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TEXTILE AND APPAREL FIRMS IN TURKEY AND BULGARIA: EXPORTS, LOCAL UPGRADING AND DEPENDENCY

How should we study and how should we explain industrial and firm upgrading in the host economy? This article builds on these questions by focusing on the textile and apparel industry and firms in Turkey and Bulgaria between 1991 and 2005, and it relies on interviews; quantitative analysis of value added of exports; and results from a survey of 106 firms, complemented by Global Value Chain (GVC) analysis, and secondary research. The authors find that Turkey retains higher value added for the local economy compared to Bulgaria at the end period, although the exports of these two neighboring economies were predominantly concentrated in down-market niches at the beginning of the research period. The firm-level analysis, which is based on evaluation of a set of dependency and upgrading indicators, demonstrates that firms in Turkey are in a better position compared to firms in Bulgaria. The results show higher upgrading of the former compared to the latter at the product, process, functional and organizational level. Moreover, firms in Bulgaria are far more dependent on foreign buyers, concentration in the top export market, foreign supplies and trade agents, than firms in Turkey. The authors conclude that internationalization affects negatively firms in Turkey and Bulgaria, which are in a position of lock-in into low-value added segments of the GVC, and lock-out is difficult unless state and business actors have a shared interest in helping the local firms. Further research is recommended on the institutional component of the GVC's analytical framework that could be employed in other countries, sectors and market regions, using a complementary methodology—application of quantitative and qualitative tools to study local upgrading.
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What do we actually mean when we argue that a firm is upgrading by moving to a higher market segment or when the industry is moving to a higher value added export role? [3] This is one of the core questions discussed by Global Value Chain (GVC) scholars, who are interested in how value is conceptualized and measured (Gereffi, *et al.* 2001). The GVC scholars put forward three proposals for studying value added. The first one is to analyze the distribution of *profits*, which is used as a primary indicator of global income shares in commodity chains, although it is often difficult to get data on the profit rates of firms. The second proposal is to study *price markups*. This indicator suggests that the higher the margin on sales, the higher the share of value-chain rents, but the difficulty in obtaining this information remains. The third proposal is to study *value added.*

The value added approach has two dimensions. The first one is to study the distribution of value added along the chain, which is likely to be hard to trace since it depends on the analysis of all firms that link to each other in the value chain. Failure to assess correctly the value added would undermine the whole analysis. Still, if this type of measurement of value added is possible, then it would tell us which firms have power in the chain and how this power helps them to upgrade. As such, the measurement of value added has many more advantages than the measurement of profits or price markups. The second dimension is to study value added of exports to a certain market. This is a possibility that this article considers.

Industrial and firm upgrading are relevant concepts in this study. Under *industrial upgrading*, we understand commodities that are exported to a certain market and classified as high, medium or low value added. When discussing *firm upgrading*, we refer to product, process, functional (also called intra-sectoral upgrading) and organizational (also called managerial upgrading), which are generally accepted among GVC scholars (Giuliani, *et al.* 2005; Yoruk 2001).

Why study value added, and why in the cases of Turkey and Bulgaria? The application of Unit Value Analysis (UVA) to study value added at the country level is a type of analysis, important in itself. It gives a chance to analyze product upgrading of certain countries that export to one and the same regional market—the European Union (EU) market in this study—in a certain period of time within a certain context of international and regional trade policy. Thus, the analysis throws significant light on the possibilities for particular countries to upgrade and climb the industrial ladder of export roles.[4] The product quality analysis refers to the concept

[3] Parts of this article have been discussed in Evgeniev, E. (2006). Industrial and Firm Upgrading in the European Periphery: Textile and Apparel Industry in Turkey and Bulgaria. PhD thesis, CEU: Budapest. Some results of the analysis have been presented at conferences in The Hague, Washington DC and Trier (see Reference list).

[2] Unit values are second-best proxies for the price and quality component in international trade, as opposed to the actual market prices. There might be different unit values for different years because of trade protection measures. In addition, discrimination might exist among particular EU countries regarding imports under EU quota regulations. However, we have tried to control for these impacts in our UVA application by selecting particular years for the study and controlling for some products.

of competitiveness, since Graziani (2002) suggests upgrading does not necessarily mean increased competitiveness and vice versa.

The UVA application joins the scholarly debate on how to study local upgrading in developing and third world economies. A collection of papers, edited by Baldone, Sdogati and Tajoli (2002) that studied product quality through UVA, and an article by Schott (2004), who used UVA methodology to study product-level US trade data at the low, medium and high value level, demonstrated the usefulness of this methodological tool.

This article contrasts the value added of textile and apparel exports from Turkey and Bulgaria to the EU-15 market between 1991 and 2005.[5] The authors also present a GVC analysis, complemented by discussion of results from a survey of 106 Bulgarian and Turkish textile and apparel firms that was conducted in 2002 and 2003.

We study both sectors because the impact of internationalization on the textile and clothing manufacturers can be quite different. The textile sector is capital-intensive, whereas the clothing sector is labor-intensive. They are linked vertically into one industry, and often they are studied separately. However, the article builds on analysis of the textile and apparel industry, as a whole, in order to convey understanding how the two sectors develop when, combined, they become a leading export industry and leading employer of the economy over certain period of time.

In 2005, 31% of Bulgarian exports (National Statistical Institute 2006; Bulgarian National Bank 2006) and 28% of Turkish exports are generated by this industry (Undersecretariat of Treasury 2006). Moreover, about 10% of the industrial labor is concentrated in the two industries under focus. Furthermore, the similarity between the two cases is that the major export market of both countries is that of the EU-15, which took between 65% and 80% of total textile and apparel export for the research period of analysis. In addition, Turkey is the 2nd EU-25 apparel and textile supplier, while Bulgaria occupied 10th position as EU-25 apparel supplier in 2005 (Eurostat 2006).

Although, this industry is a major employer and a successful export earner in Turkey and Bulgaria, the former exports higher value added goods compared to the latter. Moreover, Bulgarian firms have difficulties in upgrading by being consistently *caught up in the trap* of doing subcontracting for EU firms, thus retaining low value added for the local economy, while Turkey exports full-package products, which yields high value added for the local economy. How can we study and how can we explain this divergence?

[5] In 1991, the EU market included 12 members of the European Union before the fourth enlargement (Belgium, Denmark, France, Germany, Greece, Italy, Ireland, Luxembourg, Netherlands, Portugal, Spain and UK), whereas the study of unit values of exports for 1995 included also Austria, Denmark and Finland, who joined the EU the same year.

Some studies have closely observed dependency and opportunities for upgrading of firms from the European periphery in a comparative enterprise. This article draws on them, thus contributing to the literature that studies the ability of firms to change positions in the GVC (Gereffi and Korzeniewicz, eds. 1994, Bair and Gereffi 2001, Bair 2002, Giuliani, *et al.* 2005, Neidik and Gereffi 2006, Evgeniev 2006a, Pickles, *et al.* 2007, Evgeniev and Roukova 2007). Moreover, the authors join the scholarly debate on how to study upgrading also by implicitly referring to a central issue of development: it is not important how much you export, but what you actually export.

The structure of the article is the following: firstly, the authors emphasize on the methodological steps of the research, followed by a discussion of the empirical findings from the UVA, GVC analysis and the survey of firms. Then, the article offers possible explanations, whereas finally it concludes and puts forward recommendations for future research.

Research methodology

There are at least two distinct ways to apply the UVA methodology. The first one is used by Graziani (2002), which is similar to the one employed by Freudenberg and Lemoine (1999), who consider the quality differences between the unit value of the imports of a certain number of countries into the EU in comparison with the unit value of the same products/product groups of the average intra-EU import (the average UV of the exports of EU member states between each other). The other way, applied by Fontagne, *et al.* (1997) and Landesmann and Burgstaller (1997), is to calculate the unit values of the trade flows referring to the average of extra-EU flows (the average UV of the exports of all other countries to the EU market). There is a specific difference in both approaches. In the first case, the focus of the analysis is on whether there is a process of catching up in terms of upgrading between outside EU countries and the EU average level. In the second case, the UVA rather compares quality differences of the EU importers.

Since the target is to compare upgrading of export structures of countries that export to the EU, we utilize the second type of UVA methodology. Thus, we calculate the values of trade flows in relation to the average of similar flows. More particularly, we estimate the differences of the unit values (value/volume) of the product/product groups of two countries to the European Communities (EC) vis-à-vis the average unit values of the product/product groups of the imports to the European Communities from all suppliers to the EU market (average unit value of extra-EC imports). Thus, we identify at what quality level we find the countries' exports to the EC compared to extra-Communitarian imports in distinct periods. The possibilities are the following:

- Up-Market (UpM) – high value added exports, if the unit value of Bulgaria's and Turkey's products is >15% from the average unit value of Extra-EC imports of the same products.

