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Shamel Azmeh and Khalid Nadvi

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Asian firms and the restructuring of global value chains

Shamel Azmeh [a], Khalid Nadvi [b,*]

[a] Department of International Development, London School of Economics and Political Sciences (LSE), Houghton Street, London WC2A 2AE, UK
[b] School of Environment, Education and Development, University of Manchester, Arthur Lewis Building, Oxford Road, Manchester, M13 9PL, UK

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ABSTRACT

Asian trans-national garment manufacturers are transforming the structure of global value chains in the apparel industry. Recent studies show such first tier suppliers undertaking a greater range of functional activities. In many cases, these firms originate from the so-called 'Rising Power' economies, particularly 'Greater China' and South Asia. We argue that such, transnational, Asian firms can play a pivotal and strategic role in shaping the geography and organisational restructuring of the global value chain. Drawing on secondary sources and primary research we illustrate how such firms manage complex international production linkages, and ensure the incorporation of Jordan into the global garment industry. The paper contributes to the understanding of the role of these firms and how their behaviour is driven by complex dynamics linked to their own business strategies, their linkages with buyers, and their ability to exploit production and trade opportunities while maintaining high levels of global locational flexibility.

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1. Introduction

The internationalisation of production in the global apparel industry with diverse and dispersed garment manufacturers undertaking production for a variety of global brands, discount retailers and supermarket chains is well documented (see, for example, Bair & Gereffi, 2003; Gereffi & Memedovic, 2003; Gereffi, 1999; Nadvi & Thoburn, 2004; Palpacuer, Gibbon, & Thomsen, 2005). This pattern of production organisation has been captured through the analytical lens of the global value chains (GVC) framework where 'lead' firms monopolise high rent activities such as design, distribution, marketing and retailing while outsourcing low cost, and low return, functions to developing country garment manufacturers (Gereffi, 1999; Kaplinsky, 2005). But this is not a static model. The global garment industry is highly competitive, marked by pressures for higher quality, greater choice, more fashion content and reduced costs. This has spurred moves to what is often referred to as 'fast fashion', high quality fashion-intensive yet low priced garments (Tokatli, 2008). Fast fashion and the need for cost efficiencies have collectively led to the widespread adoption of just-in-time manufacturing practices, lowering inventories and reducing time to market with small batch production, in the garment sector.

These developments require garment producers to upgrade their production capabilities and take on new functions. In addition, the use of information technologies connecting point-of-sale information held by retailers with production and logistics data held by producers and distributors has led to closer connections between different stages of the production to retail chain. Producers can quickly adjust to shifting consumer demands, reducing costs and risks associated with obsolete inventory or lost sales, and accelerate time to market. To retain access to the leading and most demanding global buyers, and meet these changing organisational requirements, first-tier garment suppliers have had to upgrade from simple 'cut-make-trim' to 'full package' production *and* internationalise their operations, becoming multinational firms in their own right. This requires investment in sourcing, logistics, research and design, and market forecasting. In many cases, these new functions have been developed in closed coordination with key buyers, resulting in greater efficiencies and closer ties between key suppliers and buyers. The growing importance of 'postponement strategies', for instance, in which product customisation is delayed to the latest point possible in order to respond to shifts in real-time market demand has led to more data-sharing throughout the chain. This requires growing capacities and role of first-tier suppliers in point-of-sale (POS) data analysis, sales forecasting, inventory management through vendor managed inventory (VMI) systems, and retail shelf management functions often through electronic data interchange (EDI) systems that connect first tier suppliers directly to points of sales of buyers (Chaudhry & Hodge, 2012; Saghiri & Hill, 2013).

* Corresponding author. Tel.: +44 161 275 0417.
E-mail addresses: c.azmeh@lse.ac.uk (S. Azmeh), khalid.nadvi@manchester.ac.uk (K. Nadvi).

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One major outcome of these transformations in the global apparel industry is the emergence of large Asian suppliers as critical players in the organisational restructuring of production and trade. Many Asian garment manufacturers, who were initially integrated as first tier suppliers in global value chains (GVCs) co-ordinated by 'Western' lead firms, are now taking on significant chain co-ordination functions in their own right, often becoming 'co-leads' or, as we term them, 'strategic and pivotal' firms. They are strategic in that they not only undertake a variety of critical functions associated with design, manufacturing and distribution, but also because global brands can devolve strategic tasks linked to the organisation and management of their supply chains to such firms. Thus, they orchestrate the flows of goods, components, capital, labour, and information throughout the circuits of the chain. They are also pivotal in that they can have a transformative impact, rapidly shifting the balance of production and sourcing arrangements from country to country. Hence, we argue, such firms, often in close collaboration with their key buyers, are effectively shaping the overall design of the global architecture of the garment value chain.

Geographically, these leading multinational garment manufacturers have built extensive dispersed and functionally integrated value chains that are spread pre-dominantly in Asia but also extend to Africa, the Middle East, and Central America. The choice of locations reflects various factors such as production costs, logistics, and comparative trade preferences. These firms keep functions such as corporate strategy, design activities, relation building with buyers, sourcing of materials and ties with suppliers within their home countries transforming their headquarters into key command and control nodes in the network. At the same time, they are able to swiftly relocate manufacturing activities across a rapidly changing map of locations in lower cost countries or countries that benefit from preferential access to key (usually Western) consumer markets, especially the United States (US) and the European Union (EU).

A number of studies have documented the presence of these international garment manufacturers in a variety of different countries (Chiu, 2007; Fernandez-Stark, Frederick, & Gereffi, 2011; Gereffi & Bair, 2010; Gibbon, 2003a,b; Kaplinsky & Morris, 2008; Lall, 2005; Morris, Staritz, & Barnes, 2011; Natsuda, Goto, & Thoburn, 2010; Phelps, Stillwell, & Wanjiru, 2009; Rotunno, Vezina, & Wang, 2012). However, there is a paucity of firm-level research and information about such Asian garment suppliers and how they manage their globally dispersed production processes. In particular, the origins of these firms, their organisational structures, their globalisation processes, their relative power vis-à-vis their lead buyers in GVCs, remain areas that require further research. Richard Appelbaum provides one of the few studies on this issue. Appelbaum (2008:70; 2009) argues that "we are now entering an era in which a qualitatively higher degree of integration between production and distribution has begun to reshape the entire buyer-driven global commodity chain". This new era, he suggests, is driven by the emergence of both giant retailers and "giant transnational contractors". Appelbaum lists examples of these giant transnational contractors and shows how a shift in organisational activities have taken place with these large Asian firms undertaking a greater role in the value chain. These dynamics, Appelbaum argues, remain poorly understood although a decline in the power asymmetry between buyers and suppliers seems likely to him as a result of these shifts. This creates the possibility that such firms could one day challenge the power of the global buyers they now serve, and potentially becoming global buyers in their own right (Appelbaum & Smith, 2001; Appelbaum, 2008, 2009).[1]

[1] More recently Merk (2014) has also highlighted the rise of Asian 'tier 1 firms' in the global garment industry, and pointed to the challenges that this may raise for labor rights activists.

