

**A CRITICAL INTERPRETATION ON INDUSTRIAL RESTRUCTURING OF
THE REGION, THE CASE OF DENİZLİ TEXTILE AND GARMENT
SECTOR**

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MEHMET PENPECİOĞLU

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Approval of the Graduate School of Natural and Applied Sciences.

Prof. Dr. Canan ÖZGEN
Director

I certify that this thesis satisfies all the requirements as a thesis for the degree of Master of Science.

Prof. Dr. Melih ERSOY
Head of Department

This is to certify that we have read this thesis and that in our opinion it is fully adequate, in scope and quality, as a thesis for the degree of Master of Science.

Assoc. Prof. Dr. Melih PINARCIOĞLU
Supervisor

Examining Committee Members

Assoc. Prof. Dr. Serap KAYASÜ (METU, CRP) _____

Assoc. Prof. Dr. Melih PINARCIOĞLU (METU, CRP) _____

Prof. Dr. Metin Durgut (METU, IE) _____

Assoc. Prof. Dr. Oğuz IŞIK (METU, CRP) _____

Assist. Prof. Dr. Nil UZUN (METU, CRP) _____

I hereby declare that all information in this document has been obtained and presented in accordance with academic rules and ethical conduct. I also declare that, as required by these rules and conduct, I have fully cited and referenced all material and results that are not original to this work.

Name, Last name: Mehmet PENPECİOĞLU

Signature :

ABSTRACT

A CRITICAL INTERPRETATION ON INDUSTRIAL RESTRUCTURING OF THE REGION: THE CASE OF DENİZLİ TEXTILE AND GARMENT SECTOR

Penpecioglu, Mehmet

M.S., Department of Regional Planning

Supervisor: Assoc. Prof. Dr. Melih Pınarcıoğlu

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Restructuring processes provide key dynamics for the development and transformation of industrial structures. Industrial restructuring can be conceptualized by product and/or process innovations including technological improvements and relocation of industry. Such forms of transformation can be investigated by a critical examination of industrial relations. This thesis is motivated from such a consideration of understanding and interpreting industrial transformation in a specific time and space setting.

Textile and garment industry is a good case to explore the abovementioned concepts. Firstly global and national dimensions of industry are investigated. It is understood that quota free regulations of trade and relocation of production have been shaping a fierce global competition by which employment, supply and marketing relations change dramatically at the world scale. In such new competitive conditions Turkish textile and garment industry has been losing its growth dynamics in terms of price competition advantage. Secondly Denizli case is investigated. In-depth interviews with firms, related chambers and unions are made during field survey. Thesis argued that Denizli has locked to a passive exporter role. In this lock-in

process, the sector could not transform itself by innovative modes of restructuring. The passive exporter role disables region to adopt innovative product strategies and to shift production to other regions where cost cutting opportunities are provided. Industrialists decrease production costs informally including employment unregistered workers. However although survey results point out locked industrial dynamics, Denizli region still have the potential of regional development thanks to its entrepreneurial sprit and rising other economic sectors.

Keywords: Industrial Development, Restructuring, Denizli, Textile and Garment Sector

ÖZ

BÖLGENİN ENDÜSTRİYEL YENİDEN YAPILANMASI ÜZERİNE ELEŞTİREL BİR YORUMLAMA: DENİZLİ TEKSTİL VE HAZIR GİYİM SEKTÖRÜ ÖRNEĞİ

Penpecioğlu, Mehmet

Yüksek Lisans, Bölge Planlama Bölümü

Tez Yöneticisi: Doç. Dr. Melih Pınarcıoğlu

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Yeniden yapılanma süreçleri endüstriyel yapıların dönüşümü ve gelişimi için anahtar dinamikler sağlar. Endüstriyel yeniden yapılanma teknolojik yenilikler ve endüstrinin yeniden yerleşmesini içeren ürün ve süreç yenilikleri ile kavramlaştırılabilir. Bu tür dönüşüm tarzları endüstriyel ilişkilerin eleştirel değerlendirilmesiyle incelenebilir. Bu tez endüstriyel dönüşümü belirli bir zaman ve mekan bağlamında anlamaya ve yorumlamaya yönelik bu tür bir düşünceden yola çıkmaktadır.

Tekstil ve hazır giyim endüstrisi yukarıda belirtilen kavramları tartışmak için iyi bir örnektir. İlk olarak endüstrinin küresel ve ulusal boyutları incelenmiştir. Kota serbestisi sağlayan ticari düzenlemeler ve üretimin mekansal yeniden konumlanması; çalışma, tedarik ve pazarlama ilişkilerinin dünya ölçeğinde etkileyici bir biçimde değiştiği küresel bir rekabet ortamını şekillendirmektedir. Böylesi yeni rekabet koşullarında Türk tekstil ve hazır giyim endüstrisi fiyat rekabeti bakımından gelişme dinamiklerini yitirmektedir. İkinci olarak Denizli örneği incelenmiştir. Saha araştırması boyunca firmalar ve ilgili oda, sendikalar ile derinlemesine görüşmeler yapılmıştır. Tez Denizlinin pasif bir ihracatçı rolüne kilitlenmekte olduğunu ileri sürmektedir. Pasif ihracatçı rolü bölgenin yenilikçi ürün stratejileri benimsemesini ve üretimi

maliyet avantajları sunulan diğer bölgelere kaydırmasını engellemektedir. Sanayiciler kayıt dışı işçi çalıştırmayı içeren informal yollarla üretim maliyetlerini düşürmektedirler. Ancak araştırmanın kilitlenen endüstriyel dinamikleri göstermesine rağmen, Denizli bölgesi girişimci ruhu ve yükselen diğer ekonomik sektörleri sayesinde halen bölgesel gelişme potansiyelini taşımaktadır.

Anahtar Kelimeler: Endüstriyel Gelişme, Yeniden Yapılanma, Denizli, Tekstil ve Hazır Giyim Sektörü

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LIST OF ABBREVIATIONS

ATC - Agreements on Trade and Tariffs
DETKİB – Denizli Textile and Garment Exporters Union
DETGİS – Denizli Textile and Garment Industrialists Association
DPT - State Planning Organization
DSO – Denizli Chamber of Industry
DTM - Undersecretariat of the Prime Ministry for Foreign Trade
DTO – Denizli Chamber of Commerce
EU – European Union
GATT - General Agreement on Tariffs and Trade
ILO – International Labor Organization
ITKIB - Istanbul Textile and Garment Exporters Association
LTA - Long Term Arrangement
MFA – Multifibre Agreement
NAFTA – North America Foreign Trade Agreement
OBM - Original Brand Name Manufacturing
OECD - Organization for Economic Co-operation and Development
OEM – Original Equipment Manufacturing
OPT - Outward Processing Trade
SMEs – Small and Medium Sized Enterprises
SOEs – State Owned Enterprises
TBMM - Grand National Assembly of Turkey
TEKSİF – Textile Knitting and Garment Industry Workers Union
TEKSTİL-SEN – Weaving, Knitting, Dying, Garment Workers Union
T&G – Textile and Garment

TGI - Textile and Garment Industry

TGSD - Turkish Garment Manufacturers Association

TÜTSİS - Turkish Textile Employers Association

US – United States

UK – United Kingdom

WTO – World Trade Organization

CHAPTER I

INTRODUCTION

This chapter intends to summarize the main points of research design. To this end, the gist of thesis is formulated by clarifying context, aim, case study and methodology. Firstly it will be noted the context and the aim of the research. Afterwards, selection of the case study will be argued out with a justificatory ground and the framework of the methodology will be explained. Lastly in order to provide a brief informative basis for the chapters, the contents of the thesis will be specified.

1.1 Context and Aim

It is widely argued that development of capitalism has a two sided reality. On the one hand it eliminates old and inefficient modes of economic activity; on the other hand it creates new development patterns bringing new dynamics for the process of capital accumulation. This process is commonly defined as restructuring that provides key dynamics for the transformation and development of industrial structures.

In fact, restructuring can be conceptualized by product and/or process innovations including the creation of new products, technological improvements and spatial relocation of industry. The creation of new products implies the introduction of a new commercial product to markets. Such a new introduction may enable the enterprises to get the bigger foot in the market. Furthermore, by product innovations enterprises may capture new segments of market demand. Another significant mode of restructuring is technological improvements. Technological improvements increase the productivity of production and labor. Therefore the

profits tend to increase by the way of new technological modes of production. Spatial relocation of industry is another crucial aspect of restructuring. Enterprises search more profitable locations in order to provide cheaper inputs to their manufacturing activities. For instance, most of the Western firms tend to locate their labor-intensive manufacturing operations in some regions where cost cutting opportunities are provided under low levels of wage and low costs of energy and other related inputs. When the enterprises locate to the new regions to reduce the cost of production, such relocations constitute a new map in the spatial division of labor.

Textile and garment industry (TGI) is a good case to explore the abovementioned concepts. TGI has been experiencing striking changes at the global and local levels. In the last five decades; organizations of production, supply chain, marketing and international trade relations have changed dramatically at the world scale. Developed economies have tended to relocate their manufacturing activities to peripheries of the world economy to benefit from cost cutting opportunities. Subcontracting relations have become more extensive and inter-firm linkages have been significantly changed.

Particularly since 1990s there can be identified two significant processes that shape the industrial restructuring of the textile and garment (T&G) sector. First is a quota free regulation of trade that dramatically changes international trade relations of T&G products. Until the end of the 2008, WTO decided to eliminate all quotas including the temporary ones and this liberal medium of world trade in T&G products will form a new world map of export and import relations. Industrial structure of some developing countries using quotas to restrict imports will be negatively affected from this liberalization. On the contrary, some other periphery countries like China, India and Pakistan will probably benefit from the post-quota medium of trade thanks to their low cost production capabilities in T&G sector. The second process is spatial relocation of production by increasing subcontracting relations and/or direct relocation of manufacturing plants in the form of foreign direct investments. Most of Northern America and Western Europe countries prefer to relocate their labor-intensive manufacturing activities to geographies that offer minimum costs for production of T&G products. In this respect, some countries such as China, India, Pakistan, Mexico and Romania have become new manufacturing sites of T&G sector owing to their cost cutting opportunities.

Turkey is prone to be negatively effected from these changes that occurred in the TGI since 1990s. Turkey's market share of T&G products in US and EU will probably diminish. As a result of quota free regulations of trade, China and some other industrializing countries seem to capture markets that were previously dominated by Turkish T&G products. Furthermore, Turkey will lose its position as the attractive location for T&G investments. Most of the domestic and overseas investors do not prefer to make T&G investments in Turkey but rather they prefer to make investments in East Europe and Southeast Asia where low costs production opportunities are provided. In this respect, the condition of the TGI in Turkey will be challenged.

In retrospect, it can be understood that the TGI has a locomotive role in economic growth and industrialization of Turkey. In fact, textile and garment industry (TGI) has been the impulsive force of Turkish economy since 1970s. T&G sector has a significant weight in the industrial performance of the country in terms of production, exports, employment, and gross national product. 35% of export income in Turkey is composed of T&G industry products. The total of registered and unregistered employment is predicted as approximately 2 million (Aras, 2006). However, as mentioned above Turkish TGI has been fallen into a bottleneck by the increase in the price competition and the decrease in marketing opportunities. In this respect, restructuring TGI has a key role for the stability of the development climate in Turkey.

Now the context may be clearer and the general aim may be better understood. The context of this research is a dramatically changing industrial sector with new competitive conditions at the global scale and different local restructuring patterns at the local scale. Thus, it is aimed to examine the restructuring of TGI in terms of its global and local dimensions. How have the new competitive conditions of TGI been shaping a global order? What are the ruling, regulatory mechanisms and processes of this global order? How different local industrial structures respond to the transformation of this global order? How the organization of production, supply chain, employment and marketing relations change in the case study region? Thesis intends to answer and discuss such questions of industrial transformation and change.

1.2 Case Study

The case study is not selected arbitrarily. It is aimed to set out survey by conducting research in a region where TGI plays a locomotive role in the growth. In Turkey there are many regions in this respect. One of the most prominent of these regions is Denizli.

Denizli entered to an export-oriented growth process in 1980s thanks to TGI. In 1980-95 period while the number of T&G firms had been tripled, it had been witnessed a 100 fold increase in the export revenue as a result of the greatest boom in the exportation of towel and bathrobe. Industrial success of Denizli enabled region to develop a local market in which firms found the opportunities for growth in most cases symmetrically and collectively. In other words the reality behind of such an industrialization process was the success of small and flexible SMEs that are able to small batch production and flexible enough to adapt changing demands. In Denizli region, with the tradition of active trust and solidarity T&G producers contributed to the development of a locally specific production culture through which collective and horizontal development opportunities emerged (Mutluer, 1995; Özcan, 1993; Pınarcıoğlu, 2000; Erendil, 1998).

This picture started to change towards the end of the 1990s. Changing global structure of TGI has affected sectoral structures at the local level. Local industrial climate transformed from a horizontally organized collective development to a vertically organized asymmetrical development. Exports have tended to decline and there has been an increase in the number of SMEs that closed down. (Pınarcıoğlu, 2000; Işık and Pınarcıoğlu, 1996; Beyhan and Armatlı-Köroğlu, 2002). At this point, examining the restructuring of TGI gives chance to understand the current conditions that lock regional development.

Another significant point in case study is to determine the scope of industrial activity in the research. In this respect, the research focuses on two significant sector groups in TGI of Denizli namely (1) labor-intensive processes of garment production and (2) traditionally adopted sectors of the region including towel, bathrobe and home textiles production. There can be put forward two main reasons about the selection of these two sector groups. Firstly it is widely argued in the literature that labor-intensive garment production will face more challenges in the restructuring process (Nordås, 2004; Gereffi and Memedovic, 2003; Stroiz,

2005). Secondly the research has to incorporate towel, bathrobe and home textile production that enabled Denizli to become a success story.

According to *ISIC Rev 2 industrial classification format*, these two sector groups take place in two of three coded industrial activity areas namely *3.2.1 textile industry* and *3.2.2 garment industry (except footwear)*. In the field survey, it is interviewed with a large number of firms in these two sector groups. Method of interviews, determination of the number of firms and related non-governmental organizations to make face to face interviews and other aspects of research methodology will be discussed and clarified under the belowmentioned *research methodology* part.

1.3 Research Methodology

This thesis adopts a mixed methodology. Therefore, it is intended to complementarily co-employ different sets of methodological tools including both qualitative and quantitative ones. First step of this research is to discuss key concepts in order to properly formulate a theoretical basis. Such a discussion requires a critical reading of related literature. Afterwards the changing global and national dimensions of industrial restructuring are investigated by analyzing related literature, documents, reports and data. In the field survey stage, it is adopted a qualitative method of research.

