

THE EFFECTS OF GLOBALISATION ON THE PERFORMANCE OF LABOUR-INTENSIVE INDUSTRIES FROM SOUTHERN EUROPE: THE ROLE OF LOCALISED CAPABILITIES

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ABSTRACT

This paper focus on the examination of the competitive positioning of textiles, clothes and leather (TCL) sectors, in the actual context of integration within Europe. The first aim of the paper is to empirically confirm the relation between the strong competition from emerging market economies and the regional job loss in these sectors. Secondly, we argue that localised capabilities are important factors for the economic resilience of TCL firms in the global economy. Using clustering analysis, a set of 13 Southern European Nuts 2 regions was selected because of their strong specialization on TCL industries. For the selected regions, data on the evolution of TCL trade balance was compared with performance indicators (firm density, employment and investment per capita in TCL). The results allow to examine the relationship between the liberalisation process and the evolution of job loss and disinvestment, in regions whose economic tissues are not able to provide employment alternatives.

Keywords: labour-intensive sectors; globalisation; technological adjustment; labour employment.

JEL Classification: R1: General Regional Economics; L6: Industry Studies: manufacturing

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1. INTRODUCTION

The European Union (EU) comprises 27 Member States forming a community and single market of 493 million citizens. However, great economic and social disparities still remain among these countries and their 271 regions. Challenges facing Europe's regions have changed over time. Against a background of momentous change as a result of enlargement and of increasing globalisation, regions and their firms are now facing new realities.

In this research, we are particularly interested in observing the impact of the internationalization process on the competitive positioning of textiles, clothes and leather (TCL) industries from southern Europe. The importance of TCL sectors in Europe is recognizable. Predominantly an SME-based industry, with a turnover of more than 230 billion Euros produced in around 273 thousand enterprises, these sectors employ more than 3 million people (Eurostat, data for 2005).

These sectors are strongly characterised by their susceptibility to take shape in network forms of organisation, to be part of dense agglomerations of capital and labour and to increasingly be involved in international subcontracting and production sharing arrangements (Scott, 2006). The recent improvements in communications rather contributed to strength the propensity of these industries to cluster together in the same geographic space. The reason may be found in the created associations that make possible to contest international markets, but also facilitate the shift of intra-industry blocks of work from more to less developed countries.

The competitive advantages of high-cost regions are based mainly on the use of territorial inputs, which allow firms to differentiate according to their technological trajectory. Although those trajectories are largely territorially path dependent, there is a growing list of territorial inputs being transformed into ubiquities as an outcome of the ongoing globalisation process. Maskell and Malmberg (1999) and Maskell et al. (1998) use the term 'ubiquitification' to describe the process whereby former tacit knowledge gradually becomes codified, so in open markets and when knowledge of new technologies and new organisational designs becomes globally available, firms in low-cost areas become more competitive.

When a localised input becomes a ubiquity, regional specialisation patterns and competitive levels are consequently jeopardised. Firms may respond through cost reduction or knowledge creation. The first strategy means the relocation of manufacturing production activities and the consequent job loss in high-cost areas. The second strategy means the creation of new territorialised inputs, through the development on new tacit and non-traded knowledge.

As argued by Wolfe (2010), the most effective strategies for regional resilience rely on the ability to build on specialised regional assets, and although path dependence plays a role, that role is framed by the strategic choices of local actors.

The first aim of the paper is to empirically confirm the relation between the strong competition from emerging market economies and the regional job loss in these sectors. Secondly, we argue that localised capabilities are important factors for the economic resilience of TCL firms in the global economy.

2. CONCEPTUAL FRAMEWORK AND QUESTIONS ADDRESSED

2.1 Localised capabilities and the economic resilience of TCL firms in the global economy

The increased sense of risk brought by the new global economic conditions stimulates regions to search for new paths to resilience (Hudson, 2010). We assume the evolutionary approach to gain an understanding of regional change. Human action and social relations are determinants of regional competitiveness; territories compete with one another, and both attractiveness and local competitiveness depend on similar common factors, which go beyond physical conditions and refer to relational capital and the learning capacity expressed by the territory (Camagni, 2002). The path- and place-dependent nature of these assets stresses the importance of geographic proximity for the strategic positioning of firms.

