); SACU trade data from UN Comtrade between South Africa, Lesotho and Eswatini has to be assessed with caution.

Table 3: Fabric imports of top SSA apparel exporters

	Fabric		
Country	Import value (USD)	% SSA	Top import partner, SSA
South Africa	942 615 403	4.9%	Eswatini (1.9%) Mauritius (1.5%) Lesotho (0.7%)
Mauritius	144 669 512	3.3%	South Africa (1.5%) Lesotho (1.0%) Madagascar (0.6%)
Madagascar	277 995 775	15.4%	Mauritius (14.6%) Lesotho (0.4%) South Africa (0.3%)
Kenya	343 732 600	3.3%	Tanzania (1.9%) Ethiopia (0.7%) South Africa (0.6%)
Lesotho	230 241 616	17.9%	South Africa (17.8%)
Eswatini	184 296 139	35.6%	South Africa (35.6%)
Ethiopia	241 530 966	0.4%	Lesotho (0.1%)

Source: UN Comtrade (2021); 2018 values, except for Lesotho (2017); SACU trade data from UN Comtrade between South Africa, Lesotho and Eswatini has to be assessed with caution.

6.1 Relative success with localisation: Mauritius and Madagascar

Mauritius was the pioneer in the region, passing its export-processing zone law in 1979 in order to diversify its economy away from sole dependence on sugar exports and to create jobs for a growing population. It also had the strong support of the Franco-Mauritian sugar capitalists (Baissac 2011). Local apparel export firms emerged from the beginning. These local investors predominantly came from the Franco-Mauritian families who dominated the sugar export sector. The families made windfall profits in the sugar industry, which resulted from the European guaranteed prices and a series of bumper crops between 1973 and 1975. This they invested in opening apparel firms, but then the sugar industry began to decline from 1977, which may account for the decline in local investment in EPZ (Lamusse 1989). Capital from the sugar industry going into the apparel export sector from 1970 to 1984 accounted for 42.9% of local equity capital and 18.9% of total equity capital, and the figure is much higher when loans from local banks are included (Lamusse 1989: 31).

Between 1970 and 1985, the majority of foreign investment was from Hong Kong, followed far behind by the French, and then further behind by the UK, Germany, Switzerland and some others. Ethnic relationships and kinship ties played a role in attracting this foreign investment. Sino-Mauritians had strong ties with Hong Kong, and were among the first promoters of apparel export enterprises on the island: some by entering joint ventures, but others by mediating the creation of joint ventures between Hong Kong investors and Franco-Mauritian sugar families (Lamusse 1989). Colonial ties with France and the UK had some importance in attracting foreign investment and a few joint ventures.

Initially, apparel exports were dominated by hand flat knitting of sweaters, because this was the product category in which Hong Kong firms specialised and thus local firms followed suit. Skills in sugar processing were somewhat transferable to spinning and weaving production. The emergence of yarn production for flat knitting by locals occurred in 1978 already, for the production of wool for knitting firms. Vertical integration to weaving and knitting was later expanded, also related to the double transformation rules-of-origin requirements that were linked to EU preferential market access: the main end market for apparel exports from Mauritius.

From the beginning, the local apparel export firms were characterised by a dichotomy between a small number of very large groups that were associated with sugar or other established financial, industrial and commercial businesses, and a large number of medium or small firms that belonged to individual owners who had little trade connections and experience in production, managing and marketing (Lamusse 1989). This remained the case in the mid-2010s, when the Mauritian apparel industry was characterised by 12 large firms that accounted for 70% of apparel exports. The smaller firms largely turned to the domestic market or niche export sectors.

These large local firms emerged primarily, but not entirely, through joint ventures with foreign firms. Joint ventures were a particular key source of learning for local investors in the first decade, along with sub-contracting. Small local firms started by doing sub-contracting for big firms, mostly foreign owned, but also for the big local firms (Sooreea and Sooreea-Bheemul 2012: 137). A third channel through which local investors learned was by buying foreign firms when the foreign investors wanted to leave. The large local investors employed experts from the UK, France and Hong Kong. At the same time, foreign firms hired Mauritians in management positions due to their entrepreneurial tradition, cultural proximity, and also their language and cultural closeness to workers and buyers, which expanded the pool of experienced managers in the country.

Strategic government industrial policy in Mauritius was limited. The Foreign Minister, who was from the political party that represented the interests of Franco-Mauritian sugar families in the first independence coalition government, went to Hong Kong in the 1970s with prospective local investors, which resulted in some joint ventures. Otherwise, the government had some policies to support the smaller local investors, and the University of Mauritius included courses and degrees in textile engineering, business and accounting, marketing and merchandising.

By the early 1990s, the level of activity on the island approached full employment, which caused wages to rise rapidly and led many smaller firms to go out of business and foreign firms to leave (Gibbon 2000). The large Mauritian firms producing for the EU market undertook major initiatives to develop their own labels and target more upmarket segments. This strategy largely failed and, at the turn of the twenty-first century, the efforts to upgrade into branding had been largely abandoned. By 2000, large and medium-sized enterprises instead focused on retaining lower middle-market buyers, plus some mid- and a handful of upper-market buyers (Gibbon 2000). The large, locally owned firms moved assembly functions to Madagascar, which had cheaper labour costs, keeping the textile industry and design and other higher-value activities in Mauritius. However, in the late-2010s they also moved some merchandising and design activities. Based on our interviews, six of the top 12 firms had major investments in Madagascar, retaining their headquarters in Mauritius to carry out design and marketing and factories focusing on fast fashion products. They also developed regional production networks using their factories in Madagascar to sew long-run, basic products using fabric produced in Mauritius, although a few Mauritian firms also established vertically integrated factories in Madagascar.