In fact there are several methods to research subjects like regional development, industrial restructuring and local economic analysis. This thesis prefers *in-depth interview method* in the field survey owing to its flexibility that covers contingent dimensions of research. Through the way of in-depth interview, the changing structure of the T&G sector is discussed by various actors of the sector like employers, employees, dismissed and retired workers, state, chambers, unions and other associations. All these various actors explain the restructuring process from their specific point of view. Therefore this method provides a multi viewed explanation of restructuring process or in other words a more realist picture of industry in the region.

In the interviews the participant firms were selected among different sized firms, in accordance with the proportion of small, medium, and large firms in the sector. According to 2006 data, there are 1619 establishments in Denizli which are registered to SSK (Social

Security Institute) and in which T&G production takes place. Considering 2% of sampling ratio, 32 interviews with firms should be conducted. Furthermore, again according to 2006 data, while 63% of TGI is made up of small firms (10-50 employees), 27% is of medium (50-250 employees), and 10% is of large firms (more than 250 employees). Considering these ratios, among the total of 32 firms with which interviews were conducted, while 18 of them are small firms, 10 of them are medium, and 4 of them are large firms.

In addition, 6 interviews were conducted with NGOs which are in relation to the analyzed sector and local economy. The participant NGOs are Denizli Chamber of Industry (*Denizli Sanayi Odası* - DSO), Denizli Chamber of Commerce (*Denizli Ticaret Odası* - DTO), Denizli Union of Textile and Garment Exporters (*Denizli Tekstil ve Konfeksiyon İhracatçıları Birliği* - DETKİB), Denizli Association of Textile and Garment Industrialists (*Denizli Tekstil ve Giyim Sanayicileri Derneği* - DETGİS), Denizli Agency of the Union of Textile, Weaving and Garment Workers (*Türkiye Tekstil Örne ve Giyim Sanayi İşçileri Sendikası* - TEKSİF), and Denizli Agency of TEKSTİL-SEN.

Interviews include open-ended and more categorical questions. In these interviews, a survey form, which includes some pre-defined key concepts of industrial restructuring process, was used. These pre-defined key concepts are development of enterprises, product groups, employment change, organization of production, supply chain management and marketing. The interviews were recorded during the meetings with a tape recorder. Tape records were then deciphered and used in the study. Furthermore, the answers of the categorical questions were used for certain quantitative analyses.

Finally, another way of alternative and supportive qualitative analysis is to research local written media tools including local newspapers, periodicals of chambers and associations and related web sites. Such a mode of survey enabled this thesis to interpret changing positions of local actors.

1.4 Contents

This thesis has been organized around three extensive chapters apart from *Introduction* and *Conclusion and Further Remarks*. By the *Introduction* part of thesis, it is formulated the gist of the thesis by clarifying points of departure in terms of context, methodology and case study. In the *Conclusion and Further Remarks*, there realized a general evaluation on the findings of the local survey and global, national evidences.

Chapter 2 constitutes conceptual formulation of research. In doing so, it starts with a critical reinterpretation of capital accumulation dynamics in space and time to set out conceptual means of the study. A conceptual schema is outlined in order to present theoretical point of departure for thesis. *Chapter 3* intends to state the changing structure of textile and garment industry with its global and local dimensions. In doing so, firstly “new” competitive conditions that are forming a global order are argued out. Afterwards it is deliberated how various localities respond differently to global order of this industry through their contextual processes of restructuring. Finally restructuring efforts of textile and garment industry in Turkey is highlighted. Extensive analysis of Chapter 3 provides the evidence on global and national dimensions of industrial change and transformation.

Chapter 4 aims to provide local information for thesis. Firstly in order to reflect and discuss stages of industrial development in Denizli, a brief literature review is mentioned through critical reinterpretations of previous researches on Denizli. Such a literature review constitutes related historical, economic, and societal backgrounds of case study. Secondly findings of the field survey are pointed out and discussed. In this respect, the transformation of industrial structure and local economy are critically examined around major issues of responding and change such as employment, marketing, supply chain, investment tendencies and state regulations. These critical examinations enable thesis to infer some interpretive and conclusive remarks.

CHAPTER II

CONCEPTUALIZING RESTRUCTURING AND NEW SPATIAL DIVISIONS OF LABOR

This chapter aims to constitute conceptual formulation for research. In doing so, it will start with a critical reinterpretation of capital accumulation dynamics in space and time. Afterwards, distinct restructuring trajectories will be outlined with their logical bases. Spatial representations and promises of these trajectories will be discussed by a critical perspective. After a conceptual reinterpretation effort on new spatial divisions of labor, finally conceptual framework for analysis will be outlined.

Story of world system that has been shaped for last five century tells us how capitalist world economy has developed incredibly (Braudel, 1979; Wallerstein, 1980, 1989). In fact, from the beginning of it, there were mechanisms generating a continuous capital accumulation process. These different mechanisms have accompanied uneven capitalist development throughout history and maintained a continuous capitalist business cycle process. Restructuring can be conceptualized as the fundamental of these mechanisms.

Restructuring is in fact a continuous process responds to the fluctuating behavior of the capitalist business cycle involving reorganization, rationalization and investment procedures designed to overcome the contradictory nature of production relations and to permit the continual self expansion of capital accumulation... Restructuring is essentially a formal mechanism whereby the process of concentration and centralization of capital proceeds apace, paralleling changes in the human conditions and social divisions of labor associated with it (Winterton and Barlow, 1996).

Basic motivation of capitalist development is *unlimited capital accumulation impulse*¹. System always tends to crises therefore has to create dynamics in order to maintain a continuous and unlimited capital accumulation. At this point, restructuring has the significant role as the constitutive process of key dynamisms. Thus what may be inferred from such a theoretic notion is discussing how restructuring constitutes main dynamism of capitalist development, what are the underlying processes? and how space is reproduced in these processes.

2.1 Dynamics of Capital Accumulation in Space and Time

There can be identified different concepts as dynamics in the process of capital accumulation. In here, aim is not to discuss all these different concepts in detail but rather to outline some key concepts and briefly discuss their role in restructuring processes. In other words a glance to four theoretical steps of such a conceptual understanding is presented below. Under each of these four conceptual discussions there lies embedded mechanisms of dynamism in capitalist development.

Competition and Divisions of Labor

Capitalist producers continuously compete with each other. In fact firms search for competitive advantage and more profits by adopting higher technology and organizational forms. However this advantage is ephemeral since competitor firms catch up technological and organizational positions. Therefore it is asserted that competition is coercive in character and technological and organizational dynamism is inevitable within capitalism (Harvey, 2006).

Positions taken in competitive conditions by various firms and regions reshape comparative advantages in the market. What about comparative advantages of the uncompetitive ones? In fact uncompetitive industries and firms are always excluded by the system. Under pressure of competition, players of the market are pushed outside of capitalist business cycle unless they succeed in adapting to new conditions of competition. Emerging network structured of world economy does not provide development opportunities to all geographies of the world. In other

¹ Wallerstein defines basic motivation of capitalist development as *unlimited capital accumulation impulse* (Wallerstein, 1983) and long ago the role of religion as the impulsive locomotive in capitalist development is revealed by Max Weber (see Weber, 1992)

words *the rise of network society* is not an entirely inclusionary process. Some uncompetitive ones are always excluded from the network (Castells, 2000; Ince, 2003). Thus as mentioned above competition in capitalist development is coercive in character and various sectors of economic activity strive to reposition themselves in superior technological and organizational forms in order to sustain profitable capital accumulations.

Competition is not occurred solely for technological upgrading and superior organizational form. Competition causes a constant change of all production functions. Space as one of the important function provides dynamism for capital accumulation process. In fact to get higher profits capitalists are always in the process of seeking more advantageous locations. *Geographical landscape of capitalism* becomes unstable (Harvey, 1982, 2006). Competition pushes capitalist development to relocate production to more advantageous regions. Moreover special requirements of particular form of commodity production cause territorial specializations among regions². In fact division of labor is spatial in character under capitalist competition conditions.

In addition to its character, literature on spatial divisions of labor provided a more comprehensive understanding on economic geography particularly in 1980s³. However concept still preserves its explanatory position on industrial geography. For instance integration process of semi-periphery and periphery countries to globalization of industrial activities, have generated a considerable spatial dynamism for global capital accumulation. Accelerated from 1990s these social processes can be profoundly comprehended by spatial division of labor concept.

Capital via competition gets a continuous and unlimited accumulation process in time. Parallel to this development, capital attains its accumulation dynamic in space through geographical divisions of labor. These two mechanisms play an important role in restructuring processes. However in order to comprehend restructuring thoroughly, conceptualizing all causal mechanisms may be vital. How competitive power is redefined by underlying processes?

² Lee Cooper Jeans as one of the global commodity chains, are produced by eleven different territorial specializations in four continents (see Appendix A)

³ It is appropriate to mention five important sources in the literature. Each of them clarified new geographical division patterns of labor started with globalization tendencies in 1970's (Massey, Meegan, 1982; Lipietz, 1986; Sabel, 1985; Massey, 1984, Fröbel et al, 1980)

What are the other concepts that constitute dynamism of capital accumulation? A brief discussion on innovation is anticipated to be responsive.

Innovation

Innovation is described as making improvements by introducing something new. Schumpeter's concept of innovation (Schumpeter, 1962) includes different dimensions of economic activity. In this regard dynamism is generated through five innovative dimensions of capital accumulation. Schumpeter described these as follows;

(1) the introduction of a new quality of a known good; (2) the introduction of a method of production or a mode of commercial management new to the sector; (3) the opening up of a new market whether or not it previously existed; (4) the conquest of a new source of raw materials or semi-manufactured goods; and (5) the establishment of a new organizational model in any industry, including the creation or dismantling of a monopoly position (Schumpeter, 1962 cited in Dunford, 2003).

Under these five creative processes, there exists a dynamism arising from destruction of ex processes. In this regard, innovation is a *creative destruction* process (Schumpeter, 1947) describing industrial transformations that accompany radical innovation. By creative destruction it is intended to define *transformative capability* (Bull et al, 1994) of a firm or a network to maintain competitive power for future under an “offensive” manner (Lipietz, 1992) rather than “defensive” in which one can rely on merely regressive labor relations (Pınarcıoğlu, 2000).

There can be identified different ways of achieving innovation. By achieving innovation it is aimed to emphasize five major processes that are mentioned above. One way is through productive organizations. Firms or networks constitute superior organizational forms by benefiting from economies of scale. For instance as called realization in the literature firms may act to reduce unit costs by spreading of fixed costs over a larger volume of output (Dunford, 2003). As a general tendency being observed in industrial relations particularly since 1990s mergers, acquisitions and moving towards vertical integrated structures reflect this process. Another way of adapting productive organization may be permanent cost reduction strategies of firms including transfer of certain operations to low wage regions and continuously searching for cheaper sources of energy, materials and components. In fact basic motive of such a strategy is to reduce the costs of inputs in order to offer the lowest price.

Apart from efforts to adopt a productive organization, product innovation and introduction to new markets also provide dynamism in restructuring of capitalist business cycle. Three processes; *(1) introduction of new commercial product or (2) increases in variety of products to capture new segments of market demand, (3) improvements in design of existing products* (Dunford, 2003) play a significant transformative role as product innovations in restructuring process. In addition to product innovations, entering new markets provide dynamism as a process innovation. In fact entering to new markets may expands sales, increases market shares and permits to short or long term increases in the product prices.

In restructuring process transformation of value chains provides dynamics for capital accumulation. In this respect about transformation of value chain, there may appear two critical tendencies with respect to innovation process. First is moving towards high value added segments in the chain. For instance, concentration on research, development or on distribution and promotion segments of value chain reflects transformation. Second is switching of resources from one value chain to another. This transfers resources to new sectors of economic activity. A very well known example is *Nokia which from 1865 until 1960 was a manufacturer of paper, rubber and cables* (Dunford, 2003).

What are the main ways in which industries and service sectors socially and spatially restructured? According to Lash and Urry (1994) above overall considerations mentioned previously, there are four main ways designating restructuring patterns of a particular industry or service with respect to innovation concept. These are *(1) technical change, (2) production reorganization, (3) spatial relocation and (4) product transformation*.

Table 2. 1. Forms of industry and service sector restructuring

Technical change? 1. <i>Investment and technical change</i> : heavy capital investment within new means of production and considerable job losses often unequally distributed (out-of-town hypermarkets)
Production reorganization? 2. <i>Intensification</i> : increases in labor productivity through material or organizational change with little or no new investment or loss of capacity (effects of deregulation on American airlines) 3. <i>Rationalization</i> : closure of capacity with little or no new investment or new technology (closure of cinemas) 4. <i>Commodification</i> of a service product through market encirclement, budget centre fragmentation or privatization (such as the NHS in Britain) 5. <i>Replacement</i> of existing labor input with cheaper female/young/non-white labor (fast food industry) 6. <i>Flexibilization</i> of labor input (the part time nature of women's domestic work in hospitals)
Spatial relocation? 7. <i>Decentralization</i> to areas of cheaper labor/land ("back offices" removed from city center sites) 8. <i>Concentration</i> : Spatial centralization of services in larger units and the closure/rundown of the number of scale of smaller units (closure of small "cottage" hospitals in Britain)
Product transformation? 9. <i>Partial self-provisioning</i> of the function (self service in retail distribution and restaurants) 10. <i>Domestication</i> : the relocation of some service work once done in large institutions to women's labor within households ("community care" programs in the NHS in Britain) 11. <i>Subcontracting</i> or externalizing elements of the service functions to firms providing specialized services (growth of private specialist producer service firms) 12. <i>Enhancement</i> of quality through improved labor input, that is more skilled and/or better trained (development of school teaching in Britain as a graduate occupation) 13. <i>Materialization</i> or part-materialization of the labor function in the form of a material object which can be bought, sold, transported, stored and so on (take-out food)

Source; Bagguley et al 1990, cited in Lash and Urry, 1994

The table shows various innovative processes constituting different restructuring trajectories. In fact effects of these innovative restructuring processes on social structure of particular places are shown by various instances. For example, what *rationalization* means under *product reorganization* category is closure of all unproductive modes of economic activity. As closure of cinemas, closure of uncompetitive plants in different industrial geographies reflects such a *realization* process. As reflected by the facts of *fast food industry* and *removal of back offices from city centers*, two important restructuring processes namely; *replacement of existing labor input with cheaper ones* and *decentralization to areas of cheaper labor/land* also reflect spatial relocation processes in industrial relations to explore low wage regions.