Despite the increasing global flow of ideas, capital, goods, and labour, the role of proximity in the creation of economically useful knowledge appears to be even more important than before (Scott, 2000; Scott et al., 2001; Scott and Storper, 2003; Sonn and Storper, 2008; Storper, 2009). Indeed, the 'dead of geography' thesis cannot be sustained, because it wrongly assumes that the rapid diffusion of information and codified knowledge means the rapid diffusion of understanding, and that is not correct (Morgan, 2004). Although organisational proximity is important, it does not substitute for direct face-to-face communication. Another aspect to consider is that some types of knowledge travel more easily than others. While analytical knowledge, which results from the application of scientific laws, has a relatively constant meaning by location, the same is not true for synthetic or symbolic knowledge¹, the meaning of which is substantially variable (Gertler, 2008).

Agglomeration is important because it facilitates transactional interactions and increases opportunities for matching needs and capabilities; for instance, it eases the dynamics of backward and forward inter-linkage of firms, allows the formation of dense local labour markets around multiple workplaces, and facilitates the emergence of localised relational assets promoting learning and innovation effects (Storper and Harrison, 1991; Scott and Storper, 1992). The advantages of location proximity go beyond transactional efficiencies, and include various kinds of externalities, such as knowledge spillovers and dependence on human relations, rules, and customs that enable firms to coordinate under conditions of uncertainty.

This nexus of untraded interdependencies (as labelled by Storper, 1995) corresponds to that of regionalised relationships that extend beyond traditional customer/supplier links and embrace formal and informal collaborative and information networks. Inspired by evolutionary economics, this argument states that technological change is path dependent because it involves interdependencies between choices made over time. These choices have a spatial dimension, and though direct input-output relations may play a role, when organisations travel along a technological trajectory they have interdependencies that are untraded and include labour markets, conventions, common languages, and rules. We believe that those links are the bases of regional economic resilience and the ability of regions to react to the challenges of globalisation and economic integration.

The argument on path-dependency is even truer when considering the specific case of small firms. Unlike big firms, SMEs interact intensely with the territory in which they locate, as a sign of their embeddedness. The particularly tight links they develop with the external environment also reduce uncertainty risks. In general, SMEs do not only locate near the residence of their owners, but also have geographical and sociological proximities as their main sources of assets and information (Julien, 1995; Vaz, 2006). This fact constrains the perspectives and strategic choices of the firms, because most of the market perception arises from the inputs that the territorial institutional context supplies. Small firms learn from close interaction with suppliers, customers, and competitors, and knowledge processes are deeply influenced by local resources, institutions, and social and cultural structures (localised capabilities). Most SMEs and the respective entrepreneurs are to a large extent generated by the local context, and, to face changing and uncertain economic conditions, their decision-making process is firmly based on socialised practices, thereby stressing the importance of geographic proximity as a mediating factor (Camagni, 2002).

2.2 Questions addressed

The following arguments are firstly examined for TCL sectors operating regionally in Southern Europe:

- i. internationalisation implies a decrease in the number of firms;
- ii. internationalisation implies less regional investments per capita;
- iii. internationalisation implies higher regional unemployment rates.

Secondly, and given the previous considerations, we argue that the resilience capacity of TCL firms in southern Europe relies on the attention paid to localised capabilities.

3. METHODS

3.1 Regional selection

For empirical purposes, the specific labour-intensive sectors of textile, clothes and leather (TCL) were considered (NACE DB+DCⁱⁱ). Better than among others, they illustrate traditional and small firms across the European economic tissue and are therefore particularly vulnerable to the low-wage international competition. Apart the impact of such instabilities to companies themselves, in Europe's peripheral regions the strong specialisation on these sectors constitutes a regional threat, due to the generalised multiplier effects of the negative employment growth rates on local economies.

All the Nuts 2 regions from Portugal, Spain, Italy and Greece have been considered. A cluster analysis was applied in order to specify the different levels of specialisation in TCL sectors. The selected variables used to run the statistical procedure (all regarding the year 2005) were: share in total manufacturing of local units from TCL; share in total manufacturing of gross investment in tangible goods in TCL; share in total manufacturing of persons employed in TCL; share of primary employment in total employment; share of secondary employment in total employment; share of tertiary employment in total employment.