Apparel export factories that remained in Mauritius employed a large share of foreign migrant labour, primarily from Madagascar but also from Bangladesh. Firms producing for the domestic market did not use this labour. The large majority of local apparel firms produced for the domestic market with their own brands and even retail chains, but mid-range products faced stiff competition from foreign retailers. Small firms in niche areas, such as designer swimwear and other apparel tailored to the luxury tourism sector, fare better. There has been

inter-sectoral upgrading as the largest apparel and textile firms moved into other sectors in the economy, but not into other manufactured export industries.

Apparel exports went largely to the EU, with the US market becoming a bit more important with AGOA, but its share declined again after the MFA phase-out. From 2010 onwards, the South African market increased in importance, which was related to the Eurozone crisis and duty-free access under the SADC. This shift was also catalysed by South African retailers looking for alternative sourcing options after the South African government initiated quotas on Chinese apparel imports between 2007 and 2008, leading to an expansion of regional production networks (Reed 2012). Mauritian firms have close relationships to South African retailers that they supply from Mauritius and also from their plants in Madagascar. In 2018, the EU-15 market accounted for 42.6% of apparel exports, the US for 21.6% and South Africa for 19.4%.

Madagascar had a small, mainly state-owned, textile industry as a result of ISI and nationalisation policies in the 1960s and 1970s. It began economic liberalisation in the late 1980s, which included passing a law on export-processing zones in 1989 modelled strongly on the experience in Mauritius. The main foreign investors in the 1990s were French, followed by Mauritian investors (Cling et al. 2005). French apparel corporations chose Madagascar to offshore their labour-intensive apparel assembly, not only because of the country's preferential market access to the EU, EPZ incentives and low labour costs, but also because of colonial legacies: the language and the large French immigrant community. Our firm interviews indicate that French EPZ firms consisted of French corporate firms setting up subsidiary factories in Madagascar, as well as individual French immigrants already living in the country establishing apparel firms by drawing on social networks in France in order to find buyers, acquire knowledge and raise investment finance. Furthermore, a few French corporate investors became locals, settling in Madagascar permanently, thereby blurring the line between French firms and French immigrant firms.

Mauritian apparel firms were the second largest foreign investors in Madagascar. It was not only Mauritian supplier firms that turned to Madagascar, but also European buyers who had been sourcing from Mauritius as they sought a new, low-cost apparel-assembly location. Our firm interviews indicate that European, especially French, buyers of children's clothes actively encouraged local entrepreneurs in Madagascar to establish apparel factories. These local firms were established by French immigrants and by members of the *Karana* community. *Karana* are Indo-Pakistanis (Indian-origin, for short) that emigrated from Gujarat in the late seventeenth century and during French colonial rule (Razafindrakoto et al. 2020). Before Madagascar gained its independence from France in 1960, the exiting colonial rulers granted French citizenship to many Indian-origin Malagasy. There is also significant overlap in the social networks among French- and Indian-origin immigrants, often facilitated through marriage.

The third largest group of foreign investors was from Hong Kong. Hong Kong apparel firms had driven the start of the Mauritian apparel industry and thus were already present in the region (Lamusse 1989). Hong Kong firms in Mauritius anticipated the implementation of AGOA and started investing in factories in Madagascar from 1998 (Gibbon 2000). Our interviews revealed that many of the Hong Kong factories were producing very labour-intensive products like hand-knitted sweaters (pullovers), which resulted in many Mauritian-owned firms in this product category as well, which they then moved to Madagascar, also influencing the product category of local firms in Madagascar.

When Madagascar became eligible for AGOA in 2001, other transnational apparel producers from East Asia invested in the country, but post-election violence in 2002 led most Asian and Mauritian firms to leave, resulting in a contraction in apparel exports by almost 50%. All but a few local firms closed operations and then later had to start again from scratch with new buyers and even new product areas. With the MFA phase-out that occurred at the end of 2004, most of the remaining Asian firms left (Cling et al. 2005). Nevertheless, the industry rebounded through the growth of European firms and local firms, and by 2008 apparel exports overtook primary commodities as the largest source of export earnings (Fukunishi and Ramiarison 2012). The industry's rebound was disrupted by the 2008 global financial crisis and subsequent Eurozone crisis, as well as another national electoral crisis and coup d'état in 2009. Apparel exports declined dramatically, and US exports collapsed after 2010 with the loss of the AGOA status due to political conditions attached to AGOA eligibility (Morris and Staritz 2014). Madagascar regained AGOA status in 2015, which became operational in 2016, but only a handful of Asian firms have invested in the country since. Thus, the survival of Madagascar's apparel is due to the significant presence of local firms as well as Mauritian firms, which did come back after 2016.

There was no government industrial policy to support the sector. Local firms emerged through foreign linkages to gain production knowledge, financing and market contacts. The gap in skilled and experienced managers in local and foreign firms in Madagascar was filled by the circulation of Mauritian production managers. This pool of skilled managers made it easier for local firms to enter, at least on the production side. Marketing was still a challenge for those without strong connections to France. The infrastructural situation in Madagascar was not particularly competitive, as firms faced problems with customs, inland and sea transport, electricity costs and reliability, telecommunications, and rents (Kaplinsky and Wamae, 2010; Morris and Sedowski, 2006). There were some improvements in infrastructure by 2016, but lead time from Madagascar was still very high.

As a result, local firms tended to specialise in product categories with repeat orders (where firms rely on large inventories), in niche products with less competition, and in luxury clothes produced in small volumes and shipped by air. Medium and large Indian- and French-origin local firms dominated the first two product categories, while small firms with indigenous Malagasy owners were largely in the third product category. Indigenous local firms entered through connections to the large local export firms, as well as through connections to France,

and drew on traditional handicraft skills to create designer collections of children's clothes with embellishments. Few of these firms were successful in scaling up.