- Middle-Market (MM) – medium value added if the unit values are ± 15% of the average UV;

- Down-market (DM) – < 15%.[6]

China's entry to the World Trade Organization (WTO) and the liberalization of trade in textiles since 2005 necessitated that we raise the level for evaluating product quality from >±15 per cent to >±20 per cent for evaluation of the distribution of value added in 2003 and 2005, as it regards the textile and apparel exports. Throughout the UVA research we use 6-digit disaggregated product data of the Harmonized System (HS) for textile and apparel products (articles 50-63) from Eurostat's COMEXT databases. As far as the dataset is unified, we believe that homogeneous products are compared.[7]

Several data sources are used to generate a sample for our questionnaire, which was specifically designed for this study.[8] This is the Bulgarian Catalogue of Textile and Clothing firms (2002) and the catalogues of the nationally represented Istanbul-based Turkish Textile Employers' Association (TTEA) and Turkish Clothing Manufacturer's Association (TCMA). Most of the interviewees, who have responded to the face-to-face survey, were high profile managers (export management and chief accountants). Upper management (executive directors) and owners have also been among the interviewees. One sample of 100 firms for Turkey and one sample of 100 firms for Bulgaria, which were randomly selected, was constructed. After contacting the firms for interviews, the response rate was 44% for the case of Turkey and 62% for the case of Bulgaria. Therefore, a total of 106 firms were surveyed.

The sampling method was modified for four stratification purposes. The first criterion is *geographic stratification*. Bulgarian firms from large production regions, like Blagoevgrad, Bourgas, Dobritch, Plovdiv, Rousse, Sliven, Sofia, Varna and Vidin, entered the sample. Similarly, the Turkish sample consisted of firms from large textile and clothing production centres, like Bursa, Denizli, Gaziantep, Istanbul, Izmir, Kayseri and Tekirdag. The second criterion is *firm-size stratification*—mainly Small-and-Medium-sized Enterprises (SMEs) were selected, since they comprise the bulk of the sector. The third criterion is *subsector stratification*—prevalence in the sample was given to labor-intensive (apparel) firms, rather than capital-intensive (textile) firms. The fourth criterion is *market stratification* – the firms that entered the sample are mainly exporting to the EU

[6] Both types of the UVA methods agree on the percentage ranges of product quality levels.
[7] The UVA methodology is applied in the following manner. We take, for instance, article 62 (articles of apparel and clothing, not knitted or crocheted) and we analyze unit values of all 120 product groups (6-digit disaggregated level) from this article for one particular year in the database. Then, we form a cluster of 6-digit product groups, which represent highly reliable level, above 80% of article 62. Then, we calculate all products within the representative sample and put them in the three categories: down-market, middle market and up-market.
[8] The questionnaire addresses the following sections: 1) General information about the firm and the interviewee; 2) information about the products; 3) markets; 4) clients; 5) suppliers; and 6) incentives.

market. Based on these stratifications and on the general characteristics of firms in the survey, it is concluded that the Turkish and Bulgarian samples of firms in the survey are comparable (see Appendix A).

Empirical evidence

This section firstly discusses the findings of the application of the unit value analysis, and then presents the GVC analysis for the cases of Turkey and Bulgaria, followed by analysis of the variance between local firms in terms of upgrading and dependency based on a set of indicators.

Table 1

UVA of textile and apparel exports of Turkey and Bulgaria to the EU market (in %)

Market segments	1991		1995		2001		2003			2005		
	A	B	A	B	A	B	A	B	C	A	B	C
Bulgaria												
DM	52	83	34	80	30	46	9	23	40	7	29	47
MM	37	11	52	16	65	50	40	34	47	22	20	24
UPM	11	6	14	4	5	4	51	43	13	71	51	29
Turkey												
DM	20	30	12	23	22	35	11	34	34	10	37	35
MM	45	45	32	32	35	35	21	16	24	13	14	17
UPM	35	25	56	45	43	30	68	50	42	77	49	48

Source: EUROSTAT, COMEXT databases, Extra-EC imports; the authors' calculation covers 637 product groups (6-digit disaggregated level) from categories 50-63. The observations cover over 90% of total textile and apparel export (in value) from Turkey and Bulgaria to the core EU market between 1991 and 2005. Note: The calculations for 2003 and 2005 involve only the EU-15 market.

Value added distribution is shown by *Section A*, while *Section B* gives the actual data by controlling for two criteria. The first one is related to the products exported under the Outward Processing Trade (OPT) regime,[9] whereas the second criterion is related to studying a concentration of exports in product groups which are biased to be low value added. Such low value added products could be T-shirts and vests of cotton, found in product groups 610910 and 610990, whereas OPT apparel exports are important for our analysis and they are found in category 61 (articles of apparel and clothing accessories) and category 62 (apparel articles not knitted and crocheted).

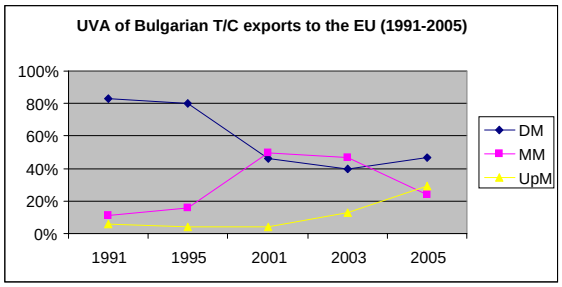
Although OPT export might indicate up-market or middle-market value added of the exports, automatically they shall be considered down-market. This is the case since

[9] Outward Processing is an EU customs duty relief scheme provided for under Council Regulation (EEC) No.2913/92 and implementing Commission Regulation 2454/93 (amended). It allows Community goods to be temporarily exported from the customs territory of the Community in order to undergo processing operations or repair, and the products which result from these operations can be released for free circulation in the Community territory with a total or partial relief from import duties.

exports under OPT (called also international subcontracting) yield low value added for the domestic textile and apparel industry. More particularly, the local apparel firms, which perform assembly operations and export under OPT, retain only a slight share from the value of the product for the labor-intensive operation which they perform. The value added of OPT exports is biased to be high and medium-market because of the essence of the competitive advantage from this kind of partnership between the foreign and the local firm, for the benefit of the former.[10]

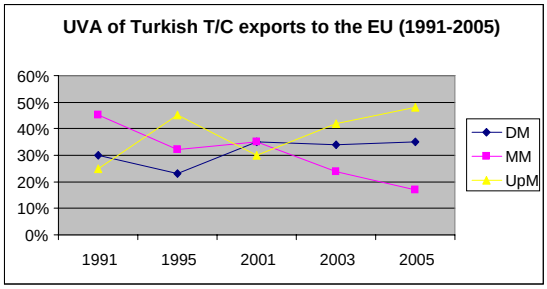
A third adjustment of the UVA methodology was needed, which necessitates the inclusion of *Section C.* It applies two additional corrections which reflect contemporary developments of international and regional trade in textile and apparel goods. The first one is related to OPT EC imports/exports. It takes account of exports of apparel materials from EU countries to Turkey and Bulgaria, which are registered for assembly under OPT, but are not reported as OPT exports from these two peripheral countries back to the EU market. The case of Bulgaria proves to have been influenced by this criterion, which is not relevant in the case of Turkey. The second correction adjusted the lath for qualification of unit values into the three dimensional scale: >20 % (Up-market); ±20 % (Middle-market) and <20 % (Down-market).

Figure 1



Source: Eurostat

Figure 2



Source: Eurostat

[10] The EU buyer imports expensive and qualitative textile or apparel materials, supplied from an EU textile producer in order to use only the labor-intensive operation at the host country. This increases significantly the unit value of the final product produced in the host country.

In the early 1990s, the breakup of the Council for Mutual Economic Assistance (COMECON) has been an important factor which affected both countries. Bulgaria was hit more strongly because of the fact that this market absorbed about 75% of its textile and apparel exports. Therefore, Bulgarian enterprises had to reorient totally their exports to the EU-12 or the North-American market. In fact, they managed to do so. The Bulgarian exports doubled in 1991 compared to 1988 (ECU 113 million[11] of textile and apparel exports) due to the EU-12 exports of mostly apparel products (90% of total export). As we observe from FIG.1, the textile and apparel exports from Bulgaria to the EC market have a very high DM concentration (83%) after we have corrected for the OPT exports (see Section B from Table 1, and see Appendix B).

In 1991, Turkey increased its exports to the EU-12 market by a spectacular 37% (ECU 3 billion) compared to 1988. Similarly to the Bulgarian case, most of the Turkish exports (75%) were in apparel articles. OPT exports in the Turkish case were insignificant (see Appendix B), but there was concentration in product groups 610910 and 610990 (see Appendix C), which was not observable in the case of Bulgaria. Thus, Turkey exported low value added (30%) and medium-value added (45%) textile and apparel goods to the EU-12 market.

In 1995, Turkey took a different path compared to Bulgaria. The highest concentration of the Turkish textile and apparel exports to the EU-15 market was in the up-market segment. In fact, it doubled its share compared to 1995. The down-market segment represented 23 % of total exports. Bulgaria tripled its export to the EC market (ECU 317 million) and Bulgarian mid-market exports gained only 16% compared to 11% in 1991. In general, Bulgaria had a much higher DM concentration (80%) compared to Turkey (23%).

In the post-2000 period, competition increased substantially in an environment of more liberalized trade in the global textile and apparel market. The Agreement on Textile and Clothing (ATC) entered into force in 1995 and since then, for a period of one decade, countries began to lift their textile quotas progressively. Turkey and Bulgaria both managed to increase substantially their textile and apparel exports. In fact, Turkey doubled the value of its exports in the period between 1995 and 2001. However, the up-market exports decreased in comparison to 1995. At the same time, DM-products increased, which was a direct result of the high competition from Asian countries. In 2003, Turkey reached €9.5 b. of exports and registered a further 10% increase in 2005 (€10.5 billion). It preserved the share of DM exports, but managed to increase its up-Market exports to the EU-15, as seen from FIG 2.