Agglomerative hierarchical clustering was used to find similar groups of regions. The Average Linkage between Groups was used as the aggregation criteria, which defines the distance between two clusters as the distance between their average values. The initial 53 regions ended by being grouped as described in table 1 (see descriptive statistics for each cluster in annex 1):

- a first group is composed by 13 regions, with an high level of specialisation on TCL sectors and an economic structure with a greater weight of primary and industrial activities and a lower weight of services;
- a second group is composed by 9 regions, with a similar economic structure to the first group but with an inferior level of specialization on TCL sectors.
- a third group is composed by 31 regions, with a minor representation of TCL sectors.

Given these results, the 13 regions belonging to the first cluster (in figure 1) were chosen to be subject of a closer observation. Using Eurostat statistical databases the recent economic trajectories of the TCL sectors in these regions is further analysed.

3.2 The competitive positioning of TCL sectors

The following information was worked out: evolution of the number of firms; evolution of the investment per capita and evolution of the employment.

Considering the average value for the 13 regions belonging to the first cluster, Graphic 1 shows the evolution of the number of local units by sector. Although this data is not sensible to the size of the firms, it allows observing the descending trajectory since 1996 in these regions. The same analysis was made for the evolution of the

investment per person employed (Graphic 2). Again, a descendent trajectory is observed in the period considered. More important is the information regarding employment. The number of persons employed in this group of regions has significantly decreased since 1996 (Graphic 3).

Recently, the economic condition of Southern European TCL firms may be characterised by a decreasing number of manufacturing firms operating regionally, with the consequently less regional investments and higher regional unemployment rates.

Ultimately, this last indicator summarises the economic background of these regions. The increasing job loss is the direct result of firms' disinvestment, bankrupting and delocalisation, in regions whose economic tissues are not able to provide employment alternatives. Not only regional economic structures were not able to attract new investments, but also the decreasing number of firms in most regions, indicate the sector's vulnerability. More important, the negative evolution of the investment by person employed indicates that the existing firms are not keeping on-going as a result of a better competitive position; they are just surviving and overcoming their economic weakness.

But, how do we know that these results depend on the globalisation phenomenon? Some data on the internationalisation of the TLC sectors is further presented in order to clearly understand their development trajectories.

3.3 The impact of internationalisation

The liberalisation process (following the WTO's Agreement on Textiles and Clothing) as well as the challenges of globalization can be considered as the most important drivers of change in European labour-intensive sectors. In a global economy, and particularly for labour-intensive sectors, it is expected that the sourcing of low value-adding activities will increasingly go to low cost countries, with more aggressive retail strategies in the west and the emergence of new markets. Also, and in comparison with manufacturing as a whole, the import penetration in these sectors is significantly higher, and in particular in the clothing sector where "...the EU industry has experienced serious difficulties in competing with foreign operators working with lower labour costs and less stringent social and environmental regulations." (EC, 2003: 4).

Although data is not available at the regional level, the evolution of the country trade balances (in Graphics 4 and 5) allows understanding the trajectory of import penetration in TCL sectors.

Even though exports in EU as a whole have slowed in this period, due to the unfavourable EURO/USD relation, the decrease registered in the trade balances of these sectors in the four Southern European countries is mainly because of the growth in imports. Only Italy registered a more stable trajectory since the year 2000. This country benefits from the well-established quality image associated to the strong tradition of the fashion industry.

To sum up, the new global economy is getting firms to face two different phenomena: increasing competition, as a result of the liberalisation process, and increasing outsourcing, in search of lower production costs. The result is, as observed, the employment decline in regions highly economically dependent on these activities. Arguments i, ii, and iii are verified.

These new economic conditions are forcing a restructuring in these industries and challenging the resilience capacity of companies by adjusting to this new global market perspective.

3.4 The alternative pathway

Two strategic responses may be given by firms: cost reduction or knowledge creation. In labour-intensive industries, the first option means the relocation of manufacturing production activities to low-cost areas. The second reveals to be the only alternative pathway for high-cost regions. Given the restraints in winning through price competition, the quality argument appears as a strong weapon for the European industry. In contrast with the more price-competitive and scale advantageous industries of northern Europe, the medium-cost countries in the south have a customised fashion-oriented industry, which is less vertically concentrated and less oriented to outsourcing in low-cost countries.

For these countries, and as verified in Cesário and Vaz (2011) new dynamic competitive advantages emanate not from low-cost and low-wage production, but from the technological capacity of firms to produce high-value-added goods (in terms of quality, creativity, design and fashion). In the end, the adjustment capacity of local

agents to new production technologies is what determines whether regions or firms are producers of high value-added sophisticated goods and services or merely low-cost subcontractors.

