DELOCALISATION OF LABOUR INTENSIVE INDUSTRIES. AN ARGUMENT IN FAVOUR OF "TRIANGULAR MANUFACTURING" BETWEEN DEVELOPED COUNTRIES – GREECE – BALKANS

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Introduction

Globalisation is a multi-faceted process; which is advanced in some facets, and retarded in others. That is, globalisation produces winners and losers creating considerable disparities between and within countries. Globalisation is a quite vague term, it means lots of things to certain people while it means almost nothing to others. One thing is certain however, i.e. that globalisation does not mean that everything has been set in a definite order and that there is a hierarchy that cannot be changed. There are basically two main views on the characteristics of the globalisation process.

There are those that have a positive view of globalisation. Authors like Levitt (1995) and Ohmae (1995) argue that the international economy is dominated by a small number of TNCs. The pervasive influences of such corporations lead to a degree of global economic integration absolutely and proportionately more important than ever before (Dunning, 1993). Biersteker (1998), argues that globalisation is affecting not just the quantity of transactions in the global economy but also their quality. We are told, that this is apparent in the greater incidence of commitment modes of entering international markets (such as subsidiaries and joint ventures), and the emergence of new opportunities and challenges opened up for enterprises and workers. Advocates of this approach do recognise that globalisation produces winners and losers in terms of countries, regions and people. However, declining wages and deteriorating working conditions will be combined with the opening-up of economies and the release of market forces (Biersteker, 1998). As a result, there will be new opportunities afforded to those who were previously marginalized. Overall, this interpretation suggests that while globalisation is uneven, it has the potential to spread production and wealth out to the margins, and to disperse past inequalities. These changes occur alongside the emergence of a 'globalised' set of beliefs regarding economic policy (Williamson and Haggard, 1994). This is manifested in the significant transformation of the role of national governments in regulating the marketplace.

On the other hand there are those that have a more sceptical view of globalisation. As Hirst and Thomson (1996) argue, TNCs concentrate on clustered sites. As a result, the ensuing patterns of international economic transactions result to multi-faceted outcomes, which demonstrate advanced integration in some facets, and retarded in others. Similarly, others, maintain, that economic globalisation is far from becoming a worldwide reality. In fact, divergence (in terms of labour productivity and standard of living statistics etc) is not the exception but the rule in many economies and regions. Another argument, developed within the confines of this approach suggests that a contrary process of fragmentation and localisation counters the globalisation process. Resistance at the local, regional or national level may have significant implications upon the ensuing form of integration. The disintegration of production the world over will result in greater equality in the price of factors of production. If labour is not a homogeneous resource (and can for example be divided in terms of skill content), this means that wages for unskilled labour (the scarce factor of production) in advanced industrialised countries will decline (Feenstra, 1997). In this sense, the decision of TNCs – and not only – to spread production across countries has distributional consequences that cannot be ignored.

That is globalisation goes hand in hand with a process of "delocalisation" mainly of labour intensive companies (not only of manufacturing industries but of services too) that seek to find more profitable locations for their activities across the globe. This delocalisation trend though it unavoidably affects all countries, it certainly heats most severely "intermediate" countries (such as Greece) that do face a double competition (i.e. from developed countries –DCs- for high quality products and for underdeveloped countries (UDCs) for low price products) as well as the less developed transition countries (such as the Balkan countries) that have to find their new role in the International Division of Labour.

We take the side of the more sceptical view of the globalisation. Hence, in this paper we are trying to focus upon those processes that might act as "windows of opportunities" that might allow certain sectors of the economy or even certain countries to realize their great development leap forward. In fact this paper seeks to analyse how an intermediate country (i.e. Greece) and transition countries (i.e. the Balkans) can and should proceed in the era of globalisation. ?he key concerns of this paper are whether and how local manufacturers in intermediate and poor countries benefit from the globalisation of product markets. Are these enterprises included or excluded from production for global markets? Does inclusion lead to upgrading and rising incomes or immisering growth?

Following Sengenberger and Pyke (1992, 12-13) we distinguish two principal approaches by which enterprises, industries or regions have tried to meet the challenges of international competition. That is the "low road" ("destructive" competition) and the "high road" ("constructive" competition) to restructuring. Needless to say that it is in favour of the latter that we are advocating here. In fact, the "low road" to restructuring, consists of seeking competitiveness through low labour cost, and a deregulated labour market environment. It is believed that cost cutting will boost productivity and profits, and create new employment. Institutions and rules aimed at regulating competition are seen as mere straightjackets, and should be kept to a minimum. The problem with this approach is that the improvement it yields for competitive performance, if there is one at all, is frequently short-lived. Poor wages and terms of employment hinder the firm in acquiring and keeping the qualified labour required for efficiency and flexibility; and they rarely induce the firm to "invest" in its labour force to make it more productive. So, in the absence of better performance and alternative possibilities, further cost cutting may become inevitable, resulting in a vicious, downward-spiralling cycle. On the other hand, the "high road" to restructuring, consists of seeking competitiveness based on efficiency enhancement and innovation i.e. through economic gains that make wage gains and improvements in social conditions feasible, as well as safeguarding workers' rights and providing adequate standards of social protection. The key to attaining this is better organisation and utilisation of labour, which then permits a better use of technology. Continuous product improvement, fashion awareness and innovation places high value on the quality of labour force and the quality of relationships between managers or entrepreneurs and employees.