The high concentration of OPT exports in Bulgaria slowed down between 1995 and 2005 (see Appendix B). This influenced the product quality exports of Bulgaria. Yet, the concentration on DM exports has been preserved, but opposite to the Turkish case, the Up-market products did not represent the majority of the exports.

[11] The European Currency Unit (ECU) was introduced by the Council of Ministers in 1978 as the currency of the European Community. On January 1, 1999, it was replaced by the Euro.

The OPT export shares came down in Bulgaria between 1998 and 2005. The Customs office could not compile statistics for the total export of OPT products. After 1998, there was no incentive for the EU buyers or the Bulgarian firms to register officially their OPT exports. But, due to the requirement of the EU's FTA, there was a need for the Bulgarian exports to comply with the EU's rules of origin, which were hard for domestic firms to meet.[12] Thus, Bulgarian firms continued to export under OPT and register their exports under OPT (the rules of origin did not have to be applied because the textile materials have EU origin). However, other Bulgarian enterprises, which found it acceptable to export without registering their export as OPT, continued to work under international subcontracting with EU buyers. That is why there were still OPT exports in 2001 (see Appendix B), which substantially decreased in 2003 and 2005, presumably because they could not be registered by the statistics office. That could be part of the explanation why Bulgarian apparel exports to the EU-15 market suddenly grew to 29% up-market, although still lower compared to the Turkish case, where there is a concentration of 48% in up-market products.

It is important to notice that OPT exports tend to be taking higher value added market niches compared to non-OPT exports of the same products (see Appendix D). The reason for that is the importation of expensive textile inputs from the EU, which are simply assembled in Bulgaria to be re-imported to the EU again. Another observation to be made is that when we compared non-OPT Bulgarian exports to non-OPT Turkish exports in three product groups (611030, 620520 and 620640),[13] we found the former have higher unit values compared to the latter for all relative years for analysis between 1991 and 2005 (see Appendix C).

Another factor, which impacted the sudden spectacular growth of the share of up-market products in the case of Bulgaria, but also in the case of Turkey (see Table 1) is the quota-free EU-15 imports of Chinese apparel, which decreased the EU extra-average import price of the apparel products.[14]

GVCs analysis: Turkey

The information derived from firm interviews, and interviews with state officials, business associations, labor unions, consultants and experts, underscores that about

[12] In this respect, there was an obligation to fill hundreds of pages of EU customs documentation in order to prove the rules of origin. This was coupled with problems at the EU border to prove the origin, which resulted in non-EU entry of the Bulgarian production.

[13] Product group 611030 includes 25% of total 61 EC import of Bulgaria and 12% of Turkey; product group 620520 includes 15% of total 62 EC import of Bulgaria and 6% in Turkey; product group 620640 includes 11% of total 62 EC import of Bulgaria and 5% in Turkey (see Appendix D).

[14] In 2005, China's exports of jersey, pullovers and cardigans (product groups 611020 and 611030) have taken 18% and 23% of total EU-15 imports of the same product groups, respectively. Compared to Bulgaria' and Turkey's exports, China registered a decrease of 30% in category 611020 and around 33% in category 611030 in terms of unit values between 2003 and 2005 (EUROSTAT 2006).

5% of Turkish textile and apparel exporters perform Original Design and Original Brand-name Manufacturing (ODM and OBM), while around 60% of the manufacturers fall in the category of Original Equipment Manufacturing (OEM), thus being able to organize the supply of textile inputs, manufacturing and distribution. Export Processing Manufacturing (EPM) is conducted by 30% of the firms, while another 5% are exporters of primary textile commodities. This distribution requires further explanation of the characteristics of local Turkish manufacturers that enter the global apparel value chain (see Appendix E).

The raw material suppliers take the first segment of the apparel GVC. In Turkey, these are mainly local producers that supply exclusively the domestic textile industry. However, the increased capacity of local wool and cotton textile producers necessitated increased imports of foreign inputs. The major raw material supplies are of wool and cotton origin. In 2003, Turkey was the fifth world producer of wool and the fourth world wool consumer because of the high capacity of the domestic wool-textile industry (Cotton and Wool Yearbook 2003).

Cotton is the dominant raw material input used by Turkish apparel manufacturers. This explains why Turkey developed a comparative advantage in low value added cotton products. The value of cotton exports increased almost tenfold—ECU 127 million (1988) and €1.6 billion (2003). This came as a result of Turkey's substantial increase of cotton-textile production as a result of augmented demand by local apparel manufacturers. In 1988, Turkey produced 3 million bales of cotton, while in 2003 it produced 4.2 million bales, thus becoming the 6th cotton producer in the world. In 1988, Turkey consumed 2.7 million bales, while in 2003 it consumed 6.1 million bales, thus becoming the 5th global consumer of cotton after China, India, Pakistan and the US (Cotton and Wool Yearbook, 2003).

The Turkish intermediary and final textile producers are well equipped with first-hand machinery, new technologies and quality certificates, and they completely satisfy not only the local market but also the export market as Turkey became the 10th global supplier of textile goods.

The ***textile producers***, working for export, can be divided into three categories: progressive, stagnant and declining.

Progressive textile firms: These are the majority of the firms in the textile sector. These firms used state incentives to import new textile machinery since the early 1990s in the spinning, weaving, knitting, and finishing subsectors, and began to introduce new technologies that enabled quality of production to be increased. The development of these progressive firms began somewhere in the 1960s and the early 1970s. The quality of dyeing and printing increases the value added of the final product. Therefore, the position of these firms in the local production chain is vital for upgrading of the local textile industry.

One Turkish owner of dying and printing firm, an example of a progressive firm, was interviewed.[15] He explained that his father created the company in 1941, but he was the one to expand the manufacturing activities when the firm began work with foreign companies that operated on the local market and exported to France in the mid-1970s. At that time, 230 employees produced 3 tones per day, while in 2003 the firm employed 148 workers and produced 12 tones per day. The change was due to the regular investment of the local dying and printing firm, which increased substantially in the early 1990s with the prospects of Turkey's Customs Union with the EU and the low interest rate credit policy when purchasing textile machinery from abroad, the owner clarified. Currently, the firm operates with 50 clients (local apparel firms), which export 95% of their products. The owner said: "The majority of the products that I dye and print are exported to the EU market, which tells also about the quality of my work".

Apparently, the destination of the exports defines the market segment for which a firm is working – once you are a Turkish firm and you export to the EU, your products are of high quality, by default. The owner of the Turkish dyeing factory explained that the intense competition in the dyeing and printing subsector increased through the 1990s. It became clear that when the company was created in the 1970s, it had only six competitors, while at present the local competitors increased to 500 in the domestic market. "The high competition," underscored the owner of the dyeing firm, "is good for the business, but the quality is not endless." That is why firms did not invest anymore because they reached the necessary technology and know-how capacity.

Stagnant textile firms: These are firms that do not posses ISO certificates or buyer's audits and have not been able to establish effective local networks to vertically close the production cycle and manage their links with raw material suppliers. In addition, they have not invested in marketing; neither have they improved distribution channels at home or abroad. These factors impede their work and they are likely to decrease their production and exports due to the high international competition after the liberalization of the global trade regime in textiles.

Declining textile firms: Firms from this segment are characterized by obsolete machinery, lack of capital for investment, and decreasing production and employment through the 1990s. These firms are the first ones to go bankrupt after the liberalization of global trade or shift their market from export to domestic supplies. Intra-industry vertical integration of domestic firms creates comparative advantage since the production cycle is totally controlled by the firm itself and it does not depend on other firms in terms of supplies, quality control of manufacturing and delivery on time. As a result, Turkish textile firms have started to integrate clothing in their system of production. Furthermore, local textile firms rarely use intermediary agents when they work with local clothing manufacturers. The linkage between local textile and local clothing firms is very strong and long-standing.

[15] Interview with textile firm owner and Board member of the Turkish Textile Employer's Association, TTEA headquarters, Istanbul, October 16, 2003.

The ***clothing producers*** target three market segments: a) high value added companies; b) medium value added value companies; c) low value added companies.

High value added clothing firms: This segment is represented by one-fifth of the clothing firms in Turkey. Turkish companies, like Vakko, Beymen, Mithat, Altinyildiz and Öztay, are usually large and medium-sized firms that made a success in the domestic market and recently entered very aggressively into international markets (Western Europe, North America, and Central and Eastern Europe) through international marketing strategies, originality of design, quality of textile inputs and skilled labour. In addition, the firms from this group pursue retail strategies to reach the final customer through opening chain stores in Western Europe (Germany, Italy and Spain), the United States (New York and San Francisco), and Central Europe (Prague, Budapest, Warsaw) and Russia (Moscow). In fact, the Turkish Clothing Manufacturers' Association (TCMA) estimated that around 30% of their members (400+ firms, which represent 70% of the Turkish exports) have their own designs and brands for their products offered in the European and US markets. To register a brand is one thing, while to establish the brand is a totally different issue. It is a process, which most of the Turkish manufacturers have started to explore only after 2000 (Interview, Esin Benöz, CEO of TGSD, October 9, 2003).

