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GLOBAL COMMODITY CHAINS AND PRODUCTION NETWORKS
Understanding uneven development in the global economy

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Global production networks, uneven development and workers: experiences from the Romanian apparel sector[1]

1. Introduction

The global economy and in particular the organisation of global production and international trade has changed significantly in the last three decades. As Dicken (2003: 9) states, 'shallow integration' has developed into 'deep integration', which he defines as "a highly complex, kaleidoscopic structure involving the fragmentation of many production processes, and their geographical reallocation on a global scale in ways which slice through national boundaries". These transformations in global production have important implications for countries' development agendas and the development prospects of regions, firms and workers. Despite the expansion of manufacturing production and export capabilities in developing and 'transition' countries, the value added from these activities has often not increased markedly compared to previous commodity-based exports (Milberg 2004; Kaplinsky 2005). Key reasons for this are the asymmetric market and power structures embodied within global production networks. Lead firms tend to outsource lower value-added activities, retaining direct control over high value-added activities (Levy 2005; see also introduction this issue).

In light of these transformations a more organisational, network-centred and multi-scalar framework is central to analyse global production and trade. Over the past two decades a voluminous literature has developed using chain or network approaches to conceptualise and analyse economic globalization, and in particular to explain how global production is organised and governed and how this affects the development prospects of firms and regions (Coe/Hess 2007: 2). The roots of this literature can be traced back to the world system theory with its focus on uneven development and the unequal distribution of surplus-value within commodity chains (Hopkins/Wallerstein 1986). However, the initial critical impetus of this research tradition has been partly lost over the last decade (Bair 2005; Levy 2008; see also introduction this issue). As Bair (2005: 154) puts it: "contra the macro and holistic perspective of the world-systems approach, much of the recent chains literature […] has become increasingly oriented analytically towards the meso level of sectoral dynamics and/or the micro level of firm upgrading". In particular, the focus on firm upgrading without taking into consideration broader sectoral dynamics and non-firm actors, as well as (pre-)existing structures, only provides limited insights into processes of uneven development.

While the impact of world market integration on firm upgrading has been studied extensively, a thorough analysis of its impacts on workers has been largely missing from the research agenda. Given the prevailing assumption that potential upgrading gains at the firm level will trickle down to workers, this is highly relevant, even more so since the scarce research carried out within chain/network frameworks calls this assumption in question (see Knorringa/Pegler 2006; Barrientos 2007; Bair 2008b). Rather the transformation in global production seems to have contributed to a significant change in the nature of employment, leading to a shift to more flexible, informal and insecure work (Barrientos 2007).

With this paper we aim to contribute to the emerging literature on the 'wider social consequences' of integration into global production networks carried out within chain/network frameworks. We hope to show how, via an analysis of the Romanian apparel sector, the complex processes in global production and international trade influence development prospects of regions, firms and workers and contribute to uneven development patterns. Our analysis builds on an adapted Global Production Network (GPN) framework which takes into account non-firm actors, (pre-)existing structures, and workers. The paper is structured as follows. The next section introduces the adapted GPN-framework. The third section provides a broad-brush picture of dynamics in the global apparel sector and pays specific attention to the macro-regional integration process in Europe. The forth section focuses on Romania's integration into global production networks of apparel and analyses the position of workers. Finally, we draw some conclusions.

2. An adapted Global Production Network framework

The characteristics of the four strands of research which in our view constitute the field of chain and network research, namely Commodity Chains, Global Commodity Chains (GCC), Global Value Chains (GVC) and Global Production Networks (GPN), have been discussed elsewhere (see Bair 2005; Coe et al. 2008; introduction and Hess this issue). We therefore turn directly to the GPN approach, which is in our view most accurate for our analysis as it stresses the complexity and non-linearity of relationships between actors involved in global production and takes into account the important role of firms and inter-firm networks but also the influence of wider institutional actors (e.g. national and sub-national states, supranational and international organizations, NGOs, trade unions, business associations; Henderson et al. 2002; Coe et al. 2008). Furthermore, the GPN approach stresses a broader political economy perspective, incorporating socio-political structures within which production networks are embedded. As discussed in the introduction to this issue, there are a number of areas which are under-developed in the current chain and network literature. Although, the GPN approach has taken these areas most seriously, it has not always delivered on its potential (Levy 2008), in particular with regard to empirical work. Thus, we highlight three areas that are, in particular, central to better understand processes of uneven development in Central and Eastern Europe (CEE).

