Local Delocalization across Borders:
The Case of the Garment Quasi-Cluster in the Balkans

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Local Delocalization across Borders: The Case of the Garment Quasi-Cluster in the Balkans

Lois Labrianidis* and Nikos Vogiatzis

Abstract
This paper analyzes local delocalization of Greek manufacturing firms, which have created a garment quasi-cluster, participating in Global Production Networks (GPNs) since the 1960s. The process of delocalization has led the shift of the cluster from Northern Greece to the north, since the mid-1990s, crossing the borders of the countries to currently include Southern Bulgaria, and parts of Southern Albania and Southern FYROM as well. This spatial transformation could be partially attributed to the pressures for more “competitive” prices for Greek firms to continue to be part of the GPNs. Thus, they were led to accept a reduction in their profit margin as well as to reduce their costs, which was mainly achieved through second- and third-tier subcontracting, first within the cities, second in rural areas, and third on the other side of the borders. Evidence from fieldwork conducted in the region produced interesting insights regarding the spatial form of delocalization these tiers have followed, while it highlights the role of “intra-firm” relations and “non-firm actors” of the GPN (e.g. the state) from the suppliers’ point of view.

1. Introduction
The 20th century has been marked by significant changes in the area of international trade and global production, mainly as an outcome of the new economic coordination driven by the vertical disintegration of transnational corporations (TNCs). These companies tend to focus on “core activities,” such as design and marketing, and reduce their direct ownership over “non-core” functions, e.g. production, which are mainly located at the periphery, thus enabling the industrial potential for the Less Developed Countries (LDCs) (Gereffi, Humphrey, and Sturgeon 2005, 79). This new geography of production, clearly involves the integration of firms and regions into global production and distribution networks, thus enhancing their international orientation, especially for those located near the borders.

A series of frameworks have been developed to analyze the structure and governance of the newly formed globalized sectors of production, such as the “Global Commodity Chains” (GCC) approach (Gereffi and Korzeniewicz 1994) and the instrument of “Global Value Chains” (GVC) (Gereffi et al. 2005). Although these frameworks present several advantages, a certain criticism has emerged (Henderson et al. 2002; Smith et al. 2002) concerning their focusing on the relations between the distinct nodes (“systematic flows”), but ignoring the role of the firms, which are treated as “black boxes,” as well as the social and historical context in which these chains are embedded (Coe, Dicken, and Hess 2008). This criticism, which originates from what Bathelt (2006, 225) calls “the Manchester school of global production” (including P. Dicken, N. Coe, M. Hess, H. Yeung, and others), has contributed to the formulation of a third framework, namely the “Global Production Networks” (GPNs), which involves the “nexus of interconnected functions and operations that extend spatially across national boundaries and through which goods and services are produced, distributed and consumed” (Coe et al. 2008; Henderson et al. 2002).

Although the core of these conceptualizations (GCC—GVC—GPN) is similar, the GPN framework allows for a more “holistic” view of the phenomenon, by moving away of the linearity that the chains metaphor...
imposes and by incorporating a larger set of actors and factors that are involved in this process. This creates an opportunity to critically examine the social, economic, historical, and political forces that define and affect a firm’s or a region’s participation in these networks, as well as the outcomes, in terms of performance and development, over time. However, in a recent work, Coe et al. (2008) highlighted three gaps, which, according to their view, present some opportunities for GPN studies to expand and call for future research: the “circulation process,” the “intra-firm relations” and the “environmental impact of the GPNs.”

Our focus here relates to the first two points made above, with a particular emphasis on the suppliers’ side and especially those firms located near the borders. Therefore, the aim of this paper is to critically examine the conditions surrounding those firms’ and regions’ participation and role within the GPNs, as well as to explain the particular spatial forms of coordination evident in these border areas. The case study presented here includes the manufacturing firms of the garment industry in Northern Greece, which have been participating in these networks since the 1960s. These firms have created what could be termed a quasi-cluster, which since the 1990s has crossed the borders to include southern parts of Bulgaria, the former Yugoslav Republic of Macedonia (FYROM) and Albania as well, illustrating a specific form of “local-delocalization.” The examination of this case highlights the significance of the environment in which GPNs are embedded and particularly the role of history and state, which has impacted on the cluster’s development over time. Moreover, it assesses the role of second and third tiers within the GPNs and particularly those located at border regions.

The garment quasi-cluster in Northern Greece has emerged through early spontaneous entrepreneurial activities, and despite the series of transformations it experienced (a moving/shifting cluster), it was not able to “shake free” of its own history, namely engaging in a “triangular manufacturing” scheme, undertaking first- and second-tier subcontracting in terms of low-cost production within the GPNs. Therefore, it is useful to assess the processes that led to this cluster formation and participation in the GPNs, its spatial expansion and the transformations it underwent, by examining the motives of delocalization and also the role of history and surrounding environment in driving those changes during the past 30 years.