In this paper we build on Appelbaum's call that "additional study is clearly needed to better understand how and to what extent global production networks for consumer goods are being managed by Asian-based multinationals, and what this implies for the governance of Gereffi's classic buyer-driven commodity chains" (Appelbaum, 2008:82). What is needed for this, we argue, is a better understanding not only of the operations of such companies in different countries but on the entire global value chains managed by these firms between different locations. How do different countries fit into these chains, and how do these firms orchestrate different types of flows including capital, goods and components, managers, labour, and information to ensure the overall functioning of the chain. By drawing on the literatures on global value chains and on international business, we argue that such firms can act as the instigators, or at the very least the managers, of the organisational and geographical restructuring of the global garment value chain. They are the key node where trade, market, and sourcing shifts are co-ordinated, and can bring about rapid changes in locations of production and in the geography and organisation of the global value chain. This has important implications for the economic and industrial development of the different locations where such firms land, as well as for the labour engaged by them. We empirically illustrate this at two levels. First, we use secondary data on a number of these firms to map their global production arrangements, showing the extent of their operations and the dynamism of these networks. Second, we use primary qualitative firm case study data obtained through research conducted in Jordan to show how these Asian apparel multinationals make locational choices, rapidly turning Jordan, a country with no history of clothing manufacture, into the leading garment exporter from the Middle East and North Africa to the United States.

The rest of the paper is structured as follows. Section 2 provides the theoretical framework of the analysis. Section 3 illustrates case studies of Asian transnational firms in the apparel GVC using secondary sources, showing how such firms undertake a range of functions and internationalise their production across the globe. Section 4 explores the role of these Asian garment firms in transforming the Jordanian garment sector, linked to a specific set of trade preferences and a particular labour regime, and their limited embeddedness in the host country. Section 5 details our conclusions and points to questions for further research.

2. Lead firms, suppliers, and the geographical and organisational restructuring of global value chains

The global value chains literature has shown how different economic, regulatory, and technological shifts have enabled the organisational disintegration and the geographical dispersion of productive activities leading to new types of cross-country production and trade relationships (Gereffi, Humphrey, & Sturgeon, 2005; Kaplinsky & Morris, 2001). The GVC literature has paid significant attention to understanding how such networks are governed and how different actors frame the overall architecture of the network with special focus on the associated issue of upgrading in these networks (Bair & Gereffi, 2003; Gereffi & Memedovic, 2003; Gereffi et al., 2005; Humphrey & Schmitz, 2002; Ponte & Sturgeon, 2013). One of the key issues that emerged from this literature is the role of global 'lead firms' who derive their power from a combination of factors that can include their dominance in retail markets, their ownership of brand names, and their command and control over critical technologies. These 'lead firms' are thus able to shape the global value chains, control the locations of production and the distribution of value throughout the chain and directly affect the upgrading potential of different actors within the chain.

The relationships between buyers and suppliers have received significant attention in this research through the discussion on governance. While the early focus was on lead firms, later research has highlighted the dynamic nature of these governance structures and the changing relationships between different actors in the chain. In their model of the governance of GVCs, Gereffi et al. (2005) illustrated this across different sectors. The apparel value chain, they argued, was shifting from a 'captive' value chain into a 'relational' value chain through growing roles of suppliers mainly though full package production. Predicting a more concentrated supply network in the industry following the phasing-out of the multi-fibre arrangement, they observed that "to the extent that the ability to codify transactions is increased by this concentration process, and supplier capabilities continue to improve, we would expect the relational value chains in apparel to become more modular" (Gereffi et al., 2005:92). More recently, Ponte and Sturgeon (2013) have developed an approach to GVC governance which provides a more dynamic organisational perspective, allowing for multipolar forms of governance and supplier–buyer relationships.

This issue of the dynamic nature of supplier–buyer ties has also received attention in the business literature particularly the literature on supply chain management. (Cox, 1997) suggested that key supply chain resource, what he called critical assets, enable owners/controllers of those assets to leverage value from customers, suppliers, competitors, and employees. In later research Cox and his co-researchers (Cox, Ireland, Lonsdale, Sanderson, & Watson, 2002) developed this into a relative and more relational understanding of the power regimes between suppliers and buyers and under what circumstance the power asymmetries between the two could lead to higher power and above normal rents. Four types of supplier-power structures were identified by them: Buyer–dominance, supplier dominance, buyer–supplier interdependence, and buyer–supplier independence. None of these structures, they argue, is "likely to be permanent" (ibid: 24). A few issues that emerge from this body of research are important to highlight. First, the scale of suppliers could be an important element in shifting power dynamics in the supply chain as it entails difficulties in finding substitute suppliers. In electronics, for instance, the scale of many contract manufacturers means that buyers are locked in to an extent in their supply relationship as suppliers who could perform productive activities at the scale needed by the buyers are simply not there. Other related issues are the search and switching costs of buyers to find alternative suppliers and the risks that emerge with new supply relationships. Another important element is the degree of organisational inter-dependence between the buyer and the supplier. The ability to separate different activities in the chain enables less organisational inter-dependence and thus easier switching from one supplier to the next while stronger links between different activities require higher organisational inter-dependence and more difficult switching between suppliers.

Nonetheless, despite extensive empirical research using the GVC framework on the garments industry, we still know surprisingly little about the potentially transformative role that other (non-lead firm) actors within the chain can have in defining the characteristics and dynamics of the value chain. First tier garment suppliers are often studied but usually viewed through the lens of their subordinated ties with global lead firms. We still do not fully understand how such suppliers function. Who are they? Where do they come from? Where do they operate? What is the scale of their operations? How do they make organisational and locational choices? Can they actually *shape* the value chain, and if so how? And what are the economic, social, and developmental implications of this?