The existing chain/network literature has to a large extent focused on the analysis of transnational corporations (TNCs) and inter-firm relations to the detriment of relationships between firms and non-firm actors. Such neglect is problematic, given the influence that non-firm actors have on the shape of production networks. In particular, the role of the state remains central. Strong states can be highly influential, as illustrated by the Chinese state (Coe et al. 2008). In CEE countries, however, the historical legacy of the state socialist past and the 'transition' process which has been strongly biased towards 'free market' policies have made state interventionist policies more difficult and have considerably reduced the power of states to influence the articulation and outcomes of production networks (Henderson 1998; Czaban/Henderson 2003). Civil society organisations have shown their potential to influence TNCs' practices in different sectors and regions

(Levy 2008) but in CEE they have faced significant challenges to establish (new) structures and strategies after the collapse of state socialism. Besides emerging local NGOs, international NGOs, such as the Clean Clothes Campaign (CCC) in the apparel sector, have had an important role. Trade unions in CEE have struggled with the legacy of the state socialist past, have lost the majority of their members and have had problems in developing new strategies in the context of global production (Crowley/Ost 2001). In the apparel sector trade unions are generally weak due to hostility towards trade unions, the small size of most firms and a highly feminised and partly informalised workforce. The counterparts of trade unions in the social dialogue – employers' associations – have for historical reasons been largely absent in CEE, whereas they have had an important impact on policies in other major apparel supplier countries, such as Turkey (Neidik/Gereffi 2006), or in Western Europe. Supra-national and international organisations such as the European Union (EU) and the World Trade Organisation (WTO) have become central actors in global production networks, as we will illustrate below for the apparel sector.

The second neglected area involves the importance of (pre-)existing structures and thus of the institutional and regulative contexts within which production networks are embedded (Henderson et al. 2002). In CEE the legacy of the state socialist period as well as of the 'transition' period, with its specific policies and institutional changes, including EU accession, have had important effects on the potential for economic and political development and on the way this region is integrated into production networks. Besides national (and sub-national) regulations, also regulations established by international and supra-national institutions decisively shape the structures within which production networks are embedded. The Multi-Fibre Agreement (MFA) of the WTO constitutes a prime example, which had governed global apparel trade for almost four decades[2]. Its phase-out in 2005 has had crucial effects on the geographical articulation of, as well as on power structures within, production networks. Furthermore, the emergence of regional economic blocks and the related changes in regulations have heavily impacted on the configuration of production networks. The Outward Processing Trade (OPT) arrangements of the EU enabled and drove the extension of Western European production networks, in particular in the apparel sector, towards CEE and influenced the distribution of activities and value-added between Western European and CEE firms.

The third neglected area relates to the broader socio-economic effects of global production networks and to the question of whether participation and upgrading in production networks is beneficial for workers. Much attention has been given to the 'industrial upgrading' debate, while the wider social consequences have not been adequately addressed. Workers are rarely mentioned in chain and network approaches and when mentioned, they are often considered as a homogenous group – despite important differences regarding gender, qualification, ethnicity or status (e.g. informal, migrant, and temporary; Barrientos 2007). It is generally assumed that upgrading automatically benefits workers. However, this is not necessarily the case, since there is no guarantee that upgrading leads to gains and that the potential gains trickle down to workers (Knorringa/Pegler 2006). Upgrading experiences in different regions and sectors suggest that firms which 'succeed' in upgrading do not necessarily gain the rewards with which upgrading is generally associated, such as increased profitability and security (Fitter/Kaplinsky 2001; Kaplinsky 2005). Even if firms gain rewards for their upgrading efforts, the rewards may not be passed on to workers in the form of higher wages, greater job security or improved working conditions. Firm upgrading may even be based on deteriorating working conditions.

3. Global production networks in apparel

3.1 Key characteristics and developments in global apparel

For a long time the apparel sector has been promoted as a gateway to economic development because of its key role in the industrialisation process of countries such as Great Britain and the US, as well as the newly industrialised countries (NICs) in East Asia (Dickerson 1999). The sector is among the most globalised industries in the world and has been increasingly organised through global production networks with a highly fragmented production process and the relocation of activities on a global scale (Dicken 2003; UNCTAD 2005). Driving forces of restructuring in the sector are corporate strategies, as reflected in the rise of organisational buyers and more recently in the emergence of 'fast fashion', as well as regulatory changes such as the recent liberalisation of the trade regime governing apparel with the phase-out of the WTO's MFA and the increasing importance of regional trade agreements.

Before discussing the main drivers of restructuring, the process of apparel production is described which can be divided into five stages that are closely intertwined with the textile sector: (a) raw material supply, including natural and synthetic fibres; (b) provision of components, such as yarns and fabrics; (c) apparel production; (d) export channels established by trade intermediaries; and (e) marketing networks at the retail level (Appelbaum/Gereffi 1994). Most inputs for the apparel sector come from the textile sector. Activities in the textile sector are quite capital-intensive and demand specific knowledge, machinery and fairly well equipped factories. In contrast, the apparel industry is still, despite various attempts at automatisation, very labour-intensive (Jones 2006) and the relatively simple core activity of sewing explains in part its fragmented ownership structure, as there are hardly any entry barriers for this commodity-type activity. Beyond these tangible aspects of production there are a variety of activities such as design, marketing, distribution/logistics and sales that link the producers to the consumers.