Apparel exports from Madagascar go mainly to the EU-15, which accounted for 49.3% in 2018, followed by the US market, at 25.4%, and South Africa at 12%. Exports to South Africa come largely from Mauritian firms operating in Madagascar. Local firms experimented with supplying the South African market, but the ones that specialised in high-value products found the prices of South African buyers too low. Mauritian firms and some larger local firms were better able to align their business strategies to include a range of product types tailored for different end markets in which the low-value products demanded by South African retailers were just one.

The apparel export sector in Madagascar is constrained by the limited textile base and the limits to growth in niche product categories. While there are local firms, they have stagnated at between 30 and 40 firms, which is not enough to push dynamic growth in the sector. Thus, the apparel export sector has not led to significant poverty reduction through employment, and Madagascar remains one of the poorest countries in SSA. The limited domestic linkages mean that the sector has not had many multiplier effects in the economy, which has relied increasingly on the mineral sector; as a result of no other growing industries, domestic purchasing power remains low, making the domestic market unattractive for exporters and dominated by cheap, second-hand clothes. Plans by the Mauritian government and Mauritian firms to invest in a textile industrial cluster in Madagascar could change this situation, but it is questionable if they will materialise.[23]

6.2 Regional production networks: Lesotho and Eswatini

While the apparel export sector in Eswatini only emerged with AGOA, Lesotho already had a small industry. Foreign direct investments started in the early 1980s with South African firms relocating plants to Lesotho in order to take advantage of low-cost labour for exports to South Africa, to avoid sanctions on South African exports to Europe and the US due to the Apartheid regime, and to take advantage of Lesotho's duty-free access to Europe under the Lomé Convention and its special rules-of-origin derogation allowing for single transformation (Salm et al. 2002; Gibbon 2003).[24] Taiwanese investments occurred in the late 1980s, with most of them involving a relocation of existing production from South Africa to Lesotho to avoid sanctions and to take advantage of the lower labour cost and investment incentives. Taiwanese investments were also politically motivated, as Lesotho was among the few countries that had diplomatic relations with Taiwan until 1994, and so the Taiwanese government encouraged foreign direct investments in the country. There were six apparel

[23] Mauritius and Madagascar boost garment manufacturing ties, V. Anganan, 18 September 2019, Just Style News and Insights.

[24] In the late 1980s, the EU started to require double transformation rules of origin for African, Caribbean and Pacific (ACP) countries. Lesotho, however, was able to get a derogation until 1997, requiring only apparel production to take place in the country (single transformation) and allowing fabrics to be imported (Lall 2005).

factories in Lesotho, with 9 847 workers at the end of the 1990s (Morris and Staritz 2016). Eswatini also had diplomatic relations with Taiwan from 1968 until the present, and is the only SSA country that still has such relations, resulting in Taiwanese investments in Eswatini as well.

Apparel exports in these countries started on a larger scale with the coming into force of AGOA in 2000/2001. Exports were driven by two types of Asian investors focused on the US market: (1) transnational producers based in Taiwan with head offices abroad; and (2) Taiwan, China and Hong Kong apparel firms that were single-location factories with no headquarters abroad. South African apparel manufacturers also began investing in these neighbouring countries in 2005/2006 as part of their shift to flexible manufacturing and to lower labour costs in order to be able to compete with imported apparel sourced from Asian firms in supplying South African retailers in terms of price, quality and speed (Morris et al. 2011; Morris and Staritz 2016). A prerequisite was also duty-free market access to South Africa, as Lesotho and Eswatini are members of the Southern African Customs Union. In Lesotho, transnational Asian firms remain important, but there are also more embedded single-plant Asian firms alongside South African manufacturers, whereas in Eswatini, the majority of foreign investment came from South African manufacturers and a few Asian single-factor investors given the loss of AGOA status in 2015.

The transnational Taiwanese apparel firms kept higher-value activities in their headquarters and only engaged in apparel assembly in Lesotho and Eswatini (when it had AGOA status). The strategy of these firms was global: exporting long-run, basic products almost exclusively to the US market, with manufacturing plants in different regions. The few single-plant Asian firms and one Mauritian firm in Lesotho were more locally embedded, as they had more local decision-making power. Most owned or worked with sourcing offices in Taiwan, Hong Kong and the US to get orders and to source inputs. Most of these firms were spin-off entrepreneurs, whose owners or their parents previously worked in Taiwanese-owned apparel firms and, after getting to know the industry and building contacts, they established their own firms. They often started with subcontracting work for Taiwanese transnational producers and later developed direct contacts with overseas agents or buyers. These firms overwhelmingly exported to the US market, but most also tried to export to the South African market. The challenges in exporting to South Africa included the smaller volumes and building relationships with South African retailers, but some of the firms, particularly in Eswatini after the loss of AGOA, exported to South African retailers on a more sustainable basis. In Eswatini, the majority of firms shifted from a focus on the basic, low-end US market to supplying South African retailers. This was possibly related to the more flexible production model of firms in Eswatini and their higher capabilities compared to Lesotho (Staritz and Frederick 2012; Morris et al. 2016).

The main motivation of South African investors was to use low-cost labour and flexible operating environments close to their end market in South Africa. Most firms ran their Lesotho and Eswatini plants as CMT operations, similar to the transnational Asian firms, but

due to the geographical proximity there seems to have been more interaction with regard to sourcing, design and product development between headquarters and manufacturing plants. Some of the South African plants were affiliates of South African design houses and produced more complex and fashion products, while others focused on the replenishment business, producing basic but quick-response products for South African retailers or producing more basic and longer-run products. However, in Lesotho, South African manufacturers increasingly moved to workwear and corporate wear, given the challenges they faced in producing smaller volumes and fashion products, and some have closed their operations. Firms in Eswatini were more flexible and could deal with the smaller volumes required for the South African market (Staritz and Frederick 2012; Morris et al. 2016).