The presumption to date in the GVC literature is that the geographical contours of the GVC are shaped by the lead firms who respond to a number of factors in determining how different locations are integrated into, and disintegrated from, the chain. These include a combination of supply-side factors, focusing on the business environment, trade openness, fiscal incentives, and labour laws in potential production locations; and distinct demand factors that can arise from a search for lower production costs, the narrower 'race to the bottom' narrative (Appelbaum, Bonacich, & Quan, 2005), or trade preferences and proximity to final markets.

This implies that integrating a specific location into a value chain requires not only the availability of productive capacities in the physical sense, but also, especially in labour-intensive industries, the ability to organisationally integrate this location into the multiple flows of capital, intermediate goods and labour that constitute the GVC. This includes the ability to build a production regime that can meet the overall requirements of the value chain, including a production and labour control system that enable consistent production that can meet the requirements of the chain especially with regard to cost and on-time delivery. This is not an easy process as these requirements need to be extracted from locations with very different economic, socio-political, and regulatory frameworks. The African Growth and Opportunity Act (AGOA), for instance, created an opportunity for duty-free access to the US market. Realising this opportunity required not only manufacturing capacity in AGOA countries but also the organisational integration of AGOA preference suppliers into the value chains serving the US market and the building of a local production and labour regimes that enabled production from the new locations to meet the requirements of the value chain in consistent, low-cost, and on-time products (Gibbon, 2003a,b).

This is particularly important when the organisation and geographical restructuring of the network is not undertaken by the lead firm alone but in conjunction with, or sometimes solely by, key suppliers that coordinate the (dis)integration of the value chain into different locations, the division of labour between these locations, and the value distribution outcomes between the different locations. This is a critical task for, as Ernst (2002) argues, a key source of power for the 'lead' or 'flagship' firm is their capacity to coordinate transactions between the different nodes in the chain. It also entails that a better understanding of the actors undertaking this process is crucial to understand their organisational models and the way they engage with different spaces and different pools of workers.

Theoretically, one way of developing the tools needed to unpack this is to engage the GVC literature with the literature on international business (IB) particularly on the internationalisation of business firms and the organisation structures of trans-national/multi-national corporations. This is particularly useful when the restructuring of the network is undertaken through foreign direct investments (FDI) rather than by establishing outsourcing arrangements. This is common in a number of industries particularly when the potential export location has limited manufacturing and organisational capacities that could meet the requirements of the value chain. In such a case, a firm from the chain (not necessarily the lead firm) can help integrate this location into the value chain through FDI and by mobilising the distinct flows of capital, information *and* labour needed to integrate this location into the GVC. This is not limited to physical productive capabilities but also to wider organisational issues related to systems of production, logistics systems, output requirements, and labour control mechanisms.

Some of these issues have been discussed in the IB literature. In particular, the conceptualisation of the internationalisation

process offered by Stephen Hymer provides an important way of combining the GVC literature with the IB approach (Dunning & Pitelis, 2009; Strange & Newton, 2006; Yamin & Forsgren, 2006). In his later writings, Hymer's conceptualisation of the internationalisation of business firms extended beyond the business realm of establishing new subsidiaries based on home and host country comparisons into a broader analysis of this process and the way a business firm, through investing abroad "not only sends capital and management out, but also establishes a system for drawing foreign capital and labour into an integrated world network" (Hymer, 1972:92). Through this process firms are "unifying world capital and world labour into an interlocking system of cross penetration that completely changes the system of national economies that has characterised world capitalism for the past three hundred years" (ibid).

This process, for Hymer, was directly linked to the organisational restructuring of the global corporation:

> The twofold nature of corporate expansion needs stressing because it is so often misunderstood in the analysis of international business. Decentralization within a corporation is often not the opposite of centralization, but the complement: for decentralization at one level is often accompanied by centralization at a higher level. As corporations have developed over time, their capacity for higher-level, more abstract planning covering longer time horizons and broader geographical space has increased greatly. This enables and even more require greater autonomy at lower level. The granting of independence to lower levels does not imply a surrender of strategic control but an increase in tactical flexibility combined with an increase in planning capacity (Cohen, Felton, Nkosi, & van Liere, 1979:248)

This conceptualisation of the internationalisation of firms provides an important way to take the research around GVCs forward. It provides us with a more dynamic understanding of the shifts in global production that is often lacking in the research around GVCs. It also allows us to unpack the behaviour of different actors in the chain and the way their behaviour reflects different firm and chain level dynamics. In what follows, we look at this through the case of Asian trans-national garment manufacturers.

3. Asian 'strategic and pivotal' garment firms

The garments value chain was presented by Gereffi in early GVC research as the archetype of a buyer-driven value chain reflecting the power of large retailers, branded marketers, and branded manufacturers in setting up the chain in different exporting countries (Gereffi, 1999). Within this framework, a number of Asian firms particularly from Taiwan, Hong Kong, and Korea were integrated in the value chains of 'Western' buyers. Subsequently, under different internal and external factors, as documented in the GVC literature, those firms expanded globally to establish 'triangular production networks' to serve their buyers (ibid). Through this engagement some of these firms have become genuine trans-national manufacturers with operations and employment in more than one country and with the organisational ability to switch production between different locations based on factors related to the requirement of buyers, trade preference, and production costs. In what follows, we provide an overview of the operations of some of these Asian strategic pivotal garment firms. These firms are selected for illustrative purposes and are amongst the largest Asian garment manufacturing firms. Similar processes, nonetheless, can be seen in a relatively larger number of firms including companies that can be classified as small and medium enterprises.

3.1. Nien Hsing[2]

Nien Hsing is a Taiwan-based company established in 1986 that mainly sells denim products to global brands, particularly American buyers. The company is considered as one of the largest denim producers in the world. It started its global expansion by setting up production in Lesotho in 1991, followed by Nicaragua in 1993, before expanding into Mexico, Cambodia, and Vietnam. Today, Nien Hsing runs a global production network scattered between factories in Taiwan (900 workers), Vietnam (8000 workers), Cambodia (5500 workers), Lesotho (8200 workers), Mexico (840 workers), and Nicaragua (230 workers). The network is managed from Taiwan where key activities such as relations with buyers, sourcing of materials, and architecture of the network take place.