As explained by Dosi (1988) the economic performance of such industries depends on their locally embedded capabilities. For instance, their learning and technological capacity is largely influenced by the relationship patterns that producers develop with their suppliers and customers. Those are essential to information exchange in sectors where the process of innovation is primarily a process of diffusion of best-practice. The urge for high-quality specialization is confirmed by Tsampra and Palaskas (2002). The authors confirmed that firms committed with export-production suffer serious decline when their products are not of a specialised nature, and conclude that low-cost production indicates the use of unskilled labour and firm inadequacy to absorb and diffuse knowledge.

This idea is confirmed in Cesário and Vaz (2011). The empirical analysis developed by the authors allowed to conclude that the adoption of new technologies in labour-intensive industries from Southern Europe is a process:

- developed internally, depending largely on the skills of workforce;
- supplier dominated, in the sense that the ideas, suggestions and/or impositions of suppliers (even more if international) play an important role in the technological process, and
- motivated by the international market, as the presence of international customers stimulates technological improvements.

The identification of the key determinants of the technological resilience capacity of a sector reveals to be a critical instrument for firms themselves and policymakers. In this case, it is clear the importance of locally embedded capabilities, such as skilled labour and a strong and solid production chain.

The successful example of the footwear industry in Portugal is given to prove the benefits of providing regional actors with adequate incentives.

3.5 The Portuguese case of footwear industry

Nevertheless the high weighty of high-end activities in Portugal, the Northern region retains a number of key manufacturing industries mainly composed by SMEs that have continued to specialise in traditional sectors (*e.g.*, textile and clothing, footwear, automobile parts, plastic molds, leather, cork, furniture, mechanic construction and light engineering).

The region's relatively low productivity and rising unemployment raised concerns about future growth prospects. As observed, the flow of emerging countries is expected to further erode the cost competitiveness of manufacturing activities in Southern Europe. Innovation capacity will therefore determine these regions' resilience.

An example of the major progress induced when a nation-wide economic policy meets locally embedded capabilities is the given by the Portuguese footwear sector.

The Programme of Incentives for the Modernisation of the Economy (PRIME) ran by the central government during 2000-2006, successfully contributed to upgrading a traditional industry such as footwear by encouraging the valorisation of local assets (*e.g.*, the geographic proximity of footwear manufacturing firms and their ability to collaborate).

The programme was recognised as being particularly efficient in the case of the footwear industry because it put in place a comprehensive scheme of incentives that mostly supported the overall business environment (56% of the incentives) compared with direct support to enterprises (44% of the incentives). Instead of distributing financial support to individual firm-based initiatives, the Program paid special attention to join initiatives according to the specific needs and characteristics of these sectors and given the capabilities provided by the regional environment.

The national footwear association was used to help firms upgrade the skills of their workforce, for example by running an industry-specific training centre and conducting large-scale R&D projects that would benefit a wide array of member firms due to the economies of scale. The association also promoted proactive benchmarking by supporting visits to international fairs and exhibitions. Encouraging firms to develop a close relationship with customers, suppliers, competitors and institutions allowed for the constant introduction of changes in processes and product designs (OCDE, 2008).

At the end, the success of the program results from the suitability of the initiatives financially supported: promotion of the value chain, upgrade of the workforce skills and promotion of the international market. These firms were motivated to increase synergies, moving forward from mere supplier-customer relationships to more organic links (both horizontally and vertically), able to create critical mass and exploit standardisation opportunities, that should lead to reductions in costs, enhancement of quality and reduction of technological and commercial risks.

4. FINAL REMARKS

Given the restraints in winning price-competition, the strong argument for Europe is product quality. In a comparison of export and import values for a range of relatively homogeneous products, European products generally have a positive quality mark-up (EC, 2003, 2006, 2007) which emphasises the strategic importance of increased market access to emerging economies where a middle class is growing and forming a growing quality conscious market.

TCL firms in Southern Europe have strong technological capacity and are anxious to capture new markets. While some of these firms are highly specialised and can sell their local-based expertise to other companies in the same industry or cross over into other industries, others, however, are contract manufacturers whose output can often be replicated at lower cost by producers in emerging economies. Such firms in local supplier networks need help to move their businesses out of low value-added products and to upgrade into higher value or more specialised products (OCDE, 2008). Their capacity to struggle in such competitive environment is found in its strengths of innovation, quality, creativity, design and fashion. The exploration of localised capabilities and know-hows constitutes an important competitive advantage for these firms. Replicating the success of the Portuguese footwear initiatives depends on providing the right flexible supports to help firms cope with increased competition in their main markets and reach out to access new expanding markets outside Europe.