In this context we are advocating that one way forward for both Greece and the Balkans is to develop 'triangular manufacturing' in the labour intensive industries[1]. The essence of triangle manufacturing, as Gereffi (1994, 114) argues, is that developed country (e.g. US) buyers place their orders with the underdeveloped country manufacturers they have sourced from in the past (e.g. Hong Kong or Taiwanese firms), who in turn shift some or all of the requested production to affiliated offshore factories in one or more low-wage countries (e.g. China, Indonesia or Vietnam). The shift toward triangle manufacturing has been responsible for bringing many new countries into these production and export networks.

[1] We first put forward this idea back in 1996 (Labrianidis, 1996b).

Greece, though not an Important Player in FDI, is One of the Most Important Investors in the Balkans

Developed countries were and still are the main recipients as well as sources of FDI, though there is a significant improvement of the position of UDCs. Specifically, in 1997 the volume of inward FDI stocks in the UDCs was 30.2 percent of the total while the volume of stock of outward FDI from UDCs in 1997 was 9.7 percent (UNCTAD, 1999).

CEECs, as we have argued already (Labrianidis, 2000d), have not yet managed to attract a significant portion of the world's FDI. However, there is a steady increase of FDI inflow stocks to the CEECs mainly since 1990 (i.e. from 0.05 percent in 1980 it reached 2.43 in 1998). CEECs' share in world FDI outflow stocks is also absolutely insignificant, 0.3 percent in 1998 (IMF, 1999 and UNCTAD, 1999). Furthermore, CEECs can be classified in three main groups according to the volume of inward FDI per inhabitant: a) the first group, with the lowest ratio of FDI/inhabitant comprises of Balkan countries. The second group comprises of all the ex USSR republics. The last group, with the highest ratio of FDI/inhabitant, comprises of the remaining CEECs (Lankes and Stern, 1998).

Greece's share in world FDI inflows stocks is not significant (i.e. 0.90 in 1980 and 0.54 percent in 1998). Greece's share in world FDI outflows stocks was insignificant too, around 0.03 percent (IMF, 1999 and UNCTAD, 1999, Labrianidis, 2000d).

However, though both Greece and the Balkans are not important players in FDI, Greece is one of the most important investors there. As we have argued already (Labrianidis, 2000a), Greek companies going multinational constitute a novel phenomenon beginning in the early 1990s, where in a very short time a large number of investment projects have been initiated abroad. Since then the situation has changed drastically and now there is a large number of Greek companies with activities abroad. We estimate that in 1999 there were 1,269 investment projects of Greek companies in 20 of the 27 CEECs. The great majority (81.7%) is concentrated in just 3 countries (i.e. Bulgaria 41.1%, Albania and Romania 20.3% each).

The majority of Greek investment projects in the CEECs are in trade (47.2%) and industry (36%) while there is a significant percentage of service related companies (13.3%). Industrial companies are mainly in garment and textile manufacturing (47.9%) and food-beverage production (25.5% - Labrianidis, 2000a). According to official estimates, in April 1999 the Greek FDI amounted to 2.4 billion USD and was concentrated in the Federal Republic of Yugoslavia (47%), Romania (37.4%), Bulgaria (7.9%), FYROM (4.6%), and Albania (3.1%) (YPETHO, 1999).

Although there are numerous investment projects in the CEECs the bulk of capital invested is owned by a handful of companies, which means that by far the greater majority of Greek investments is extremely small. Specifically, 32 companies hold more than 67.3% of total Greek investments, while 10 companies hold 64.1% of the total. However, what is of utmost importance is that the few publicly owned Greek firms that invested in the CEECs account for much more than half of the total capital invested (Labrianidis, 2000c).

Until very recently the dominant perception among analysts was that DCs' FDI directed to UDCs were impediments for the economic development of the latter, almost exclusively benefiting the former. This might help understand the reason for all Greek governments – since the beginning of the 1990s – being enthusiastic about this opening. In a sense, some Greek companies could be transformed to TNCs, and the country could act as a 'metropolis' capable of exploiting the Balkan countries. However, the unquestionable benefits to the countries of origin of FDI are increasingly seen with more scepticism. Furthermore, there is an increasing popular theoretical view, according to which FDI to UDCs may be even harmful to their countries of origin (Krugman, 1996). This might apply more to Greek companies due to the particularly low added value that is a characteristic of the

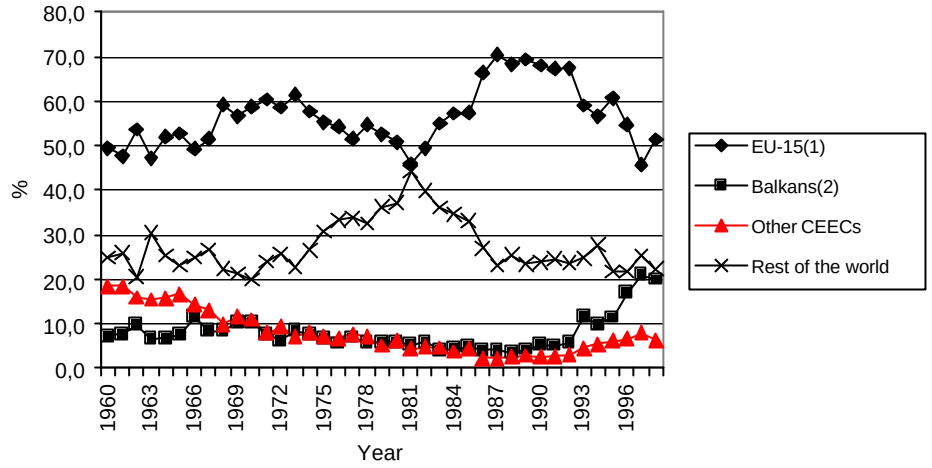
Greek industry and implies manufacturing with a small number of stages of production. Expansion of domestic demand in cases of low value added leads to an increase of benefits flowing off the country (Fotopoulos 1985, 173-176). As a consequence, its development abroad is necessarily supplemental or competitive to the domestic industry. This might be the single greatest impediment for the development of the Greek industry in the CEECs and in particular to the "triangular manufacturing" that we suggest to be advanced.