There were very few local apparel export firms in either country. In Lesotho, there were three local firms by the end of the 2010s, and two others had been closed earlier. There was one local firm in Eswatini that began as a subcontractor to Asian firms producing for the US market, but which then shifted to selling more complex products on a CMT basis directly to the South African market. Lesotho and Eswatini both had one vertically integrated firm, and there was one spinning mill in Eswatini, all owned by Asian firms. Lesotho's government tried to attract a knit textile mill, in addition to the one existing woven textile mill, but without success (Staritz and Frederick 2012). In Lesotho, most textile imports came from Asia, with 21.2% of yarn imports and 17.8% of fabric imports coming from South Africa. In Eswatini, the share of regional fabric imports was much higher, accounting for 80.6% of yarn (38.9% from Lesotho, 32% from Mauritius and 9.8% from South Africa) and 35.6% of fabric, with the latter coming solely from South Africa.

The governments in these two countries had policies to attract foreign investment, including building factory sheds in industrial estates with tailored government services, but had little focus on supporting local firms. The governments provided some incentives for foreign firms to invest in training, and there was also some effort in attracting investments in input sectors. As both currencies are pegged to the South African rand, exchange rate fluctuations of the rand affected prices received and costs paid in US dollar, which has led to unpredictability.

In sum, localisation is limited in both countries. Foreign firms in Eswatini are more integrated into a regional production network geared towards South African retailers, given their higher capabilities and more flexible production setup. In Lesotho, South African manufacturers have focused on workwear and corporate wear, and the majority of firms exporting to the US market have a production model that relies totally on AGOA and relatively cheap wages. The main advantages of apparel exports are thus employment generation and foreign exchange.

6.3 Challenges with localisation: Kenya and Ethiopia

Apparel export sectors in East Africa emerged as a result of foreign investment from Northeast Asian transnational investors in response to AGOA, but also from newly trans-nationalising firms from the second wave of apparel supplier countries. Kenya and Ethiopia

have been the main recipients of this investment. Both countries adopted policies to attract foreign investment: Kenya in the 1990s, but Ethiopia not until the late 2010s. However, the Ethiopian government's industrial policies were much more proactive, targeted, and had a high level of political support that convinced a group of large US and European buyers to put Ethiopia in their business strategy as a new sourcing location. This handful of buyers convinced some of their core suppliers to invest in Ethiopia, which meant that when the government invested in building several apparel and textile industrial parks, they knew that foreign firms would come. As a result, apparel exports began to take off in the late 2010s, although it remains to be seen what effects the civil war in the northern part of the country will have on this growth. Furthermore, this success has not involved many local firms. In Kenya, industrial policy was much more limited. Its sector has survived largely due to foreign firms with Indian owners that had connections to Kenya, and expanded slightly in recent years due to large buyers seeking to take advantage of AGOA and requiring volumes that Ethiopian-based firms could not (yet) supply, thus turning to suppliers in Kenya.

In ***Kenya***, foreign investment in the apparel export sector boomed in the first half of the 2000s based on MFA quotas and AGOA, with nearly all exports going to the US focusing on synthetic-rich products for which the duty advantage was highest. In addition to Northeast Asian firms, Sri Lankan apparel firms invested in Kenya. Exports peaked in 2004, with declines afterwards due to the MFA phase-out, as well as government-mandated annual wage increases, which led many foreign firms to leave. The number of apparel export firms fell from over 30 firms in 2004 to 18 in 2008, but production only declined slightly as the remaining firms bought the facilities of closing firms and expanded production as a way to increase economies of scale to offset declining prices in the post-MFA context. By 2019, three to four foreign firms accounted for 80% of apparel exports (Whitfield and Staritz 2020c).

During the boom period there were 19 local firms producing on a sub-contracting basis for foreign firms (Fukunishi 2014). However, the general collapse of orders post-MFA meant that foreign firms had no need for sub-contracting and, by 2005, there were only four local firms left and by 2009 there were only two. In 2018, these older local firms seemed to have disappeared, but there were three new local firms: one making apparel from traditional Kenyan fabric that exported small volumes to niche buyers and had no linkages to other exporting firms; one that was part of a domestic market-focused business group and exported through an agent based in Kenya; and one that had just started in the apparel export sector through sub-contracting for a foreign firm.

In the post-MFA period, some Asian transnational firms remained in Kenya, but most of these were single factories with Indian owners coming from India, the UAE and the UK. In some ways, these Indians could also be seen as international diaspora, with some linkages or cultural connections to the South Asian-Kenyan population that emerged during the British colonial period. Several of them had factories in the Middle East but were pushed out of these locations because of political instability and were pulled to invest in Kenya by the MFA and AGOA. Nevertheless, these Indian investors did not create any linkages to South Asian-Kenyan

local capitalists with apparel and textile firms producing for the domestic market. Thus, there are few local firms in the contemporary period and even fewer linkages between local and foreign exporting firms (Whitfield and Staritz 2020c).

Most of the local apparel and textile firms only produced for the domestic market, and increasingly for the regional market, given duty-free access under the East African Community, and were owned by South Asian-Kenyans, with only a few of the smaller firms exporting niche products owned by indigenous Kenyans. Some of the larger firms tried to export to the US or EU, but failed, and most firms were not interested given the low margins and tough requirements, as well as the limited support from the Kenyan government. It seems more difficult for local firms to fulfil all requirements for becoming an export-processing zone firm compared to larger foreign firms with easier access to the government. In our interviews, the only policy mentioned by local firms was in the area of government public procurement, where local sourcing is favoured.