The remainder of this paper is organized as follows: the next section presents firms’ delocalization decisions, paying particular attention to smaller firms located near the borders and their historical and socio-economic environment, as well as a brief literature review regarding clusters and their initial formation processes. The third section critically assesses the development and role of the garment quasi-cluster in GPNs and its shift to the north, while the final section summarizes our key findings and future policy issues.

2. “Local Delocalization” and Cluster Formation: the Role of Spatial and Social Proximity

An effort to explain the motives of a firm to internationalize could be based on three main dimensions: the firm’s ownership advantages, the internalization decision and the role of resources (internal or external to the firm) (e.g. Dunning’s 1993 “Ownership, Location, Internationalization” or “eclectic paradigm” framework of the TNC, as well as the resource-based approach by Kay 2000 and Pitelis 2000). A firm going international, as Hymer (1974) points out, needs to possess certain competitive advantages (i.e. “preferential” access to cheaper factors of production, a production function of lower cost, access to better networks of distribution and product differentiation) that can compensate for the disadvantages of “foreignness.” Regarding the resources, as Penrose (1959) has pointed out, these are not general and unspecified categories to which all firms have access; it is the unique combinations of firms’ resources, accumulated experience, entrepreneurship and unused productive services that can explain the direction of expansion (i.e. at home or abroad). At the same time, firms have to choose whether to make a product or buy it (Grossman and Helpman 2002). Moreover, equally important to this process of internationalization are the sector to which the firm belongs and the socio-economic “environment” (local, regional, national, and
global) with its unique institutions, civil society, history, and policies, which determine attitudes on issues such as value and how it is created, power and its distribution, trust, and embeddedness.

Here, we adopt a wider definition of delocalization that refers to the spatial restructuring of an industry at a national, regional or global scale (Labrianidis 2008a, 3), in order to include several forms of internationalization (such as FDI, outsourcing, subcontracting, etc.) but—equally important—the small-sized firms located at the periphery, whose role is usually underestimated in globalization theories. Particularly, the term “local delocalization,” introduced by Kalogeris and Labrianidis (2008), is used to define these types of delocalization that result in the restructuring of a sector in smaller geographic areas particularly those close to the borders. In fact, it denotes the establishment of some sort of activity (FDI or outsourcing) in a locality or region that is highly accessible to the parent firm, often allowing commuting between the various locations, thus lowering the organizational “stress” (in terms of human, capital or other resources) caused by the initial internationalization.

This fact is extremely valuable for smaller firms, since organizational difficulties of an FDI are enormous: the company crosses the border, and consequently, the socio-political and institutional framework in which it is expected to operate changes. That is, it has to face “foreignness.” A small company does not have the necessary resources (capital, human resources, know-how) to follow the changes, so the owner “handles” the case without knowing the socio-political and institutional environment, the language, etc. For small companies, the fact that part of their production takes place abroad puts very high pressure on their organizational structure (mainly on the owner, but also on specific members of the staff), making the whole process appear as a “feat.” However, the fact that so many companies managed it might indicate that this was the easiest of the (few) available alternatives.

The role of geographic and social proximity constitutes a fostering factor for local delocalization. The spatial dimension enables entrepreneurs to move back and forth between the various posts, enhances better monitoring of the production, faster transportation of raw materials and finished goods and, ultimately, quicker response to the market, even in cases where crossing the borders is essential. On the other hand, social proximity, which could be defined in terms of established social relations that can create a source of behavioral norms, such as trust and reciprocity (i.e. intimacy), can act as an alternative mechanism to pure market relations (Granovetter 1985). Hence, these elements are likely to generate the “competitive advantages” for small firms that decide to delocalize their activities.

In addition, these two dimensions of proximity (spatial and social) are capable of creating “relational production networks” (Sturgeon 2001, 12–13), while their combination can partially explain the existence of these networks (clusters) in particular localities, such as the industrial districts in Italy (Bagnasco 1977) and Silicon Valley in northern California, USA (Sturgeon 2000). While these types of networks are characterized by proximity, as Rocha (2004) points out, this constitutes only one of their distinct attributes, the other two being the network connecting the participating companies and the institutional network that surrounds them.