Medium value added clothing firms: Majority of the clothing firms in Turkey are in this segment. These firms offer full-package production and some of them have just started to learn how to design and market their own brands. Local companies, like APS, Zeynep, Gals Textil, started as non-branded fashion firms or retailers, which came into existence in the late 1970s as domestic producers, but grew substantially in mid-1980s when the country began to market one of its most valuable assets: skilled, cheap labour. Today, Turkey still manufactures garments bearing the labels of Tommy Hilfiger, Liz Claiborne and dozens of other internationally recognized companies.

To improve their competitiveness Turkish producers use special computerized technologies, like Computer Aided Design (CAD), Computer Aided Manufacture (CAM) and Computer Integrated Manufacture (CIM). These innovations allow reduction of costs per piece, and development of new strategies, such as quick response or just-in-time. The peculiarity of this group is that they can organize the whole network of activities from the cotton field, manufacturing and transportation of the final product, which is directly exported. However, they have a limited knowledge of how to do marketing and establish their own brands and shops to reach the end-customer.

Low value added clothing manufacturers: About one-fifth of the clothing firms fall in this category. They focus on low-end products (T-shirts, uniforms, simple dresses, towels) which yield low value added to the local economy. GISAD, which is a trade company that has a network of 200 local firms that export together, is a typical representative of this category. Denizli, one of the major textile centres in Turkey, is well known as a specialized producer of cheap towels for the Western European market and the United States. Within this group, one would also find other firms,

which produce and export fake brands. The EU, US and the Eastern market (Russia and other Central and Eastern European markets) have a high demand for cheap products and price competitiveness is what allows these low value added exporters to operate. This is coupled with the growth of Istanbul as a major textile market of low-cost garments since late 1980s when Eastern Europeans and later Russians started to practice the so-called "suitcase trade," which made the large Saturday markets in Istanbul (e.g., LALELI market) very famous in Southeast Europe and Russia.

The local clothing manufacturers perform mainly full-package production but they have a network of 8 to12 local subcontractors, on average, which play the role of buffers. These local subcontractors are usually small (up to 50 employees) or medium-sized firms (50-250 employees), which do not export but work solely for local exporters. Most of the local subcontractors operate in the grey economy and they are highly dependent on the orders of local clothing manufacturers, which export the ready made garments. The local subcontractors cannot export because first they have to find a stable buyer; second, they have to become legal; and third, there is an entry barrier for the local firms to start to export because they have to be issued export certificates by organizations, like ITKIB, which incurs costs.[16] Furthermore, intense competition in the local market and the high pressure of the local exporters to bring the prices for manufacturing further down makes the local subcontractors more and more dependent on the local exporters. That is why local subcontractors themselves frequently use local *ateliers*, which to a great extent perform unregistered work with 10, but sometimes 30 employees. The *ateliers* use migrant labor (women and men from the Anatolia region), but also child labor, which is illegal in Turkey.

Sometimes there are trade agents who directly link with local subcontractors to perform a certain order. Later on they establish a permanent network of local subcontractors. This is the case since the local trade agent has found a foreign buyer; hence market for the local goods. The role of international distributors is very limited in the case of Turkey since lead firms usually operate directly with large Turkish clothing manufacturers, called by experts the *marketing face* of the local business.

All lead buyers that operate on the global market are present in Turkey, such as Benetton, Max Mara, Marzotto, Armani, Diesel (Italy); Adidas, Puma, Hugo Boss, Quelle, C&A (Germany); Mango and Zara (Spain); Nike, Reebok, Kappa, Liz Claiborne, Banana Republic, Tommy Hilfiger, Express, and May Department Stores (US). Lead firms do order full-package products from the Turkish manufacturers and international subcontracting is highly limited, whereas local subcontracting is well spread.

[16] The Turkish firms have to pay to ITKIB between 0.5 and 1 % of the value of each export deal.

GVC analysis: Bulgaria

A very small number of firms (less than 1 %) perform ODM and OBM, while between 9% and 19% are in OEM, thus able to organize the supply of textile inputs or raw materials, manufacturing and distribution. Export processing manufacturing (subcontracting) is done by large majority of the firms in Bulgaria, while the rest are exporters of primary commodities. This distribution requires further explanation of the characteristics of local Bulgarian manufacturers that enter the global apparel value chain (see Appendix F).

The raw materials (cotton, silk, wool, linen and hemp) are supplied from abroad, which makes it difficult for the Bulgarian textile producers to organize the import and pay in hard currency. That is why, frequently, the textile firms look for local or foreign trade agents to help them link with foreign suppliers and organize the import. The increasing import of raw materials, as a result of the substantial decrease of domestic supplies since early 1990s and the commissions paid to the agents has raised the price of the Bulgarian textile goods.[17]

Before the 1990s, Bulgaria did not have cotton fields and the local supply of wool was limited too, hence the registered textile imports were predominantly in raw material supplies (cotton and wool). Bulgaria used to import in 1980s about 70,000 tones of cotton and 1,150 tones of wool per year. The most important cotton importer has been the Soviet Union with 75% and Egypt with 5% share from total cotton imports, while Australia and Mongolia have been the most important wool importers of between 60%-80% share for the first and 5%-30% share for the second one, depending on the year (NSI 1990). In fact, Russia has been an important cotton importer since the 1970s when Bulgaria has struck a barter deal for exports of textile and clothing in exchange of imports of petrol and cotton (Interviews with Aleksieva, April 23, 2003, Sofia; Vlachov, May 20, 2003, Sofia; Yanev, April 23, 2003, Sofia). The situation of raw material supplies exacerbated during the 1990s because there was no large state trade agent, like Industrialimport, which used to organize large orders of raw material supplies before 1990 (Interview with Yanev, April 13, 2003, Sofia). Therefore, the demand of local apparel producers decreased substantially by the end of 1990s. As a result, local textile firms could not compete on the local market, but started to look for buyers abroad. The Bulgarian textile industry has become heavily detached from the Bulgarian clothing industry, especially after 1997. The concentration of majority of Bulgarian clothing manufacturers on doing OPT with EU and full-or semi-subcontracting with US buyers has contributed to that. At present, it is common, if there is an interest for trade between local textile and local apparel firm, then there is a trade agent to facilitate their business contact.

The Bulgarian ***textile producers*** working for export can be divided into three categories (prospective, stagnant and declining) similar to the Turkish case.

[17] A group of Bulgarian professors, an executive director of a textile enterprise and a branch association expert confirm in a report delivered to the Ministry of Economy (April 2005) that the domestic supply of wool used to satisfy the local textile production as 36,158 tones of wool have been supplied in 1984 compared to 6,000 tones in 2003.

Prospective textile firms: About one-fifth of the companies are in this segment. These are mainly former State-Owned-Enterprises (SOEs) that have received a substantial investment injection by foreign firms, which enabled outdated machinery (spinning, weaving, finishing) to be replaced, new technologies to be introduced and quality of production to be increased (Interview, Bulgarian Association of Exporters of Textile and Apparel, April 20, 2002, Sofia). Miroglio Bulgaria AD is such an example. This is the Bulgarian subsidiary of Miroglio SpA Italy, one of the largest textile groups in Europe with 7,000 direct employees and €750 million annual revenues.[18] Miroglio started in 1998 an intensive program of investments in Bulgaria for a vertically integrated production. By 2003, Miroglio has invested USD 153 million in five production units: a) dyeing-printing factory in Elin Pelin (Sofia region) for production of printed fabrics in viscose, cotton and polyester; b) Wool factory in Sliven for spinning, weaving, dyeing and finishing of wool and wool blends fabrics; c)Weaving factory in Sliven of viscose and polyester fabrics; d) Spinning-twisting factory in Nova Zagora and e) Factory for production of knitting yarn ("Raumer Bulgaria"), in Joint Venture with "Raumer Italia". The five units, fully owned by foreign capital, currently employ about 1,700 people (7% of total textile employment of Bulgaria). Another example is COATS Bulgaria, Sofia, which is the Bulgarian subsidiary of COATS PLC—London, UK, the largest manufacturer and distributor of sewing and embroidery threads (industrial and home use), hand-knitting and consumer craft products and second largest producer of zip fasteners. Firstly, COATS Bulgaria was established in 1993 as a distribution centre and its wait-and-see policy came to an end in 2002, when the company started local production. In October 2003, it made a Green Field Investment in a new production facility for USD 3 million. It has only 69 employees and the annual turnover for 2003 has been estimated at €4.4 million. The company has a development strategy, which aims at expanding current capacity with investment in new machinery.

Not only large companies, but also smaller knitting companies have invested in Bulgaria. For instance, Greek-American investor came in Bulgaria in 1992 to create Pangaea, a company with own production facility in Sofia, when investment in the textile and apparel industry was non-existent at that time. Over the next decade and so, it has become one of the major exporters of knitwear to Europe and to the US. Moreover, knitwear produced by Pangaea with the "Made in Bulgaria" can be found in many retail catalogues, like Express, Karstadt, Quelle, Neckermann, C&A, which are among the top European retail firms.

Stagnant textile firms: About one-fifth of the firms fall into this category. These are primarily all those former SOEs, which were transferred into private hands in the 1990s and could not manage to improve their position on the market. After loosing the Soviet Union market, these firms have managed to replace it with the Western markets, but was very difficult for them to improve their position without foreign investment. Vratitza Ltd, one of the largest Bulgarian cotton textile companies has benefited for its survival in the 1990s from the vertically integrated production cycle of the firm, inherited from the socialist past. Spinning, weaving, finishing, printing and sewing close the technological cycle, which has also been coupled with

[18] This company has been announced "Exporter for 2002" by the Ministry of Economy.

purchase of ISO certificate, usually a requirement by European foreign buyers. However, Vratitza Ltd, as well as other similar Bulgarian textile producers can not meet their production capacity and cannot easily address the new market situation.