The opening of the Balkan market has been an excellent opportunity for the Greek economy. Greece's trade with the Balkans has grown substantially and Greek FDI is a novel phenomenon. Greek interests in the Balkans can be very important for both parties. For the Balkans since the "new" TNCs as well as the SMEs created by Greek interests are very important for the Balkans development at least in the short and medium run in the sense that they provide employment and technology that is more adequate for the country (Labrianidis 2000a). Moreover, the existence of significant Intra Industry Trade between Greece and the other Balkan countries (Labrianidis and Kalogeresis, 2001) will prevent socks to their economies. For Greece in the sense that they increase their foreign trade and the FDI created in the Balkans give the Greek firms the necessary time to restructure. While the Greek industry was incapable of escaping the crisis, the opening of the Balkan countries – which was characterised by the weak development of the consumer products sector, and by the demand of products of no particular quality - was considered to be the deus ex machina that would solve all its problems. However, as we have already argued elsewhere (Labrianidis, 1996a, 1996b and 1997), the opening of the Balkan markets should be seen as an extension of time for the confrontation with the deeper problems facing the Greek industry. Specifically, the need for technological and administrative restructuring of the companies (Ioakimoglou, 1996), for the restructuring of manufacturing by moving to more technologically complex sectors (Fotopoulos, 1985) as well as for focusing on activities demanding more specialised labour (Lolos and Papagiannakis, 1993).

The opening of Greek companies to the Balkans also has its negative side, especially the relocation of production in there. There are both short-term negative results (lost jobs mainly in certain sectors - garments - and areas - Northern Greece), and long term negative effects i.e. postpone the necessary restructuring of the firms so as to upgrade them[2], and herein lies the crux of the matter. The result was a relative decline of Greek exports to the EU, being a difficult market, since 1993 despite the establishment of the Single market in 1992. In fact, since the early 90's two opposite processes took place with respect to the Greek performance in international markets. On the one hand, there is the deteriorating position of Greek exports in the EU markets and on the other hand there is a more successful export performance in the other markets and especially in the Balkans (Diagram 1). On the other hand the relative importance of imports from the EU is increasing (Diagram 2). That is Greece is loosing its competitiveness in the advanced international markets and at the same time there is an increase of import penetration into the Greek market.

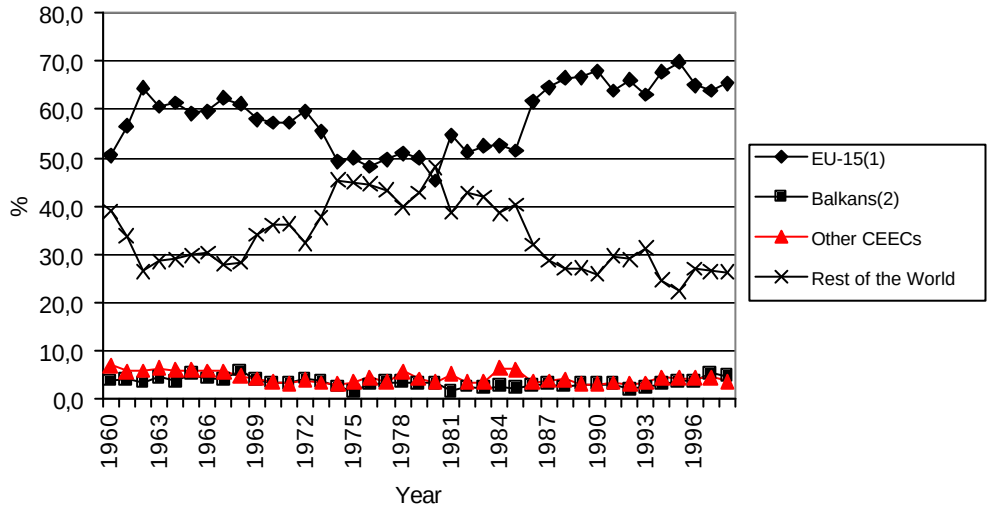
[2] Upgrading (i.e. enhancing the competitive position of a firm) can be achieved in different ways such as: a) Process upgrading: doing certain tasks better (e.g. re-organising the process of production or introducing a new machine). b) Product upgrading: making a product which is of better quality, more sophisticated or simply carries a better price. c) Functional upgrading: moving into new stages of the value chain (e.g. design or marketing).

Diagram 1. Distribution of Greek exports to selected country groupings (1960-1998)



Source: OECD Statistical compendium (2000)
(1) The Former GDR is included
(2) Most international organisations tend to include into the Balkans: Greece, Turkey, Bulgaria, Albania, Romania and all the countries which constituted the Former Yugoslavia, with the exception of Slovenia. We have also used this convention.