Various innovative processes of restructuring mentioned above, provide key dynamism to capital accumulation. In this regard innovation as the crucial concept gives rise to different restructuring trajectories which can be traced through restructuring strategies of local

economies. In fact regions and distinct localities have to build transformative capabilities to adapt rapidly changing conditions. Indeed constituting innovative responds in an atmosphere being characterized by speed up of production, consumption and temporality of socio-spatial structures become the main agenda in restructuring processes.

Acceleration of Production, Marketing, Consumption and Development of Physical Infrastructures

Minimizing turnover time of capital is one of the fundamental incentives in capitalist accumulation process. In fact since distance is measured in terms of time and cost of movement, through innovations in communication and transformation, the frictions of distance is aimed to be lessened. In other words what Castells called (2000) *space of flows* and *network structures* represents these speed up processes in economic geography. By the acceleration of flows of commodities, people, money and information among networks, fundamental law of capital accumulation “*the annihilation of space through time*” is generated (Harvey, 2006). New spatial forms have always provided key dynamisms to capitalist development. By spatial form it is aimed to define production, marketing and consumption organizations of capitalist business cycle. Harvey called this phenomenon as *temporality of socio-spatial fixes* and phenomena is spatially represented through the concept of *spatio-temporal fixes* (Harvey, 2000, 2003). In fact today’s capitalist spatial organizations are represented through learning regions, industrial districts, regional innovation systems...etc and all are *spatio-temporal fixes*. Thus, these spatial forms of capitalist development are temporary in character however what permanent is the role of space as providing key dynamisms to capital accumulation process.

In such an atmosphere of economic geography, different territories of economic activity intend to adapt rapidly changing conditions of production, marketing and consumption. Innovations and organizational structures of local economies are designed to accompany and support speed up of production, marketing and consumption. For instance, in the face of growing international competitive pressures global retailers and brand name marketers impose shorten production lead times in some sectors like garments and textiles (Gereffi, 1999). This means to shorten season product lines. In these apparel industries traditional four seasons are being replaced with multiple seasons (Nadvi, Thoburn, 2004). In order to meet such demands subcontracted assembler firms in developing countries adopt superior organizational forms to

respond rapidly in production samples and shorter delivery schedules. In fact this has compulsive effects on intra-firm and inter-firm restructuring processes in industrializing countries. In this regard firms seek to leapfrog over into new and more flexible organizational structures.

Apart from *spatio-temporal fixes* and superior organizational structures for firms, there are other factors that accompany to an accelerated process of production, marketing and consumption. In order to facilitate spatial movement of capital, spatially fixed and immobile physical infrastructures of transport and communication systems are necessary. Physical infrastructures constitute critical preconditions for production, distribution and marketing. In built environments, specific conditions affect capital circulation (Harvey, 2006). These preconditions are being interpreted as *business facilitating agendas* by developing countries' aspect (see OECD, 2004). *Efficiency in the areas of transport, telecommunications and electricity infrastructure and in custom services is an important determinant of a country's ability to integrate fully in the world economy* (OECD, 2004).

In fact these physical infrastructures are for a facilitated business climate in which a continuous capital circulation and accumulation are generated. Actors intervening for a facilitated business climate may provide such physical infrastructures. However distribution of interventionist roles among these actors of the society remained undiscussed. Aim in here is not to discuss actor structure relations in detail rather discussing briefly role of fundamental business regulations. How affects the role of state with respect to regulative precautions to provide a well working liberal regime of accumulation? A brief discussion on the role of state in capital accumulation process is anticipated to be responsive.

Role of the State

State is the regulative actor in the geopolitics of capitalism⁴. As one of the dynamics in capital accumulation, the role of the state in restructuring process is issued by various studies. Some argue it constitutes the neglected aspects in most of the restructuring studies (Morgan & Sayer, 1988 cited in Pınarcıoğlu, 2000). In fact although some globalization arguments assert the *hollowing of the nation-state* (Lash, Urry, 1987), it is an undisputable reality that state is

⁴ Struggles of states in changing geopolitics of world system discussed comprehensively by Wallerstein. For an international perspective see; Wallerstein (1991)

an active entity in the stories of economic restructurings. Active and transformative role of the state in capitalist development is elaborately identified by Jessop⁵. According to him state is the key component of any mode of regulation and capitalism came to dominate as political economic system by state power. There can also be identified more radical views on the role of state with respect to dynamic capital accumulation. According to Harvey in neo-liberal formulation of capitalism the role of the state is to restore class power. By doing so capital accumulation by dispossession can be generated in various geographies of the world (Harvey, 2006).

Aim in here is neither ignoring nor exaggerating the role of the state in restructuring but rather taking the role of state into consideration as what Jessop calls *putting the capitalist state in its place* (1990). There can be identified various regulative mechanisms of state on economic processes. States may mediate or even resolve crises tendencies of capitalism by fiscal and monetary policies. Through investment policies and subsidy priorities industrial development processes and tendencies may be changed significantly. Furthermore by taking protectionist or liberal measures, national integration strategy to global trade regime can be changed. In fact organizations like EU, WTO and NAFTA provide salient regulations and become determinative inter-state platforms of economic relations. These global platforms mostly act in developed core economy's favor and becoming dynamism provider tool of capital accumulation. Decoding regulative position of WTO may constitute a dramatic instance.

WTO created GATT (General Agreement on Tariffs and Trade) for economic recovery after World War II and intended to reduce barriers to international trade. However a very effective protectionist measure called MFA (Multi Fibre Arrangement) put in place in 1974. As a critical measure it is aimed to allow developed countries to adjust to imports from the developing world. US, Italy, France and Germany as the leading textile producers in the beginning of 1970s, were protected from low wage countries of third world. This protection is prolonged to all EU countries by the mid 1980s and until the end of the 2008 all temporary quotas will be lifted on (Hadjimichalis, 2006a). These privileges enabled industrialized core economies to develop industrial restructuring strategies and implementing them during protection period in textile and garments. Western core economies generally adapted

⁵ It is appropriate to mention two important book of Jessop in this regard. First is *State Theory: Putting the Capitalist State in Its Place* (1990) and the other is *The Future of the Capitalist State* (2002).

decentralization of low value added segments of production to industrializing countries in the semi-periphery and periphery. This common strategy transformed entire value chain (Dunford, 2001) in favor of developed economies. Apart from inter-state global platform's regulations, an individual mode of state intervention in so called success story of Third Italy may highlight regulative role in national industrial development. In order to maintain an export-led growth Italian state kept low exchange rates. To implement this strategy three devaluations occurred from 1960 to 1986 (Hadjimichalis, 2006a). This was one of the most offensive export-led strategies experienced in industrial developments. What can be inferred from such realities is the significance of regulative mechanisms of states or inter-state global platforms in the processes of industrial restructuring and development. As active entities in restructuring processes states fulfill critical regulative roles.

Through overall explanations mentioned above there aimed to constitute theoretical base to comprehend some key capital accumulation dynamics in time and space. As mentioned above under four conceptual discussions there lies embedded mechanisms of restructuring process. Causal explanations and critical reinterpretations emphasize the significance of restructuring's contextual character. In fact distinct local contexts and various strategies constitute different restructuring trajectories. There is not one way to restructuring and distinct trajectories shape different socio-spatial structures. Opening the way of discussion toward restructuring trajectories and socio-spatial representations of these processes may be beneficial.

2.2 Restructuring Trajectories and Spatial Reflections

There is not a unique pattern of restructuring process and distinct patterns are reshaped by different sectors and particular places. In this respect each specific socio-spatial trajectory of restructuring constitutes different stories. However there can be drawn a main frame for trajectories of restructuring. In fact two fundamental trajectory of restructuring can be identified and there are different descriptions of them in the literature. On the one side there is the *low road to restructuring* (Pyke, Senberger, 1992; cited in Pınarcıoğlu, 2000) focusing on solely cost competition and evaluating labor as a cost rather than a resource. As a defensive strategy *low road to restructuring* does not adopt an innovative behavior and tended to lock in labor intensive industries. This trajectory mostly results in a form of satellite and underdeveloped geographies depending to developed capitalist giants. However on the other

side there exists *high road to restructuring* (Pyke, Senberger, 1992; cited in Pınarcıoğlu, 2000) in other word what Lipietz called (1994) an *offensive restructuring*. This kind of socio-spatial reorganization adopts a strong emphasize on innovation and focusing SME-led approaches to economic development. Moreover it is the product of post-fordist flexible specialization theories and constitutes background of most success stories. Paying particular attention to constitutive arguments of *high road to restructuring* may provide a comprehension of this dominating industrial restructuring trajectory.

In fact started with 1970s and originated from western developed industrial geographies, a new pattern of restructuring have surpassed as the major mode of regulation. Industrial transformative roots of this restructuring process were depending on post-fordist flexible accumulation regime (Tickell and Peck, 1992; Jessop, 1995). There can be identified various concepts contributing the *high road to restructuring* such as “second industrial divide” “flexible specializations” “learning regions” “innovative milieus” “industrial districts” “industrial clusters” “regional innovation systems” “networks of innovative and flexible SMEs” “re-emergence of regional economies” (Morgan, 1977; Piore and Sabel, 1984; Cooke, 1988; Scot, 1988; Scot and Storper 1988; Sabel, 1989; Camagni, 1991; Scot and Storper, 1992; Pyke and Senberger, 1992; Asheim, 1996; Cooke and Morgan, 1998; Porter, 1998). Each of them is key conceptual notations of this offensive industrial restructuring and common points of these well known concepts are stemming from a horizontally developed symmetrical network structure in which innovative, flexible, learning and collaborative SMEs operate in a post-fordist manner. There appears a collective development medium implying an equally distributed growth opportunities. Furthermore, heralded the resurgence of regional economies, this prevailing literature have a strong emphasize on social capital. Social capital in the form of trust, reciprocity and traditional local norms that generate mutual benefits are asserted as the influential non-economic factors in regional development (Putnam, 1993). Subsequently following the way of such arguments, some related concepts as *institutional thickness* and *untraded interdependencies* have been focused as non-economic factors of growth (Amin and Thrift, 1995; Storper, 1995)

Today it is a definite reality that on the one side prevailing literature on economic geography and industrial development on the other side local actors of development both are focused on these concepts mentioned above. In fact all these innovative, flexible, learning and SME-led

narratives of industrial development became a model called *industrial districts* under fascinating story of *Third Italy* (Amin, 1989; Pyke et al., 1990; Asheim, 1996; Cooke, 1996). In 1970s and 1980s, industrial districts in Italy were creating collective growth opportunities to flexible innovative SMEs. In other words, these non-hierarchically structured networks were able to distribute growth opportunities equally among firms. Moreover this symmetrical development medium has caused Italian industrial districts to be interpreted as the territorial representations of economic democracy. For instance Amin (2003) argues that Italian industrial district model is a project of *human centered industrial democracy*.

However by the 1990s, other side of the medallion has become visible. There appeared a transformation to a hierarchically structured network. New competitive pressures imposed an asymmetrical development atmosphere in which SMEs faced a growing survival struggle. This resulted in and maintained by growing tendencies toward vertical integrations and the number of SMEs started to decrease. The form of co-operative, collective business capacity has seriously challenged (Harrison, 1994; Rabelotti, 1995; Nadvi, 1999; Whitford, 2001, Rinaldi, 2002).

Moreover, post 2000 developments point out more dramatic scenes about the realities in Italian industrial districts. Three restructuring processes are occurring in industrial districts and they are repositioning Third Italy into a hierarchically organized network structure. Major transformative processes are (1) *mergers and acquisitions*, (2) *de-localizations* and (3) *non-EU migrants to districts* (Hadjimichalis, 2006a). Mergers and acquisitions with large retailer or brand name firms challenge grand assertions on innovative, flexible and small firms. A fordist mode of accumulation may still maintain its predominance in this regard. As the second critical process de-localizations collapse local networks of production and generate new hierarchies. A vertically integrated multi locational firm structure emerges and it hollows out the theoretical background explanations of districts such as localized external economies and advantages of co-locations, proximities. Finally limited in-out migration enabling the continuity of craft traditions, and strengthening social capital with trust and reciprocity is challenged by increasing non EU immigrants (Hadjimichalis, 2006a). Thus constitutive arguments of industrial districts face enormous challenges from transformation processes and emerging structure of industrial districts in Third Italy is far from being a *human centered industrial democracy* project.

Decline of industrial district model is not just the case in Italy. Industrial district model and SME-led approaches to economic development caused disappointments in various geographies of the world particularly in developing countries (Rabelotti and Schimitz, 2000; Nuno and Branco, 2003; Tamburan, 2005). Separately by emphasizing industrial districts, it is aimed to decipher innovative, flexible, learning, SME-led narratives of industrial development and to crystallize spatial reflections of this transformation trajectory.

There can be identified many debates on these issues in the literature of critical regional studies. Some critics focused on the realities observed in learning regions (Hudson, 1999) while some other were taking network regions and new regionalism arguments into account (Smith et al, 2002; Coe et al, 2004; Lowering, 1999). According to Markusen (Markusen, 1999) these innovative, flexible, learning narratives of industrial developments are *populated by fuzzy concepts that lack clarity* and full of ambiguity such as university-industry-governance partnership, flexible specialization and cooperative competition.

As these critical geographers stated, such fuzzy concepts as driving forces of offensive restructuring trajectory have to be interrogated with a critical manner and three major point of departure can be identified in such a critical interrogative approach. First critical standpoint stems from post rationalization of success stories. Secondly, deciphering temporality of socio-spatial organizations rather than focusing them as necessary models, provides a wider perspective on capitalist development in space. Third critical point of departure is the lack of an interrogative approach on underlying social, political and cultural processes of territorial experiences. These three critical dimensions will be discussed below.

Concepts like flexible specialization or cooperative competition and models such as industrial districts, learning regions or regional innovation systems...etc are in fact post rationalizations⁶ of some success stories experienced by developed regions (Tekeli, 2004). Driving force of different success stories are mostly depending on their contingent conditions. These success stories are context-dependent in character and have its significant meaning at a given period of time and in a particular place. Today in local and regional development, interest focuses on how competitiveness and success are reproduced in few *paradigmatic regions* such as Emilio

⁶ Post rationalization concept is highlighted by Andrew Sayer (1984). According to him post rationalization is abstraction of the contingent event to a generally accepted conceptual form.

Romagna and Baden-Württemberg (Hadjimichalis, 2006b). However there is not much evidence to propose that these particular industrial solution models are generally applicable to different socio-cultural environments. Post rationalization of success stories transforms these regional development experiences into myths of paradigmatic regions.