Global buyers sourcing from Kenya were concentrated among a few large US buyers that aimed to develop a large sourcing share in SSA focusing on East Africa. These buyers include PVH, VF, H&M, The Children's Place, JCPenny and Levis. A few investments were occurring in Kenya in the 2010s because these buyers were encouraging their suppliers to invest in East Africa, although on a limited scale. These buyers stay in Kenya because of AGOA preferences, despite relatively high wages and lower productivity compared to Asian competitors. Before Ethiopia emerged, Kenya was the only country outside of Southern Africa that had an apparel export sector, and its firms had relatively high labour productivity and skilled workers in the SSA context.

There is no significant export-quality textile production in Kenya. There were approximately 14 fabric mills producing for the domestic market or part of vertically integrated local firms with domestic market orientation. Production included acrylic for blankets, polyester and cotton mills with knitting and weaving capabilities, and towel and sock production. The fabric was generally not export quality for apparel. There were a few vertically integrated local firms owned by South Asian-Kenyans that exported part of their production, but they had to import a significant part of the fabric for export and used their own textiles for domestic market production. One of them moved production to Uganda in the late 2010s, where the cost of electricity was cheaper and due to government incentives. Foreign apparel firms had textile production in the headquarter country or sourcing networks in Asia through which they shipped fabric to Kenya. They did not consider investing in textile mills in Kenya due to the high cost of electricity and uncertainty about political support from the government. There were no stand-alone dyeing and finishing plants, and only a few accessory firms.

The lack of a textile base in Kenya means longer lead times for firms producing in Kenya compared to in competitor countries, which restricts firms to producing basic products. They are competitive in the US market with basic products due to AGOA preferential market access, but in European markets they cannot compete well with Bangladesh and Cambodia, and thus

some firms were trying to move into more complex products for the European market. With very little localisation, the main benefits of the apparel export industry in Kenya are foreign exchange and employment.

Ethiopia is the only country to enter apparel exports as a completely new sourcing location in the post-MFA period. Ethiopia was hyped alongside Myanmar as the two new sourcing locations in the mid-2010s, but Myanmar already had experience and was re-entering the US and EU markets after the embargo. Therefore, the dynamics surrounding the emergence of apparel exports in Ethiopia are different to all of those discussed in the paper so far. Central to the entry of Ethiopia into apparel GVCs has been proactive, targeted government industrial policy that converged with the business strategies of a handful of large US and European buyers who were seeking to increase their sourcing from SSA and had already been buying from foreign firms in Kenya.

In terms of industrial policy, the apparel export industry is central to the Ethiopian government's industrialisation drive. The government laid out targets for apparel export growth in the Plan for Accelerated and Sustained Development to End Poverty (2005/2006 to 2009/2010), and its first set of industrial policies consisted of subsidised financing by the Development Bank of Ethiopia and fiscal and export-promotion incentives (Oqubay 2017). Only 15 local investors took advantage of these incentives, establishing apparel factories between 2005 and 2007. Notably, the government concomitantly offered general incentives to encourage manufacturing investment no matter if it was for exports or the domestic market, which meant that the incentives to export were very marginal additions (Gebreyesus and Demile 2017). Furthermore, the domestic market in apparel and textile was protected and thus less risky. There were few compulsions to invest in learning attached to investment bank loans and some other support provided by the government to local firms trying to export in terms of foreign experts and benchmarking studies (Whitfield et al. 2020b).

None of the pioneer local firms had become competitive by the time they had to start repaying loans to the Development Bank of Ethiopia. None of them had experience in apparel exports, and only a few of them had any experience in apparel manufacturing or manufacturing in general. There were no linkages to foreign firms or joint ventures, as there were very few foreign apparel export firms in the country at that time. As a result, some collapsed, but most switched to supplying the protected domestic market, primarily or entirely, due to the higher profits that could be obtained with lower capability requirements. By mid-2016, there were 49 local textile and apparel firms, but only 12 exported some portion of their apparel production – seven of which were part of the pioneer group (Whitfield and Staritz 2020b).

The foreign apparel firms that were attracted to Ethiopia during this period were largely Turkish firms searching for alternative low-cost locations due to the Arab Spring in North Africa. Turkish investment was largely in textile mills, apart from one large vertically integrated firm that accounted for 43% of total apparel exports in 2016, but closed down by

2019. Almost all of the Turkish mills subsequently closed down, as they were seeking short-term benefits and failed to pay their loans, and the factories were confiscated by the Development Bank of Ethiopia. However, this early period drew international attention to Ethiopia as a new supplier country.

The poor results of the first industrial policy approach, combined with constraints on the balance of payments, compelled the government to shift to a strategy of attracting strategic foreign direct investment that could increase apparel exports quickly, as well as shorten the time from investment to operational firms by reducing infrastructure constraints (Oqubay and Kefale 2020). This strategy involved the government building apparel-specific industrial parks and investing in better infrastructure to link the parks to ports and airports, and attracting large global buyers who in turn encouraged their core suppliers to set up factories in the industrial parks. This shift in industrial policy was informed by the failure of the Chinese-built Eastern Industrial Zone in Ethiopia to require firms in the park to export and by World Bank lending for an export-oriented industrial park in Ethiopia (Bole Lemi industrial park), where the World Bank sought to pilot its 'plug-n-play' concept. Importantly, the government's shift in industrial policy was also a response to new external opportunities in the early 2010s.

PVH, a large US buyer that ranked 17th among top apparel buyers in 2017 based on revenue, visited several East African countries to find a location for its greenfield investment in a new business model, which was part of its Africa sourcing strategy and new sustainability strategy, 'forward fashion'.[25] According to its chief supply chain officer, PVH wanted to pioneer the world's first fully vertically integrated, socially responsible supply chain, and wanted to be an early mover in what it saw as an important new sourcing market, as wages were rising and labour markets were tightening in Asia (Mihretu and Llobet 2017). When PVH showed interest in Ethiopia, some members of the Prime Minister's Office did what it took to keep them, including building an eco-industrial park that would meet the needs of PVH.