A major source of ambiguity in the cluster concept, as Martin and Sunley (2003, 10–13) point out, is that of its definition. Thus, a considerable part of the available literature on clusters focuses on the actual definition of the term. For example, Porter (1998, 197) has defined clusters as “geographic concentrations of interconnected companies, specialized suppliers, service providers, firms in related industries, and associated institutions (e.g. universities and trade associations) in particular fields that compete but also cooperate.” Ketels (2003) refers to clusters as a “group of companies and institutions co-located in a specific geographic region and linked by interdependencies in providing a related group of products and/or services.” Rocha (2002) defines clusters as geographically proximate groups of firms, associated institutions in related industries, linked by economic and social interdependencies. On the other hand, Enright (1995) proposes a rather narrower definition, according to which a cluster is characterized by the great significance of only one industry (as opposed to several) that is situated in an innovative milieu.
Rauch (1993) supports the argument that the origin and initial location of geographical clusters is a chance event, while Saxenian (1994) considers a new successful start-up firm as the main “pull” factor that leads the concentration of others in the particular locality. This leads to the concept of one or two “anchor companies” that virtually act as magnets in attracting other companies around them (Wolfe and Gertler 2004). Doeringer and Terkla (1995) argue that it is in fact positive externalities that trigger the clustering process, while the selection of the specific location in the first place is due to “historical accident.” Whether emphasis is given to positive externalities or other factors, it remains a fact that clusters start and build on existing resources; in other words, they cannot be started from “scratch.”

Several studies have shown that clustering can render firms and the regions where they are embedded more efficient, enhancing their innovative performance through interaction mechanisms and learning; hence clustered firms experience greater cost economies and legitimacy than competitors outside this nexus (Pouder and St. John 1996). At the same time, relationships between companies nowadays are particularly important and are facilitated by proximity. In this sense, clusters appear to be extremely beneficial, since they favor the development of this kind of relationship and, consequently, boost the companies’ growth and competitiveness, while this type of interconnection is able to sustain the cluster over time (Scott 1989).

However, their dynamism can no longer rely on the relationships within the clusters, but it should also be based on their links with the global market and on how these links later influence the links existing within the clusters themselves (Rabellotti 2004). Companies belonging to clusters frequently become part of GPNs, which are controlled by very powerful players on a global level. Moreover, the different types of relations and dependencies give different potentials of upgrading to the local players, while in some cases, as Schmitz (2004) argues, the accession of a cluster to a global network can lead companies to decide consciously to downgrade their activities.

It is evident from the arguments mentioned above that participation in GPNs is possible to stimulate cluster formation and delocalization of smaller firms as well, since it enhances cooperation between them, it creates opportunities for suppliers to enter the global market, while it also provides the means to knowledge transfer and upgrading. On the other hand, as Ernst and Kim (2002, 1422) argue, “flagships” can exert considerable pressure on local suppliers, especially in case they fail to provide the required services at low price and world class quality. This clearly illustrates that dependencies are created through the production and decision chains, which can possibly define a cluster’s evolution over time.

Nevertheless, this cannot be always attributed to the flagships; it is the supplier’s actions and reactions, readiness to adopt innovation and knowledge transfer, as well as the surrounding environment that can also hold a prominent role.

A certain example involves the role of history, in the sense of the position a firm or a region occupies within the GPNs over time. This can possibly create a source of “path-dependency” vis-à-vis a system’s decisions for future directions, which, as Poudre and St. John (1996, 1192) argue, is characterized by a “homogenous macro-culture” that suppresses innovation. Clusters can in certain “suffer” by “lock-in”/“stickiness,” a sort of path dependency due to which, as Martin and Sunley (2006) argue, information and communication come to constrain opportunities and limit the range of ideas available to firms.

At the same time, equally important is the role of the state, which can affect both the formation of a cluster in particular area and its evolution over time in terms of engagement into GPNs and organizational/spatial transformations. This process presents some particular characteristics in the case of the Balkan region, where, on the one hand, private entities are not that innovative as to create clustering activities, while, on the other hand, state policies are less efficient, compared to developed countries, in the effort to promote clusters, due to the structural problems (e.g. macroeconomic environment, low levels of trust) and the lack of resources on which this formation could be based.

On the other hand, the existence of strong cross-border relations in this area can prove to be of great importance. Cross-border networks have been pointed out in many studies, such as the study by
Konstantinov, Kressel, and Thuen (1998) on Roma’s commercial tourism in the Southern Balkans, the analysis of Voutira (1991) on the cross-border entrepreneurial networks that refugees develop, the study of Agelopoulos (2007) on petty traders at the Greek-Bulgarian border and the study of Zhurzenko (2004) on the trade at the border between Ukraine and Russia. We could argue that local delocalization across the borders can encourage cluster formation, due to those formal and informal interconnections that are developed from both sides and the combination of available resources in each one within the frames of cross-border cooperation (Labrianidis et al., forthcoming).