Nien Hsing investments in Nicaragua provide an illustration of the organisational model of the company. Following the entry of the company to Nicaragua, its operations there expanded quickly with total number of workers reaching around 16,000 in 2007. This was driven not only by the preferential access that Nicaragua enjoyed to the US market as part of the CAFTA-DR free trade agreement but also by the Trade Preferential Levels (TPLs) Nicaragua obtained which allowed fabrics and inputs to be sourced from outside the United States and the CAFTA-DR region. This enabled Nien Hsing to import fabrics from Asia and other sources to be processed in Nicaragua (Van Wunnik & Escuer Costa, 2008). In 2008, Nien Hsing decided to close most of its production in Nicaragua, leading to a loss of around 15,000 jobs. The decision was driven by a number of trade and political shifts with the company deciding to focus more on Vietnam and Cambodia instead (Van Wunnik, 2011).

Nien Hsing's investments in Lesotho provide another interesting case on the dynamics of global expansion of firms and how this expansion is shaped by different economic and regulatory factors. In contrast to the vertically disintegrated globalisation model of most Asian transnational suppliers in Lesotho, Nien Hsing established a vertically integrated production facility in Lesotho that processes cotton lint, spins and dyes yarn, weaves fabric, and produce denim garments, with total investments of US$ 120 million (USITC 2009). Cotton is imported from Malawi, Zambia, Mozambique, Tanzania, and Benin and fabrics are sold to local and regional apparel manufacturers. An investigation by the US International Trade Commission (USITC) in 2009 (USITC 2009) found that the rules of origin of the Africa Growth and Opportunity Act (AGOA) was a factor in the decision of Nien Hsing to establish textile inputs manufacturing capacity in Lesotho. According to the original AGOA legislation, products have to be of fabrics and yarns from beneficiary countries. A special waiver, the third-country fabric provision, was introduced for a limited period of time (three years) when AGOA was implemented. Nien Hsing anticipated growth in demand for local fabrics and yarns following the expiration of this waiver and decided to invest in textile inputs manufacturing capacity in Lesotho. As the USITC investigation put it:

> Nien Hsing indicated that it decided to invest in Lesotho with the understanding that the third-country fabric provision would expire at the end of 2004, as stipulated in the original AGOA legislation. One industry source suggested that Nien Hsing, the largest manufacturer of jeans in the world, was able to invest successfully in Lesotho due to its pre-existing global linkages in the textile and apparel supply chain. Nien Hsing claims that its business in Lesotho has suffered, as

[2] As the data reported here is obtained through public sources (company websites, specialised industry websites and published documents), the names of the firms have not been changed. Lists of factories are not only what each company owns now but also some factories that were closed.

> what it saw as a potential market in SSA was taken away with subsequent renewal of the third-country fabric provision. (USITC 2009, 4–18)

3.2. Crystal Group

Crystal Group is one of the largest Hong Kong-based apparel manufacturers with global employment of around 45,000 workers and a turnover of US$ 1.3 billion in 2012, according to the company's 2013 sustainability report. The company operates in Malaysia, China, Cambodia, Vietnam, Bangladesh, Mauritius, Sri Lanka, in addition to Hong Kong. It is a supplier to a number of global clothing retail brands such as Victoria's Secret, Levi's, Uniqlo, H&M, Marks & Spencer, Gap, JC Penney and Abercrombie & Fitch. The company has invested mainly in garment manufacturing although it is now establishing a US$ 180 m joint textile factory with the Hong Kong-based Pacific Textile in Vietnam which will be a vertically integrated unit (Knitting, dyeing, cutting, sewing and finishing products) with total employment of around 20,000 workers.[3]

Crystal group is one of the Asian companies that invested heavily in building capacities beyond the traditional role of a garment supplier. The company sees itself as a strategic long-term partner to global buyers. In an interview with Just-Style, Andrew Lo, the CEO of the group, explain that:

> Our top ten customers account for around 85% of our business, and most of our customers have been working with us for 15–20 years or even longer...Building a strategic relationship to our scale takes a good ten years, so we can't afford to have ever-changing customers.

Reflecting rapid shifts in the market, the company aims at maintaining a higher degree of locational flexibility and ability to shift production. Answering a question of offshore production locations in the same interviews, Lo argues:

> Right now my biggest investment is in Vietnam, and will continue to be so for the next three to five years. Later on, probably Bangladesh.

Organisationally, the company has focused on building its innovation capacities to improve its position in the value chain. The company undertakes design activities and to build capacities in this area the company has five innovation centres (Denim Jeans Enterprise Technology Centre, Intimate Wear Enterprise Technology Centre, Cut-and-sewn Knit Research and Development Centre, Sweater Research and Development Centre). In addition, Crystal Group also developed a Master of Engineering in Textile Studies programme with Wuyi University in China. In an earlier interview with Just-Style, Andrew Lo discusses the expanding role of manufacturers in the value chain[4]:

> More responsibility for production monitoring will be levelled at the supplier. For example, Crystal has already set up a corporate wide quality assurance team which works on behalf of the external customer monitoring production throughout the Group. Equally, external audit checking for ethical compliance is likely to be the manufacturers' responsibility. The demand for value added activities will also increase, with product design and development being core. The shift to a smaller number of internationally operating manufacturers will enable customers to focus on what to buy and how to sell and market. The manufacturer, meanwhile, will concentrate on how and where to produce the products, offering various options on cost and turnaround time depending on the needs of each customer.

3.3. TAL Group

TAL Group is a Hong Kong-based group exporting mainly to the US market. The company employed more than 20,000 workers in factories scattered between Hong Kong, China, Indonesia, Malaysia, Taiwan, Thailand and Vietnam (TAL Group Sustainability Report 2010).

TAL Group focused on improving its position in the supply chain through logistics and supply chain management and by taking wider organisational responsibilities. One of the innovations in this regard was TAL Group's partnership with JC Penney. As Cao, Zhang, To, and Ng (2008:390) explain:

> To reduce the lead time that a new series of seasonal collection in market, TAL assumes the responsibilities of designing and market-testing of new styles for J.C. Penney in-store brands...TAL's design teams in New York and Dallas come up with new styles, and within a month its Asian factories can churn out 100,000 new shirts, which are offered for sale at 50 selected Penney stores. After analyzing sales data for a month, TAL decides how many of the new shirts to be made in more appropriate size/color assortments.