A development across different industries has been the increasing importance of organisational buyers, with the apparel industry being the prime example. These firms design and market the products they sell but the actual manufacturing is carried out by other firms. The outsourcing and off-shoring of labour-intensive parts of apparel production has been a key strategy of firms from industrialised countries to improve competitiveness in the context of stagnant consumer demand and growing production capacities in developing and 'transition' countries (Dickerson 1999). These developments are at the core of the so-called 'New International Division of Labour', which was first observed in the apparel sector in the 1970s (Fröbel et al. 1980). In contrast to branded manufacturers, which initially had large in-house manufacturing capacities and have embraced subcontracting arrangements only since the 1980s, retailers and branded marketers never disposed of significant in-house production but instead relied on sourcing from apparel manufacturers (Bair 2006). Thus, different lead firms have increasingly structured their business around the same core activities such as design, R&D and marketing, which are protected by high entry barriers

(Gereffi 1994; Gereffi/Memedovic 2003). This shift was also enabled by a policy change towards more export orientation in developing and 'transition' countries since the 1980s, which made an increase in industrial export capacities and the integration into global production networks possible. Thus, in contrast to concentration tendencies at the top among lead firms, one can observe fragmentation and fierce competition at the bottom as more and more developing and 'transition' countries have adopted the export-oriented assembly model and offer their capacities for manufacturing activities.

While initial waves of relocation have been primarily motivated by labour cost differentials, other considerations have also come to shape the sourcing decisions within these networks (Abernathy et al. 2006). A key driver behind this development is the increasing dominance of 'fast fashion', a business model that is based on increased variety and fashionability and on permanently shrinking product life cycles. One indicator for this trend is the rising market-share of companies such as H&M or Zara, which have pioneered this 'fast fashion' approach as well as the acceleration that affects the whole sector (Tokatli 2008). The emergence of 'fast fashion' has important effects on sourcing patterns, as short lead times and flexibility have become an important factor in the locational decision of firms. Short lead times can be achieved through different strategies, including fast transport (e.g. through air transport, which is, however, only cost competitive in specific contexts) and tightly organised production networks, but generally benefit locations in geographical proximity to end-markets. Also, the organisation and control of the supply chain, as well as the production process itself are affected as shorter lead times, smaller production runs and more flexibility are required from producers. Hence, this business model and the related changes in consumer markets partly explain why production networks in apparel are characterised by a global and a macro-regional dimension (see below).

However, these organisational dynamics have to be assessed in the context of the changing regulatory landscape. In particular, the recent phase-out of the quota system that had governed global apparel trade for almost four decades and created an incentive to spread production across a range of countries has heightened competition and reinforced consolidation (Bair 2008a). Important trade shifts occurred, particularly towards China and to a lesser extent India; higher-cost, regional suppliers in Central America and the Caribbean and in CEE such as Mexico, Turkey and Romania as well as producers in African countries have lost export shares. However, these reductions have been not as dramatic as expected by those foretelling the elimination of regional suppliers (Conway 2006). The 'stickiness' of regional sourcing has to be viewed against the background of changing consumer demand patterns and corporate strategies, as discussed above. Additionally, the macro-regional integration process, driven by regional trade agreements, has strongly furthered the deepening of regional production networks and contributed to the emergence of regional supplier countries (Bair 2006), as is shown for CEE in the next part.

The importance of regional suppliers is revealed when looking at the major apparel export countries and the final markets they serve. A group of globally operating Asian supplier countries, including China, India and Bangladesh, has a strong position in all major markets (Europe, US and Japan) while a second group of regional supplier countries specifically serves one major market. Countries belonging to the latter group are located close to their main export market and have increased in importance since the 1990s (e.g. Turkey and Romania for the EU [see table 1], Mexico, Honduras and the Dominican Republic for the US).

Table 1: Top 25 apparel export countries to EU-15, 1990–2007 (excluding intra-EU 15 trade)

	1990		1995		2000	
Total Imports (SITC 84), in US$ billions	27,32		41,44		50,67	
1	Hong Kong	14,18%	China	12,65%	China	17,41%
2	Turkey	10,93%	Turkey	11,04%	Turkey	10,77%
3	China	10,03%	Hong Kong	10,42%	Hong Kong	6,59%
4	India	5,72%	India	6,45%	Tunisia	5,11%
5	Korea, Rep.	5,37%	Morocco	5,21%	**Romania**	4,98%
6	Morocco	4,76%	Poland	5,18%	Bangladesh	4,90%
7	Tunisia	4,07%	Tunisia	5,03%	India	4,86%
8	Thailand	3,10%	Bangladesh	3,18%	Morocco	4,58%
9	Poland	2,49%	Indonesia	3,16%	Indonesia	3,69%
10	Indonesia	2,24%	**Romania**	3,03%	Poland	3,63%
11	Taiwan	2,16%	Hungary	2,27%	Thailand	2,22%
12	Macao	2,02%	Pakistan	2,03%	Hungary	2,08%
13	United States	2,02%	Thailand	2,02%	Korea, Rep.	1,82%
14	Pakistan	2,00%	Malaysia	1,78%	Sri Lanka	1,72%
15	Hungary	1,90%	United States	1,66%	Pakistan	1,70%
16	Malaysia	1,90%	Korea, Rep.	1,63%	Vietnam	1,54%
17	Mauritius	1,78%	Sri Lanka	1,54%	Bulgaria	1,46%
18	**Romania**	1,64%	Czech Republic	1,48%	Malaysia	1,45%
19	Switzerland	1,58%	Slovenia	1,47%	Mauritius	1,30%
20	Philippines	1,31%	Mauritius	1,42%	Macao	1,26%
21	Bangladesh	1,23%	Croatia	1,40%	Taiwan	1,15%
22	Israel	1,18%	Macao	1,18%	Czech Republic	1,04%
23	Singapore	1,03%	Taiwan	1,05%	United States	0,93%
24	Sri Lanka	0,84%	Switzerland	1,05%	Lithuania	0,93%
25	Czechoslovakia	0,81%	Vietnam	0,89%	Slovak Republic	0,91%