Therefore, it is usually to assess how participation in GPNs can impact on (cross border) clusters’ formation and firms’ delocalization (and vice versa), how network relations and dependencies may define a cluster’s evolvement over time and critically evaluate both the role of suppliers and the environment in which these networks are embedded, especially in the case of bordering regions in the Balkans.

3. Garment Quasi-Cluster in Northern Greece: Formation, Participation in GPNs, and Transformation into a Potential Balkan Cluster

3.1 Creation and Evolvement of the Garment Quasi-Cluster

The garment industry has been one of the most important sectors of the Greek economy. Since the mid-1980s, however, it has undergone major crises. Nonetheless, despite the drastic reduction in the number of enterprises, the garment industry currently remains one of the predominant sectors of Greek manufacturing; according to 2003 data, it contributes to a large extent to the country’s manufacturing production (3.3%), employment (7.2%) and exports (15%).

The garment industry in Greece was developed during the 1960s mainly as the outcome of the decentralizing strategies pursued by the developed countries and especially Germany, which have set up garment GPNs since then. Greek manufacturing firms were operating on the basis of undertaking subcontracting from “flagships” located at these countries, due to Greece’s lower labor costs and the favorable trade arrangements between the country and the rest of Europe, which allowed European firms to remain competitive, achieving the lowest possible costs and reducing their own risk. This phenomenon, which is still apparent to a large extent in Greece, can explain both the high shares of garment products in Greece’s exports and the contribution of the sector to the local economy, as well as the country’s role within these GPNs. Concretely, Greek firms undertook a position of first-tier subcontractor, with limited capabilities of capturing value generated in the area, being basically a low-cost supplier, a fact that created a source of dependency for them. It is useful to note that second-tier subcontracting was also evident in the area during this period, since some Greek firms had already established cooperation with smaller units and households within the bounds of the cities (mainly Thessaloniki) driven by the lower labor costs they could offer. Therefore, one can trace the initial “formation” phase of the garment quasi-cluster back to that period.

The next phase (1980 to 1990), involved a similar scheme: orders came from the developed countries (mainly Germany and the US) and parts of them were executed within the company in Greece. However, second-tier subcontracting was then intensified and the production networks in Northern Greece were gradually embracing the periphery of Thessaloniki: surrounding villages in rural areas as well as different cities. This phase could be compared to the case presented by Yamamura, Sonobe, and Otsuka (2003), who describes the shift of production from the Bingo area to rural areas of Kyushu in Japan during the 1980s, due to lower labor costs there. These facts illustrate a form of expansion of the cluster, while they highlight the significance of the formed linkages that were extremely important for the development and operation of the GPN as a whole, since it reduced the time for TNCs that search for suitable local suppliers (Jenner, Douw, and Koops 1998, 24).

After 1990, a different pattern appears as far as the second tiers are involved. Specifically, Greek firms located near the borders started to assign subcontracting to the Southern Balkans (especially the southern parts of
Bulgaria) driven by the pressures for cost reduction and shorter delivery times exerted by the “core” companies. This shift emerged as the only solution for Greek firms that were no longer able to remain competitive otherwise and was accompanied by a gradual transfer of more complex production elements to the Balkan countries. In a sense, Greek firms had not been able to upgrade their capabilities and occupy a different position within the GPNs until then, and therefore, they tried to maintain their presence in these networks by initially developing a “triangular manufacturing” scheme (Labrianidis and Kalantaridis 2004), assigning second-tier subcontracting to firms located in the Balkans for production that they had already been assigned (1st tier). They then began to delocalize part—or all—of their production activities in the neighboring countries (Bulgaria, Albania, FYROM), enabling the shift of the previously localized garment quasi-cluster to the north, following specific patterns of “local delocalization.” Initially, it was mainly the seaming process that was delocalized—which is also the most labor-intensive part of the production—but progressively more parts of these enterprises were shifted this way, while processes, such as design, marketing and labeling, were usually retained in Greece. At the same time, this was an opportunity for firms located at the other side of the borders to participate in these GPNs, as second-tier suppliers:

In most of the cases Greek enterprises serve as intermediaries, because local firms (in Bulgaria) do not have information, capacity, and resources, necessary for either direct export and production under own brand name or under brand of an international contractor. (Petrich_E03)

This phase of the garment quasi-cluster, which continues up to the present, and its shift to the north could be considered as part of the general phenomenon of Greek firms delocalizing segments—or all—of their production activities in the CEECs during the 1990s. More specifically, up to 2001, 82% of the Greek FDIs were concentrated in Bulgaria, Albania, Romania, with the garment industry occupying a large share of these foreign investments (Labrianidis and Kalantaridis 2004, 18). Nowadays, Greece is the third largest foreign investor in Bulgaria, second in the FYR of Macedonia, while the country’s FDI stocks in Romania rank Greece in the fourth position among foreign investors in the country during the period 2004–2007 (Figure 1.).