Diagram 2. Distribution of Greek imports from selected country groupings (1960-1998)



Source and Notes as in Diagram 1

How Firms from Less Developed Countries Can Overcome Export Barriers

Size is not a Great Barrier to Going International any More

In recent years it is not only the large companies that go international, it is the SMEs that can make it abroad too. In fact, major changes have taken place in the institutional framework governing world trade and production during the 1990s. Increasing market integration associated with the formation of regional trading blocks and the successful completion of the Uruguay Round and the ensuing liberalisation of trade combined with significant advances in communications and information processing have effectively reduced the significance of national boundaries. The opening-up of international markets has expanded the scope for greater co-operation and/or intensification of competition. Within this context, enterprises have had to adopt an international perspective. Even

businesses that focus primarily or even exclusively upon the domestic market must be internationally competitive in order to secure long-term survival and growth (Karagozoglu and Lindell, 1996).
Small businesses are usually confronted with unique challenges in the area of international markets. Uncertainty is a key feature of the small business environment. The inability to control prices because of lack of market power, the dependency upon a relatively smaller customer base and finally, limited access to policy-makers make the external environment of a small firm more uncertain than in a large business. The limited financial resources of small firms can act as a considerable constraint in developing an international orientation. This can take two forms: the firm's ability to identify opportunities arising from the opening-up of national markets is impeded by lack of financing and the exploitation of opportunities already identified is restricted by inadequate resources of financing (Smallbone and Wyer, 1995). Decisions taken in order to minimise capital outlay sometimes have negative consequences. Small firms face a high risk in going international. It is likely that the proportion of resources committed to a single FDI will be greater in a small firm than in a large one and hence failure is more costly (Buckley et al 1988, XII).

Additional constraints derive from the fact that in the SMEs management time is in very short supply partly because of the small number of managers and partly because of the unwillingness of the entrepreneur to delegate (d'Amboise and Muldowney, 1988). The pervasive influence of the entrepreneurial personality, combined with the modest resources at hand, means that small businesses are invariably characterised by quasi-formal planning and control systems and relatively underdeveloped administrative procedures. Shortage of management time leads to the firm taking short cuts without proper evaluation of alternatives, there is little "global scanning" for opportunities (Buckley et al 1988, xi, xii, 15).

Small firms, however, enjoy certain advantages in the process of developing an international orientation. These include greater flexibility and responsiveness to changes in the marketplace and advantage seeking behaviour (Fiegenbaum and Karnani, 1991). Being a "one man show", they have no restrictions to face concerning partners or the reaction of the Stock exchange. In sum, as Sengenberger and Pyke (1992, 11) argue, "smallness" or "bigness" of a firm is not the decisive criterion for its performance. What is crucial is the organizational and institutional context in which firms operate. Small firms as individual entities, acting on their own, are in a poor position to compete. However, small firms can become "big" through collective organization and concerted action.

Types of marketing barriers faced by manufacturers in underdeveloped countries

The emerging new geography of production in labour-intensive industries is characterised by many ways integrating formerly detached enterprises and regions in the global network of production and distribution. Three widely used types of such relationships are: contract manufacturing; the establishment of subsidiaries; and the formation of joint-ventures. This means that, firms in the country of destination focus on parts or the entirety of the production process, whereas other tasks – invariably involving greater skill content and value added – are maintained by businesses in DCs.

Compared with a decade ago there is now more optimism on the export potential of SMEs in UDCs (Nadvi and Schmitz, 1999). Nevertheless, there is a clear recognition in the literature that breaking into export markets represents a discontinuous step. If enterprises are assisted in the initial stage of exporting, they carry on subsequently. The critical issues are the sunk costs of gathering information on foreign markets, establishing marketing channels and changing the product specifications. The start-up costs for exporters are high, and that this is particularly true when the country as a whole is not on the '*export map'* (and the Balkan countries are not).

In recent years, labour-intensive industries have become more globalised. Admittedly, the pace and characteristics of global integration vary considerably from industry to industry - and even within industries. What emerges, as a key consideration in this context is how formerly localised enterprises globalise? The significance of this issue is derived from Gereffi's (1994 and 1996) work on changes in the garment industry. He proposes that distinguishing between "producer driven" and "buyer driven" chains[3] helps to explain the international division of labour and the ensuing distribution of wealth along the chain.

The most significant way of accessing foreign markets has been contract manufacturing for foreign customers. In other words, the SMEs in UDCs focus on manufacturing and all (or most) other tasks are taken care of by their foreign customers or their agents. Gereffi (1999, 41) argues that in order to participate in export manufacturing to North America and Western Europe, producers in UDCs need access to the chains' lead firms. These lead firms "undertake the functional integration and co-ordination of internationally dispersed activities". Access to these lead firms can be direct, by becoming a supplier, or indirect, by becoming a second-tier supplier. No access to the lead firms means being excluded from the world's main export markets.

Moreover, Gereffi (1999, 39) argues, that those producers that gain access have good prospects for upgrading within production and subsequently into design, marketing and branding. Participation in global commodity chains is a necessary step for industrial upgrading because it puts firms and economies on potentially dynamic learning curves. The upgrading role of buyers, as Schmitz and Knorringa (1999, 18) argue, is not an act of generosity but one of necessity. In order to sell Brazilian shoes in the US or Europe they had to assist firms to reach international quality and delivery standards.