The first apparel industrial park in Ethiopia was built in Hawassa and designed in collaboration with PVH and some of its core apparel and textile suppliers. PVH decided to focus on producing men's collared shirts in this park and encouraged a Chinese firm to invest in woven textile production in the park. It also encouraged an Indian apparel supplier to produce shirts and to invest in a joint venture factory with PVH that was intended to be a state-of-the-art factory, with the latest technology in woven shirt production and thus a demonstration facility for other suppliers. PVH encouraged a specialised input supplier for men's shirts to locate to the park as well, and later other foreign and even one local firm to produce inputs and packaging for the shirts in order to achieve its vertical integration goal. Seven other suppliers for PVH also took sheds in Hawassa industrial park, such that PVH suppliers occupied a majority of the 52 sheds in the park. PVH also convinced the government to make the park zero-liquid discharge by investing in a state-of-the-art effluent-treatment plant initially

[25] PVH is a brand marketer and owns brands such as Calvin Klein and Tommy Hilfiger. This ranking is based on data from 2017 and accessed from Forbes Global 2000 for 2018.

managed by a foreign firm, and to set up waste management according to the environmental standards in PVH's code of conduct, resulting in what could be called an eco-industrial park.

The government built three other apparel and textile eco-industrial parks on a smaller scale in Mekele, Kombolcha and Adama. A few other large US and European buyers that aimed to shift a percentage of their sourcing from Asia to Africa, such as H&M, Calzedonia, The Children's Place and JCPenny, encouraged their apparel and input suppliers to set up factories in the parks. Furthermore, high-level politicians toured provinces in China to convince large vertically integrated firms to invest in textile production in Ethiopia, with quite some success. The government's objective was to move beyond transnational producers assembling apparel with imported inputs and to create more of the supply chain nationally.

In the first round of industrial policy, the government and local firms thought that local firms could source inputs from existing local textile mills for apparel exports. This was not possible due to the quality and type of textile products available, as well as the sourcing policies of buyers, who nominate the textile mills that their suppliers have to use in order to ensure compliance and conformity. The approximately 20 firms in spinning, knitting and weaving produced coarse fabric, generally due to the quality of cotton grown and processed in Ethiopia. Most of the textile firms were state-owned enterprises with antiquated machinery. The government tried to privatise them in the 2000s, but there was not much interest from foreign firms, and the local investors that bought them generally did not invest in new machinery. There were a few local vertically integrated firms that had been established by the largest diversified business group in Ethiopia or by the private sector arm of one of the main political parties at the time. These firms could use their own knit fabric to produce basic knit products.

The second set of industrial policies relating to the industrial parks included a focus on local investment in export-quality fabric and encouraged textile producers to come to Ethiopia. They were partly successful. A denim textile mill using local cotton was established by Indian investors to sell fabric to apparel firms in the industrial parks. In addition to the production of woven fabric in Hawassa, many foreign investments were under way in 2019. These included a synthetic fabric mill by a textile supplier for Calzedonia in Kombolcha industrial park; Chinese firms that were important global suppliers of linen and wool yarn setting up vertically integrated factories just outside Adama industrial park; and several planned investments around Mekele industrial park. These investments increase the potential for apparel firms to source export-quality fabric within Ethiopia, moving them out of CMT and into higher value-added production. In addition, key global suppliers of accessories and packaging have taken sheds in the industrial parks to produce labels, hangers, zippers and packaging.

The influence of the industrial parks in terms of supporting local firms has been less successful, despite government policies indicating that local firms would be supported to take sheds in the parks. This government support for local investors was not implemented fully due to financing constraints, limitations at the Development Bank of Ethiopia, and only a few

capable local investors showing interest. The challenge is that, while government industrial policy can provide access to capital and facilitate introductions to buyers and foreign firms, most local entrepreneurs that have expressed interest in investing in the parks lack the basic knowledge that buyers and foreign firms require, and the social networks with which to acquire it. Notably, the only local investor that has succeeded so far hired the former general manager of a foreign firm in Hawassa that specialises in starting new factory operations and has extensive production and global knowledge, which instils confidence in global buyers.

Export and domestic markets are segmented in Ethiopia. The domestic market was heavily protected, with a 35% maximum tariff, 10% excise duty, and a 10% surcharge on apparel and textile imports. As a result, local firms produce for the domestic market, where capability requirements are lower and profit margins were higher. However, they still face competition from Chinese imports and smuggled second-hand clothing, which supply the bulk of the domestic market. No domestic market-oriented local firm has succeeded in apparel exporting; rather, the very few local firms that are exporting apparel were 'born' as exporters and developed production capabilities through hiring foreign managers.

The competitive advantages of Ethiopia's apparel export industry are not yet clear. Global buyers certainly perceived it as the new location to source low labour costs. However, productivity levels were very low in the first five years, offsetting the low production costs. Furthermore, as a landlocked country with access to only one port in Djibouti, lead times are very long. Furthermore, capital controls, the non-liberalisation of the banking sector and state control in the telecommunication and logistics industries place restrictions on foreign investors and increase lead times. Foreign firms and global buyers have lobbied the government for liberalisation in these industries and lobbied for solutions to improve lead times in order to make Ethiopia more competitive with Bangladesh. These proposals were in the process of being implemented before the outbreak of civil war in the northern part of the country in November 2020. Political instability threatens to undercut the government's ambitious industrial policies to promote the sector. If political stability resumes, Ethiopia would be in a better position than the other SSA countries to develop an apparel export sector with a larger degree of localisation and with a textile base. The government also understood the need to support local firms in the sector, even if policies to do so were harder to implement in practice and foreign linkages take time to develop.