**Figure 1.** Greek FDI stocks in Bulgaria, FYROM, and Romania (2004–2007).

The Balkan countries do not attract a large share of total FDI flows and stocks on a global scale (0.4% of world FDI stocks during the period 1980–2007 and 1.3% of total flows on average during the same period—see Figure 2) and Greece also holds an insignificant role in both inward and outward FDI flows and stocks (Figure 3). Therefore, even though the Balkan region is not attractive for FDI on a global scale, it attracts the lion’s share of Greek FDI, a fact that on the one hand highlights the role of geographic proximity while on the other hand illustrates how specific tiers in GPNs manifest a form of local delocalization.

The importance of proximity in the Greek FDI goes beyond the significance of neighboring countries, since Greek firms also showed a specific preference for the southern parts of these countries, usually areas located near the Greek border. While Southern Bulgaria managed to attract only 10.2% of the total inward FDI flows to the country during the 1992–1997 period, it hosted around a third (31.7%) of the total Greek FDI flows (Labrianidis 2001). This could be partially attributed to the characteristics of the average Greek industrial unit, which is a small, family-owned, and managed business, implying that the physical presence of the owner (or some other family member) tends to be essential for the smooth operation of the business. Hence, there are businessmen and highly paid technicians who do this cross-border commuting every single weekday for years, spending almost 4 h/day on the road. However, these characteristics also denote the inability of Greek firms—and the Greek state as well—to develop their dynamism in a sense of a long-term strategy which could alter their status quo in GPNs and upgrade into higher value-added activities, as other manufacturers worldwide have done (e.g. “Mavi Jeans”—see Tokatli and Kizilgun 2004).

**Figure 2.** Balkan countries inward FDI stocks and flows as a percentage of world total (1980–2007).

Source: Compiled by the author, data derived from UNCTAD: [http://stats.unctad.org/](http://stats.unctad.org/)
3.2 Means and Motives for Local Delocalization in the Garment Quasi-Cluster

An examination of the means and motives that led firms to establish Cross Border Cooperation (CBCs) was undertaken on a European level during the CBCED project, which aimed to study the challenges and prospects of CBC in the context of EU enlargement (Smallbone et al. 2006). Evidence from fieldwork conducted in six countries (Greece, Bulgaria, Finland, Estonia, Poland, and Germany) involving 236 enterprises from various sectors revealed three emerging factors as the dominant ones for establishing cross-border partnerships: price/wage levels, proximity and expansion in new markets (Figure 4). We shall examine each one, especially for the case of the potential garment cluster.

The very first motive reported by entrepreneurs engaged in CBC was the price/wage levels on the other side of the border (32.1% of the cases examined; see Figure 4), which has already been reported as one of the most important reasons for delocalizing the most labor-intensive parts of production in previous studies from a developed to a LDC (e.g. Yamamura et al. 2003; Labrianidis 2001). This argument is especially valid for the case of Greek firms engaged in the garment sector, since, following the Communist collapse among the CEECs, Greek entrepreneurs were able to reach neighboring markets, where labor costs were significantly lower compared to Greece. This opportunity was realized as a “deus ex machina” for them, since they had already lost their comparative advantages in the 1980s. Labor costs in Bulgaria, Albania, and FYROM were less than half of the respective figure in Greece, thus creating the opportunity for Greek garment firms to remain active in the GPNs, albeit still as low-cost suppliers, since no upgrading efforts were made until that period:
Cheap labour costs in these countries help us keep competitive prices. A classic blue jeans model’s production costs 1.2–1.5 Euros in these countries, while in Greece this would cost 3 Euros and more. (Florina_E03)

It should be noted, however, that in certain cases, while going to the Balkans, Greek firms maintain their relationships with their “previous” subcontractors in Greece in order to better control fluctuations of demand. Thus, production is mainly executed in the Balkans, but in certain instances subcontracting is also assigned to firms in Greece too. Hence, the quasi-cluster maintains its operation on both sides of the border, and the interconnections developed previously are still apparent to sustain the clustered firms together, being a part of the GPN as a cross-border network.