TAL also provided the organisational interface between JC Penney and its network of suppliers. In 2006, Harry Lee the Managing Director of TAL Group explained the relationship with JC Penney in an interview with Apparel Magazine[5]:

> We continue to work with J.C. Penney to help them manage their inventory. We use our own forecasting software and use J.C. Penney's POS (point of sale) data to directly manage their business. We are also helping J.C. Penney's smaller and newer suppliers. J.C. Penney wants to pack [different assortments] for different stores, but some of its smaller and newer suppliers do not have capabilities to do that, so we are helping them. We receive the EDI transmission from J.C. Penney for the smaller companies, and help them pack. We teach them how to use the pick-the-light system, set it up for them and help train their people. In some cases, we are doing forecasting for them. The cost of this service is charged to J.C. Penney. Suppliers do not have to buy any equipment, technology or training [in advance]; they pay as they go.

A study by Deloitte Research on TAL Group titled "The Power of Synchronization" discusses how TAL reacted to the cost pressure by its buyers on the one hand and by its competitors on the other hand (Deloitte Research 2005:1, emphasis added):

> In response, over the last ten years TAL has changed the dynamics of its competitive situation to its distinct advantage by delivering a value proposition beyond the usual concerns of cost, quality, and delivery. This has been achieved by taking the synchronization of supply and demand to a whole new level of performance. By linking activities on the factory floor of its various Asian factories to points of sale at retailers in the U.S., TAL has established closer ties with its retail customers and successfully managed to "lock in" its customer base

3.4. Makalot Industrial Co.

Makalot Industrial Co. is a Taiwanese garment manufacturer with global employment of more than 26,000 workers. From its

[3] "Speaking with style: Andrew Lo, CEO, Crystal Group", Just-Style, 31st August, 2012.

[4] "The Future looks bright for Hong Kong's Crystal Group", Just-Style, 16th August, 2004.

[5] "Lessons from a Mega-Manufacturer", Apparel Magazine, 2/1/2006. See also "China Shifts Away From Low-Cost Factories", New York Times, 15/9/2010.

establishment in 1990, the company invested in Taiwan, Indonesia, El Salvador, Cambodia, Vietnam, China, and the Philippines. The company provides a number of services to its buyers including research and design activities in collaboration with strategic buyers. Makalot has also been attempting to move into branding in the Taiwanese and Asian market with a new brand, Fisso, launched in Taiwan, mainland China, and Indonesia in 2013.

In 2013, Makalot invested in textile production in Vietnam. This, Makalot chairman Frank Chou told Taipei Times, is driven by the trade negotiations taking place under the Trans-Pacific Partnership and that Vietnam could be granted duty-free access to the US under the "yarn forward" rule that would require textile fabrics to be produced in Vietnam.[6]

These four firm cases cited above should not be viewed as unique examples but instead as illustrative of a wider trend in the industry. They point to a presence of a number of Asian companies especially those based in Hong Kong, Taiwan, Korea, and few Indian business groups who have emerged as strategic and pivotal firms in the garment GVC. Other examples from Hong Kong include Yee Tung Garment (with operations in mainland China, Philippines, Vietnam, Cambodia, and Jordan, and total global employment of over 15,000 workers), Luen Thai Holdings (around 34,000 workers with turnover around US$ 1 billion and production in China, the Philippines, Indonesia, India, Bangladesh and Cambodia). Another example from Taiwan is Tai-Nan Enterprises (around 15,000 workers across a number of factories in Taiwan, mainland China, Cambodia, Jordan, and Indonesia).

Two points are important in this regard. The role of these companies, and other relatively smaller companies, cannot be understood in the framework of the traditional triangular manufacturing model. From the narrower upgrading definition, although many of these firms still generate a large percentage of their revenues through their OEM business with their Western buyers, they have upgraded their role in the GVC into that of 'strategic partners' by developing joint logistics and data platforms with their buyers and moving into research and design often in collaboration with their buyers. A few of them have also moved into branding with a focus on the Asian market in particular. From a broader perspective, the global operations of these firms indicate important organisational capabilities with regard to coordinating different product, capital, and labour flows between different locations, operating in different business environments, ability to build production and labour regimes in different locations with unique regulatory, socio-political, and cultural contexts. Few of their buyers have the required capacities to undertake this role.

The second issue is the role of these firms in restructuring the value chain organisationally and geographically. This can be seen in the speed of movement of these firms in and out of different locations and how quickly they exploit any opportunity that could emerge due to shifts in market or trade regimes. This is a key role of these firms as they represent the pivotal point that embodies the high levels of dynamism within the garments global value chain. This entails highly flexible globalisation model of these companies with strong focus on limiting locational embeddedness in host locations thus minimising their sunk costs and allowing for faster exit decisions. This cannot be understood by looking at these companies in isolation but by viewing their position in their GVCs and the ways in which they act to shape the organisational and geographical restructuring of these chains. Van Wunnik followed the operations of Nien Hsing in Nicaragua and documented how the purpose of maintaining locational flexibility was reflected in the operations of Nien Hsing in Nicaragua:

> the location advantages of Nicaragua were fragile for Nien Hsing Textile Co.: they were "political" or artificial. All this helps to explain why Nien Hsing Textile Co. wanted to retain its locational flexibility. Making significant investments in heavy capital goods (spinning machine, weaving machine, etc.), establishing long-term economic linkages with the local suppliers, and employing and training local managers would be in contradiction with this determination to maintain the international mobility of its manufacturing activities (Van Wunnik, 2011:17)

Similarly, looking at the case of Asian investments in Kenya following AGOA, Phelps et al. (2009) argued that the subsidiaries of Asian firms in Kenya "can hardly be regarded as examples of the sorts of strategic autonomy and capability sometimes developed at MNE affiliates" nor "nor are they territorially embedded" (p. 319). "Their relationship to the parent company coupled with the terms of the AGOA and the low barriers to entry into the clothing industry mean that these investments are likely to be highly transient" (ibid).

This pattern of behaviour can only be understood by unpacking the role and behaviour of these firms as an outcome of their position in GVCs and their own business organisation, international strategy, and history. This is where linking the research around global value chains and international business literature could prove to be most fruitful. The GVC literature has, for example, given little attention to FDI strategies. What motivates FDI is at the heart of the IB framework. The case studies of Asian strategic and pivotal garment firms described here have all internationalised their operations through FDI, yet their locational choices for foreign investments have been strongly influenced by their GVC engagements. Thus, an integration of the GVC and IB analytical approaches could provide a better understanding of the internal organisation of these firms, their locational choices and their headquarter-subsidiary linkages as well as how this affects and is affected by GVC dynamics. We explore this more closely in the case of Jordan which has become the leading clothing supplier from the Middle East to the United States thanks in large measure to FDI by Asian garment firms.