Source: COMTRADE (2009)

2004		2005		2007	
76,26		82,11		103,30	
China	23,08%	China	30,93%	China	34,93%
Turkey	13,40%	Turkey	13,04%	Turkey	12,73%
Bangladesh	6,63%	India	6,04%	Bangladesh	6,42%
Romania	6,41%	Bangladesh	5,85%	India	6,11%
India	5,07%	**Romania**	5,61%	Tunisia	3,75%
Tunisia	4,51%	Tunisia	4,00%	Morocco	3,70%
Morocco	4,28%	Morocco	3,80%	**Romania**	3,53%
Hong Kong	3,97%	Hong Kong	3,34%	Hong Kong	2,86%
Indonesia	2,58%	Indonesia	2,21%	Indonesia	1,96%
Poland	2,03%	Bulgaria	1,82%	Vietnam	1,77%
Thailand	1,96%	Thailand	1,68%	Sri Lanka	1,67%
Pakistan	1,95%	Pakistan	1,65%	Pakistan	1,63%
Bulgaria	1,88%	Poland	1,61%	Bulgaria	1,59%
Sri Lanka	1,58%	Sri Lanka	1,49%	Thailand	1,54%
Hungary	1,37%	Hungary	1,21%	Poland	1,39%
Vietnam	1,20%	Vietnam	1,20%	Hungary	1,04%
Korea, Rep.	1,11%	Malaysia	0,93%	Malaysia	0,94%
Czech Republic	1,01%	Cambodia	0,80%	Cambodia	0,80%
Malaysia	1,00%	Ukraine	0,76%	Czech Republic	0,78%
Cambodia	0,95%	Mauritius	0,73%	Mauritius	0,71%
Mauritius	0,90%	Czech Republic	0,70%	Macedonia	0,64%
Lithuania	0,82%	Lithuania	0,66%	United States	0,61%
Ukraine	0,81%	Croatia	0,65%	Egypt	0,60%
Croatia	0,76%	United States	0,63%	Switzerland	0,58%
Macao	0,75%	Korea, Rep.	0,59%	Ukraine	0,57%

3.2 CEE's evolving role within the global production networks of apparel

During the last three decades, and in particular since the 1990s, the apparel sector has experienced dramatic transformations in the context of European macro-regional integration. The reconfiguration of the sector involved most often the relocation of business activities from Western European countries to relatively cheaper locations in CEE and in the Euro-Mediterranean Rim – the so-called 'Greater Europe' (Gereffi/Memedovic 2003; Palpacuer et al. 2005). Initially, the relocation was driven by firms that sought to reduce their wage bill and, hence, these countries have been primarily assigned a specific role, namely the role of low-cost, labour-intensive production platforms serving the final markets in the EC/EU. Additionally, the (pre-)existing structures inherited from state socialism provided an industrial fabric with a long tradition in apparel. While most of the technical equipment was outdated (Pincheson 1995), the more 'intangible' assets, such as a skilled but cheap workforce, local production networks and existing business contacts, survived the collapse of state socialism and have been the basis for the flourishing of apparel trade since the early 1990s (Begg et al. 2003). Poland, Hungary and Romania, in particular, became important exporters in the early 1990s, the Czech Republic in the mid-1990s, Bulgaria in the early 2000s and the Ukraine in the mid-2000s (see table 1).

This restructuring process, involving the decline of the Western European apparel industry and the parallel shifting of production to CEE countries, has been orchestrated by the EU through OPT arrangements since 1975 (Pellegrin 2001). OPT arrangements in this context generally involved the export of EU textiles to neighbouring low-wage countries which made them into finished garments for re-import into the EU. This 'production model' was already embraced before the formal adoption of OPT by some Western European firms, which outsourced the sewing operation to (the then) Yugoslavia, or Romania, as early as in the beginning of the 1970s (Musiolek 2000; interviews with firms 2008[3]), but it considerably accelerated after the formal adoption of OPT and particularly after the collapse of state socialism. In the context of OPT, EU-based firms could send inputs (textile) to one of the countries in question (e.g. Romania) for processing and could re-import the finished garments without facing restrictions which pertain to 'direct' imports into the EU. This preferential treatment consisted in granting specific OPT quotas in sectors protected by quantitative restrictions which involved mainly textile and apparel (called 'economic OPT'), and in removing tariff protection in other sectors (called 'tariff OPT') (Pellegrin 2001). Thus, under-OPT quotas were expanded and trade tariffs on the re-imports only needed to be paid on the value-added abroad and not on the entire value-added – provided that the textiles came from Western European countries.