Socio-spatial organization models of these innovative, flexible and learning industrial development concepts are historical forms of capitalist organization. In fact industrial districts, industrial clusters, regional innovation systems...etc all of them are spatio-temporal fixes in the uneven capitalist landscape (Harvey, 2000, 2003, 2006). Although there are serious critics on Harvey's concept of *spatio-temporal fixes*⁷, it remains explanatory in deciphering capital accumulation dynamics in space. Socio-spatial organizations of production like industrial districts, learning regions...etc survive as long as two conditions are maintained (1) their spatial and social division of labor continue to be globally competitive in comparison with other forms of industrial production and (2) their internal dynamism remain unchallenged. These two conditions are not sustained in the well known success story of Third Italy and its co-operative, SME-led, non-hierarchically structured temporal form is comprehended. In this respect there opens the way of debate to interpret various success stories as spatio-temporal fixes of capitalist development. In other words, industrial districts, clusters, regional innovation systems...etc these spatial forms of capitalist development are temporary in character however what permanent is the role of space as providing key dynamisms to capital accumulation process.

While deliberating on these territorial explanations of success stories, there appears a need to reposition the point of view by an interrogative approach. Such an aspect includes externally and internally underlying processes of territorial experiences. Some externally underlying ones are global system of price relations (like WTO regulations on world trade), the role of states and supranational entities (like EU, NAFTA) while some internally underlying ones are specific gender roles, ethnic conflicts and power hierarchies within these territories. Hadjimichalis emphasizes the lack of such an interrogative approach (2006).

⁷ Jessop argues that spatio-temporal fix concept is strongly influenced by a general Marxian ontology of internal relations and adopts a one sided value theoretical analysis. According to him Harvey's concept disregards extra economic dimensions of capital relations and focuses only internal relations of capital accumulation dynamics in space and time (see, Jessop, 2004).

Some researchers who analyze civil society as a bounded territorial entity and as a set of inherently 'win win' relations and networks of cooperative association. In their analysis, whether they speak about Third Italy, South Wales, Baden-Württemberg or other places, there are no external antithetical relations among regions that influence local civic pride, no interregional migration and macro state policies that reduce possibilities for cooperative actions. Furthermore, there are no real social agents, no class and class conflict, themselves important factors underlying reciprocity, no power hierarchies to determine cooperation and competition, no gender roles and no patriarchy in families and beyond that determine the celebrated equities in the social division of labor, no ethnic and racial conflict, no social and spatial fragmentation that co-influence economic redistribution, no mention of protest movements, uprisings, riots and so on. (Hadjimichalis, 2006b)

Geographies of success stories are not isolated, depoliticized territorial entities and an interrogative approach as mentioned above may provide a deeper understanding of these territorial experiences with their socio-cultural and politic background.

By the light of the thoughts and facts mentioned above, innovative, flexible, learning, SME-led narratives of industrial restructuring are critically discussed by various interrogative perspectives. Thus it is intended to expose the real profile of high road to restructuring by interrogating some fundamental assumptions and underlying process of territorial success stories. What may be the main inference of such a discussion is a critical standpoint to popular concepts and models of offensive restructuring trajectory.

2.3 New Spatial Divisions of Labor

Immanent to capitalism, restructuring processes are accompanied by different patterns of spatial division of labor throughout history. Essentially industry depends on international divisions of labor due to types of industrial activities, required skills and raw materials (Giddens, 1990). International division of labor forms one of the four dimensions in Giddens' model of globalization and in fact there have been a considerable expansion in global interdependence of division of labor since Second World War. This brings decline of some industrial activities in the core and the rise of these industrial activities in the peripheries of the world. There appear new industrializing countries in the semi-periphery and periphery of world system.

Since the mid of 20th century spatial division of labor has played critical roles in the uneven development of capitalism, and concept can be discussed with respect to three major paradigmatic periods of economic, social and political change as mentioned below.

Table 2. 2. General Characteristics of Three Paradigmatic Periods of Economic, Social and Political Change

General characteristics	1950-70	1970-90	1990+
Mode of accumulation	Fordist mode of accumulation	Flexible mode of accumulation	Mode of accumulation in Knowledge society
Type of Production	Mass production	Flexible mode of accumulation (small-batch customized)	Diversified mass production + Flexible production + Innovation
Mode of Governance	Strong nation state welfare state •Sensitive to inequalities •Redistributive functions	Crisis of welfare state •Increasing role of local government	Nation state as a partner of global governance •Emerging actors of public sphere (NGO's)
Elements of dynamics of regional growth	•Capital accumulation-investment dynamics •Vertically integrated economy •Traded interdependencies (I-O relations)	•Development of human capital •Vertical disintegration •Horizontally integrated economy •Collective entrepreneurship •Untraded interdependencies	•Driven by technical and organizational Innovations •Quasi-vertical integration •Creation of social capital •Untraded interdependencies
Patterns of spatial divisions of labor	■ <i>Labor force concentrates on -industries and services in developed western countries</i> ■ <i>-plantation agriculture and raw material economies in underdeveloped and developing countries</i> ■ <i>Strict national boundaries</i> ■ <i>-do not allow high mobility of labor, capital and commodity</i> ■ <i>-enable development of division of labor in respect of domestic industrial structures</i>	■ <i>Division of labor becomes global, it divides labor into core and periphery</i> ■ <i>A cross-national interdependence in industrial production</i> ■ <i>-core countries decentralized manufacturing jobs to periphery under their search for cheap labor</i> ■ <i>-development of professional, managerial, R&D based strata and rise of a new white colored class in metropolitan cities of core countries</i>	■ <i>Seeking for low wage geographies continuous under cost advantage strategy</i> ■ <i>Newly integrating global players (like China) with their pool of vast, unskilled therefore cheap labor power, provides dynamism for cost advantage strategies</i> ■ <i>Professional, managerial, R&D based human capital strategy becomes widespread in developing countries</i> ■ <i>Due to its lessening effects on innovative performance, significance of brain drain is comprehended by developing countries.</i>

Source; Tekeli and Pınarcıoğlu, 2004 (*italics are mine*)

After Second World War, first paradigm predominated during two decades. Paradigm created a system of fordist mass production under national welfare state ideology of Anglosaxon world. It was possible to plan a crisis free capitalist development by national Keynesian politics. In this period division of labor and industrial work organizations are committed to

national boundaries. In developed western countries division of labor was concentrating on industry and services that were locomotive sectors of the period. In underdeveloped countries and most of developing countries labor was concentrating on plantation agriculture and raw material economies that constituted a dependent development line. In brief division of labor was spatially organized through economic sectors in domestic arena of national boundaries.

Second paradigmatic period was formed through constitutive dynamics of globalization. In this period, division of labor became global and it divided labor into core and periphery. In other words labor was no more a local resource but rather a global resource. In the beginning of this period technological innovations providing dynamisms to capitalist system, had not been realized yet. Lacking of new technologies, entrepreneurs found the way by decentralizing their activities to low cost labor geographies in order to maintain profitable production conditions (Tekeli, 2005). Second period can also be assessed as a transition phase to third and through the second period of economic, social and political changes, there have been constituted a new division of labor in different geographies of the world (Massey, Meegan, 1982; Lipietz, 1984; Sabel, 1985). Changing organization forms of industrial relations such as; subcontracting, part-processes, multi-locational company structures...etc constituted transnational organization of production (Bernard, 1994). And this new form of capitalist development was increasing the disparity between material living conditions of the core and periphery (Fröbel, et al, 1980). A new north-south divide was brought out (Massey, 1984).

In the third period, there exist different production types. Through technological and organizational innovations, information has become the main factor of production in knowledge society paradigm. In such an atmosphere, innovative performance becomes one of the main determinants of spatial division of labor not only for developed countries but also for developing countries. Critical role of brain drain has comprehended by developing countries due to its negative effect on innovation capacity. Professional, managerial and R&D based human capital strategy have also become widespread in developing countries. On the other hand developed in previous period, cost advantage based flexible production strategies predominate third paradigmatic period. In an environment where rules of governing trade and capital movements are liberated, particularly in East Asia the emergence of countries (those newly integrating into the global system of production) into the labor market creates a dynamism in which core countries adopt low cost outsourcing strategies (Gereffi, 1997;

Henderson, 1997; Wu, 1999). This circumstance creates the atmosphere in which countries like China, India, and Pakistan are assessed as new node of spatial division of labor. Much of the world's manufacturing output is produced by low cost labor of these regions.

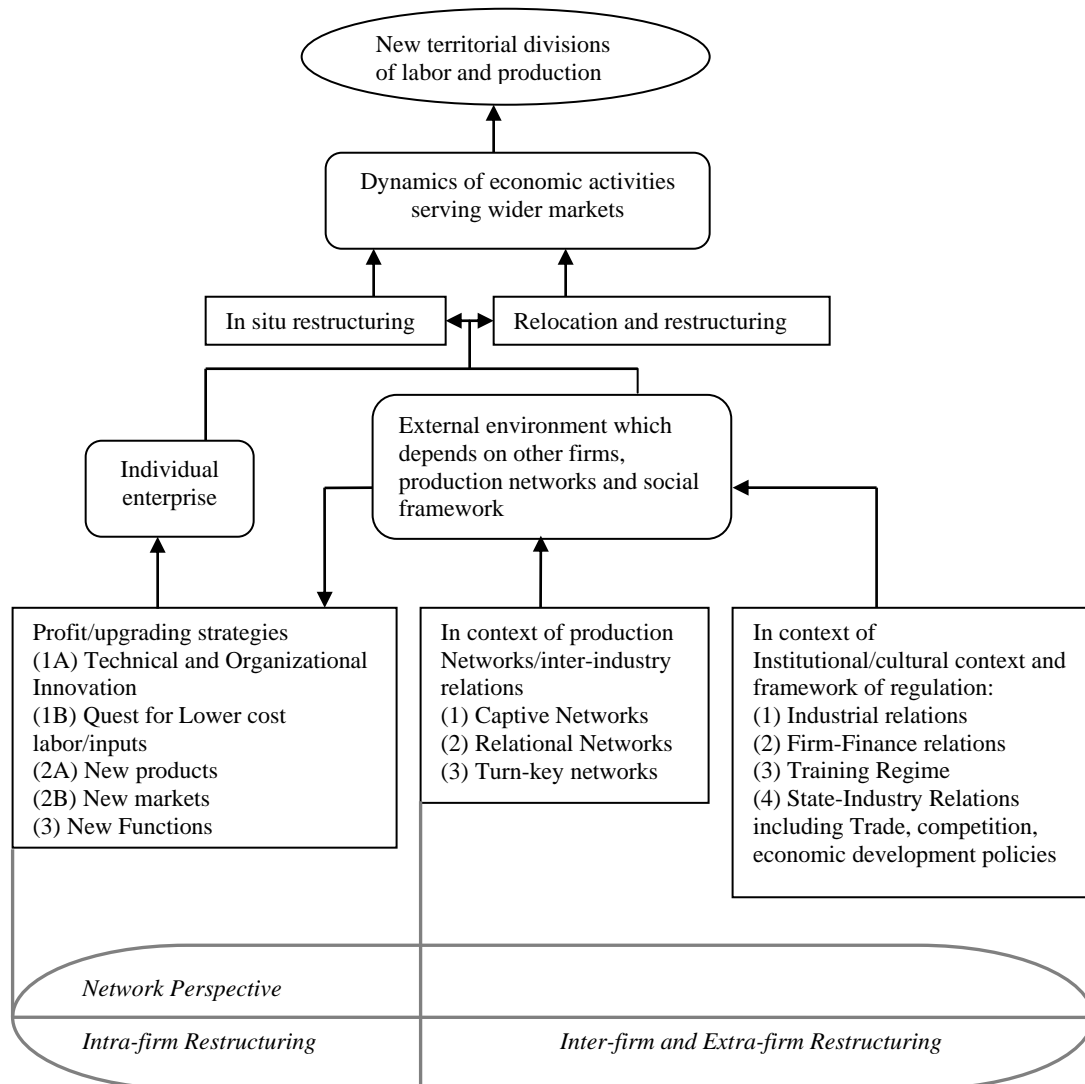
It can be understood from critical reinterpretation of three periods that in each of three paradigmatic phase restructuring processes create different but relevant outcomes of spatial division of labor. As Campbell states (1997) *employment loss and employment gain must increasingly be understood in a framework of cross-national interdependence*. In this respect *the problem is to ascertain whose is the loss and whose is the gain* (McCallum, 1999).

As mentioned above, industrial restructuring processes are always accompanied by social and spatial divisions of labor. By this regard in here it is aimed to reinterpret major restructuring paradigms of world economy with their both different and related corresponding patterns of spatial division of labor. In order to highlight new emerging patterns of spatial divisions of labor in detail, it is required to adopt a framework of analysis for further stages of the research.

2.4 A Conceptual Framework for Analysis

In this part, it is intended to conclude conceptual formulation of thesis by the frame adopted for analysis. A conceptual schema correlating the above mentioned discussions in terms of research focus is presented below. Such a schema can figure in a more comprehensive frame that endeavor to identify the relations among spatial divisions of labor and industrial restructuring and underlying mechanisms that shape them.

There can be identified three departures of industrial restructuring frame. These are (1) profit strategies of firm, (2) production and marketing positions in respect of customer-supplier relations, (3) institutional context as governance of economic change (Dunford, 2003). These three departures of industrial restructuring are represented by three main boxes at the lower part of the conceptual schema and they are coincided with a network perspective. In other words three departures in conceptual schema reflect different level of network relations (Yeung, 1994) in order namely intra-firm, inter-firm and extra-firm.



Source; Dunford, 2003 (*italics are mine*)

Figure 2. 1. Conceptual Schema for Framework of Analysis

First departure of such an analysis is the profit strategies of firm. Firms may leap to a more productive organization structure by adopting new technologies or they may have productive flexibility through decentralizing some manufacturing operations to areas where wages, energy and other related materials of production are cheaper. Besides, solutions like product innovation processes (like quality improvement or new design of existing product or innovating completely new product) and entering to new markets may provide dynamisms to lock in tended economic development of firms in industrial restructuring process.

Furthermore, repositioning to adopt different functions in the same value chain (like concentrating knowledge intensive activities rather than manufacturing in the same value chain) or tending to adopt completely different sectors of economic activity are some other strategies of firms in restructuring processes.