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Annex 1 – Clusters Analysis and Descriptive Statistics

Descriptive Statistics – Cluster 1

	N	Min	Max	Mean	Std. Deviation
NACE 17,18,19 - Share of local units in manufacturing total - 2005	13	,08	,64	,2219	,14414
NACE 17,18,19 - Share of Gross investment in tangible goods in manufacturing total - 2005	13	,01	,41	,1149	,11068
NACE 17,18,19 - Share of employment in manufacturing total - 2005	13	5,00	20,23	7,9333	4,62787
Share of primary employment in total employment - 2005	13	,01	,26	,0981	,07933
Share of secondary employment in total employment - 2005	13	,21	,40	,3000	,05800
Share of tertiary employment in total employment - 2005	13	,48	,76	,6019	,08693
Valid N (listwise)	13				

Descriptive Statistics – Cluster 2

	N	Min	Max	Mean	Std. Deviation
NACE 17,18,19 - Share of local units in manufacturing total - 2005	9	,08	,17	,1192	,02678
NACE 17,18,19 - Share of Gross investment in tangible goods in manufacturing total - 2005	9	,02	,11	,0572	,03086
NACE 17,18,19 - Share of employment in manufacturing total - 2005	9	3,33	4,53	3,8148	,43242
Share of primary employment in total employment - 2005	9	,02	,25	,0903	,09007
Share of secondary employment in total employment - 2005	9	,19	,39	,3033	,07239
Share of tertiary employment in total employment - 2005	9	,54	,74	,6063	,05580
Valid N (listwise)	9				

Descriptive Statistics – Cluster 3

	N	Min	Max	Mean	Std. Deviation
NACE 17,18,19 - Share of local units in manufacturing total - 2005	31	,04	,13	,0641	,02335
NACE 17,18,19 - Share of Gross investment in tangible goods in manufacturing total - 2005	31	,00	,05	,0165	,01335
NACE 17,18,19 - Share of employment in manufacturing total - 2005	31	,10	2,27	1,3441	,60316
Share of primary employment in total employment - 2005	31	,01	,33	,0903	,07169
Share of secondary employment in total employment - 2005	31	,15	,40	,2519	,06394
Share of tertiary employment in total employment - 2005	31	,49	,80	,6578	,07530
Valid N (listwise)	31				

ⁱ By synthetic knowledge the authors mean the application or combination of existing knowledge, mainly through interactive learning with customers and suppliers; symbolic knowledge means creating meaning through highly context-specific learning-by-doing processes.

ⁱⁱDB = 17: Manufacturing of textiles; 18: Manufacturing of wearing apparel; dressing and dyeing of fur;
DC = 19: Tanning and dressing of leather and related products.

Figures

Figure 1

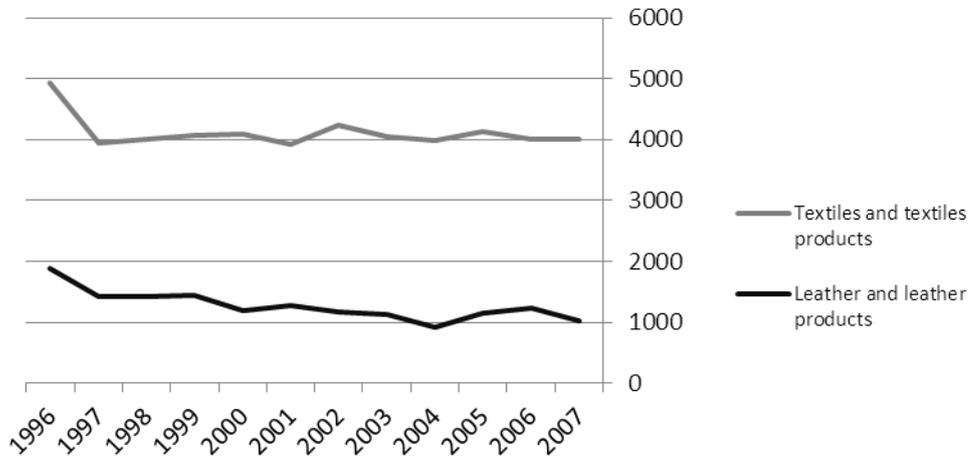
Geographical Location of the selected regions
Source: Author's elaboration