4. Asian strategic and pivotal garment firms in Jordan

Jordan[7] has emerged as one of the 'winners' in the global garment industry in recent years with garment exports to the US rising dramatically from a mere US$ 3 million in 1997 to US$ 1.25 billion in 2006 (see Fig. 1) (Azmeh and Nadvi, 2013). With no previous history in garment production, Jordan is now one of the top twenty garment suppliers to the US, with a market share larger than Turkey, Korea, Taiwan, and Egypt, countries with significantly bigger manufacturing capacities and history in the garment industry. How has this come about? There are two linked explanations: first is a specific trade preference regime that applies to Jordan, and linked to that Jordanian regulations on migrant workers, and second is the role of Asian garment manufacturers who have invested in Jordan to exploit these trade preferences.

In 1997, a preferential market access agreement was signed between Jordan, the United States, and Israel as part of the Middle East peace process. The Qualifying Industrial Zone (QIZ) agreement, offered products manufactured within designated special zones in Jordan duty and quota-free access to the US market as long as these products contained a minimum percentage of Israeli input (Azmeh, 2014). Prior to the QIZ, Jordan was highly dependent on

[6] "Makalot Plans Vietnamese Investment", Taipei Times, October 4th, 2013.

[7] This section draws on primary field research conducted in Jordan in 2011 involving detailed case study interviews with key Asian garment manufacturing firms in Jordan in addition to other key informants in the industry.

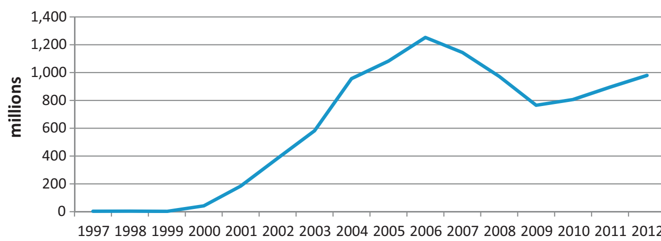

Fig. 1. Jordan exports to the US of SITC 84 (apparel, clothing, and accessories), US$ millions.

tourism, services, and remittances from the oil-exporting Gulf Cooperation Council (GCC) states. It had no comparative advantage in garment manufacturing with relatively high labour costs, high production costs, a lack of textiles, inputs and support industries, and was logistically isolated from the rest of the global garment value chain and from final markets in Europe and the United States.

While the QIZ was the catalyst, the integration of Jordan into the global garment value chain came about through investments by Asian garment manufacturers particularly those from Taiwan, Hong Kong, India and Pakistan. In 2007, Chinese/Taiwanese firms accounted for 60% of employment (14,000) in Al-Tajamouat Zone one of the largest QIZs in Jordan. In Al-Hassan Industrial Zone, firms registered as Chinese/Taiwanese accounted for 36% of total employment while Indian firms accounted for 19%. In Al-Dulayl Zone, South Asian firms accounted for 72% of total employment. In Al-Karak industrial zone, only one Taiwanese company was active with employment of around 5000 workers. These Asian garment manufacturers effectively established the garment industry in Jordan and integrated Jordan into the global value chains of leading US buyers and retail outlets.

Most of these companies, in particular 'greater Chinese' firms, maintain globally dispersed production locations, similar to the case studies discussed in the previous section. In addition to Jordan, these firms are active in mainland China, Vietnam, Cambodia, and, to a lesser extent, Indonesia, and the Philippines, with global employment ranging from 5000 to around 30,000 workers (see Table 1). Their manufacturing networks are functionally integrated and run as one single production system with their Hong Kong and Taiwan headquarters acting as the command and control centre directing flows, production allocations, and specifications to the different locations and providing the key link between these dispersed production locations and the buyers. Each production location is chosen on the advantages it offers to the entire network such as cost, duty-free trade preferences and logistics. Jordan is offered to buyers as the 'duty-free location', supplying items with high duty rates. Another location is selected as the low-cost location while a third is the 'quick response' location. Buyers also played a part in placing Jordan on the sourcing map, sometimes explicitly suggesting Jordan to their Asian suppliers following the QIZ implementation.

The QIZ agreement (and the subsequent Jordan-US FTA) not only provided preferential access to the US market but also offered highly flexible and unique rules of origin. While most US preferential trade agreements adopt a 'yarn forward' rule, requiring products be made from yarns onward in a beneficiary country (or the United States), the QIZ offers a simpler value-added rules of origin mechanism that enables firms in Jordan to source fabrics and other inputs from a third country and still benefit from duty-free access to the US. This is similar to the 'third country provision' in AGOA. Yet, unlike AGOA, the QIZ and the Jordan FTA rules of origin are not subject to periodic renewals by the US Congress. Consequently, Jordanian imports of SITC 65 (Textile yarn, fabrics, made-up articles, n.e.s., and related products) rose from US$ 99 million in 1997 to US$ 631 million in 2006 with China, Hong Kong, and Taiwan accounting for around 90% of these imports (UN Comtrade). This allows Asian garment manufacturers locating in Jordan to access a larger and cheaper supply of fabrics and inputs, and to use their existing networks of fabric suppliers thus limiting the need to invest in new linkages with suppliers in Jordan and the risks that emerge with that. These, highly flexible, rules of origin enhanced Jordan's locational advantage. At the same time they limit embeddedness in the host economy and reduce investments that could become sunk costs in the case of an exit.

