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IBR-1086; No. of Pages 10

ARTICLE IN PRESS

International Business Review xxx (2014) xxx–xxx

Contents lists available at ScienceDirect

International Business Review

journal homepage: www.elsevier.com/locate/ibusrev

Asian firms and the restructuring of global value chains

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ARTICLE INFO

Article history:
Received 7 January 2014
Received in revised form 11 March 2014
Accepted 12 March 2014
Available online xxx

Keywords:
Apparel industry
Asian transnational suppliers
Global value chains
Jordan

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.

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).

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http://dx.doi.org/10.1016/j.ibusrev.2014.03.007
0969-5931/

Please cite this article in press as: Azmeh, S., & Nadvi, K. Asian firms and the restructuring of global value chains. *International Business Review* (2014), http://dx.doi.org/10.1016/j.ibusrev.2014.03.007

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]

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.

[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.