Declining textile firms: These are majority of the textile firms in Bulgaria. Such examples are Maritzatex and Galatex, which are both large formerly cotton textile SOEs. They inherited obsolete machinery, did not have capital to reinvest after the privatization of the firms and the new owners (Managemen-Buy-Outs - MBOs in the case of Maritza and restitution in the case of Galatex) had to substantially decrease production and employment.

The ***clothing producers***, as in the case of Turkey, are found as: a) High added value companies; b) Medium added value companies; a) Low added value companies.

High value added clothing firms: An insignificant percentage of the companies fall into this category. These are Fashion Houses which design and prepare small collections that are presented for the Spring-Summer and Autumn-Winter season (e.g. Jeni Style, Fashion House "Tani") or firms, like Rila Style, well known fashion house in the socialist period, which nowadays, thanks also to foreign investment from France, designs its own collections with their own brand names, partially manufactures its own products (mostly subcontracts to other local firms) and presents its collections on international podiums (e.g. Prêt à Porter Paris), while on national podiums it receives national Fashion prizes.

Medium value added clothing firms: About a quarter of the clothing companies in Bulgaria fall in this segment. These firms offer organization of full-package production (OEM), but frequently receive subcontracting orders for assembly production from big buyers, like Zara (SPA), Benetton (IT), Quelle (GE), C&A (GE), Max Mara (IT), Puma (GE), Mango (SPA), etc., which are among the top European apparel firms. Some of the firms from this segment (e.g. Albena Style, Ruen, Ropotamo), are formerly SOEs, which were privatized in mid-1990s and transformed into private firms through MBOs or the mass privatization scheme. These firms rely on their old management staff, which had established contacts with Western European firms already in late 1970s and the good reputation on the European market which the firms have managed to establish in the 1980s. Other firms with local capital (Alfa 71, Brilliant Invest) and foreign capital (USD 19 million German investments by Rollmann in Pirin Tex) have managed to grow out in the 1990s and become one of the leading exporters, working for the big European buyers. The typical characteristics for these medium value added companies is that they have the capacity to offer design, help with the marketing and offer their own brand and logistics, but they are often pressured by the big buyers to focus on assembly production. In addition, they are asked to provide bigger capacity on lower prices, which the local firms could offer only by subcontracting their work to other small Bulgarian companies.

Low value added clothing firms: This is a characteristic of large majority of the clothing companies in Bulgaria. These other small companies, sometimes 15-20 firms are clustered around the medium value-added company, but sometimes are

working alone for trade agents. They are exclusively focused on assembly production and their upgrading reaches only the standard of quality production that is required. Activities, like design, marketing, brand, sophisticated technology (CAD, CAM systems) are totally missing. The organization of production, hence labour productivity in these enterprises, which usually employ 30-99 employees, is very low.

The foreign buyers and trade agents in Bulgaria play a role. Sometimes, the foreign buyers arrange the textile input from local textile producers for the local clothing firm from which they order OPT assembly of apparel goods. Thus, the foreign firm has substituted the direct contact between local textile and local clothing firms. In other cases, it is the Bulgarian trade agent which arranges subcontracting for other local clothing firms because of big orders from foreign buyers. Many clothing SMEs, or large firms (1000+ workers), like Vida Style, Albena Style, Druzba Style work as subcontractors and when the volume of the order is high or there is a need for flexible operation (small series of production), the large firm again subcontracts work to a satellite of small firms. Interestingly enough, many of these subcontractors are actually operating illegally in order to keep up with competitive prices, similarly to the case of Turkey. That is why large clothing manufacturers prefer to keep a permanent linkage with a satellite of 20-30 small firms and supervise their work on a daily basis. It is not only ready-wear firms, but also trade agents (mostly foreign trade agents) that work directly with legal or illegal small subcontractors. Ready-wear firms are contacted by trade agents, distributors or directly by lead firms. Lead firms come from Italy (Benetton, Max Mara, Marzotto, Armani and Diesel), Germany (Adidas, Puma, Hugo Boss, Quelle and C&A), Spain (Mango, Zara), US (Nike, Reebok, Kappa, Liz Claiborne), etc. The common feature of lead firms (retailers, branded apparel manufacturers or marketers) in Bulgaria is that they possess the control of the value chain in their own hands. The power of Bulgarian clothing firms is very limited since there is very high local competition. Moreover, local firms have limited knowledge of how to perform full-package production, do the designs and present their own brand to the domestic and the foreign market. The power of local clothing manufacturers is also undermined by the operation of trade agents and distributors, who hold the contacts with foreign retailers and marketers. The Bulgarian clothing firms hardly have direct contact with lead firms.

Upgrading and Dependency of local firms

The survey analysis traced upgrading and dependency of firms in Turkey and Bulgaria. Four upgrading indicators were studied and the results of the current state of the firms are summarized in table 2.

The results show higher upgrading of Turkish firms compared to Bulgarian firms in all upgrading indicators. Especially high discrepancy is observed at the organizational and product upgrading. In addition, dependency, discussed below, is also an important indicator to trace since it shows how far the Bulgarian and Turkish firms are distancing from each other. A local firm from the periphery is able to upgrade, *ceteris paribus*, once its dependency on foreign buyers, suppliers and trade

agents is lower. Thus, it gains opportunity for learning how to upgrade and effectively embarks on the trajectory of upgrading at the product, process, functional and organizational level.

Table 2

Comparison of local upgrading (in %)

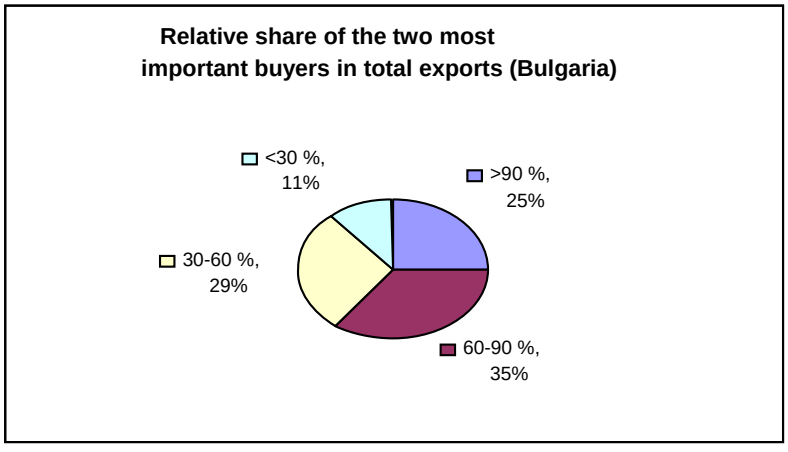
Index	Turkey	Bulgaria
Product upgrading	93	58
Process upgrading - rank of investment (very high/high)	49	31
Functional - brand/s ownership - own shops - shops abroad - availability of marketing/design departments	 76 50 22 60	 56 39 9 37
Organizational/managerial - ISO certificate or buyer's audit	62	34

Source: own survey

Dependency from foreign buyers

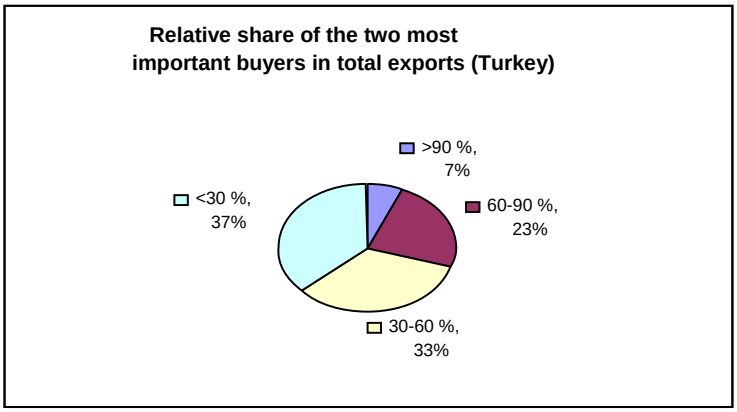
The high dependency of foreign buyers corresponds with the share of export which it has from total exports of the local firm. Dependency is generated since the two major foreign buyers suddenly decide to discontinue work with the local firm. Hence, the local firm looses important markets immediately and this might lead to the firm's bankruptcy.

Figure 3



Source: own survey

Figure 4

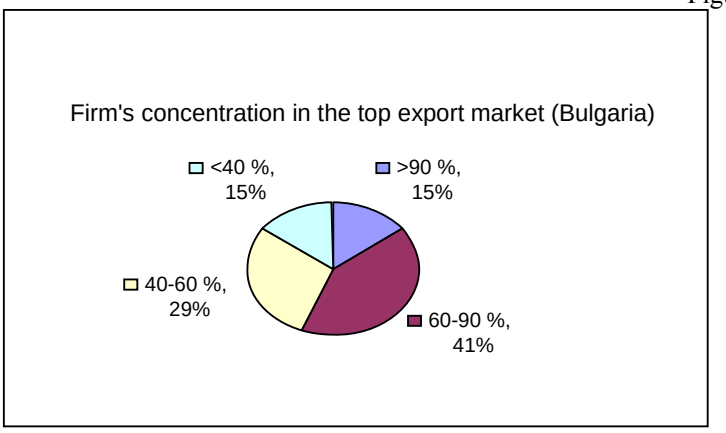


Source: own survey

In Bulgaria, 60% of the respondents indicated high dependency in terms of share of the two most important buyers. The two buyers take >60% of the firm's total export share. Moreover, every 1 out of 4 Bulgarian firms is highly dependent (>90% of its exports are concentrated in two buyers). The situation is quite different in the case of Turkey because only 30% of the respondents indicated high dependency, whereas every 1 out of 14 firms are highly dependent. This sub-indicator also shows that over 1/3 of the Turkish firms have a diversified portfolio of clients, since the share of the two most important buyers from total firm's export is less than 30%, while this is valid for every 1 out of 10 Bulgarian firms.