In tandem with the trade preferences, Jordan waived its labour laws and minimum wage regulations in the QIZ thereby allowing firms to bring in lower waged Asian migrant workers into their QIZ factories. This resulted in an inflow of over 100,000 migrant workers from India, China, Bangladesh, Sri Lanka, the Philippines, Nepal, and other Asian countries into the QIZ garment factories. Migrant workers constituted about 75–80% of the workforce in the industry according to the Jordanian Ministry of Labour. This offered two key advantages to firms. The first was the ability to establish a highly intensive production system relying on the bargaining asymmetry arising from the way workers were brought into and accommodated in Jordan. The second was to limit their locational investments (financial and time investments) needed to build a local labour force that was adapted to the system of production implemented by these companies. Thus, when an Asian garment firm moves into Jordan it not only brings with it capital and physical investments but also a system for the organisation of production and labour control which is a result of the history of the firm, its engagement in other production locations, and the requirements of the global value chain it is integrated into. This is embodied in the team of managers and production supervisors that move with the firm either from the headquarters or from other production locations and also in the production targets and

Table 1
Employment patterns of greater Chinese garment manufacturing firms operating in Jordan's QIZ.

Company	Locations of factories	Employment worldwide	Employment in Jordan	% of Employment in Jordan
Anthony Textiles	Mainland China, Indonesia, Cambodia, Jordan	5000	1000	20
Saif Group	Burma, Vietnam, mainland China, Jordan	2600	800	30
Bees International	Vietnam, Cambodia, Jordan	4100	400	10
Fibre Textiles	Mainland China, Vietnam, Jordan	5000	1600	32
Toro Global	Mainland China, Philippines, Vietnam, Cambodia, Jordan	15,000	2500	17
Julia Worldwide	Mainland China, Mexico, Sri Lanka, Vietnam, Cambodia, Jordan	14,000	3600	25
Rokia Textiles	Mainland China, Saipan, Jordan	n.a	800	n.a
Midas Enterprises	Mainland China, Indonesia, Cambodia, Jordan	15,000	1100	7
Bilal Apparel	Mainland China, Vietnam, Philippines, Jordan	15,000	900	6
Kora Textiles	Mainland China, Vietnam, Cambodia, Jordan	12,000	800	7

Source: Interviews, the Jordanian Ministry of Labour, and company websites.
Note: (a) The list of factory locations includes companies that were opened and closed over the last decade. (B) Jordan employment data is in 2007. (C) For reasons of confidentiality names of all firms that were interviewed have been changed.

delivery-time requirements often set by the headquarters within the context of the overall GVC. Those outcomes need to be extracted from local pools of workers. This could have been a slow and contested process as imported mechanisms of production and labour control could potentially clash with Jordanian labour norms and socio-cultural factors. However, by bringing migrant workers into Jordan, these Asian firms could circumvent a local 'learning process' and quickly impose their global organisational and production model in the Jordanian setting. Firms could 'import' lower waged migrant workers who were used to this model of production, and who also constituted a 'dis-embedded' labour force with limited bargaining power on the shop floor (Azmeh, 2014). This limits locational investments while boosting the locational flexibility of the firm by reducing entry and exit costs. As Domat, Glass, & Brown (2012) argue in a study on the Jordanian apparel industry:

> The impact of the apparel industry will only emerge as the opportunity to earn money wages affects family size and workers become adapted to the rigors of factory life. The apparel industry has commonly been the work opportunity in which workers acquire formal labor market skills. *The presence of a readily available pool of migrant labor will short circuit the normal mechanisms which induce factory managers and the pool of local labor to learn to work together to produce increasingly higher-value added products.*

The importance of flexibility can only be understood when looking at the international expansion of these firms through the lens of the GVCs they operate in. The rapid market, production, and organisational shifts in the garments industry particularly shifts in trade regime and sourcing policies result in a very short-term perspective on the operations of these firms in different locations and an attempt to maintain low subsidiary embeddedness especially in non-core production locations such as Jordan. Asian garment firms interviewed in Jordan confirmed this. As a number of managers of these Asian firms stated "we are in Jordan as long as these factors [QIZ related trade preferences and Jordan's liberal policies on migrant workers] are here but we will exit very rapidly if anything changes". This was illustrated by few firms that actually left Jordan following the global downturn of 2008. One Taiwanese firm entered Jordan in 2004, was employing 1100 workers in 2007, but closed its factory in 2008. Another Taiwanese firm moved into Jordan in 2002, had a workforce of 2000 in 2007, but closed in 2010. Other companies that were interviewed expressed similar short-termism stating that any change to the trade regime, labour regulatory framework, or the sourcing policies of their buyers could lead to them rapidly exiting Jordan. This reflects a broader global mode of operations of these companies as discussed earlier.

The ability of these firms to move quickly to exploit new opportunities on the one hand and to maintain their locational flexibility on the other hand and to coordinate these different production locations across their diverse global production networks in a way that meets the shifting requirements of the GVC is rooted in a complex organisational and geographical process. Once a new opportunity for cost or time saving in the GVC is identified (as a result of a new trade agreement, new locations opening up for investments, change in the sourcing policies of buyers, or the emergence of a new buyer), these firms rapidly mobilise flows of capital, goods, managers and supervisors, information, and, if needed, production line workers, to quickly integrate the new location into the GVC (and similarly move out from locations which are no longer cost effective). This includes setting-up a production and labour regime in the new location that meets the overall demands of the GVC often in very different labour and socio-cultural contexts. By undertaking this process, these strategic and pivotal firms act as the co-ordinators of the geographical and organisational restructuring of the GVC, enabling the quick exploitation of cost-saving or time-saving opportunities while maintaining the locational flexibility of the GVC. This process is often conducted in close collaboration with their key buyers, particularly regarding the strategic architecture of the GVC.

5. Conclusions

The emergence of Asian transnational suppliers in the garments industry has been documented in the literature through the 'triangular manufacturing' model and more recently the work on 'giant transnational suppliers'. This paper contributes to this literature by drawing on primary and secondary sources to illustrate the growing role of these firms in managing the global value chains in the garment industry. The first aspect, which has been discussed in the literature, relates to the significance of Asian firms in research, design, product development, and logistics which fits within the upgrading notion in the literature of global value chains. The second, which has received very little attention, relates to these firms as the managers of the geographical and organisational restructuring of global value chains by embodying rapid market, production, and organisational shifts in their internationalisation patterns and in the ways they engage with different host locations. This shift, often undertaken in collaboration with key buyers, entails important organisational capacities to orchestrate flows of products, capital, managers and supervisors, and in some cases workers, across diverse production locations across the globe while at the same time maintaining an organisational model that allows limited embeddedness in host countries and high overall locational and organisational flexibility. Accordingly, we view these firms as not just first tier suppliers but as strategic and pivotal actors that increasingly shape the geography of the global value chain. This role is important to highlight as it differs from the conventional upgrading assumption in both the GVC and business studies frameworks in which firms move to capture more functions in the value chain with branding and retailing being the final stage in this process. This, for example, is an explicit trajectory suggested by Applebaum's treatment of 'giant transnational contractors'. While some Asian garment firms we studied had developed own brand manufacture, especially within their domestic or regional markets, many others have purposively opted not to move into branding and retailing on a global scale. This may be, as (Merk, 2014) recently suggests, because Asian first tier garment manufacturers are keen to avoid the attention of global labour organisations and NGOs in their campaigns to improve working conditions. In addition, branding and retailing are functional activities that require distinct sets of capacities and skills which are often difficult to acquire and potentially risky. Our findings suggest that there can be important competitive gains and returns for Asian garment firms that upgrade to become effective chain co-ordinators maintaining multiple production locations.