A main motivation of these arrangements was to secure the competitiveness of the Western European textile and apparel complex by relocating the labour-intensive stages (mainly sewing) and securing the survival of the more capital-intensive ones (textile) within Western Europe. In the short run this form of integration has helped CEE firms to survive after the collapse of the established production and trade networks of the state socialist period. In the long run and in dynamic perspective however, it locked CEE firms into an unfavourable division of labour, since it led to a functional downgrading of their activities and a concentration on labour intensive and low-tech production steps. Only in recent years – a long time after the formal phase-out of OPT regulations in the second half of the 1990s – has the situation changed, as lead firms have delegated more functions to CEE manufacturers. However, it is questionable whether this form of 'industrial upgrading' will yield developmental gains for firms and workers in CEE or whether it is merely "a form of defensive restructuring in the face of intense contract competition and pressure" (Pickles et al. 2006: 2322). In particular, the liberalisation through the MFA phase-out has increased pressures on CEE firms. The situation is compounded by the fact that firms in CEE are faced with increasing costs related to EU-enlargement. In the next section we discuss these developments in more detail for Romania.

4. 'Europe's sewing room' – Romania's integration into apparel production networks

4.1 From 'Full-Package' production to 'Lohnsystem' and back

On the global apparel landscape Romania holds a strong position, being amongst the 15th largest exporters of apparel. Almost 90% of Romanian apparel exports go to EU-15 and Romania has become 'Europe's sewing room', meaning it is the number one apparel exporter from CEE to EU-15 and was globally the fourth most important exporter of apparel to EU-15 (after China, Turkey and Bangladesh and followed by India and Tunisia) in 2004 (see table 1). Looking at the development of the sector provides insights into how global production networks are shaped and how they relate to processes of uneven development.

Under state socialism, the apparel industry, which was strongly integrated with the textile industry, had an important role in achieving a high degree of national industrialisation and providing employment, especially for female workers (Begg et al. 2003). Romania was no exception in this regard and, hence, many textile and apparel units employing predominantly female workers were set up next to the plants of the male-dominated heavy industry all over the country (interview Ciutacu 2008). The decision of the Romanian leader Ceaucescu to secure Romania's autarkic status, including the decision to repay the entire foreign debt, shaped the industry's development through the 1980s. In order to earn foreign currency, exports were promoted while imports were discouraged. As a result, Romania became the major exporter of apparel from the CEE region to the EC/EU in 1988 (Textiles Intelligence 1997). Helpful in this regard was the privileged status that Romania enjoyed concerning trade relations to Western Europe compared to other countries of the soviet-bloc (Textiles Intelligence 1997) due to the 'maverick communist' image that had been ascribed to Ceaucescu during his early years (interview Ciutacu 2008).

Alongside the overall economic downturn, production in the textile and apparel sector declined sharply after 1989. However, the apparel sector recovered quickly, due to OPT relationships with Western European firms which already continued in the early 1990s. The sector developed into a major pillar of the economy, absorbing 20% of total industrial employees and accounting for almost one fifth of exports up to the beginning of the

2000s (NIS 2007). However, this specific insertion of Romanian firms into Western European production networks, which was promoted via EU OPT trade, was not without its price. The OPT contracts – which are called 'Lohnsystem' in Romania – established a division of labour that furthered the disintegration of the domestic apparel and textile complex and led to a change from integrated 'full-package' production to labour-intensive assembly manufacturing. In the short run the OPT transactions with Western European firms were for many firms in the integrated textile and apparel sector the only way to survive, as they guaranteed demand and provided materials and machinery firms could not finance otherwise. Further, Romanian firms lacked organisational, financial and sales know-how, since until 1989 departments of the trade ministry had handled all contracts and commercial relations between buyers and suppliers (CCC/SOMO 1998). The downside of these OPT-arrangements was, however, that they led to a functional downgrading as the former fully-integrated firms carried out only the labour-intensive tasks, especially sewing, under OPT trade. Thus, such arrangements have provided little scope for economic development as these activities generate low value-added for the domestic economy and induce massive imports of inputs. The predominant logic behind this type of arrangement is to take advantage of low labour costs, since it "essentially amounts to 'selling' minutes of labour to the client" (Cammett 2006: 35).

The diverging development paths of the formerly integrated textile and apparel sector are mirrored in employment data. While textile employment fell continuously from 414,000 in 1990 to 65,000 in 2006, employment in the apparel sector first decreased from 258,000 in 1990, reaching a low of 180,000 in 1997, and then increased until it reached its highest level of 303,000 in 2003 (NIS 2007). The divergence is also reflected at the firm level where the former state-owned large vertically integrated textile and apparel firms were split in smaller units and privatised and a number of smaller private apparel firms emerged during the 1990s (Pincheson 1995; Bota/Gut 2007). The importance of apparel firms as compared to textile firms has constantly increased and the sector is almost entirely composed of small and medium-sized enterprises, with more than half of them being micro-enterprises with less than ten employees (NIS 2007). These small firms often depend on intermediaries, including larger Romanian firms, which developed local subcontracting networks to fulfil OPT orders (interviews with firms 2008).