Second departure of this conceptual schema is consisted of changing and transforming inter-firm networks. As Berger points out (2001) transformation of network relations among firms have constituted different inter-firm network typologies namely relational, captive and turnkey networks in process. Relational production network can be summarized as a type of Italian industrial district model. Contrary to relational networks that having an associational feature captive networks are characterized by near vertical integration. Captive production networks are occurred if *a dominant lead firm coordinates tiers of largely captive suppliers* (Dunford, 2003). Turn-key production networks are generated through development of suppliers that having a high capacity of turn-key production capacity. As an alternative of vertical integrated structure of captive network typology, turn-key networks are interpreted as an American type of industrial organization and it enables to identify relation types of various industries (including electronics, garments, and footwear) since 1990s in US (Sturgeon, 2000). The identification of these three models of inter-firm networks is *indicative of changes in characteristics of the actors and of the ways in which these actors compete for shares in and control of value chains* (Dunford, 2003).

Third departure in conceptual schema stems from various national institutional contexts. Particular trajectories of different national economies are often seen as depending on nationally distinct institutional configurations, with different sets of rules and institutions regulating industrial relations, the training and education system, the relations among firms and financial system and state-industry relations in respects of macro economic conditions and competition policies (Streeck, 1989; Dunford, 1991, 2003; Faust et al, 2004)

As firstly mentioned departure, individual profit upgrading strategies of firm represent an intra-firm leveled restructuring process. Other two departure refers to inter-firm and extra-firm dimension. Integrated but conceptualized in different levels, these three restructuring processes reproduce dynamism to economic activities that serving wider markets. This has created the process in which new spatial division of labor and production are constituted.

Conceptual schema mentioned above constitutes fundamental of research design. Concluding the discussions on conceptual formulation of thesis through this conceptual schema enables to manifest theoretical reference frame explicitly for further phases of research.

2.5 A Brief Evaluation of Conceptual Aspects for Analysis

In this part of the chapter 2, relational dimensions among the theoretical discussions and the analysis on industry will be mentioned. With this way, chapter 2 and chapter 3 will be connected and thus an informative basis that fills the gap between extensive studies of these two chapters will be constituted.

Through conceptual discussions of chapter 2, restructuring processes and their transformative effects on industrial structures are specified. In general, it is possible to argue that extensive context and fruitful discussions of chapter 2 enable us to learn how to examine industrial restructuring in a specific time and space setting. In this context, the statement of capital accumulation dynamics has a critical role in understanding and interpreting changing economic, social and political relations including employment, organization of production, technological level, supply chain, trade, relocation tendencies, state's industrial politics and so on. It is understood that the changes and the transformations in the form of such relations may create, renew or even deteriorate the dynamics that are needed for industrial growth.

Furthermore, different restructuring tendencies are highlighted in the second chapter of this study. Understanding two main restructuring tendencies enable us to examine changing strategies in industrial restructuring process. As mentioned above, there are two main strategies in the industrial restructuring process namely offensive and defensive ways. Offensive restructuring strategies tend to redefine the competitive advantage through creative, innovative and knowledge-intensive ways. Therefore it can be argued that offensive restructuring is a progressive process for a region. On the other hand there is another major strategy called defensive restructuring. In defensive ways of restructuring firms tend to informalize employment relations because the only way to get competitive power in defensive strategy is to provide low cost production opportunities for industry. Therefore, it is possible to argue that defensive restructuring process is a regressive mode of change in the industry of

region owing to its hard working conditions including low wages and unregistered employment and overtime work.

With the explanation of offensive and defensive restructuring strategies, it is possible to categorize different actions and tendencies of firms in accordance with offensive and defensive modes. Therefore the statement and the discussion on distinct restructuring trajectories and strategies enable the research to make examinations on the positions, tendencies and transformations of industrial structures. Such examinations are realized in chapter 3 and in chapter 4, and the discussion on restructuring trajectories in this chapter provides a critical background for these examinations.

In this conceptual part of this thesis, it is also mentioned the new patterns of spatial division of labor since 1990s. In this context, it is made a discussion on new competitive conditions of industries. It is understood that newly integrating global players of world economy (like China) with their pool of vast, unskilled therefore cheap labor power provides dynamism for cost advantage strategies. What can be inferred from such a discussion in chapter 2 is to ascertain the difficulty to compete in the track of price competition. Such an understanding enables this research to interpret the necessity to move beyond of the price competition for most of the developing countries including Turkey.

Lastly, as mentioned above there is a conceptual schema for analysis. In fact, this conceptual schema brightens the way that will be followed in the case study of this research. The qualitative field survey of this thesis is organized in accordance with the fundamental parameters of this schema. For instance by the way of face to face interviews with firms, it is intended to get information about intra-firm and inter-firm dimensions of the conceptual schema. The interview with chambers, unions and associations show the extra-firm dimensions of restructuring. All different parameters that have to be adopted during interviews are included by the conceptual schema and such a frame of research enable thesis to construct a relational basis among theoretical considerations and empirical efforts of this study.

In conclusion, all different theoretical discussions in chapter 2 constitute the background of the empirical analysis of this study. Therefore it is possible to argue that conceptual chapter

(chapter 2) and global, local analysis chapters (chapter 3 and chapter 4) of this study are integral parts and they form critical relational basis to fulfill the ultimate goal of the study.

CHAPTER III

TEXTILE AND GARMENT INDUSTRY IN CHANGE: GLOBAL ORDER AND LOCAL CONTEXTS

This chapter aims to state the changing structure of textile and garment industry with its global and local dimensions. In doing so, firstly “new” competitive conditions that are forming a global order will be argued out in respect of textile and garment industry. Afterwards it will deliberate how various localities respond differently to global order of this industry through their contextual processes of restructuring. Finally restructuring efforts of textile and garment industry in Turkish case will be highlighted.

3.1 Global Order of “New” Competitive Conditions in Garment and Textile Industry

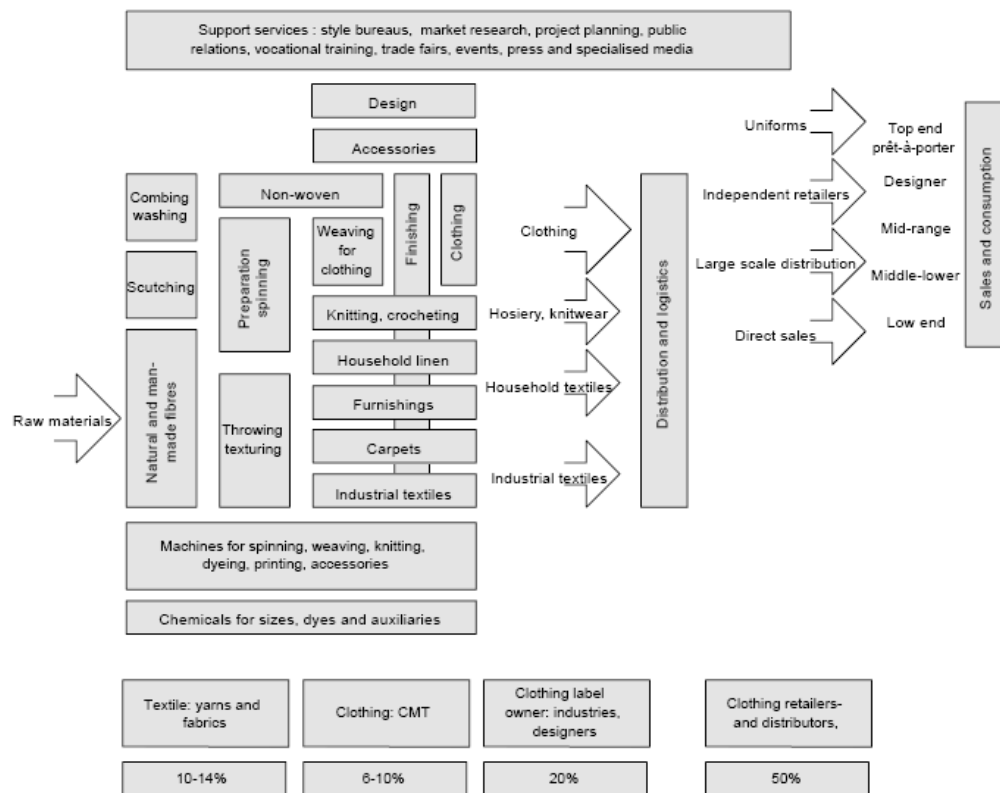
Competition has always been dominant factor of garment and textile industries. However there are transformations and new courses of development that are reshaping a new form of competitive conditions. This gives rise to a new order of textile and garment industry (TGI) relying on competition at the global level.

In this part of the research, emerging global order of these “new” competitive conditions will be evaluated and discussed. Transformation and development trajectories in various dimensions (employment, trade, production reorganizations...etc) of TGI will be comprised of. Meanwhile towards the end of these evaluations and discussions, there will be shaped a global form of restructuring of T&G (Textile and Garment) sector particularly from the aspect of developing industries. In fact this outline of global restructuring on TGI is influenced by the

framework of OECD⁸ however makes further discussions and interpretations in respect of industrial restructuring and change.

3.1.1 Structure of the Sector

Structure of TGI can be apprehended through its commodity and value chain. TGI is consisted of various activities and occupations extending from the generation of raw material to the sale of finished product. At each phase, parts of final value are generated. As mentioned below, in garment sector highest value is generated by retailing that is occurred at the end of the chain (Dunford, 2006)

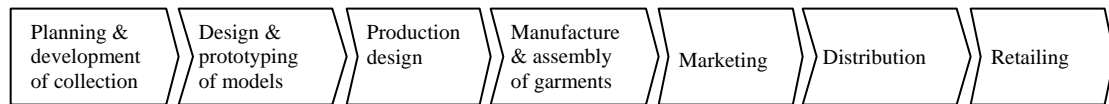


Source; Dunford, 2006

Figure 3. 1. Textile and Garment Industry Commodity and Value Chain

⁸ OECD evaluates elaborately the adjustment challenges facing the textile and garment industries across the globe in a comprehensive study called *A New World Map in Textiles and Clothing: Adjusting to change* (see OECD, 2004)

Garment sector involves various tasks. Each of the steps is fulfilled by different sets of activities. The first step is development of products and planning of collections. At this stage of production, market research is implemented and profitability criteria are constituted under product life cycle estimations (Dunford, 2006). This step entails highly skilled human capital. In the second and third steps, production design is carried out and quality standards, assembling strategy are determined. The most cost-efficient way of production is designated in respect of determined quality standards. Both second and third steps as well as first stage, requires a high human capital involving creative, technical and fiscal capableness. The forth step is the assembly of garments. Known as *cut-make-trim* (CMT) process in the sector, this highly labor intense process of production involves *semi skilled sewing and assembly operations, using simple machines and requiring elementary skills* (Lane and Probert, 2004). Assembly stages are mostly decentralized to countries where wages and other production costs are cheaper.



Source; Lane and Probert, 2004

Figure 3. 2. Steps in the Garment Value Chain

Including fifth, sixth and seventh steps, in the last stage of the garment value chain decisions of marketing, distribution and retailing are implemented. In this stage retailers determine *which stocks to order*, how to advertise them *and what distribution/logistic systems to put in place to supply them* (Dunford, 2006). In fact according to Dunford (2006) a series of activities such as *trade fairs, advertising, computer controlled order tracking, inventory control and logistic systems all play a part in these marketing and distribution activities*. These steps of value chain require high skilled service related capabilities such as creative advertising and marketing & logistics management.

Critical point of garment value chain is that large quantities of fashion sensitive commodities have to be produced in the absence of the consumption guarantee. Dunford states that (2006) *in order to manage the resulting risk, a set of conventions are put in place*. This necessary part of value chain constitutes a situation in which assemblers of garments produce merely what

has already been ordered therefore sold. Conventions like fashion shows and trade fairs are very important to determine which garments to produce and mass media plays a critical role to shape consumer preferences. Through these conventions of the sector it is possible for firms to take minimum risks and getting more stable market shares.

Different firms play significant roles in various conventions, steps and processes of the sector. In the literature it is mostly identified three main types of garment companies (Gereffi, 1994; Dunford, 2001, 2006; Lane & Probert, 2004). Firstly there are outsourcing enterprises that design products and develop prototypes and market and distribute garments that are outsourced to be assembled in different countries where wages and other production costs are cheaper. In other words this type of firms realizes each of the steps in garment value chain except manufacture and assembly due to relatively high cost of labor in the home country. Secondly there are manufacturers called CMT firms (cut-make-trim) in the sector. These companies concentrate on labor intensive sewing and assembly operations and their competitiveness stems from their low cost production opportunities. This kind of firms is mostly located in semi-periphery and periphery regions of the world. Thirdly there are vertically integrated companies designing making and selling garments through their own networks. Vertically integrated firms perform in all steps of garment value chain. Networks of production and distribution can be related to various geographies of the world in vertical integrated firm structure.

In fact these three firm typologies correspond to three international TGI production systems. In other words these three systems of global Textile and Garment (T&G) production refer to abovementioned three types of firms. Gereffi (1997) identifies this global T&G production system through three patterns of industrial forms namely: (1) assembly, (2) original equipment manufacturing (OEM) and (3) original brand name manufacturing (OBM). *Assembly is a form of industrial subcontracting, in which garment sewing plants are provided with imported inputs for assembly, most commonly in export processing zones* (Gereffi and Memedovic, 2003). In the assembly type of production systems, manufacturer firms are locked in labor intensive operations of the sector and cannot get opportunities for industrial upgrading and therefore they cannot move to more value added segments of the chain. These types of international systems are characterized by captive networks. In original equipment manufacturing *the supplying firm makes a product according to a design specified by the*

buyer and the product is sold under the buyer's brand name (Gereffi and Memedovic, 2003). The buyer and supplier are apart firms. This system is also known as *full-package* production and characterized by turn key type of networks. It is asserted that there are opportunities to move from mere assembly of imported inputs to full-package supply or OEM production and East Asia's success story is interpreted through such a progressive transformation (Gereffi, 1999). Thirdly *OBM is the upgrading by manufacturers from the production expertise of OEM to first the design and then the sale of their own brand products* (Gereffi and Memedovic, 2003). In OBM system, company learns how to become a brand name firm. For instance since 1990s some Japanese firms have started to supplement their production expertise with design and afterwards sales of own branded merchandise started at the international markets.

Structure of the sector is consisted of TGI value chain processes and involving major firm typologies and their corresponding international systems as mentioned above. In this regard explanation on some key actors and processes of TGI constitutes one of the industrial reference frames to comprehend “new” global order in the sector.