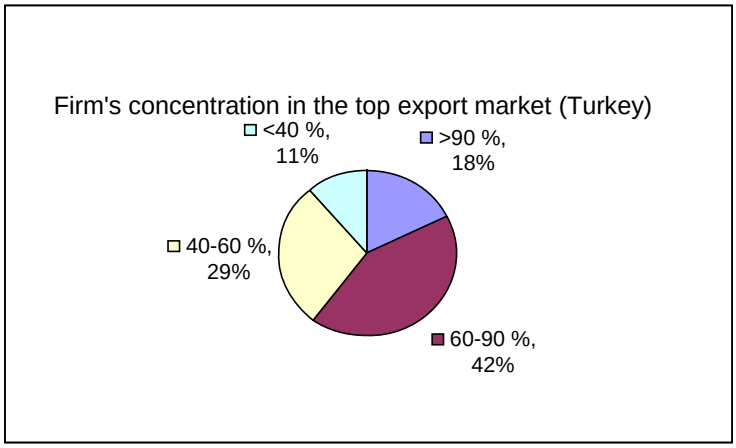
The largest export markets of the Bulgarian and Turkish firms are those of EU countries, like Germany, France, Italy and Spain. However, the US market comes at the second position for the Turkish firms.

Figure 5



Source: own survey

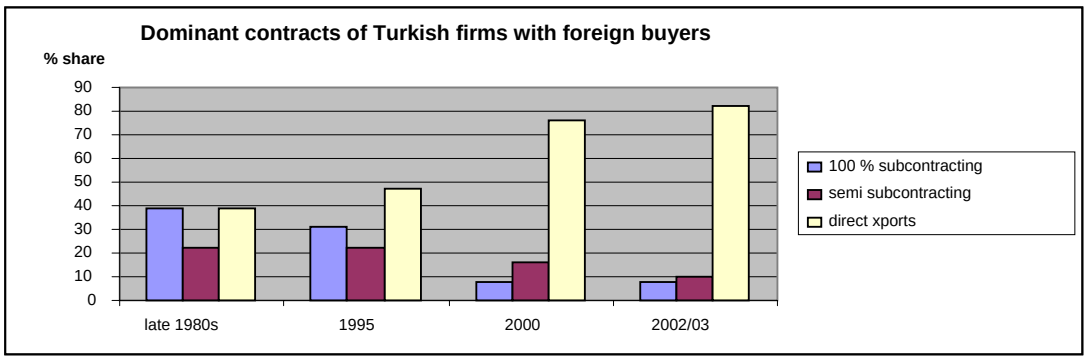
Figure 6



Source: own survey

We observe high concentration of the firm's export into the main export market, as 56 % of the firms in the case of Bulgaria and 60% of the firms in the case of Turkey have a concentration in the top export market beyond 60% of total export share. If we add also the group of firms which have concentration in the top export market between 40% and 60%, it turns out that every 8 out of 10 firms from both countries has a high concentration in the top export market (e.g. Germany, Italy or France). This concentration is valid for all local firms from peripheral countries, which find it difficult to diversify the portfolio of their clients because of intense international competition. Furthermore, a drastically diverging position between the two countries is found if we look at the dominant contracts of firms. The assumption is that the more the firm is concentrated on 100% subcontracting or semi-subcontracting, the lower the chance for industrial upgrading, hence dependency because of limited opportunities for learning.

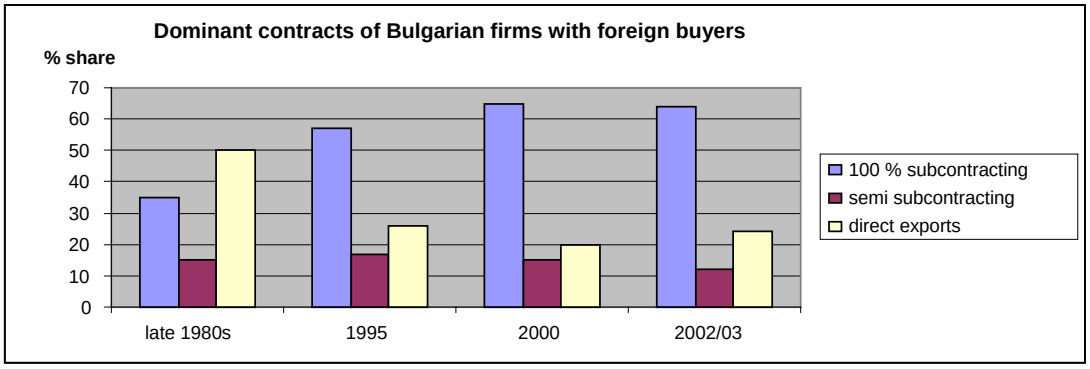
Figure 7



Source: own survey

As we see from the graph, Turkish firms have been able to lower the concentration on 100% subcontracting and semi-subcontracting from late 1980s to mid 1990s. Moreover, there is an observable shift towards direct exports in 2000 and 2002/3, which carries more value added for the local firm. The case of Bulgaria is totally different.

Figure 8



Source: own survey

The Bulgarian firms were performing mainly direct exports in late 1980s, although full subcontracting and semi-subcontracting was also present. However, there is a sudden shift through the 1990s towards 100% subcontracting as the percentage share rises in the three following periods, while the semi-subcontracting contracts keep the same levels throughout the whole period. Hence, Bulgarian firms are far more dependent on foreign buyers compared to Turkish firms based on the research results derived from the four sub-indicators.

Dependency from suppliers

This type of dependency involves two sub-indicators, namely dependency on the two most important suppliers and place of origin of the raw materials. The first one is of minor importance because it exemplifies the concentration of orders from particular suppliers, which is rarely the case since suppliers (textile materials for clothing firms and raw materials for textile firms) are in high competition, hence such dependency should not be expected. The second sub-indicator is of major importance since it identifies the place of origin of the raw materials. On the one hand, it signals that local firms are dependent on inputs from abroad. On the other hand, it alerts that the local textile industry is loosing local clients, since clothing firms do not use local textile inputs.

The research results meet the expectations of the authors as regards the first sub-indicator. No high concentration on the two most important suppliers is observed in both cases. Every 7 out of 10 firms in the two samples have low (less than 60%) concentration of the orders from the two most important suppliers. However, as we

turn to the second sub-indicator, we notice a significant divergence. In the case of Bulgaria, 53% of the inputs are from the EU. These are coupled with the 17% share of the inputs coming from Turkey (they have EU origin too), which means that every 7 out of 10 Bulgarian firms use inputs from the EU area. This corresponds well with the presence of high share of 100% subcontracting contracts of Bulgarian firms with EU firms. The case of Turkey is different because only 2 out of 10 firms use local inputs.

Therefore, we conclude that Bulgarian firms have comparatively higher dependency on supplies from abroad compared to the Turkish firms. This corresponds with the high share of 100% subcontracting in the Bulgarian case vis-à-vis the high share of direct exports in the case of Turkey.

Dependency from trade agents

Less dependency for the local firm is in the case when the firm is able to directly contact (without agents) suppliers and clients because it evades granting commission and creates a possibility for direct backward and forward linkages. The comparison of the Bulgarian and the Turkish case again yields divergent positions. Large percentage (66%) of the Bulgarian firms use agents to contact them with foreign buyers, while the same is true only for 30% of the Turkish firms. In addition, 30% of the Turkish firms use trade agents for contacts with raw material suppliers, while the same is valid for slightly more (40%) of the Bulgarian firms. Hence, the analysis shows that in terms of dependency on trade agents, the Turkish firms outperform the Bulgarian firms.

Two diverging positions: Explanation

What caused the divergence in industrial and firm upgrading in Turkey and Bulgaria? Evgeniev (2006a) applied multivariate statistical analysis of the same sample of 106 firms to study upgrading of textile and apparel Bulgarian and Turkish firms by testing the influence of seven variables. The major finding was that a combined variable of *branch and state support* was validated in terms of being the most influential factor for firm upgrading. Firm size and firm nationality (especially for the case of Bulgaria) were validated as well, which was also true for firm ranking index that combined investment and turnover. The regression models did not score high in terms of relationship between type of exports (subcontracting or direct exports) and firm upgrading. Two hypotheses related to dependency index that combined three variables (buyers, suppliers and concentration on top export market) and the trade agent index that combined two variables (trade agent for buyers and trade agent for suppliers), were not validated either. The policy implication of that study for other countries was that branch and state actors have to extend their functions in their pursuit to help local textile and apparel firms in the periphery to upgrade.