Romania's apparel boom reached its peak in 2004. Since then apparel firms have struggled to keep their contracts. The heavy reliance on the 'Lohnsystem' – according to industry estimates around 75-85% of apparel production in 2004 – became problematic as this relatively unsophisticated production model is primarily built upon low labour costs. Since the phase-out of the MFA in 2005 lead firms have not been limited by the quota system and therefore they have shifted orders away from the 'Greater Europe' towards Asia. High-volume, low-quality production in particular has been affected. In addition, apparel production has been challenged by neighbouring non-EU countries (e.g. the Ukraine, Republic of Moldova, Macedonia, Albania) which offer lower (labour) costs. Romanian apparel firms have not only lost orders due to liberalisation, but also workers, in the context of EU enlargement. With the easing of restrictions regarding visa and work permit requirements, migration to Western Europe accelerated and led to a labour shortage in particular skills and regions (Ciutacu 2006). This shortage was particularly felt in the apparel industry, given its bad record in terms of working conditions (ILO 2005a, 2005b), and was compounded by the fact that workers also left for other sectors, such as retailing, that have recently emerged as an employment alternative. Furthermore, as in other CEE countries (Pickles et al. 2006), rising production costs, especially utility costs, threatened the thin margins that can be earned in the 'Lohnsystem' (Bota/Gut 2007). Given the industry's heavy export-orientation towards the EU market, currency de-/appreciations and thus the monetary policy of the Romanian national bank had considerable effects. Again, the year 2005 marked an important departure, with strong appreciation towards the Euro in the context of the EU-accession process. As buyers pay in Euros the price received for production decreased in the domestic currency (RON) but the costs – as mentioned above – increased (interview FEPAUIS 2008).

Taken together, these developments marked a rupture the apparel sector in Romania, reflected in a reduction in production, employment and the number of apparel firms (NIS 2007). Sector estimates claim that around 40% of the firms in the apparel sector have disappeared since 2004 (interviews FEPAIUS and Bota 2008). The qualitative dimension of this change relates to the strategic re-orientation of the remaining firms in Romania, which started to move away from the increasingly precarious 'Lohnsystem'. Firm strategies can be grouped into three broad categories. Firstly, firms have tried to take on more responsibilities in the production networks. Hence, firms have tried to become 'full-package' suppliers and to organise their own inputs as well as to develop design capabilities. Some Romanian exporters are now offering more services or even ready-to-sell collections to EU buyers. Our interviews however suggest that functional upgrading does not necessarily lead to increased rewards such as increased profitability or security as shifts in responsibilities have generally not been due to "suppliers successfully 'wresting'" (Tokatli et al. 2008: 277) functions from buyers; instead, capabilities have been simply passed on to the suppliers and these additional responsibilities have become the new minimum requirement for participating in certain networks. Moreover, some lead firms, especially 'fast fashion' retailers such as H&M and Zara, have substantial direct control over their supply chain and see functions such as design and sourcing of inputs as their core competencies, which makes functional upgrading in their networks highly contested (interviews with firms 2008). Secondly, firms have increasingly looked for alternatives to the Western European market and have re-discovered the domestic as well as specific export markets, such as Russia. However, these markets are also contested by other competitors (ILO 2005a). A third strategic response to reduce (labour) costs and counter labour shortage has been the internal relocation of production to poor regions within Romania, the increasing reliance on subcontracting across borders to neighbouring non-EU countries such as the Republic of Moldova or the Ukraine (Smith et al. 2008), and the use of migrant workers from Asia (see below). However, all of these strategies require specific resources, which the majority of small and micro-firms find it particularly difficult to acquire.

4.2 Position of workers in apparel production networks in Romania

Working conditions in the apparel sector are among the worst in the world, including child labour and forms of slave labour (ILO 2005a). In an increasingly liberalised sector, industry pressures are often offloaded onto a highly feminised and non-unionised workforce. These global industry pressures are, however, mediated through specific local institutional structures and policies. In particular, the state socialist past of the CEE countries and EU enlargement helps to understand the positions of workers in the apparel production networks in Romania (Pickles/Smith forthcoming). Furthermore, the role of Romania as a regional supplier country closely connected to 'fast fashion' tendencies is central in understanding pressures on, and prospects for, workers.

Despite Romania's specific transformation history (Pop 2006), there are similarities with its neighbouring countries. The largely de-legitimised trade unions have seen their membership decrease since the early 1990s. Although the Romanian average unionisation rate is still above the European average (Fulton 2007), unionisation density is highly sector-specific. According to trade unions' estimates, the unionisation rate is around 25% in the apparel sector (interviews with trade unions 2008). The state socialist legacy is reflected in a high level of unionisation in former state-owned firms. However, in newly established private apparel firms, which account for most employment, hostility towards trade unions prevails, which has hindered organising efforts. Cases of abusive dismissal and unfair treatment of union leaders or of employees willing to establish a union are quite a common practice (ILO 2005b). The situation is further aggravated by the relatively small firm size and the fact that trade unions in the sector are fragmented and, hence, have not developed a joint strategy to organise a feminised and partly informalised sector.