3.1.2 Technological Level and the Role of Innovation and Design

Technological level and the role of innovation and design are very significant factors of competitive power in TGI. Major technological improvement in T&G sector was firstly realized approximately four decades ago. In 1960s this technological breakthrough was the introduction of open ended spinning and automatic looms. Parallel developments were occurred in knitting and finishing (Pınarcıoğlu, 2000). Toward the end of 1970s textile part of TGI started to become capital intensive phase of production. These technical developments reduced the number of workers and quantity of time involved in textile production. In 1970s and 1980s employment declines and job loses were mainly occurred by reason of these technological revolution.

Although textiles technologically upgraded, there were no improvement in garments in this respect. Technological level of assembly (sewing) process is still labor intensive part of TGI however due to effects of the innovations in microelectronics, preassembly process transformed significantly. Through these improvements *cutting activities, pattern layouts and other functions become computer assisted and in many cases designs can be transformed to*

patterns which are directly fed into cutting machines via electronic networks (Nordås, 2004). This system is called computer aided design (CAD) and results in a computer aided manufacturing system (CAM). CAD and CAM systems point out a significant technological level in preassembly stage of garment sector however *assembly stage remain highly labor-intensive and involves delicate handling and sewing operations that do not lend themselves to automation* (OECD, 2004). In fact assembling techniques remain essentially those of a century ago. Assembly part of garment sector has low ratio of capital to labor however improvements in transport and information technologies (like telecommunications) enable garment manufacturers to fragment the supply chain on a global basis. Thereby assembly stages of production are mostly carried out in low wage countries where production costs are cheaper.

Apart from major technological improvements in textiles and preassembly stage of garments, there can be identified three important progresses in respect of technological level of TGI. These three significant technological improvement and innovation efforts have a major role in determining future capacity of competitive power in the sector.

One major area of technological improvement and innovation is technical textiles in other words non-garment application of textiles. Technical textiles are *those textile materials and products manufactured primarily for their technical and performance properties rather than their aesthetic or decorative characteristics* (OECD, 2004). Technical textiles can be used by wide range of activities such as health and hygiene, environment, furniture and automotive. It is stated that since 2000 each year approximately quarter of produced cotton fibers have been utilized for production of technical textiles (Tarakçıoğlu, 2006). Stages of technical textile sector requires both labor intensive and capital intensive processes in production and presently this sector is concentrated on developed countries.

Other significant technological transformation in TGI is occurring by the development of various key information technologies. These technological improvements have a significant transformative effect particularly on retail stage of TGI value chain. In fact a system of advanced retailing called *lean retailing* is developed in this respect. Lean retailing is defined as the model of *frequent shipments by suppliers to fill ongoing replenishment orders by retailers, based on real-time sales information collected at the retailer's stores on a daily basis* (Gereffi and Memedovic, 2003). Technological improvements like *bar coding* and *point*

of scale scanning are utilized for real-time sales information of products *electronic data interchange* systems provide informational infrastructure for retailer to restock and enable to restock small but frequent orders. Flow of commodities, money and information is accelerated and in this respect major technological improvements are reshaping retail stage that having half of the value added in TGI.

Another important technological innovation is expected to occur in *internet retailing*. Garment retailing has not take advantage of opportunities of e-commerce as yet. However if succeeds a series of technological improvement efforts on internet retailing in garments seem to transform entire TGI commodity chain (Gereffi, 2001). These internet retailing adaptation efforts are realized by some leader retail groups in the sector. Research and development activities are concentrating on three dimensional scanning technologies and appropriate apparel simulation software to generate customers individual body images dressed in the designs. If such a fully integrated internet retailing system is realized then it is expected to leap to a more efficient system of production in TGI (OECD, 2004). In fact internet retailing will presumably have the most transformative effect on the sector among these three areas of technological innovation.

In the light of the things mentioned above technological innovations played and still playing an important role in the development of TGI and technological level of the sector is constantly being reconstituted by this process. Most of developed countries are focusing on R&D activities of the sector (see table 3.1) which bring them the opportunity to get the largest market shares if right innovations are made at the right time.

Table 3. 1. R&D Intensity of Textile and Garment Industry in OECD countries

Countries	1990	2000
Belgium	1.2	2.2
Canada	0.7	1.0
Denmark	0.4	0.9
Finland	1.1	2.4
France	0.4	0.9
Germany	1.5	2.0
Ireland	2.0	2.8
Italy	0.0	0.1
Japan	1.6	2.1
Spain	0.1	0.6
Sweden	1.5	1.1
United Kingdom	0.3	0.4
United States	0.5	0.6

Source; OECD, 2004

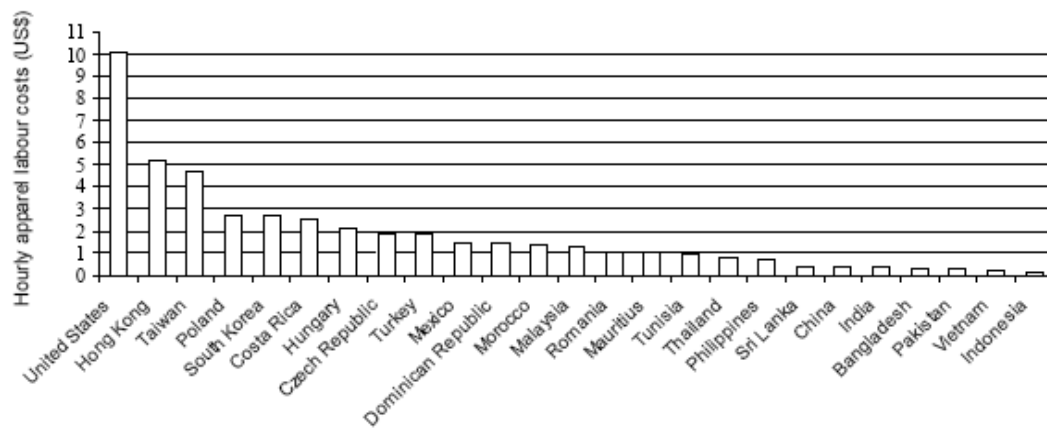
Note: Intensity refers to direct R&D expenditures as a percentage of gross output.

While on the one hand technological innovation efforts are enhancing on the other hand the role of design is continuously increasing in the sector. Standardized products that do not embody any design effort are cheapest and they have little market shares. On the contrary design activity creates higher value added products. In fact today in the sector it is an undisputable fact that major competition among garment firms are in the arena of design and technological innovations to surpass markets through new products and to gain higher market shares.

3.1.3 Migration of Production Capacity to Cost Competitive Countries

The world TGI has experienced various production migrations since 1950s. There can be identified three major migration of production capacity in this respect. The first shift occurred in 1950s and early 1960s and it was from North America and Western Europe to Japan. Occurred in the 1970s and early 1980s, the second displacement was from Japan to Hong Kong, Taiwan Province of China and Republic of Korea which have dominated world economy throughout these years as the *Asian Big Three*. The third shift reshaped economic geography of the world in the 1990s and still constituting today's economic geography. In these years production is mainly to mainland China and various South East Countries including Indonesia, Thailand, Pakistan, Vietnam and Sri Lanka. Later on some Caribbean countries are added changing world map of production in TGI as a result of the NAFTA (Gereffi and Memedovic, 2003).

Migration of production can be traced through outsourcing⁹ and direct imports of major consumer countries (Plasschaert, 2005). Main underlying reason of these production migrations through outsourcing activities is the emergence of various low cost production countries in different periods of world industrial geography. Low production costs are mainly stemming from low labor costs. Below, hourly labor costs of major outsourcing locations are presented. These are attractive locations for assembling activities particularly the ones having less than 2 dollar per hour labor cost.



Source; Lane & Roberts, 2004

Figure 3. 3. Hourly Labor Costs of Outsourcing Locations in Garment Industry, 2002

In Europe major locations of low labor cost are central and east Europe countries (Hungary, Czech Republic, Romania and Bulgaria). There are different locations of outsourcing activities in Asia however some of them (like China, Vietnam, Pakistan, Bangladesh, Sri Lanka, India) have comparative advantage over Hong Kong and Taiwan which were the most attractive ones in the 1970s and early 1980s. In fact world map of garments is changing and outsourcing rates are continuously increasing¹⁰. However as labor intensive assembling

⁹ Outsourcing is the practice where companies of developed regions export fabrics, or parts of garments, to be further processed in a third country and then re-import them as finished garments. (Gereffi and Memedovic, 2003). Through outsourcing production becomes fragmented and fragmented production process is designed due to low cost assembly opportunities in periphery regions. Outsourcing occurs under *outward processing programs* in EU and as the name of *production sharing activities* in the US. This subject will be concentrated in the later parts of this chapter

¹⁰ In Europe outward processing of garments is constantly increased in 1990's and it is tended to continue its growth in 2000's (see Appendix B)

processes of garment production continue, low cost labor as the significant factor of competition maintain to determine attractive places of production migrations.

Table 3. 2. Leading Exporters of Textiles and Garments

Billion dollars and percentages

Textile						Garments					
	Value	Share in World Exports					Value	Share in World Exports			
Exporters	2005	1980	1990	2000	2005	Exporters	2005	1980	1990	2000	2005
EU (25)	67.98	-	-	35.9	33.5	EU (25)	80.35	-	-	26.9	29.2
extra-EU (25) exports	23.51	-	-	11.0	11.6	extra-EU (25)	22.62	-	-	6.8	8.2
China	41.05	4.6	6.9	10.3	20.2	China	74.16	4.0	8.9	18.2	26.9
Hong Kong	13.83	3.3	7.9	8.5	6.9	Hong Kong	27.29	12.3	13.3	12.2	9.9
US	12.38	6.8	4.8	7.0	6.1	Turkey	11.82	0.3	3.1	3.3	4.3
Republic of Korea	10.39	4.0	5.8	8.1	5.1	India	8.29	1.7	2.3	3.1	3.0
Chinese Taipei	9.71	3.2	5.9	7.6	4.8	Mexico	7.27	0.0	0.5	4.4	2.6
India	7.85	2.4	2.1	3.8	3.9	Bangladesh	6.42	0.0	0.6	2.0	2.3
Pakistan	7.09	1.6	2.6	2.9	3.5	Indonesia	5.11	0.2	1.5	2.4	1.9
Turkey	7.07	0.6	1.4	2.3	3.5	US	5.00	3.1	2.4	4.4	1.8
Japan	6.91	9.3	5.6	4.5	3.4	Vietnam	4.81	-	-	0.9	1.7
Indonesia	3.45	0.1	1.2	2.2	1.7	Romania	4.63	-	0.3	1.2	1.7
Thailand	2.76	0.6	0.9	1.2	1.4	Thailand	4.09	0.7	2.6	1.9	1.5
Canada	2.46	0.6	0.7	1.4	1.2	Pakistan	3.60	0.3	0.9	1.1	1.3
Mexico	2.13	0.2	0.7	1.6	1.1	Tunisia	3.33	0.8	1.0	1.1	1.2
United Arab Emirates	1.70	0.1	0.0	0.8	0.9	Sri Lanka	2.88	0.3	0.6	1.4	1.0
Above 15	183.52	-	-	90.5	90.5	Above 15	228.98	-	-	77.3	83.1

Source; International Trade Statistics, WTO, 2006

Another way of tracing migration of production is through analyzing world trade in T&G sector. In the exports of textile products while EU is having the largest percentage, China have increased its share incredible during last two decades. In garment exports EU has the highest percentage again. This position of Europe is mainly stemming from outstanding performance of eastern and central countries of the region namely; Czech Republic, Hungary, Romania and Poland. These five countries of the region are the only ones that take place in world's 25 leading garment exporters (Gereffi and Memedovic, 2003). It can be asserted that in Europe there occurred a locational shift of production towards central and east Europe in last two decades.

Turkey has not maintained successful export performance of 1980-90 period. However the country is still a significant producer of TGI. In Mexico striking performance of country that

is interpreted as the effect of NAFTA in the period of 1990-2000 slowdowns in 2000s probably as a result of changing preferences of US in world garment trade. The most outstanding performance of exports in world economy is realized through China and Southeast Asian countries. China have experienced approximately a sevenfold increase during last two decades and Southeast Asian countries like Bangladesh, Pakistan, Vietnam, and Indonesia constantly increased their percentage of export to significant levels. This continuity of export growth in these Asian countries implies that this region will form future sites of production in TGI.

Thus related with abovementioned points, three distinct geographical trade patterns have emerged. Each of them is continuously reshaping the location of production in TGI and constituting major markets of T&G sector. Firstly there is *Asia-Pacific* region depending on key supply chain players including Hong Kong, China, Korea and Japan. In *European Union*, western Europe countries are in the position of supply chain manager and central and eastern European and Mediterranean countries as the outsourcing locations are at the periphery. In North America, while US is forming the core, Caribbean region and some Asian remote outward processors constitute the periphery (OECD, 2004).

Thus relocation tendencies of T&G production can be traced throughout transformation in trade of these three major markets namely; US, EU and Japan. Between the years of 1995-2002, while China was maintaining its situation with the share of 16%, Mexico by the influence of NAFTA raised its share from 7% to 11% in US textile product market. In the same period, the similar changes stand out in US garment product market. While China was also maintaining its situation in this area, Mexico had a same rate of increase. As the major import sources to US market, while Hong Kong, Taiwan Province of China and Republic of Korea have experienced decline, some other countries like China, Indonesia, Mexico and Bangladesh are experiencing a rise. This explains how production for US market has been subjected to relocations.

At the same time, there was a different product migration pattern in European garment market. While Turkey was keeping the European oriented export market share between 10%- 15%, China has a raise up to 20% since 1990s. European oriented production of T&G had a tendency towards China. Apart from China and Turkey, the other important countries which

produce for European garment market are Tunisia, Morocco, Romania and Poland (Nordås, 2004; Gereffi and Memedovic, 2003).

As a quota free market, Japan has a quite different import map. China is the sole leader in this market. While China had a 31% share in Japan garment product market in 1990, it raised its share to 76% in 2000. Therefore, China is the sole dominant country in Japan garment product market. This situation can be explained by the natural result of being in a closer location to China as a quota free market (Gereffi and Memedovic, 2003).

In here it is intended to constitute a general frame about migration of production capacity to cost competitive countries through deciphering the changing pattern of global trade. Production is continuously relocated throughout changing trade relations at the world scale. How employment relationships do changes in this process? Is there to be formed a new employment geography of TGI? A discussion on employment change is anticipated to be responsive.

3.1.3 Employment Change and Job Loses

Although global liberalization of TGI creates economic opportunities for both demand and supply side of the sector, increasing international competition puts pressure on labor markets and results in displacements of workers. Between 1970 and 2002 restructuring of TGI caused in the net loss of 4.1 million jobs in five most developed OECD countries namely: US, Japan, UK, Germany, France (OECD, 2004).