7. Conclusions

GVC dynamics in the 21st century have made it much more difficult for the apparel export industry to be a driver of industrialisation processes today. The proliferation of suppliers in the Global South, and the concentration of buyers in a few end markets, allowed buyers to drive down prices paid to suppliers and to coordinate extensive supply chains across the world, relying on existing suppliers to set up apparel assembly factories in new countries, followed by international firms specialising in trims, and a few textile-producing countries supplying fabric across the globe. These foreign firms dominate the production of

intermediate inputs, while US, European and Japanese retailers and branded manufacturers maintain design, merchandising and marketing functions in their countries. These retailers are increasingly opening stores in emerging economies in order to capture the domestic market in the Global South as well. Thus, the global economic context has changed significantly since Northeast Asian countries used the apparel and textile industry to catalyse their industrialisation processes.

Despite these changes in the global economy and the obstacles that they pose, there is still potential within the apparel and textile industry to drive industrialisation if it involves substantial localisation through the presence of local firms and intra-sectoral linkages. Local firms are critical for cumulative capability building and developing a local supply chain, and an extensive and diversified textile base is key to industry-level upgrading beyond competing based on labour costs and preferential market access. Industrial clusters play an important role in capability building and local supply chain development, and synergies between domestic and export markets – rather than segmentation – are important, as they help local firms and industries grow and build a broad set of capabilities.

In addition to GVC dynamics, the potential of the apparel sector to drive industrialisation, as it has happened in countries in the past, is limited by its mature technology and few intermediate inputs that create intra- and inter-sector linkages. The main potential of apparel and textile production for export is in developing basic firm- and industry-level technological capabilities, managers and an industrial workforce, as well as more specific capabilities in capital-intensive machinery linked to textile. For late industrialisers, this learning required engagement with foreign technology and production systems, making engagement with GVCs and foreign firms a necessary (even if not sufficient) condition for technology transfer. Actually, the only potential sustained benefit of foreign direct investment is technology transfer, but such FDI spillovers generally only occur as a result of transnational social relations, and business strategies that are aligned between foreign and local firms. Furthermore, exporting is key to learning, but also not sufficient for industrialisation. This point is emphasised in relation to China, the country that has industrialised most recently:

> In China, the contribution of the external sector has been mainly in terms of technology transfer, which was essential for sustaining the economic growth path both in the first and second half of the reform era [1978-2007]. It is this contribution—at high costs, though—which suggests that increasing openness, or integration into the world market, after all, is a necessary condition for successful late development. Even so, the Chinese experience indicates that this contribution of the external sector is nothing automatic or natural. It rather requires the existence of the particular internal dynamics of economic growth for the contribution to materialize (Lo and Zhang 2011: 46).

By internal dynamics, Lo and Zhang (2011) are referring to the development of capable local firms and extensive linkages, especially among intermediate goods, in the domestic economy.

For these reasons, government policies that merely create export-processing zones and provide financial and fiscal incentives for foreign direct investment from apparel firms in

existing supplier countries may result in apparel exports with limited foreign exchange earnings and employment, but they will not stimulate localisation and thus drive industrialisation processes. Export-processing zones are not the same as industrial clusters. Industrial policy is key to developing an extensive and diversified textile base and supporting small and medium local firms to create dynamic industrial clusters, as well as to create synergies between domestic and export markets.

The emergence of local apparel export firms is more challenging today due to changes in the business strategies and imperatives of global buyers and foreign firms, which in the past more actively supported local firms in their learning processes. Therefore, government industrial policy to support local firms is even more important now. At a minimum, this requires access to at least the same, but preferable higher, incentives for local investment (compared to foreign), but clearly this is not at all enough. Based on Ethiopia's experience, access to investment and expansion financing is necessary, but not sufficient, as technology transfer is key; the latter includes knowledge of production systems and factory set-up, as well as social networks with buyers and with the suppliers of intermediate and capital goods. Government agencies lack this knowledge and these networks, so government agencies cannot by themselves support local firms. Rather than focusing exclusively on either foreign investment or local firms, governments should devise industrial policies that support technology transfer by leveraging foreign expertise. This can include demanding that foreign factories support local firms in return for fiscal and financial benefits, using specific indicators of knowledge transfer and performance criteria in order to monitor and evaluate. Industrial policies can also facilitate joint ventures and other forms of local-foreign investor partnerships, from which local investors and managers can learn. For such partnerships to work, however, there have to be incentives and compulsions for local firm owners to learn rather than become silent partners.

Furthermore, industrial parks financed by governments that lower production costs and improve lead times in particular locations are important, but also not enough if they do not include and benefit local firms. It is important that local firms co-locate near foreign firms, which is essential for the direct and indirect spillovers that occur in industrial clusters. When local firms prove their capabilities to foreign firms, they can be given sub-contracting orders, which in turn help prove their capabilities to buyers. Although local firms often start with basic, low-value apparel production in the early learning phase, government industrial policy can support local firms to shift into more complex products by encouraging foreign firms in those products to set up factories, as well as foreign textile firms that produce the export-quality fabric required for particular product groups. This brings us to the issue of developing a textile base.

The emergence of a textile sector was always dependent on government industrial policy and the presence of local firms. Textile requires considerable financing and environmental compliance for effluent treatment systems. In SSA, a regional strategy for a textile base would be key, including capacities in dyeing and finishing. Neighbouring countries could develop

specialised textile sectors around specific product categories and then source from each other in a free trade area, which would increase the overall variety of fabric available at minimal time and cost and still benefit from an 'extensive textile base'. This would require reductions in intra-regional tariffs, but also non-tariff barriers related, importantly, to transport infrastructure, logistics and customs facilitation, as has been called for (but largely not delivered) in many regional integration strategies. In this context, different complementary advantages in regions could be leveraged, and economies of scale, vertical integration and horizontal specialisation could be promoted by regional coordination and integration. This approach allows each country to have some textile production that comes with greater linkages than apparel assembly. The regional textile base would provide the opportunity for local firms to produce a range of products of higher value and the possibility to move into design, which includes creativity with fabrics, and into technical textiles, which have more innovative potential and can be used in other industries.