Both Gereffi (1994) and Schmitz & Knorringa (1999, 3- 22) argue that there is an increasing power of the buyer. In the sense, that an increasing number of countries engage in contract manufacturing for a decreasing number of global buyers. That is, while the number of producer firms and countries has increased rapidly, there has been a concentration amongst buyers. These buyers are global in the sense that they source from producers all over the world. This gives them an unrivalled ability to compare what is the best mix that they can get from companies around the world in terms of: Price, Reliable product quality, Innovative design, Speed of response, Punctuality of delivery, Flexibility in coping with changes in orders, Design quality etc. Firms can do auctions on the Internet among their established contractors, where after they have informed them of the particular type of garment what they want, the amount of the order, time of delivery etc. they ask them to bite for that on a particular day. The importance of the size of buying *firms* for the upgrading of local producers has been stressed by Tewari (1999). She suggests that Indian knitwear manufacturers have more learning opportunities when they work for small and medium sized traders.

Moreover, firms that are searching to subcontract their work are not looking just for suitable partners their checklist includes issues concerning the socio-economic environment too i.e. education, training, infrastructure, proximity of suppliers etc. Hence, the role of the state is crucial in assuring that "triangular manufacturing" can be a long lasting solution for Greece. Importance of effective infrastructure for the flow of materials and information (roads, ports, airports, communication lines) and speedy customs clearance for importing components and exporting finished goods.

Needless to say that countries are not always competing in exactly the same market segments. For example as Schmitz and Knorringa (1999, 10) point out, in the shoe market China is considered by the

[3] A value chain is the sequence of activities, which are required to bring a product (or service) from conception to the final consumer. Porter (1990) uses the concept to refer to different stages, which the individual firm marshals (i.e., logistics, transformation of materials, packaging, outbound logistics, marketing, after-sale service), drawing attention to the activities other than physical transformation. Gereffi (l994) stressed the international scope of such chains, using the term "global commodity chain".

buyers as a very cheap source of shoes with reliable product quality and strong in coping with massive standardised orders. Hence, they are suitable to supply the huge price-driven orders from the US discount retail chains. In contrast, buyers who supply the High Street boutiques would look first at Italy for their small and high fashion orders.

However, the remarkable increase of export capability in shoes of China and Vietnam, as Schmitz and Knorringa (1999, 15-16) argue, is most often wrongly attributed to the cheap labour since, abundant cheap labour exists in many parts of the world. It was typically the successful industrialists from the shoe clusters in Taiwan who brought in their capital, the manufacturing capability, the connection with buyers and the components. Providing all the components to the correct specification, in the right numbers and at correct time from a distance seems a logistical nightmare, but the new plants have come on-stream relatively quickly. However, they are weak with regard to speed and flexibility. Thus the new plants are not clones of the home-based plants. The more predictable lines that can be made in long runs tend to be produced in the new plants while the old clusters focus on shorter runs, requiring faster response and / or higher quality, produced in smaller or medium sized firms or in highly decentralised large firms.

A clear feature of the globalisation process has been the inclusion of new producers, especially from labour surplus countries. The driving force for their inclusion was the pressure to reduce costs, especially in labour intensive products. The main obstacle was how to import the range of skills required for producing to global standards. Historically buyers have played a major role in this process. Frequently the ex-manufacturers from DCS were the importers and transmitters of the required production expertise.

The literature has tended to emphasise the benefits of sourcing from low wage countries but has neglected the often-considerable cost of transmitting product and process know-how. Over recent years, some buyers from DCs have found a way of extricating themselves from this task. New "regional intermediaries" have been able to grow into it – or were forced into it. It seems that the regional intermediaries are of increasing importance in order to understand whether and how producers from poor countries can integrate into the world economy. Many of the new regional intermediaries are former manufacturers. The most significant example is Taiwanese manufacturers moving to low wage sites in East Asia. Much of the seemingly miraculous export success of Mainland China is due to Taiwan joint ventures Gereffi (1994) has observed it in the garment industry and refers to it as 'triangle manufacturing'.

The sourcing found in footwear (Schmitz and Knorringa, 1999) is following the same process as that found by Gereffi in garments. A difference arises only in the role accorded to the 'old' manufacturers. While Gereffi (1994:114) emphasises their monitoring function: they 'assure that the buyer's standards in terms of price, quality and delivery schedules will be met by the new contractors in other Third World locales'. Schrnitz and Knorringa (1999, 17) stress more the 'old' manufacturers' role as transmitters of skills and organisers of production, particularly in the incipient stages. In footwear, they have found that much of the actual assembly line monitoring continues to be carried out by the foreign buyer's own inspectors.

In order for a company to be able to act as an intermediate there are certain preconditions related to the country itself that have to be fulfilled. Hong Kong managed to play such a role. As Enright et al. (1997, 54-55) argue

> "The role of Hong Kong firms as packagers and integrators ... which match demand, often in North America or Europe, with sources of supply throughout Asia, and even further afield in parts of Africa and the Caribbean… This is not a traditional 'middleman' function of the stereotypical trader or intermediary. It is part of a far more complex set of functions that allows the Hong Kong firms to add value - through their knowledge of

source and destination markets, through their familiarity with production capabilities of literally thousands of factories scattered throughout Asia, through advanced capabilities in logistics, and through expertise in managing subcontractors".

"Hong Kong has a particularly deep pool of talent and expertise in interpretative design that can be used across a number of light manufactured products, be they garments, watches, travel goods, jewellery, toys or cellular phones".