Graphic 1

Evolution of the number of local units - average value for regions belonging to cluster 1

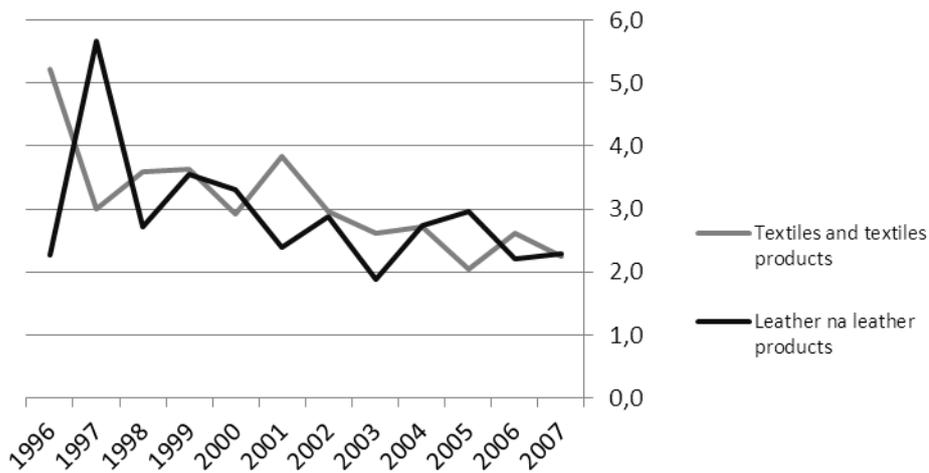
Source: Eurostat data (thousands)



Graphic 2

Evolution of the investment per person employed - average value for regions belonging to cluster 1

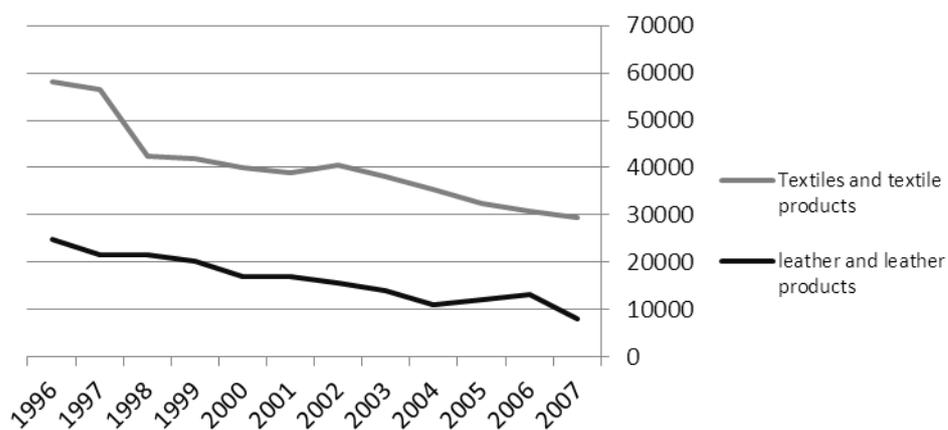
Source: Eurostat data (thousands)