In an earlier study, Evgeniev (2004a) traced the impact of transnationalization in the Bulgarian textile and apparel sector. The research question directed attention to whether there is a pattern of economic peripheralization of Eastern Europe in the new configuration of the EU. The answer to this was positive as the emphasis on meso and micro-level research showed negative impact of OPT and high dependency rates of local firms. Although, the textile and apparel industry came out as a leading export sector of the economy in Bulgaria, it was the transnational companies, predominantly from Western European origin, which had the upper hand in controlling the global apparel value chain. Evgeniev (2006b) further elaborated on the explanation through a focus on the role of state and sectoral actors in the context of textile and apparel industry, in general, in order to emphasize on their importance for industrial and firm development in semi-peripheral and peripheral economies. Drawing on governmental reports, international institutions' analyses, interviews and secondary literature, major industries of the European core (EU-15), as well as Central Europe (Poland, Hungary and the Czech Republic) and Southeast Europe (Romania, Bulgaria and Turkey) were analysed. It was concluded that Central Europe once served as important EU supplier of textile and apparel goods to be transformed today as a main market for EU goods in an environment of declining prospects for the domestic textile and apparel activities, whereas Southeast European countries including Bulgaria became major EU suppliers.

In the case of Turkey, Neidik and Gereffi (2006) discussed the climbing up of the Turkish apparel industry as full-package supplier. The article argues that the organizational changes of global textile and apparel trade created opportunities for Turkey in the 1980s, coupled with Turkey's status as a preferential supplier to the EU in the 1990s facilitated Turkish firms to "forge links with a variety of lead firms that demanded full-package production in the global apparel value chain". These lead firms have devised strategies in a particular national context in which key institutional actors (business associations) have further shaped the competitiveness of Turkey's full-package model. But, the authors also argued that the role of the Turkish state was controversial, as some policies have had a positive implication on the industry in the long-run, but other policies continue to pose obstacles.

The major implication of these studies is that more attention should be given on the collaboration between state and sectoral actors when success and failure of industrial restructuring is discussed in the context of the EU Enlargement process. Indeed, Turkey developed as a full-package supplier and successful exporter due to the cooperation between state and business actors. In fact, in the post-2005, various initiatives are underway in Turkey, aiming at introducing additional non-tariff barriers or market safe-guards to Chinese exports based on customer's demands and standardization schemes, undertaken by Turkish business associations and the Government which act hand in hand. Moreover, Turkish leading textile and apparel trade groups, together with US trade groups, became initiators of the Global Alliance for Fair Textile Trade (the so-called *Istanbul Declaration*), signed on March 3, 2005. This global initiative attracted over 120 representatives from different countries. It organized several campaigns to lobby the WTO to take effective measures. Although it did not reach its goal, the initiative revealed a new arena of future contest in global trade—international pressure on WTO free trade

measures. It also demonstrated that Turkey, as opposed to Bulgaria (the local business associations signed the declaration), was not only a signatory and observer, but a major organizer and international lobbyist for protectionist measures against Chinese exports.

The Turkish textile and apparel industry reached USD 20 billion worth of exports, taking 23% share of total exports in 2006. Although, it slowed down its pace in 2006 because of the quota liberalization to the EU market for third countries, in the first months of 2007 the exports continued to grow compared to the previous year due to the introduction of additional textile quotas for Chinese imports to the EU market, as reported by the Turkish Undersecretariat of Foreign Trade. Moreover, the Turkish Government introduced recently a program, called "Turquality", which is the first major Government-supported brand development project in the industry. This shows a clear perspective for Turkey to shift to brand-manufacturing export role in the near future.

As far as Bulgaria is concerned, the trade liberalization activated the state to redirect its attention towards its leading export sector. In 2004, the state entered into partnership, through the Ministry of Economy, with the Gesselschaft für Technische Zusammenarbeit (GTZ). This cooperation gave birth to two national strategies—Clothing industry (December 2005) and Textile industry (December 2006). These strategies involved sectoral actors and public officials, national and international experts, foreign and local entrepreneurs into a series of discussions and put forward concrete recommendations to the state and business associations on how to support local upgrading.

The observation of the authors about the impact of these two strategic documents are not that optimistic because it seems that the state *came too late* in its attempts to support the local textile and apparel industry. It is thought so because the Bulgarian textile and apparel manufacturers are already facing more difficulties in coping with the international competitors because of the liberalization of trade. The position of Bulgarian producers is further exacerbated due to the membership of the country in the EU club since January 1, 2007 which introduced intensified competition and application of EU regulations and standards that are difficult to meet. Therefore, it is expected that the Bulgarian textile and apparel industry will enter into a declining path in the coming years. The industry retained a quarter of total exports in 2006 (USD 1.8 billion), thus remaining a leading export sector of the economy, but in the first half of 2007, a decrease in overall textile and apparel exports by 10.5 per cent, primarily due to the falling down of apparel exports by 16 per cent, was witnessed (NSI 2007). In the coming few years, many closures of uncompetitive apparel and textile producers are expected, which will convey negative socio-economic consequences. Low-skilled labor which is abound in these two sectors of the Bulgarian economy will have to move to other industries, thus the burden of inter-sectoral shift of labor and costs related to that, like professional qualification programs and additional training for development of skills, will have to be undertaken by the state and the private business in order to evade crisis on the labor market.

Conclusions

The authors applied unit value analysis, which traced the upgrading of textile and apparel exports of Turkey and Bulgaria between 1991 and 2005 to the EU market. They find that Turkish firms retain higher value added for the local economy compared to their Bulgarian counterparts by the end of this period, although the exports of these two neighboring economies were predominantly concentrated in down-market niches at the beginning of the research period.

The GVC discussion, which complemented the research analysis, concluded that Turkey managed to climb up from the primary commodities export role to the original equipment manufacturing role, while Bulgaria maintained its position in an assembly export role. More particularly, it was found that majority of Turkish textile manufacturers fall in the category of *progressive firms*, while most clothing manufacturers fall into the category of *medium value added firms*. This is quite different compared to the Bulgarian case where the majority of textile firms are declining, while the large majority of the clothing firms are *low value added firms*. The firm-level analysis, based on a survey of 106 firms and evaluation of a set of dependency and upgrading indicators demonstrated that Turkish firms are better positioned in the apparel GVC compared to Bulgarian firms. An explanation for this difference is the shared interest of business associations and the state in helping local firms and the industry improve. The authors recommend further research on the *institutional component* of the GVC's analytical framework, which could be applied to other sectors and market regions in the global economy, using a complementary methodology—application of quantitative and qualitative tools to study local upgrading.

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Appendix A

Comparison of the two samples

Variable	Categories	BULGARIA	TURKEY
No. of respondents (firms)		62	44
Firm size	a) Small (1-49 employees)	18%	20%
	b) Medium (50-249)	52%	37%
	c) Large (over 250)	30%	43%
Subsector	a) Capital-intensive (textile,	34%	41%
	knitting, dyeing)	61%	39%
	b) Labor intensive (clothing)	5%	20%
	c) vertically integrated		
Major regional market	EU	81%	64%
	USA	9%	18%
	Others (CEE, Arab world, etc.)	10%	18%
Biggest export markets	Germany	37%	27%
	France	12%	10%
	Italy	10%	8%
	Spain	10%	8%
	USA	7%	18%
	Others	24%	29%
Ownership	Private	87%	95%
	State	0%	0%
	Mixed	13%	5%
Firm nationality	100 % local	85%	89%
	100 % foreign	5%	4%
	mixed	10%	7%
Firm establishment	Prior 1980	30%	32%
	Prior 1990	3%	33%
	Prior 1995	46%	21%
	Prior 2000	14%	9%
	Prior 2002/3	7%	5%
Type of business	Manufacturer	100%	84%
	Trader	0%	16%
Firm export share of total production	<30 %	4%	7%
	30-59%	0%	23%
	60-90 %	20%	20%
	>90 %	76%	50%
Firm export trend since 1990	Decreasing	6%	3%
	Constant	50%	46%
	Increasing	44%	51%

Source: own survey

Appendix B

Table 1

Importance of OPT apparel in Bulgaria and Turkey
(% of total exports from the same category)

Product groups	1991	1995	2001	2003	2005
Bulgaria					
61	26 %	45 %	50 %	5.7 %	4.5 %
62	65 %	79 %	29 %	20 %	21 %
Turkey					
61	1 %	NS	NS	NS	NS
62	13 %	8.5	NS	NS	NS

Source: EUROSTAT, COMEXT, authors' calculations; the data after 2001 are less reliable since the statistics discontinued to detect in full OPT trade.

Table 2

Concentration of OPT in Bulgaria

Product groups and range of OPT concentration	1991	1995	2001	2003	2005
Over 50 %					
61	3	11	5	0	0
62	2	25	1	0	0
25-49 %					
61	14	3	7	1	0
62	1	2	15	7	11

Source: EUROSTAT, COMEXT, authors' calculations; the data after 2001 are less reliable since the statistics discontinued to detect in full OPT trade.

Appendix C

Concentration of exports from 610910/610990 product groups of low value added exports (volume and % of total apparel exports)

	1991	1995	2001	2003	2005
Turkey					
Volume	€237 m.	€374 m.	€1.12 b.	€1.6 b.	€1.98 b.
% of apparel exports	10 %	10.7 %	17 %	20 %	22 %
Bulgaria					
Volume	NS	€8.8 m.	€51.6 m.	€46.5 m.	€67.7 m.
% of apparel exports	NS	3.4 %	5 %	4.7%	6 %

Source: EUROSTAT, COMEXT, authors' calculations.