The second most important driving factor for European firms engaged in CBCs was proximity (24.4%; see Figure 4). As noted above, proximity involved two interconnected dimensions: physical/geographical proximity and social/cultural intimacy (Herzfeld 2004). Concerning the former, previous studies on the phenomenon of firms’ internationalization have already highlighted its significant role in investing abroad (e.g. Guerin 2006, Labrianidis 2001). In the case of the garment cluster, short distance enables those GPNs suppliers to become flexible and fast, thus maintaining their position in these networks. Specifically, given the fact that most firms located near the border are small, family-owned units, the short distance facilitates quick transport of goods, lower costs, better monitoring of the delocalized production process, face-to-face communication, and problem-solving, which ultimately enhance trust building. These advantages were clearly mentioned during the interviews with the entrepreneurs engaged in the garment quasi-cluster:

Fewer transport costs needed—the distance between Petrich and Serres is 100 km (back and forth), while the distance between Petrich and Sofia is more than three times longer—360 km. This is a basic factor for choosing Greek supplier and not one situated in Sofia. (Petrich_E06)

There are four women who commute to Bulgaria on a daily basis, in order to control and coordinate the production process. These women used to hold high positions...
here, and their specialized knowledge and experience were the main criteria for assigning them with this new task. All four of them are now fluent in Bulgarian. (Serres, E_01)

Also, intimacy in the sense of historical ties and cultural affinity (religion, language, mentality) between the two sides enhances the development and smooth operation of partnerships and investments. Common religion between Greece and Bulgaria, the existence of Greek students and refugees from the Greek Civil War, and linguistic skills are typical examples of this form of intimacy, fostering local delocalization across the borders (Kamaras 2001; Labrianidis 1996):

There are some cultural aspects that constitute positive factors for our cooperation and, consequently, trust building. We are familiar to them and so are they to us; there are kinships on the other side of the border; it is also the language, this local Slavic idiom we speak here. All these enhance trust building and allowed us to come close to them in a short period of time, as well as to develop friendly relations with them. (Florina_E11)

It is also useful to note that Greek manufacturing firms that have delocalized their activities across the border maintained their cooperation with the Greek side, acting as intermediaries for their co-ethnics who intended to follow a similar pattern. Hence, those “pioneers” could be considered to fill the role of “anchor companies” that attract other companies (from both sides of the border) around them, thus enhancing the development of the garment quasi-cluster:

In the initial stages we developed partnerships with Greek businessmen who had delocalized their units in FYROM and they have introduced some local firms to us. This is how we created our network in FYROM. The fact that the first partners were Greek, and we had cooperated with them in the past, was the motive force for us. After all, we share a common cultural and business background. (Florina_E04)

The third most important motive that was shaped during the CBCED project fieldwork refers to expansion in a new market (19.6% out the 236 involved firms, see Figure 4). Interviewees recognized an important source of opportunities for their activities in the neighboring markets, mainly due to different levels of economic development across the border. The interesting fact is that this motive was common for both sides, whether the “developed” or the “less developed” one. In the case of the former, the neighboring countries present an emerging market in which firms intend to establish a presence as soon as possible, while, in the case of the latter, neighboring markets form an opportunity to expand their clientele base.

### 3.3 Evaluation of Non-Firm Actors of GPNs: the Role of the State and Institutional Setting on the Garment Quasi-Cluster’s Formation and Transformation

Even though private initiatives proved to be extremely significant in terms of local delocalization across the Greek–Balkan borders, it is also true that they are not able to succeed in the long run if they are not supported by public policies and measures (Labrianidis 2008b, 314). In the context of regional policy, the role of the state, as Morgan and Nauwelaers (1999, 11–18) argue, will be that of “animateur” of regional development. At the same time, nation-state remains a key actor in every GPN, and its role cannot be underestimated (Coe et al. 2008, 282).

In the case of Greece, the examination of the available business support infrastructure in the case study regions revealed the absence of specific actions to support local firms’ internationalization, according to the entrepreneurs’ view, although in certain cases positive measures have been reported. Adding to that, the garment quasi-cluster has developed spontaneously, without any policy measures directed towards its formation and development, and this lack of support could constitute a form of “institutional hysteresis,” empowering the cluster’s “lock-in” in terms of its position in the GPNs. This could be partially attributed to low levels of trust among the Greek society, as well as to weak support instruments, especially for small
firms located in border areas, which on the one hand hinder clustering efforts and on the other hand maintain the low levels of innovation within the Greek economy in general.6

Adding on that, local entrepreneurs stated they are not able to upgrade their production and delivery systems, owing to various reasons: first of all the firms’ size and type (small, family owned entities) create several disadvantages, such as low access to finance (see also Beck et al. 2004, Smallbone and Wyer 2004). Second, the Greek administrative system is extremely “centralized,” meaning that decision centers (in Athens) are not aware of the specific constraints evident in the border areas in Northern Greece. Third, weak local business support infrastructure (e.g. Chamber of Commerce and Industry) hinders their efforts to promote their activities. These “state inefficiencies” were clearly reported during the interviews with firm owners and employees:

We need support in order to continually restructure our activities and remain competitive. (Florina, E_04)

Chambers could help us in ensuring the validity of our contracts. They could act as intermediates . . . they would find a common solution. (Florina, E_01)

They (the state) is not aware of the situation and the need of local enterprises in border regions (Serres, E_13)

As a result, we could argue that Greek firms lack the power, knowledge, and skills to take advantage of their participation in the GPNs, even though the territorial embeddeness of the network is quite strong, including the firms’ linkages both with “core” enterprises as well as with second cross-border tiers. This partially exhibits the relatively low power of national and local institutions, which can explain the delocalization process followed by Greek border firms and highlight the weak role of the Greek state.