It is difficult to identify precise causes of unemployment in TGI. Labor productivity increases through technological improvements, increased import competition, the closure of uncompetitive plants, shift of production capacity to low wage countries and labor productivity gains through shifting industrial expertise towards service related skills...all these factors of change are contributing to unemployment in TGI and it is not easy to isolate the exact causes of distinct worker displacement processes in the sector. However it is known from the past experiences of restructuring that in the late 1960s, in 1970s and in early 1980s there were two major transformative processes on employment of T&G sector. Firstly there occurred technological improvements and these increased labor productivity through

decreasing required labor capacity for production. This was the fact particularly in textile industry of core countries. Secondly relocation of labor intensive operations of production to low wage countries through subcontracting have occurred and since 1970s these production migrations have continuously reshaping spatial divisions of labor in the world's economic geography.

However in today's TGI, there can be identified different transformative processes on employment of the sector. In the "new" competitive conditions of T&G sector abovementioned first factor of employment change lost its transformative position but the second factor is still keeping its validity. In fact during last two decades, most of T&G producer countries upgraded their textile equipment and machinery and adopted preassembly automated production systems (like CAD, CAM systems). In other words developing countries found the opportunities to catch up developed nation's technological level in T&G sector therefore it can be argued that technological level is relatively the most equalized and stabilized factor of employment.

In this regard, today's "new" competitive conditions are being reshaped around three significant processes which dramatically transform employment relations. This new spatial division of labor is determined by (1) increased import competition and closure of uncompetitive plants, (2) migration of production capacity to low wage countries and (3) shifting industrial expertise towards service related skills to specialized in higher value added segments of TGI value chain (eg; concentrating on design and research for technical textiles).

These factors of "new" competitive conditions have become effective since 1990s and changed employment figures in various geographies of the world. This can be traced through employment rise in the periphery and decline in the core owing to increasing cost competition and production migrations.

Table 3. 3. Employment in Garment Industry, Selected Countries (Thousands)

Country	1995	2002
United States	814	358
Germany	122	105
United Kingdom	177	78
Italy	274	198
Portugal	143	143
Spain	117	116
China	1750	2218
India	264	386
Mexico	476	784
Romania	189	302
Turkey	596	501
Morocco	102	138
Tunisia	94	106
Hong Kong China	80	23
Chinese Taipei	114	80

Source: UNIDO, International Yearbook of Industrial Statistics, various issues cited in Nordås, 2004

This table is presented to interpret major employment trends in an increased competition medium as a result of global integration of low wage countries to garment industry that started to shape a new spatial division of labor since 1990s. In most of the developed countries that already decentralized their production to periphery, employment continuously declines except some Mediterranean countries like Portugal and Spain. In Asia where the new employment trends of garments focus on, leading geographies of labor in 1970s and 1980s like Hong Kong and Chinese Taipei have experienced significant employment declines through 1990s and early 2000s. On the contrary China, India and some other Southeast Asian countries have emerged as new labor geographies of Asia region. China and India continuously increased their employment figures throughout 1990s and early 2000s. Today, China is the focused geography of garment industry in spatial division of labor and garment industry employing more that 2 millions of people.

As a result of NAFTA Mexico succeeds to construct a special trade led industrial relation with US which causes significant increases in employment. As one of the other focused region of production migrations, in East Europe Romania realized the most important increase in the employment of garment industry. Northern African countries like Morocco and Tunisia have been affected by the increased competition but have not experienced dramatic changes of employment. In Turkey garment sector maintains its position as the leading employment

generator industry however there have been experienced significant decreases between 1995 and 2002.

These employment changes causes job loses and job opportunities in various geographies of the world according to their position in TGI value chain. Furthermore there can be identified efforts to control these changes that occur at the employment side of the sector. In this respect both at the core and periphery there are different strategies to cope with the situations that are generated through the change of employment.

In 1990s, US government carried out an important labor market adjustment program for TGI through training activities that is called *Trade Adjustment Assistance* program (TAA). This program aims to bring new skills and capabilities for workers that previously having low level of skills, producing standard type of products and thrown out of work as a result of the closure of uncompetitive plants due to increasing competition from imports. This training program is still being implemented by the US and supports the transformation of human capital structure in TGI (OECD, 2004).

Another core country strategy to deal with job loses is realized by Germany. *Wage insurance program* is designed for workers whose new wage is lower than their previous wage. The program subsidizes some portion of the difference and subsequently it is intended to encourage these workers to take more qualified jobs by training and education programs. Wage insurance program is sustained by training and education activities to carry out a broader human capital change (OECD, 2004).

On the other hand there are another strategies and programs of employment control in some peripheries of TGI. In these geographies employment figures rise constantly due to low wages however in this respect there may appear nonstandard employment and labor conditions. ILO tries to expand global process standards in this regard to form better working conditions. In order to improve working conditions in garment industry, there have been applied projects called *decent work organizations* in Bangladesh, Romania, and Philippines. In these projects it is intended to raise factories' capacity to comply with international labour standards (ILO, 2005).

Furthermore, according to an extensive research on labor market of US garment industry (Kletzer, 2001a) displaced workers from garment and textile sector tend to have low skills and low levels of education therefore earning low wages. Moreover displaced workers are predominantly women and minorities. To what extent these findings can be generalized to different labor markets of the world remains unanswered. However general tendency of many textile and garment production geography imply such a condition of labor market (Kletzer, 2001b). All of these characteristics of displaced workers make it more difficult for them to adjust to changes in the labor market (OECD, 2004). The significance of social precautions for job losses and the challenges of adjusting labor market conditions with an inclusionary focus emerge in this respect.

Overall policy challenge for employment issues of TGI is mentioned briefly under common restructuring frame for most of developing countries (OECD, 2004)

Against the background of closer international integration, the systemic shift towards services-related activities and the phasing out of quantitative restrictions, the main policy challenge is to secure the benefits from liberalized trade and investment while, simultaneously, minimizing the resulting adjustment burdens on adversely affected workers and communities. To achieve this goal, governments must transfer some of the benefits of trade and investment enjoyed by the vast majority of people to help offset some of the costs incurred by those adversely affected by import competition. The main goal of any labour adjustment programme should be re-employment, either a return to one's previous job or the finding of a new one, as soon as possible, with minimal disruption in earnings. Such programmes should also aim at minimizing the economic and social impact of plant closures on communities. Therefore, the overall policy challenge is to devise ways to meet the social goals in a cost-efficient and least trade-distorting manner (OECD, 2004).

In fact employment is one of the most important dimensions of the restructuring in TGI. The general tendency in the sector implies that quantity and quality of employment is in a significant change in the core and periphery. This will carry out distinct agendas for different labor markets namely job losses and new job opportunities, nonstandard working conditions and shifting industrial expertise toward research and design related high wage segments of work and so on. Different processes will bring distinct effects and policy mechanisms about employment and welfare will be redistributed among various geographies and actors of world TGI.

3.1.4 Supply Chain Management and the Role of Large Retail Groups: Towards New Verticalities

TGI is a supply chain consisting of various activities. In fact the supply chain from sourcing of raw materials via design and production to marketing and distribution is tended to be managed as an integrated production network (Nordås, 2004). The production is fragmented to specialized operations and each operation is located where it can carry out the highest value to the end product. After location decisions of each activity; *production costs and quality, reliability of delivery, transport and transaction costs* become significant factors (Nordås, 2004).

Today the control of supply chain management is generally realized by large retail groups. In fact the role and the ascendancy of large retail groups in TGI value chain become one of the most important elements of global order in the sector. The focus of such large retailing groups is on products and their prices and how to get these products with minimum costs and highest quality at the right time. Such a challenging request is realized through developing strong ties with global suppliers of low cost countries.

Market shares of these large retail groups can explain their leadership position in garment value chain. *In US by 1995, the five largest retailers* (Wal-Mart, Sears, Kmart, Dayton Hudson Corporation and JC Penney) *accounted for 68 per cent of all apparel sales* (Gereffi and Memedovic, 2003). Furthermore in EU, there can be identified a similar position of large retailers in the market. By 2000 the share of top five retailers in total garment industry turnover is approximately 50% in Germany and 35% in UK (Dunford, 2001). Since the mid 1990s United Kingdom's garment sector is controlled by two top retailers namely; Marks & Spencer¹¹ and the Burton Group having over 25 percent of the market share in UK (Gereffi and Memedovic, 2003).

¹¹ UK retailing firm Marks & Spencer has an interesting story about global outsourcing issue of garments. In 1980's the company was having a "Buy British" focus. At least 90% of the goods sold by Marks and Spencer were made in UK (Gereffi and Memedovic, 2003). This tradition of company began to erode in 1990's and by 2002 company planned to more than 70% of its garment to source from low cost Asian countries (Tait, 2000). Marks and Spencer's offensive strategy to secure UK garment supplier firms could not contend successfully against world wide restructuring of TGI.

In this context, one of the critical questions is how these large retail groups control supply chain. The major way of supply chain management is realized through *production sharing*. In this international subcontracting system, large and branded manufacturers supply intermediate inputs like cut fabrics and trims to offshore suppliers. These offshore suppliers are mostly located in low wage countries with reciprocal trade agreements. Offshore suppliers are responsible from assembly process and lead buyers import finished products from offshore suppliers under advantageous import tariffs owing to regional trade agreements (like NAFTA and Customs Union). Production sharing networks in America is predominantly constituted among US lead buyers and Mexican, Caribbean suppliers. Production sharing is known as *outward processing trade* (OPT) in Europe and major actors of networks are lead buyers from West Europe and assemblers from East Europe, Turkey, North Africa and Asia (Gereffi and Memedovic, 2003).

Supply chain can be managed through various industrial relations. In this respect there can be identified different production sharing possibilities. A schematic representation of different forms of industrial relations is mentioned below.

Buyer and supplier	Textiles		Clothing				Post-assembly		
	Yarn spinning	Weaving, knitting, finishing	Design	Grading, nesting and marking	Cutting	Sewing	Distribution	Marketing	Retail
OPP offshore suppliers									
Lead buyer									
Assembler									
Small non-integrated suppliers									
Lead buyer									
Full-package									
Integrated suppliers									
Lead buyer									
Full-package									

Source; OECD, 2004

Figure 3. 4. Schematic representations of production-sharing possibilities

There are two major outsourcing approaches under three production sharing strategy at the abovementioned figure. The first is simple subcontracting of the assembly stage and the second is full-package system. Full package suppliers are qualified suppliers of large retailer groups. These suppliers do not only concentrate on basic manufacturing steps but also on a

variety of manufacturing related services (technical design and logistics) and creative design inputs (Faust et al., 2004). Full-package production is a kind of original equipment manufacturing¹² (OEM) and its network representations are realized through turn key networks¹³.

Since 1990s large retailers and brand names have adopted full-package system and they have tended to form turn-key networks with their full-package suppliers. In fact large retail groups collect point of sale information in real time through adopted system of lean retailing that operates on bar code and electronic data interchange (Nordås, 2004). By the way of lean retailing system, *large retailers groups collect market information about the latest trends in styles and tastes and their integration of this information gives them considerable leverage in dealing with suppliers* (OECD, 2004).

Thus, large retail groups have a leadership role in TGI value chain and they predominantly prefer full-package subcontracting in order to provide quality factors and just in time requirements. Have supplier firms and regions been promoted for economic growth in such an atmosphere of TGI that dominated by retail giants? In this respect leadership role of large retail groups can be interpreted through two distinct approaches. There can be identified a mainstream view about the issue. According to mainstream view (OECD, 2004) developing and underdeveloped country's supplier firms and regions can *benefit from working in close co-operation with large retail groups, brand marketers and learn to: i) manufacture quality products; ii) apply the buyer's codes of conduct*¹⁴; and iii) *deliver products in a timely fashion*. Therefore mainstream view argues that supplier local economies can grow and find opportunities to upgrade their industrial structure through developing business relations with large retail groups (Gereffi, Bair, 2001, OECD, 2004). In other words success depends on being a member of global networks led by retailer giants.

¹² In OEM, the supplying firm makes a product according to a design specified by the buyer and the product is sold under the buyer's brand name (Gereffi and Memedovic, 2003). OEM is mentioned in part 3.1.1

¹³ Turn-key networks represent a particular type of inter-firm relationships and mentioned in the *Conceptual Schema for Framework of Analysis* (see part 2.4)

¹⁴ *Code of conduct* means a set of principles and expectations of leading buyer firms upon suppliers. It typically outlines standards for industrial activities

On the other hand, there exists critical view. According to critical view, leadership role of large retail groups shifts architecture of supply chain towards new verticalities in TGI. Owing to the verticalities, garment sector's supplier firms *face challenges from global retailers to improve quality, reduce cost and shorten production lead times* (Nadvi, Thoburn, 2004). Growing competition among giant retailers (like Mango, Zara and Marks & Spencer) coerces them to adopt shorter season product lines with higher product quality. In fact attracting consumers with constantly changing fashions provides the key capital accumulation dynamic to the TGI value chain. In other words adopting shorter season product line is a must for retailer. In order to meet such demands suppliers have to respond quickly to designers of retailers in sample productions and shorter delivery schedules. However at the same time higher quality pressures increases while unit prices tend to decline. According to Nadvi and Thoburn (2004) by the process of new verticality in TGI, *suppliers are squeezed, having to improve efficiency in order to lower costs while retaining or enhancing product quality*. Critical view asserts that hegemonic control of large retailer groups constitutes formidable challenges for T&G suppliers of semi-periphery and periphery economies.

In fact interpretation of the leadership role of large retail groups varies according to distinct standpoints. However it is an undisputable fact that vertically organizing positions of large retail groups in the sector reproduces power relations among the actors of the TGI. Integration of industry with leading retailers will be one of the major global challenges in the future of TGI.