Hong Kong firms '... provide a complete headquarters for management, financing, technology, design, prototyping, quality control, marketing, and distribution service between dispersed assembly plants on the one hand, and retail buyers on the other".

One of the reasons for arguing in favour of "triangular manufacturing" is that it helps the upgrading of the economies involved. This is heightened by Gereffi's progressive upgrading scenario in which East Asian garment producers moved from (a) mere assembly of imported inputs, to (b) taking care of the entire production process, to (c) design and sale of their own branded merchandise in internal and external markets. Stage (c) implies that East Asian manufacturers have escaped the governance of the US buyers. The work of Schmitz and Knorringa (1999) on global footwear chains confirms Gereffi's upgrading path for the sphere of production. Local producers have been helped with both product and process upgrading, showing most clearly in improved product quality and faster delivery. However, in developing their design and marketing competence, local manufacturers face obstacles because such functional upgrading encroaches on their buyers' core competence.

What is interesting to understand is what is missing in the case of Greek companies and they never managed to reach stage (c) and even more so can this be altered through the opening of Greece to the Balkans as we argue here (see Section 4).

Can Greece Become to the Balkans What Germany Was for Greece in the 1970-90 Period

The changing geography of production in labour intensive industries: the case of garment industries

The defining feature of global and European integration in labour-intensive industries has been a rising integration of trade alongside a growing disintegration of the production process (Feenstra, 1997). Indeed, companies are now finding it profitable to outsource increasing amounts of the production process. A number of prominent researchers have referred to the importance of the idea that production occurs internationally: Bhagwati and Dehejia (1994) call this 'kaleidoscope comparative advantage', as firms shift location quickly; Krugman (1996) uses the phrase 'slicing the value' chain; others prefer 'delocalisation'; and finally another group introduced the term 'intra-mediate trade'. There is no single measure that captures the full range of these activities, and the specificities of the processes at work vary considerably from industry to industry depending on the characteristics and recent developments in technology and product markets.

From the late 1960s, the world garment industry has been experiencing profound structural changes. In DCs rising unit costs, especially labour, were proved difficult to contain and they began to spread their production overseas through sub-contracting arrangements (Frobel et al 1981). The world distribution of garment manufacture, which is labour intensive, is influenced decisively by labour cost which in turn are the most geographically variable of industrial production costs (Dicken 1992, 248).

UDCs, taking advantage of their favoured competitive position, begun to pose a serious threat to levels of employment in core economies. By concentrating their efforts upon that segment of the market characterised by mass-produced items and a relatively limited degree of product differentiation

they were able to ensure that competition occurs primarily on a cost basis. Consequently UDCs have achieved significant gains in terms of employment and export revenue (Kalantaridis, 1997). Such a robust performance took place at the expense of advanced industrialised countries.

To cope with the challenge, as Simmons & Kalantaridis (1995, 287 and 1994, 143-4) argue, DCs implemented a number of new strategies. For example, the application of new micro-electronic technology to the pre-assembly stage of the manufacturing process; a shift into high fashion, where competition is in new product design and quality enhancement rather than in prices and costs of production; and, most recently, an expansion into the retail trade. Another means that they used is outward processing trade (OPT).

Most important of all they established a set of controls to regulate world trade (e.g. Multi-Fibre Arrangement -MFA). Within this context, important changes have occurred in the pattern of supply as less restricted exporters, i.e. those enjoying preferential commercial treatment in terms of quota allocation, have benefited at the expense of more restricted sources. Countries on the periphery of Europe saw in the development an opportunity to achieve rapid advance (Dickerson, 1991; Kalantaridis, 1997). As a result, there was a significant shift in the production, through the establishment of joint ventures, subsidiaries, and more importantly sub-contracting linkages towards Southern Europe (Labrianidis and Kalantaridis, 1998).

The gradual liberalisation of the world clothing trade (MFA is to be abolished in 2005 -UN, 1994) combined with geographical proximity to the major EU markets offers CEECs an opportunity for rapid advancement. Manufacturers in these countries enjoy lower wage costs than their Western European counterparts, in some cases comparable to those prevailing in UDCs (Labrianidis, 1996). Therefore, they are inviting sites for EU manufacturers seeking more competitive sources of supply. Moreover, these countries are currently experiencing an explosion in private small and medium-sized enterprises. The limited scale and scope of the domestic demand during the early stages of the transition process has been an additional push factor, encouraging such firms to look for foreign market opportunities. Whilst it is difficult to understate the problems associated with the establishment of a market economy, and particularly the need to restructure the manufacturing sector in general, and the clothing industry in particular in order to make it responsive to consumer demand and the forces of the marketplace, there is increasing evidence that enterprises in these countries are successful in penetrating the Western European markets (Kalantaridis, 2000).

Another phenomenon reported in the textile and clothing industries (more in the latter than the former) involves the recent relocation of production from the periphery of the EU (and especially countries such as Greece, Italy and Finland) to CEE countries. Indeed, the process of Post-Socialist Transformation encouraged Greek textile and clothing manufacturers to relocate parts or the entire manufacturing process outside the national boundaries almost exclusively to Bulgaria, Albania and Romania (and recently in FYROM too) – mainly due to geographical proximity, and significantly lower labour costs (Labrianidis, 1996a,b, 1997, 2000a,b,c,d). Even countries like Italy, which seemed to place greater emphasis upon domestic sub-contracting rather than FDI are now following similar trends. Thus, during the late 1990s there appears to have been a significant move of parts of the production process or entire product lines to Romania and Hungary, and to a lesser degree Poland and the Ukraine. This process also affected textile plants in Finland – especially those that moved there from Sweden in the 1960s and 1970s, leading to subsequent relocation of production in the nearby Baltic States.