In the case of Bulgaria—which we think is indicative for the Balkan countries that are involved in this quasi-cluster—the transition towards a more neo-liberal position (e.g. incentives to attract FDI through tax reliefs) has altered the local firms’ bargaining power, facilitating their ability to participate in GPNs. At the same time, the political integration of Eastern European countries into the EU empowers these efforts, providing the options for them to occupy a better position in the future. This example shows how particular localities and dynamics can create competencies for business units within the GPNs and the role of institutional setting in shaping the linkages and dependencies in them. However, as Coe, Dicken, and Hess (2008) argue, the degree of bargaining power for these firms should not be over-exaggerated, since a long-term strategy is essential in order to maintain their competitive advantage and gradually move into higher value-added activities.

It is interesting to note that the examination of the available policies designed to encourage entrepreneurship and CBC in the case study region highlighted the role of what is termed “macro-regional economic arrangements,” namely the EU. Significant efforts aiming to foster cluster creation and entrepreneurship were undertaken on the European level, designed and executed under the EU’s “umbrella,” such as support for regions with poor financial and social conditions and reduction in regional inequalities (e.g. INTERREG), or policies on integrating remote regions and those sharing external borders with the candidate countries (e.g. “Phare,” “CARDS,” “Equal,” “Leader +,” and “Urban II”). These efforts are part of the general “trend” driven by the European Council’s actions since 1960 to promote CBC, leading to a significant increase in cooperation related programs within the boundaries of the European common market, especially during the 1980s and 1990s (Van Houtum 2000).

The above-mentioned characteristics provide a thorough understanding of what Henderson et al. (2002, 446) term “territoriality” of production networks, including the economic, social, and political forces prevailing at the GPNs suppliers’ areas, which can shape and re-shape the structure of the network. In the case of garment quasi-cluster, its shift to the north and its “crossing” of the border can be partially
explained by the institutional setting evident in the area, as well as by the impact of “global forces,” namely the ability of “flagships” to take advantage of local clusters (and their local social, economic and labor linkages) exerting strong control and pressures over their suppliers.

In order for this quasi-cluster to become internationally competitive and occupy a better position within the GPNs, the highest-value segments of the networks, namely product design and marketing, are critical. The firms involved should invest in R&D, due to the fact that lower prices are not solely able to offer the cluster a competitive advantage. On the contrary, innovative products and high quality at reasonable prices could do that. Therefore, it is essential for the companies operating in the sector to acquire highly skilled human capital and focus on innovation and product differentiation, among other factors. National policies should aim at reducing these barriers for future growth, as a Greek entrepreneur stated:

However, our national strategy that aims at boosting the entrepreneurship of our (garment) sector has one slight defect. There was a huge delay in the training of young people. Thus, there is a lack of people with higher education who are trained to work in our sector. (Serres, E_06)

4. Conclusions

This paper has presented the formation of the garment quasi-cluster in Northern Greece, which has experienced a shift to the North by crossing the borders, within the wider frame of what we call “local delocalization.” This “moving character” has resulted in the formation of a potential international or Balkan garment cluster, which has been an important actor of the garment GPNs that developed countries in Europe have set up since the 1960s.

Our main focus here was to analyze the formation and transformation of this cluster in terms of participation in these networks, paying particular attention to the role of non-firms actors (e.g. state and the surrounding environment), as well as to the notions of geographic proximity and borders within the GPNs. At the same time, we believe that a significant contribution is related to the assessment of the role of suppliers and not only the “flagships,” which are usually examined in the chains and networks literature.

Our findings indicate that this cluster was initially formatted by individual entrepreneurial activities, mainly as a result of the core companies’ strategy, which was to set up these networks on the basis of low-cost production and quick delivery times across Europe, as well as due to a lack of support for clustering activities in the country. Greek firms occupied this position in the GPNs as a first tier, a role which gradually contributed to the development of a “triangular manufacturing” scheme. Specifically, Greek firms undertook a clear role within these networks, namely low-cost suppliers, which characterized the cluster as a whole. When the garment industry in Greece lost its competitive advantages after 1980, including the “greenhouse conditions” under which it had been operated, and while the pressures regarding cutting production costs were also constantly intensifying from the assigning countries, these firms tried to retain the same position within the GPNs. The only available option was “local delocalization” across the borders, which enabled the shift of the cluster to the North and the participation of second tiers mainly located in Bulgaria. We could argue that this scheme has created a source of what Martin and Sunley (2006) denote a “path-dependency” mechanism for this cluster, even though it has undergone a series of (spatial) transformation processes.