Working conditions in the 1990s, at least occasionally, featured sweatshop-like conditions (CCC/SOMO 1998; Musiolek 2000; Barendt et al. 2005), as the harsh times of transformation, accompanied by high unemployment, left little alternatives for workers and the dominant mode of insertion via the 'Lohnsystem' left little room to improve wages and working conditions. Gradually, improvements in working conditions occurred which were partly driven by the efforts of labour inspectorates as well as by international consumer campaigns, in particular initiated by the CCC, which tried to push lead firms toward more responsible business practices, and have to be seen in the context of EU enlargement (Trif 2008). The selective nature of improvements, however, suggests that the 'business case' was equally important (interviews with labour inspectorates 2008). Improvements such as better lighting, ventilation or ergonomic chairs relate to process upgrading as they also increase productivity by a more 'efficient' use of the 'human resource'. In contrast to these 'win-win' situations, issues that are in conflict with the prevailing business logic (e.g. living wage, working time, trade union rights) remain contested. It is also telling that, although, many global buyers in the apparel sector have Codes of Conducts which generally cover basic labour rights, audits have been until recently mostly concerned with health and safety issues (interviews with National Labour Inspectorate and firms 2008). This trade-off is also revealed when firms are faced with contradictory demands from buyers: on the one hand tight price and delivery time demands from the buying departments and on the other hand demands from auditors regarding better working conditions, who don't have, however, the means to reward the suppliers for improvements (e.g. via higher prices or more stable contractual relationships; interviews with firms 2008).

Thus, the main labour rights issues in the apparel sector concern wages (low level, piece-rate and minimum quotas), working time and work intensity and trade union representation (ILO 2005b; interviews with workers, trade unions and labour inspectorates 2008). These issues are closely related to the position of Romanian firms within production networks that are characterised by the 'Lohnsystem' and 'fast fashion', where low costs and/or flexibility with regard to orders and delivery time are paramount concerns. In the context of asymmetric relations the low prices offered by buyers lead to high targets that can often only be met by work intensification (e.g. through re-engineering of the production process) or working (partly unpaid) overtime (interviews with National Labour Inspectorate and workers 2008). Additionally, overtime issues are related to fluctuating orders which are increasingly unpredictable, demanded on a short-term basis and involve small sizes and thus small production runs due to the increasing importance of 'fast fashion' in consumer markets.

The rupture marked by the year 2005 had complex effects on workers and working conditions. Notwithstanding regional and sectoral differences, the labour-shortage due to the lifting of the requirements for visa and work permits has increased the overall bargaining power of workers. The remaining firms responded in different ways. Some tried to offer better wages and working conditions to retain or attract workers. Occasionally, they tapped into remote areas by either offering free transport to the site or by setting-up a small production line in the respective area. Alternatively, they moved production sites internally, in particular to Moldavia – the poorest region in the north-east of Romania where employment alternatives are still very limited, or relied on subcontracting across borders to neighbouring non-EU countries. Finally, a few firms sought migrant workers, mainly from Asian countries (including China, Vietnam, Bangladesh and the Philippines), under the working permit scheme[4]. Little is known about the working conditions of migrant workers but the few cases that became known exemplified the particular vulnerabilities that this group of workers are exposed to. Firms' reactions depended, among other factors, on their specific insertion into production networks and the nature of the lead firms. In general, firms that predominantly work in the higher quality segment for (mostly Italian or German) apparel manufacturers have had more room to negotiate working conditions than those producing apparel of low or medium quality for retailers. In particular, the latter type of production has either moved out of the country or relocated internally to Moldavia, where wages are still relatively low (interview GEA and Stiel 2008).

5. Conclusion

Our analysis of the Romanian apparel sector reveals the considerable influence of factors that are often missing when analysing development prospects arising from participation in global production networks. Taking into account the role of non-firm actors (e.g. WTO, EC/EU, state, labour inspectorates, trade unions, NGOs) and (pre-)existing structures within which production networks are embedded, we show how production networks are shaped in the apparel sector in Romania. The moved history of Romania's apparel sector – from being a 'full-package' producer with a highly domestically integrated apparel and textile industry under state socialism to a low-wage platform for apparel assembly throughout the 'transition' period and partly back – provides insights into how the integration into global production networks relates to processes of uneven development. Corporate strategies and sector dynamics are central in explaining the development of the sector, as many lead firms from Western Europe (re)discovered the capabilities of Romanian firms and workers and benefited from cheap but skilled labour as well as from short lead times and high flexibility due to geographical proximity, a factor which is increasingly important in the emerging 'fast fashion' environment. However, Romania's development into 'Europe's sewing room' needs to be framed against the background of changing regulative and institutional contexts. In particular, the EU's OPT arrangements have furthered the integration of Romania into production networks of Western European firms and led to a specific form of integration. More recently, the MFA phase-out and the labour-shortage in the context of EU enlargement have had important effects on the Romanian apparel sector.