This understanding of the role of these firms enables us to unpack their locational choices and their time-horizons of operating in different countries. Thus, despite high production costs and poor logistics, FDI by such Asian garment firms has led to Jordan becoming almost overnight the leading garment supplier from the region. This can be explained by the way the QIZ and the Jordanian labour regulations allowed Asian garment firms to exploit trade preferences with minimal locational investments and a high degree of locational flexibility. The question of 'subsidiary embeddedness' has not been studied in the global value chains literature, but does arise within the IB field. Yamin and Forsgren (2006:175) argue that:

the challenge to MNE control is mostly due to subsidiary embeddedness. On that basis, it might be proposed that, ceteris paribus, MNEs prefer subsidiaries that are not deeply embedded in their local operating environments. There is certainly evidence that MNEs have attempted to reduce subsidiary embeddedness, through reducing their value chain scope (Birkinshaw, 2001, p. 381) and thus their scope for locally rooted interactions and relationships.

As mentioned earlier, a better understanding of these issues requires further research to link the GVC literature with its focus on understanding the position of these firms in global value chains with their own organisational structures and the challenges that arise from the international expansion of these firms particularly when such an expansion is partially driven by GVC dynamics and buyer's strategies. Earlier research in international business highlighted how the process of international expansion often included a hierarchical division between strategic activities undertaken by the headquarter level and operational management devolved to the subsidiary level. This was later developed into the 'global integration-local responsiveness framework' that aimed at unpacking this question within the context of the international expansion of firms (Devinney, Midgley, & Veniak, 2000; Luo & Yadong., 2001). Embeddedness in host country networks, as Yamin and Forsgren discuss, is a potential source for power for the subsidiary and could pose a challenge to the headquarter's dominance over strategy (Yamin & Forsgren, 2006). In modern global value chains, however, with their complex relationships between different actors, such dominance over strategy does not exist. As the cases discussed in this paper illustrated, the strategy of the Asian firms, including the question of embeddedness, is driven by complex factors of sourcing policies, relations with buyers, trade policy, and the organisational structure and strategy of these Asian firms.

Linking this back to the GVC literature provides new insights and more systemic analysis of a number of issues. Discussing the role of Asian firms, Appelbaum and Smith (2001:87) argued that "arguably, the most important strategy for maintaining competitiveness and promoting low road flexibility involves the geographical movement of production to locations that can provide cheaper labour and other cost advantages". The case of Jordan shows that this movement is not necessarily to a location with low costs but to a higher production cost location yet with regulatory framework that enabled revenues and profits to be generated quickly. This allowed a 'lighter presence' and lower embeddedness in the host country, and its labour force, and thus a faster entry–exit model which enhanced Jordan's locational flexibility to the garment value chain. This needs to be understood in the context of the flexibility of global production that was highlighted earlier by Hymer as a key element of the internationalisation of production. In particular, it needs to be understood in the way specific production and labour regimes within specific trade and regulatory contexts enable firms to boost this global flexibility. As Buckley and Casson (1998:23) argued when discussing flexibility within multi-national corporations: "flexible firms need to locate in flexible regions of nation states with flexible economic policies". The case of Asian firms in Jordan shows this at the two levels of the QIZ, rules of origin and labour regulations. Such issues are still weakly understood within the GVC literature due to the limited attention given in this framework to the question of FDI and also to the internal organisation of firms. This is often manifested in a weak understanding of the overall geography of the value chain and how and why certain locations are integrated and dis-integrated from these chains.

More broadly, this issue has important implications for our understanding of the shifts in the global economy and their impacts on development. The emergence of firms from the 'rising powers' is not limited to the case of garments but can be seen in different formats in other sectors. This is driven both by a process of 'upgrading from within' through which these firms capture more activities within global value chains, as most of the cases discussed in this paper show, and an emergence of 'new value chains' centred around growing consumer markets in the rising powers. Both trends will have important implications for the geography and organisation of global value chains including issues around locations of production, division of tasks between different locations, distribution of income, bargaining powers, and standards. This calls for further research to understand these processes and their developmental and policy implications. In the case of textile and garments discussed in this paper, a unique combination of rapid shifts in final markets and sourcing policies, rapid shifts in trade policy, and the relatively low capital investments needed in garment production have all led to an internationalisation strategy by Asian strategic and pivotal firms in their search for global flexibility and enhanced competitiveness. This has major developmental and policy implications in a sector that has for long been the 'entry point' for industrialisation in developing countries and also the sector in which preferential trade agreements have had a strong impact. The story in other sectors will most certainly be different but some of the underlying dynamics will be similar. Better integration of the literature around global value chains and on international business could be important to unpacking these dynamics.

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Shamel Azmeh is a Fellow at the Department for International Development, London School of Economics (LSE) (c.azmeh@lse.ac.uk), a Visiting Fellow at the Brooks World Poverty Institute, University of Manchester, and an Associate Lecturer at Lancaster Environment Centre (LEC), University of Lancaster. His doctoral research in Jordan and Egypt studied the dynamic impacts of trade regimes on capital and labour flows.

Khalid Nadvi is a Reader in International Development at the Institute for Development Policy and Management, School of Environment, Education and Development, University of Manchester (khalid.nadvi@manchester.ac.uk). He teaches on international trade and industrial development. His widely published research focuses on the interface between local clusters and global production, and global regulation and local outcomes. He is currently leading an ESRC-funded research project on 'Rising Powers, Labour Standards and the Governance of Global Production Networks' and is also the Research Coordinator for the ESRC's research programme on 'Rising Powers and Interdependent Futures' (see www.risingpowers.net).