An alternative option was possible, namely industrial upgrading, which could, in this case, include the infusion of new technologies, product and scope differentiation (Lester 2006). This path could represent a way of escaping the “lock-in” of low-cost producing for the garment cluster. However, the consideration of these alternatives was restricted, partially due to the cluster’s own history and nature, namely its role of undertaking low-cost subcontracting, which led to a phase of “negative lock-in,” as actions and procedures were reproduced over time, and the processes and structures embedded in the system resulted in increased
inflexibility and inability to adapt to the emerging conditions. An interesting fact is that this has not always to do with the dependencies and pressures created by the core firms; in this case it was both the character of the suppliers (small size, family owned, lack of know-how), as well as the lack of support of the state which led the local delocalization of the cluster and, in essence, produced the “lock-in.” This clearly indicates that the inclusion of local dynamics and nature of suppliers is equally important to those of the “flagships” under the GPNs studies and upgrading possibilities.

Local delocalization of Greek firms was based on proximity, which supported the CBC with Bulgarian firms and the expansion of the cluster to the North. It is, thus, interesting to note that border in this case acquires a “distinct” notion: on the one hand, it marks the separation of adjacent regions with different economic and regulatory background (e.g. Greece-Bulgaria); on the other hand, its “separating” role diminishes within the GPNs. Specifically, spatial and cultural proximity enabled the formation of the “quasi-cluster,” which—in the light of GPNs theory—constitutes a unique area where suppliers are located and the network is embedded. It is also important to note that value creation and capture capabilities are quite the same on both sides of the border, as well as upgrading options. Therefore, we could argue that the expansion of GPNs produces a new “spatial separation” (e.g. location of flagships–location of suppliers), where borders become less important as a mark.

Until now, the results of the quasi-cluster’s operation have been mixed. In the case of Bulgaria, for example, average wages in the southern provinces have increased substantially, while unemployment rates are among the lowest in the country.7 Conversely, most of the new jobs have been low-skilled, which could hamper the upgrading of the local human capital. On the Greek side of the border, local delocalization of the garment cluster led to increased bankruptcies and loss of jobs, but Greek companies that operate in the Balkans appear to be much more dynamic and have much a better economic performance than those that have not yet established an international presence. Specifically, their assets are higher, their annual turnover is also elevated, while the same stands for their profits (Labrianidis 2008b, 310–314).

Therefore, the main issue is whether the development of the Balkan garment quasi-cluster is sustainable. Its success depends to a large extent on the strategy pursued by public and private bodies and the level of collaboration between them. Given the character of the economies and firms involved, the role of the state is crucial in order to sustain the cluster’s operation in the long-run and foster its positive impacts for all regions involved. Our fieldwork has shown that certain policy measures could support these efforts only if a common strategy is implemented for the development of the Balkan region as a whole. These non-firms actors of the GPN can create the conditions for breaking the current “lock-in” situation the quasi-cluster has entered and promote its upgrading, thus assisting the effort to create an actual Balkan garment cluster, which could be competitive on an international level, by exploiting the comparative advantages it already possesses by its participation in the garment GPNs.

Endnotes
1 Findings presented here derived from semi-structured interviews with owners and employees in manufacturing and trading companies engaged in the garment industry in Northern Greece and Southern Bulgaria, as well as key-informant interviews with local actors involved in the implementation of Cross Border Cooperation (CBC) in the case study regions. The fieldwork was conducted during May–November 2007, as part of theCBCED project (Smallbone et al. 2006) that was funded by the European Commission under the 6th Framework Program.
2 In the sense of potential.
3 For a complete discussion and graphic illustration of the garment’s cluster spatial expansion, see Kalogeresis and Labrianidis (2010).
“E_03, Petrich” refers to the third Enterprise included in our sample, located at the region of Petrich in Bulgaria.

A similar case might be US firms delocalizing to Mexico. All the American staff—engineers, technicians, managers, etc.—want to reside in the US and commute to work in Mexico every day.

Greece is ranked as a “catching up” country in the European Innovation Scoreboard with a mean score of 0.26 on Summary Innovation Index, compared to 0.45 for the EU in 2007 (European Commission-PRO INNO METRICS 2008).

In the case of Blagoevgrad for example, unemployment reached 1.8% in 2008 compared to 8.0% in 2003, according to Eurostat (2009).

References