Recent developments in the Greek garment industry

Garment manufacture in Greece grew rapidly as a result of the decentralization strategies pursued in the DCs and most important of all in Germany (Simmons & Kalantaridis 1995, 290). Until 1987 the Greek garment industry presented an impressive increase in domestic production, as well as in

exports. Garment and footwear exports increased dramatically: as a share of total production they grew from just 0.5% in 1960, to 93.7% in 1987 (Papagiannakis and Lolos 1993, 53). The underlying reasons for this increase are various and mostly exogenous to the industries themselves, such as EU protectionism towards textile products (MFA), as well as conditions within Greece such as the fine quality raw materials, the relatively low labour cost and the "greenhouse" conditions which were created by intense state intervention through import quotas, depreciation of the drachma, export grants, low interest rate loans, absence of social and institutional regulation that would restrict exploitation of labour and the extensive use of subcontracting.

Nevertheless, this supremacy in the export sector, which was accompanied by corresponding rates of growth of the domestic output, seems to have been lost since 1987. Moreover, there is a significant increase in import penetration in the garment market. In 1960 1.4% of domestic consumption of garments was imported, and in 1980's 19-65% (Lolos and Papagiannakis 1993, 56-57; Bank of Greece 1993, 70; IOBE 1995, 37).

The Greek clothing industry seems to have been trapped in a competition by both EU and UDCs. Its comparative advantage of low labour cost resulted in the creation of a productive structure based on international subcontracting with low design requirements. Within Greece the "greenhouse" conditions under which the garment industry was operating were dismantled. Most important of all was the significant increase of the relative labour cost during the first half of the 80's, which was not accompanied by corresponding increases in labour productivity. Hence, competitors from low-cost countries started eating into the Greek share of the "non-demanding" part of the international and mainly European market.

A major blow to the competitiveness of these firms was the events of 1989 that led to the opening of the ex-socialist countries into the international markets. In 1988 the number of Greek garment manufacturing firms was 2,047 for the large manufacturing (more than 10 employees) and 15,926 or the small. The respective numbers in 1995 were 931 and 6,690 which constitute a decrease of 54.5% and 138.1% respectively. A similar trend marked the developments in terms of employment too. That is in 1988 employment in large garment manufacturing was 70,970 and in small 40,281 while in 1995 the respective numbers were 34,450 and 25,550 which constitute a decrease of 51.5% and 57.7% respectively.

The great majority of Greek garment manufacturing firms in order to stay competitive in the market are constantly searching for ever lower labour cost. Pursuing this strategy almost all Greek garment-manufacturing firms that operate for the international markets have moved their activities, in all or in part, to the Balkans. Even companies that are vertically integrated and very well placed in the international market have shifted at least a small part of the sewing section of their production there.

According to a recent research undertaken by the Federation of Knitting Companies of Northern Greece (2001), there were 350 garment manufacturing companies operating in South Eastern Europe in 2000. Based on a sample of 80 companies they found that in the 1999-2000 period they increased their turnover by 16%. They employed 5,527 employees in Greece (average 69 employees per company) and 14,620 employees in S.E. Europe (on average 183 employees per company). That is for everyone employed in Greece there were another 2.7 employees in S.E. Europe. These companies were operating mainly in Bulgaria (86%), FYROM (17%), Albania (13%), Romania (5%) and Turkey (2%). 47% of them had their company or a joint venture in SE Europe, 2% had a commercial company while 51% were subcontracting out work to companies in SE Europe. 33% of their production is materialised in their own premises in Greece while another 12% is subcontracted out to firms in Greece. What is important is that more than half of their production (55%) is materialised by firms in SE Europe. 33% of companies are subcontracting out more than 40% of their production.

There are several favourable implications of Greek garment manufacturing firms operating in the Balkans mainly the low labour cost there that enables them to stay in business, this situation however is not going to last for ever. Hence, they have to grasp this opportunity to restructure their enterprises so as to produce for the upper segment of the market, which at the moment does not seem to be the case. Another unfavourable implication is that the relocation of the garment manufacturing companies to the Balkans leads, in the short-term at least, to massive unemployment (Labrianidis 1996a and b, 1997, 2000a and b).

In this "triangular manufacturing" scheme that we are suggesting Greece can keep: Spinning mill, New thread production/development (Labs), Spinning mill, Style development/design, Trims (zippers, buttons etc), Supply chain management (match demand and supply/ assure quality), "translation" of the orders for a certain quality cloth to specifications for the knitting machines, Knitting factories, Dye – house – Finishing house, Production of the samples of garments. Developed countries will keep the orders and the specifications of the products. Finally the Balkan countries will have Cutting of cloth (manually), Sewing process, Pressing, Quality control – trimming, Packaging and Transporting (Tables 1-3).