Global buyers increasingly prefer one-stop shopping locations where they can source a variety of textile and apparel products. They have become aware of the need to align value chains regionally due to rising production costs in Asia, the increasing need for flexible manufacturing, and potential disruptions in completely global supply chains. Thus, global buyers may encourage textile manufacturers to create mills in new regions to be closer to final assembly, and governments can use their regional textile base policy to attract strategic foreign investments in certain fabrics, as well as to encourage joint ventures with local investors and the upgrading of existing textile mills.

While export sectors drive learning and technology transfer, the domestic market is equally important, especially after local firms have built production and product capabilities and seek to move into higher-value activities of design, branding, marketing and retail, rather than letting these activities in the domestic market be dominated by imports. Currently, the domestic market in many SSA countries is dominated by apparel imports from Asia or second-hand clothing imports from the US and EU. Once local firms have built product and production capabilities and achieved economies of scale through exporting, they can produce apparel at comparatively low prices and compete in the domestic market. However, firms still need to fulfil different requirements in terms of volumes, product types and design, as well as to develop design and branding capabilities and also retailing if no domestic retailers exist to which products can be supplied. Hence, this shift often requires a different firm setup and straddling different requirements, which provide opportunities for but also challenges to learning. Furthermore, this shift requires an increase in purchasing power within the domestic population, driven by broader, inclusive growth processes in the country that lead to rising incomes. Rather than pursue policies of import substitution that include high protection on textile and apparel, governments should reduce high tariffs gradually (but not necessarily completely), alongside providing support to domestic market-oriented textile and apparel firms to build their production and product capabilities, which would then allow them to compete with imports. High tariff walls do not encourage these domestic market-oriented

firms to invest in learning, but quick and total liberalisation destroys the available local firms and capabilities.

The localisation of raw material production was also important in industrialisation in the past. A history of cotton production was a major asset, and the development of man-made fibres linked to petrochemical industries was an important driver of industrialisation processes. More recent developments include cellulose fibre production. These are man-made fibres from plants and are biodegradable. The next wave in textile production is recycled fibres, linked to a sustainability shift in the global fashion industry. In 2019, the European Environment Agency issued the report, "Textiles in Europe's Circular Economy", and textile was one of the seven product value chains targeted in the EU's "Circular Economy Action Plan" released in 2020. Major European brands and retailers are collaborating in this drive to create a new textiles economy. Some of the largest retailers in the world, such as H&M and Inditex, have corporate strategies that promise to source 100% recycled or other sustainably sourced materials by 2030.[26] H&M has made major investments in textile recycling technology and has a framework in place to issue sustainability-linked bonds to finance an accelerated transition to recycled materials.[27] These buyers are driven by business motives to be first movers in the next techno-economic paradigm change within global capitalism, which is centred on the shift to renewable energy and circular economies (see Mathews 2017). The textile and apparel industry is the second-most polluting sector of the world, accounting for 10% of global carbon emissions, 20% of total industrial water pollution, and 4% of the world's waste each year.

The sustainability shift may offer new opportunities for countries in the Global South to use apparel exports to drive wider industrialisation and value-capture processes by shifting from linear production system to a more circular economy system, characterised by apparel inputs produced from recycled resources; closed loop textile and apparel production systems; use of renewable energy; and the development of inter-sectoral linkages through waste management services and industrial symbiosis. In particular, new fibre-recycling technology creates opportunities to shift from agricultural production to manufacturing raw materials for textile industries, including making synthetic fibres from plastic bottles and recycling textile waste for cellulosic and cotton fibres. In other basic inputs such as carton packaging and plastic packaging, where local firms in low-income countries would have to buy new equipment to meet the quality and price (productivity) levels required by exporting firms'

[26] H&M Group, H&M Sustainable Development Performance Report 2019; INDITEX. https://www.inditex.cn/en/our-commitment-to-the-environment; 'Renewable Energy Would Give Vietnam 'Competitive' Sourcing Advantage, H&M and Nike Say', Jasmin Malik Chua, Sourcing Journal (Online), 7 January 2021.

[27] Articles on the industry websites Just-Style and Sourcing Journal document these numerous on-going investments. https://www.just-style.com/news/hm-groups-eur500m-sustainability-linked-bond-soars_id140779.aspx

buyers, they could leap to green technologies, which are more efficient and even use (partially) recycled materials from the domestic economy.

Creating circular industrial economies requires accessing and learning how to use equipment at the technological frontier, but this is not impossible. The diffusion of new green technologies provides the potential for countries in the Global South to leapfrog over linear, fossil fuel-driven industrialisation and build industries and industrial clusters based on circular economy initiatives and renewable energy. Mathews (2017) argues that, given the Schumpeterian creative destruction of these technologies, green industrialisation will become just 'industrialisation', setting the competitive norm. Green industrialisation requires industrial policies that are not significantly different from traditional industrial policies, which emphasised the diffusion of foreign technology (emulation) and capability building among local firms, industrial clusters and government agencies. These new technologies and the restructuring of the global fashion industry are still characterised by (asymmetric) power relations, with some large apparel buyers leveraging and driving this sustainability shift. However, there is a window of opportunity for (existing and new) supplier firms and countries to gain from a first-mover advantage in positioning themselves more advantageously in GVCs and to use this transformation for value capture and to build cumulative capabilities and intra- and inter-sectoral linkages that could better drive industrialisation processes.

Appendix 1: Country Case Study Literature Reviewed Listed by Region

Asia

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