Appendix D

Table 1

611030.88 – Jerseys, pullovers, cardigans, waistcoats and similar articles, of man-made fibers, knitted waistcoats and similar articles, of man-made fibers, knitted or crocheted (excl. wadded waistcoats)

	Bulgaria	Bulgaria	Turkey
	OPT	Non-OPT	Non-OPT
1991	19	9.78	21
1995	18	12.69	23.8
2001	---	15.9	18.5
2003	---	15.9	18.2
2005	---	18.3	18.5

Source: EUROSTAT, COMEXT.

Table 2

620520.88 – men's or boy's shirts of cotton (excl. knitted or crocheted, nightshirts, singlets and other vests)

	Bulgaria	Bulgaria	Turkey
	OPT	Non-OPT	Non-OPT
1991	22.46	7.64	20.3
1995	18.9	9.63	22.4
2001	---	---	28
2003	24.3	22	30.5
2005	28	22.8	33

Source: EUROSTAT, COMEXT.

Table 3

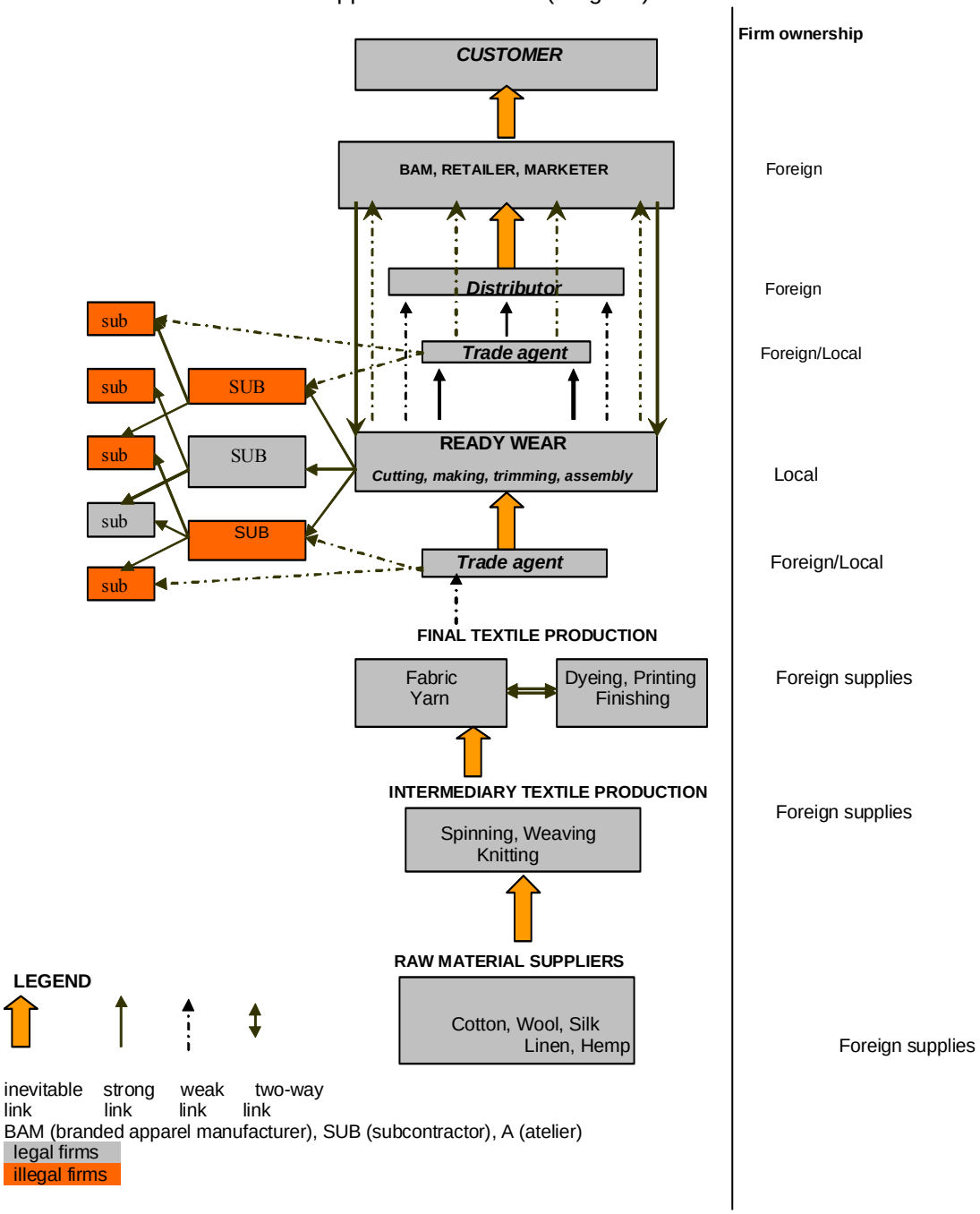
620640.88 – women's or girls' blouses, shirts and shirt-blouses of man-made fibres (excl. knitted or crocheted and vests)

	Bulgaria	Bulgaria	Turkey
	OPT	Non-OPT	Non-OPT
1991	28.36	23.25	31.8
1995	25.3	23	33.5
2001	25	23.3	23.3
2003	24.3	22.5	24.8
2005	22.8	21.4	24

Source: EUROSTAT, COMEXT.

Appendix F

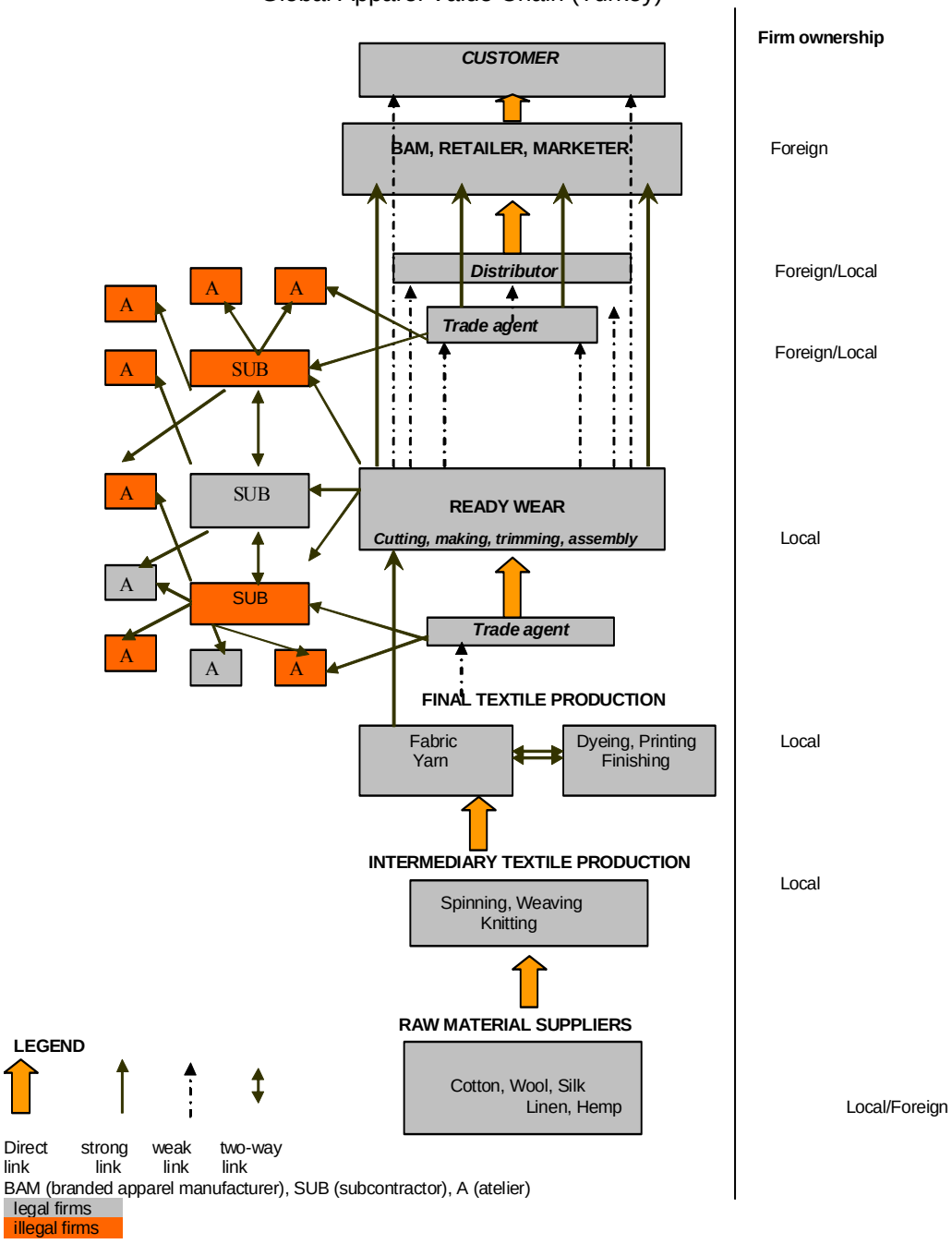
Global Apparel Value Chain (Bulgaria)



Source: the authors

Appendix E

Global Apparel Value Chain (Turkey)



Source: the authors