Table 1. Advantages and disadvantages of "triangular manufacturing" with Greece for the Balkan countries

Main handicaps of the Balkan countries	Main comparative advantages of the Balkan countries for "triangular manufacturing"	Main benefits for the Balkan countries from a "triangular manufacturing"	Main disadvantages for the Balkan countries from a "triangular manufacturing"
1. Related to the branch			
Unemployment	Abundant labour reserves	Reduction of unemployment	Development of a sweatshop economy that would need to be restructured again soon
Lack of capital	Trained labour	Gradually acquire all stages of garment manufacturing	Development of an enclave economy
Lack of links with foreign companies (giving the orders)	Geographically located next to the main markets (quick response orders)	Acquisition of expertise in dealing in international markets	Reduce the need to move upmarket, towards own design own label goods
Lack of expertise in international markets	Geographically located next to Greece		
Not in the "export map"			
Availability of materials?	Availability of materials?		
2. Rest of the economy- society			
Landlocked country	government support for the development of export activities ?	Export Revenues - Improve trade deficit	
Lack of high standard producer service companies		Stimuli in the development of an entrepreneurial culture	
Unstable political environment		Reduce inequalities	
Economic environment in terms of taxation, social security, inflation, currency stability, availability of bank finance etc?	Economic environment in terms of taxation, social security, inflation, currency stability, availability of bank finance etc?	Improvement in some producer service facilities	
3. Infrastructure			
Poor infrastructure provision		Improve infrastructure	

Table 2. Advantages and disadvantages of "triangular manufacturing" with the Balkan countries for GREECE

Main handicaps of Greece	Main comparative advantages of Greece for "triangular manufacturing"	Main benefits for Greece from a "triangular manufacturing"	Main disadvantages for Greece from a "triangular manufacturing"	Built (construction) of comparative advantages
1. Related to the branch				Firms in the sector
Not direct access to the market- depends on orders	Experienced garment manufacturing companies	Increase the long term prospects of companies in the branch (remain competitive – stay in business)	Increase of unemployment in the short term	Not-for-profit organisations which are self-financing and provide specialised business services (Textiles Institute)
Not in the "export map"	Trained labour	Need for more and more trained labour force		'real services' provided by Business Associations (Federation of Textile Industries etc) helping members to participate in foreign trade fairs, etc;
Relatively high labour costs	Competitive knitting factories	Possibility to move up the Value chain		Consortia of self selected group of firms that pool resources for a common purpose
	Competitive dye house – finishing companies			
	Existing ties with companies that give orders in the DCs Available capital to be invested for production in third countries Knowledge of source and destination markets			
	Familiarity with production capabilities of literally hundreds of factories scattered throughout South Eastern Europe Freelance designers			
	Consultancy firms which advise on just-in-time delivery or quality management Firms which take care of all logistics between the factory gate and the overseas destination Expertise in managing subcontractors			
2. Rest of the economy- society				State policy
Relatively high taxation and social security contribution burden	Long experience in a market economy			public agencies to provide services (export marketing, training and technology centres, etc)
Comprador culture	Stable socio-political system – Stable environment for business		Strengthen comprador culture	"service centres", co-financed by government and run by the private sector
	Advanced capabilities in logistics			Fair trade organisations

Table 3. Triangle manufacturing: the case of garment industry

Stage	All over the world	Developed Country (provides the orders)	Greece	Balkan countries
Spinning mill	+		+	
New thread production/development (Labs)		+	+	
Spinning mill			+	
Cloth / fabric production	+			
Style development/design		+	+	
Trims (zippers, buttons etc)	+	+		
Trims (threads, rubber band etc)			+	
Orders – specifications		+		
Supply chain management (match demand and supply/ assure quality)			+	
Management – marketing techniques			+	
"translation" of the orders for a certain quality cloth to specifications for the knitting machines			+	
Knitting factories			+	
Dye – house – Finishing house			+	
Production of the samples of garments			+	
Cutting of cloth (manually)				+
Cutting of cloth (automatically)			+	
Sewing process				+
Pressing				+
Quality control – trimming			+	+
Packaging			+	+
Transporting			+	
Selling to consumers		+		

Conclusions

"Triangle manufacturing" between Greece and the Balkans is already there, however at the moment it is simply the outcome of the intentions of individual firms and it can be described as exploitative and short sighted. Furthermore, it might lead to unfavourable developments in both countries i.e. turn the Balkan countries into screwdriver/ sweatshop economies and Greece to deteriorate its competitive status into the developed markets. What we argue in this paper is that "triangle manufacturing" can be seen as a medium or even long range strategy for the development of the economic relations between the two countries and that is why public policy in both countries has to make sure that it is beneficiary for both countries. This paper analyses as an example for "triangle manufacturing" the case of the garment industry, which, needless to say, is the most important case and it is taking place already. There are however other cases too where "triangle manufacturing" might develop in the future such as

Leather clothes manufacturing, Footwear, Tobacco processing and Back office activities (data entry etc).

The role of Greek intermediaries in the Balkan countries has gone largely unrecognised yet seems to be crucial, given that buyers from the major DCS are reluctant to operate in such a volatile and high risk environment.

Both parties have to realise that "triangular manufacturing" is the best that they can have at this stage. Hence, they have to try to maximise the benefits for their economies from the new opportunities as well as to minimise the negative effects. There are opportunities and threats for both countries. Hence, policies in both Greece and the Balkans have to assure to maximise the anticipated benefits and minimise the threats. Moreover, both countries have to get prepared for the fierce competition that they are going to face from the low wage countries after the abolition of the MFA in 2005.

The maximisation of benefits to the Greek and the Balkan economies from new opportunities and the minimisation of negative effects cannot be left to the responses of individual businessmen. What is required is an examination of all possible forms binding the Greek and the Balkan economies, taking into consideration their position in the International Division of Labour and the restructuring they are undergoing.

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