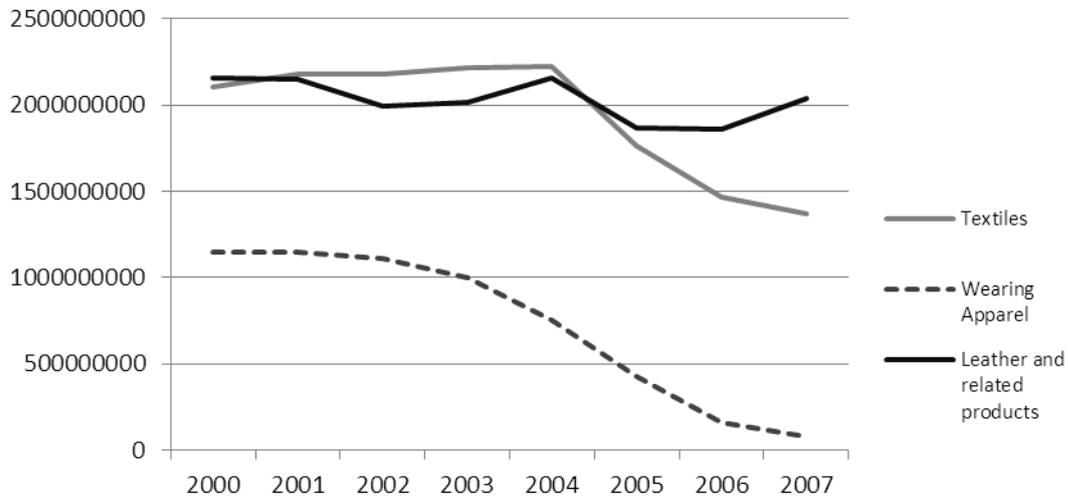
Graphic 3

Evolution of the number of persons employed - average value for regions belonging to cluster 1

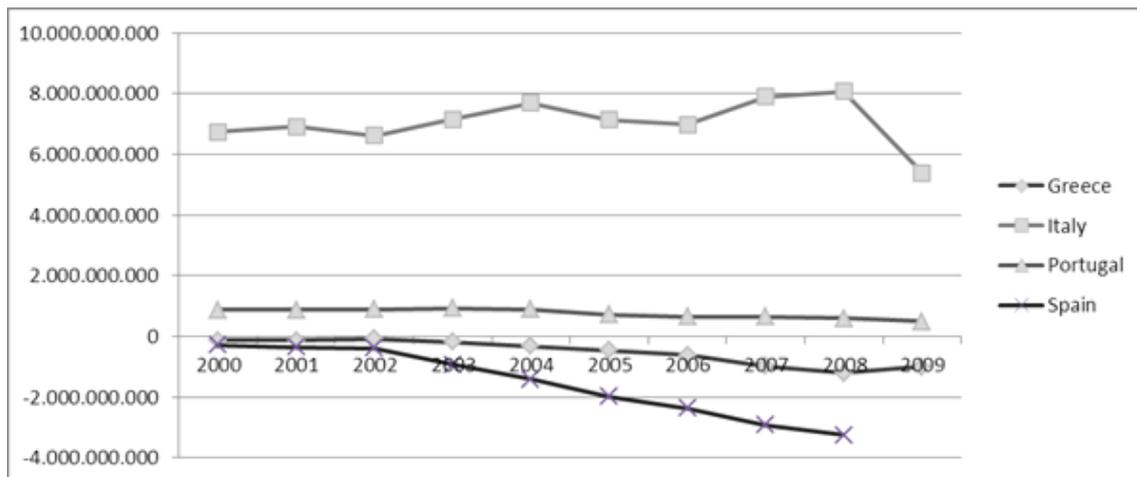
Source: Eurostat data



Graphic 4
Trade Balance in USD - average value for Portugal, Italy, Greece and Spain
Source: OECD. STAT



Graphic 5
Trade Balance in USD by country – average value for TCL products
Source: OECD. STAT



Tables**Table 1**

Cluster 1	Cluster 2	Cluster 3
gr11 Anatoliki Maked gr12 Kentriki Makedo gr30 Attiki es52 Comunidad Valen itd3 Veneto ite2 Umbria itf1 Abruzzo itf2 Molise itf3 Campania itf4 Puglia pt16 Centro (PT) gr13 Dytiki Makedoni pt11 Norte	gr14 Thessalia gr23 Dytiki Ellada es11 Galicia es42 Castilla-la Man es51 Cataluña es53 Illes Balears itc1 Piemonte itc4 Lombardia itd5 Emilia-Romagna	gr21 Ipeiros gr22 Ionia Nisia gr24 Sterea Ellada gr25 Peloponnisos gr41 Voreio Aigaio gr42 Notio Aigaio gr43 Kriti es12 Principado de A es13 Cantabria es21 Pais Vasco es22 Comunidad Foral es23 La Rioja es24 Aragón es30 Comunidad de Ma es41 Castilla y León es43 Extremadura es61 Andalucía es70 Canarias (ES) itc2 Valle d'Aosta/V itc3 Liguria itd1 Provincia Auton itd2 Provincia Auton itd4 Friuli-Venezia ite4 Lazio itf5 Basilicata itf6 Calabria itg1 Sicilia itg2 Sardegna pt15 Algarve pt17 Lisboa pt18 Alentejo

Cluster analysis
 Source: Author's elaboration