With regard to the position of workers we highlight the importance of (pre-)existing structures and the role of EU enlargement as well as of sector dynamics (e.g. 'fast fashion'). Trade unions have generally suffered from the state socialist legacy and unionisation rates are low in newly established private firms – in contrast to the larger, former state-owned firms. Driven by public and private monitoring efforts but also by the 'business case', working conditions have gradually improved since the 1990s. An unintended consequence of EU enlargement was the labour shortage, which has generally translated into better bargaining positions to negotiate working conditions. However, issues such as low wages, work intensification, (partly unpaid) overtime and trade union representation remain contested, since they potentially conflict with the prevailing sector dynamics, particularly demands associated with 'fast fashion', as well as with the specific integration of Romanian workers into apparel production networks. Hence, we conclude that it is far from automatic that participating and even upgrading in global production networks is beneficial for workers and that close attention is needed to assess the extent to which improvements in the position of workers and working conditions are possible in specific production networks.

1) This paper is based on an interdisciplinary research project entitled "Accountability of States and Transnational Corporations for Labour Rights in Global Production Networks" conducted by Karin Lukas, Leonhard Plank and Cornelia Staritz, in particular on Plank/Staritz (forthcoming). The research project is funded by the Austrian Academy of Sciences through the DOC-Team fellowship. We also acknowledge support for the interviews in Romania from the Austrian Chamber of Labour. Thanks are also due to Karin Lukas, Christian Reiner, Christian Bellak, Blanka Hancilova,

Martin Hess and one anonymous referee for their helpful comments. We are solely responsible for any errors in fact or interpretation.

2) At the multilateral level apparel trade had been governed by a system of quantitative restrictions for more than 40 years. An agreement on export quota came into existence in 1961 which was initially called Short Term Cotton Agreement and then followed by the Long Term Cotton Agreement. In 1974 it was replaced by the Multi-Fiber Agreement (MFA) which lasted until the conclusion of the Uruguay Round of the WTO in 1994. With the new Agreement on Textile and Clothing (ATC) it was decided to phase-out the existing regime at the end of 2004 and bring global apparel trade in line with WTO principles (Bair 2008a: 3). This quota system, although, designed to protect the major import markets (Europe, US and Japan), provided for many developing and 'transition' countries a way to establish an apparel industry.

3) The following interviews referenced in the article were conducted in Romania between April and October 2008:
- Constantin Ciutacu, Institute of National Economy, Romanian Academy of Science, Bucharest
- Dietmar Carl Stiel, Avanz Consulting, Bucharest
- Marius Bota, Faculty of Business, Babeş-Bolyai University Cluj-Napoca
- GEA, Group of Applied Economists, Bucharest
- National Labour Inspectorate, Bucharest
- Local Labour Inspectorates in Buzau, Cluj, Focsani, Galati, Slatina and Timisoara
- Trade Unions in Bucharest, Buzau, Craiova, Iasi and Slatina
- FEPAUIS, employers organisation of the Romanian light industry, Bucharest
- 12 Firms (management, workers' representative and workers) in Bucharest, Buzau, Craiova, Focsani, Galati, Iasi and Slatina

4) The issue of migrant workers gained some publicity in January 2007 as 300 female Chinese workers who were employed legally under the work permit scheme in an apparel factory in Bacau protested for higher wages (BBC News 2007). The women had worked in Bacau since mid-2006 on contracts established between the Romanian employer and two employment agencies, one Italian, and one Chinese (interviews with trade unions 2008). At the time of their recruitment the workers were promised wages of US$ 700 per month. In fact they only received US$ 300 per month. Their contract with the recruitment agency stipulated that they had to pay up to US$ 4,000 to be selected for work. The workers had to transfer 25% of their salary every month to repay this amount. Additional deductions were made for food and accommodation by the employer. (ITUC 2008) The Romanian manager initially threatened to send the workers back to China. Only after pressure from international trade unions was a solution negotiated.

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Abstracts

The transformations in the organisation of global production and international trade in the last three decades have had important implications for the development prospects of regions, firms and workers. Via a study of the Romanian apparel sector, the paper shows how global production networks are shaped and how they relate to processes of uneven development. The analysis builds on an adapted Global Production Network framework taking into account non-firm actors and (pre-)existing structures, as well as workers. The paper shows that integration into global production networks can also lead to 'downgrading' and questions the conventional view that participating and even upgrading in global production networks is beneficial for workers.

Die Veränderungen in der Organisation von globaler Produktion und internationalem Handel, die in den letzten drei Jahrzehnten zu beobachten sind, haben tiefgreifende Auswirkungen auf die Entwicklungsaussichten von Regionen, Firmen und ArbeiterInnen. Anhand einer Studie über den rumänischen Bekleidungssektor zeigt der Artikel, wie globale Produktionsnetzwerke gestaltet sind und in welchem Zusammenhang sie mit Prozessen ungleicher Entwicklung stehen. Die Analyse baut auf einem adaptierten *Global Production Network*-Ansatz auf, der nicht nur Firmen, sondern auch andere Akteure und Strukturen sowie ArbeiterInnen berücksichtigt. Der Artikel zeigt auf, dass die Integration in globale Produktionsnetzwerke auch zu einem *downgrading* führen kann und stellt die herkömmliche Sicht in Frage, nach der die Teilnahme an globalen Produktionsnetzwerken für ArbeiterInnen automatisch von Vorteil ist.

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