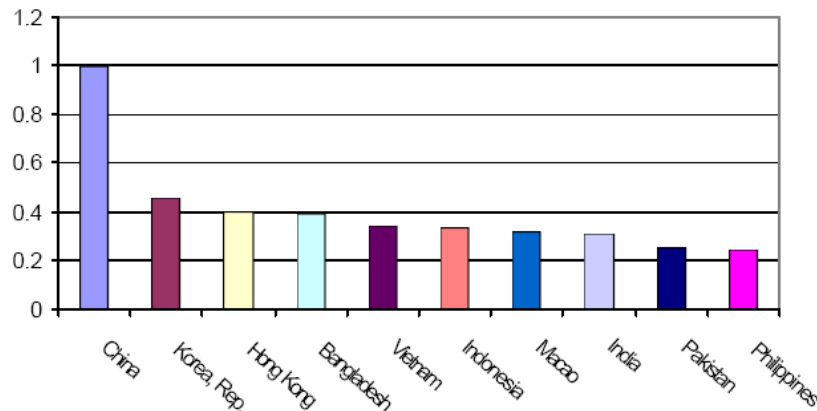
3.1.5 Trade Policies and Post Quota Period

Trade policies are influential regulative mechanisms of TGI. There are two major trade policy instruments. On the one hand there exist trade restrictions under quota and tariff limitations. These restrictions have been determined and implemented by World Trade Organization (WTO) at the global scale. On the other hand, there are regional trade agreements that reflect preferential arrangements of trade among particular countries. Customs Union agreement of EU and NAFTA of US are well known two significant regional trade agreements.

In this part it is intended to discuss the role of these trade policy measures and interpreting effects of these changing measures in respect of post quota market conditions. Firstly the process of quota restrictions and eliminations will be discussed then regional and preferential agreements of garment trade will be focused.

The quota system is started by the Long Term Arrangement (LTA) within the context of GATT in 1962. LTA was transformed to Multifibre Agreement (MFA) in order to include materials other than cotton in 1974. Through these agreements there were effective quotas that disable the free movement of commodities among countries. Afterwards, Uruguay Round was commenced in 1986 and was completed in 1994. By the Uruguay Round, countries wishing to keep quotas committed themselves to phasing all quotas out until 1 January 2005 (ILO, 2005). The agreement of this quota elimination process in textile and garment products is stated by Agreements on Trade and Tariffs (ATC).

As a result of these quota restrictions, trade of textile and garment products is highly distorted. Some exporters have faced binding quotas while some others have gained opportunities to maintain their market shares under quota restrictions. In fact most significant fact that affected trade policy and regimes was China's access to global markets. China became a member of WTO in 2001. Before China's entry to WTO, most of the developing countries were supporting the phasing out of quotas. However after China's entry *they became concerned that the lion shares of the gains from quota phase out will accrue to China* (ILO, 2005). In fact this is a justifiable concern because due to China's low cost production capabilities country can offer the minimum product prices so having large shares in major markets. Under quota limitations China's exports are the most impacted ones (see figure 3.5).



Source; Ernst et al (2005)

Figure 3. 5. Ten Most Restricted Countries in Garment Exports

As can be understood from the figure¹⁵, China is the most restricted country in garment exports. Another significant point draws attention, all other countries among the ten most effected ones come from Southeast Asia. In fact China and other Southeast Asian countries are the most effected countries under trade regime of MFA.

China has a large market potential that could not reflect it to its exports yet under restricting trade regime. *In view of China's potential for rapid export growth, there is a special safeguard clause in China's protocol of accession to WTO, allowing trading partners to impose temporary quotas on China under given circumstances until the end of the 2008* (ILO, 2005). Textile and garment safeguard provision is valid until the end of the December 2008. In 2005 two leading market of the sector US and EU preferred to invoke this provision and limited China's garment imports (OECD, 2004). Until the end of 2008, this transition period can be interpreted as the chance for restructuring the sector to increase the competitive power for some developing countries.

¹⁵ This figure is realized in accordance with quota impact indicator that constructed by Ernst, et al (2005). Indicator is taking the number of quotas into account and measuring the relative constraining power of these quotas for all related garment product categories and quota restricted countries. For a detailed explanation on the construction of indicator see Ernst, et al 2005

What the post quota period carry out to China and its competitors? How trade relations will be reshaped? and How the shares of major garment markets will be redistributed? Who will lose? and Who will gain? These critical questions of post quota period deserve efforts for discussion.

As the dominating markets of world TGI, developed countries like US, EU and Japan are not expected to be losers of post quota period. Marketing connections of these countries do not seem to be blocked. With their high vertical specialization capacity, flexibility and demand orienting structure, EU, US and Japan will not be potential losers. Remembering one of the other crucial points is important. These developed geographies of TGI have already restructured their industrial capacity successfully in 1970s and 1980s and they have been ready for a liberalized medium of trade for at least one decade.

In general terms, the countries that are under pressure from quota restrictions will be the potential winners of the new period. They will export their products in an unlimited trade medium. In this regard their cost advantage will enable them to get the competitive power over some developing countries having relatively high production costs (Stroiz, 2005). China and India for example both countries are expected to increase their share in EU garment market. It is expected that sum of China and India exports will reach 40% market share in EU while central and east Europe, Turkey and North African countries losing their share in the same market (Nordås, 2004). Moreover expected results in US garment market are more dramatic. It is estimated that China will triplicate its share in US garment market. Forecasting on post quota period points out that all countries except China and India totally will have just 35% share in US garment market (Nordås, 2004). Expectation on quota free medium implies the rise of south eastern Asian countries particularly China as the potential winner and leading producer of garments.

After quota elimination, potential losers of new era will be the producers which are used quotes to restrict imports. These countries may face with increasing unemployment rate of unskilled labor due to closure of uncompetitive plants and shifting industrial expertise towards higher value added segments of the same value chain. Moreover, their share will decrease in major markets. However these changes will not cause the sector to come to an end in these countries. On the contrary these countries may succeed to maintain their competitive

advantage if they increase their full-package production capacity and form global networks of marketing (Nordås, 2003)

Although explanations on quota restrictions and interpretations on post quota period reflect the tendency of change in trade relations however one other major instrument of trade policy remains undiscussed. Regional trade agreements will become more important trade policy measures in quota free trade. Some researchers argue that (Au, Chan, 2002) proliferation of regional trade blocks have somewhat undermined broader effect of quota eliminations.

There are two leading regional trade blocks. The first is Customs Union of EU. Customs Union forms a pan-European free trade area including 31 countries that providing duty free access for manufactured products (OECD, 2004). The second is NAFTA that was put into practice in 1994. NAFTA provides free trade opportunities to North American countries particularly US and Mexico.

Each preferential trade agreement provides economic rents that are not available to non-participants. For instance Mexico became the second largest supplier to US under NAFTA. Turkey has also become the second largest supplier to EU under Customs Union arrangement (OECD, 2004).

Post quota period is challenging global sourcing channels established during MFA period. China and some other Southeast Asian countries seem to be potential winners of the quota free world. Trade policy measures seem to change in free trade market and the rise of regional trade blocks will probably be continue under preferential arrangements of trade and new regional trade arrangements may also be constituted in this manner.

3.1.6 Business Facilitation Agenda

In post quota period of TGI, providing an efficient climate and environment to business practices have become an important factor of international competitiveness. In fact such regulatory factors to gain competitiveness are focused as *business facilitating agendas* by most of the developing T&G producer geographies¹⁶.

By business facilitating agenda it is intended to highlight two major regulatory factors of competitiveness. The first is *improving infrastructure services* and the other is requirement of *a positive macroeconomic climate*. These two critical points of business facilitation constitute the atmosphere for the best practices of business development in TGI.

There are main infrastructure services affecting the performance of TGI. These are transports, telecommunications and electricity infrastructures. Improving flight and port infrastructures, strengthening the transition among different modes of transportations are very effective to facilitate the flow of the raw materials, other inputs and commodities in TGI. Moreover another significant point of better transportation infrastructures is minimizing transit time for shipments. In international trade, having shorter transit periods for shipments can make geographically remote locations more internationally competitive. In order to minimize transit periods, customs procedures have to be modernized. Particularly the firms relying on imported inputs for export-led production suffer from inefficient customs procedures when their shipments are held up for a long time in customs warehouses (OECD, 2004). As Nordås stated (2005) *poor infrastructure and inefficient procedures related to the transfer of goods and services discourage local companies to invest in quality and productivity* and therefore they could not improve their ability to enter global networks. Thus transport opportunities have to be improved and existing transportation infrastructures and custom procedures have to be revised and upgraded in respect of a business facilitating transport network.

The other significant areas of infrastructure services are electricity and telecommunication infrastructures. Today flow of information has become very important under bar code and electronic data interchange system of lean retailing. In order to collect market information and

¹⁶ OECD draws the frame of *business facilitation agenda* for developing T&G producer countries and emphasizes the significance of it for success in the increasing competitive pressures (see, OECD, 2004)

changing consumer preferences and to receive large retail group's orders, telecommunication systems have the critical role. Reliable electricity infrastructure and upgraded telecommunication systems forms the efficient environment for industrial operations and information flows in TGI. Outdated electricity and telecommunication infrastructures act as taxes on T&G suppliers and negatively effect suppliers to focus on higher value-added segments of the supply chain through quick market response (OECD, 2004).

Apart from abovementioned infrastructure services, the second regulatory factor of business facilitation is the positive macroeconomic climate. In order to foster such a macroeconomic environment, there can be focused on two macroeconomic variables namely; non-inflationary economic growth and stable rates of exchange. It is an undisputable fact that economic growth and employment creation are stimulated under low inflation; therefore non-inflationary economic growth medium forms the base of such a positive macroeconomic climate (OECD, 2004). Furthermore currency value is very important particularly for import and export sensitive sectors like T&G. For instance stable rates of exchange support exporters to enter T&G markets with competitive prices.

As business facilitating agendas, dynamic and confidential macroeconomic environments and improvement of infrastructure services have become the keys of success in TGI. It seems that the future of sector's international competition will be partially reconfigured through these regulatory factors of business facilitation.

3.1.7 Summarizing “New” Competition: Towards a Frame of Global Restructuring

In this part it is attempted to outline the global order of “new” competitive conditions through summarizing the abovementioned issues of TGI. In fact “new” competitive conditions reshape a general frame of global restructuring in T&G sector. In the light of the discussions mentioned above, there can be identified some major processes of global restructuring in TGI. Following table outlines such issues of restructuring.

Table 3. 4. Frame of Global Restructuring in Textile and Garment Industry

<ul style="list-style-type: none">• Transformation of TGI value chain<ul style="list-style-type: none">-Shifting of industrial expertise from manufacturing to service related skills-Concentration on design phase of value chain-Focusing on research activities for technical textiles-Learning lean retailing and enhancing capability for retail distribution• Employment change and job loses<ul style="list-style-type: none">-Dealing with job loses due to migration of production to cost competitive countries-Providing better working conditions for labor intensive assembly process of production• Trade Policies and preferential agreements<ul style="list-style-type: none">-Designing trade policy through regional trade agreements• Working with large retail groups<ul style="list-style-type: none">-Learning how to supply to large retail groups through keeping low levels in costs, improving quality and responding quick turnaround times (becoming a full-package producer)-Learning how to become an independent brand name in the long run• Regulatory factors of business facilitation<ul style="list-style-type: none">-Fostering a positive macroeconomic climate-Improving business facilitative infrastructures
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There are five critical processes of transformation and change in the table. Each implies restructuring agendas at the global scale and this summarizing table is derived from the abovementioned various dimensions of TGI in respect of restructuring.

First major change implies the transformation of industrial expertise to service related skills that include research, design and retailing capabilities. As more value added phases of TGI change then there appears the need to transform human capital and its capabilities to adapt changing requirements of more value added segments.

Employment challenge of global restructuring will likely to appear through two distinct but interrelated tendencies. Moving of production capacity principally from core to the periphery will cause the decrease of labor intensive jobs in the core and a corresponding rise in the

periphery. However challenging point is how to design social policies and training, education programs to deal with job losses. Furthermore providing better working conditions for labor intensive assembly process of the sector have become important particularly for regions having lower wages.

Phasing out of quotas will raise the appeals of regional trade arrangements. These regional arrangements of trade are preferential agreements and have been shaping new regional blocks of trade particularly for two decade. After a significant process of liberalization through quota eliminations, new trade regimes of the world are likely to be formed by these regional arrangements.

Another significant point of global restructuring is developing role of large retail groups in TGI. Two critical processes emerge in this respect. First is about becoming a full-package supplier to retailers including the keeping of low levels in costs, responding quick turnaround times while at the same time improving quality. Such challenging repositioning efforts require dramatic transformation processes of industrial structures. Furthermore in the long run this transformation processes may provide the clues about how to become an independent brand name.

Finally there are business facilitative regulatory factors including improvement of infrastructures and fostering a positive macroeconomic climate. This business facilitation agenda is an important determinant of country's ability for global integration of T&G industries. State and private sector interventions can both be included by the agenda.

In TGI, emerging global order under "new" competitive pressures is attempted to be outlined above. A global restructuring frame is summarized in this regard. However another significant point of TGI remained undiscussed. How these restructuring processes are experienced through different geographies of the world? How various country experiences react differently to restructuring of garment industry? How repositioning strategies develop and change? Opening the way of discussions towards reflections from some country experiences and repositioning efforts is anticipated to be responsive.

3.2 Reflections from Local Contexts: Some Country's Experiences on Textile and Garment Industry

In this part it is intended to discuss how global order of TGI that rises under “new” competitive conditions and argued out at the above is experienced by different local contexts. In this context, how the different country experiences on T&G will be deliberated.

What kind of reflections occurred in different local context on TGI will be discussed through four cases. The reason of choice of four cases is that the regions in cases belong to important geographies namely; East Asia, Southeast Asia, Caribbean and East Europe in terms of having important transformation and development experience in T&G sector in last two decade. In this regard as representatives of these rising geographies of TGI, there will be briefly discussed the experiences, transformations, developments and repositioning efforts of China, Mexico, Vietnam and Bulgaria.

3.2.1 China

China has achieved a dramatic economic growth through industrialization for last two decades. Development of T&G sector has been central to country's industrialization. In China's global integration with world economy and international trade system, TGI has played a locomotive role. In fact today the country is the world's largest exporter of T&G products (OECD, 2004).

China was the most restricted country in garment exports owing to quota system. (Ernst et al, 2005). However in post quota period China is estimated to be the biggest beneficiary. Indeed country will directly benefit from a quota free market (Ianchovichina, Martin, 2003). As Nordås (2004) emphasizes it is estimated that China will reach approximately 50% rate of export in EU and US garment markets when all quotas are eliminated including temporary ones.

TGI is concentrated on Eastern Coastal region in China. This is the most industrialized area of the country and contributes importantly to the growth of GDP (ILO, 2005). In this region of T&G production, there appear five major exporters namely; Zhejiang, Guangdong, Jiangsu and

Shandong Provinces and Shanghai municipality all of which are producing 76.8% of total T&G output by 2004 (Zhang et al, 2004). The leading position of China in T&G sector and the development potential of the existing position in this sector can be understood. However, there are context dependent local conditions that affect the development process of the sector significantly. It is important to interpret the conditions in order to understand how opportunities or threads will be developed in the future based development process of TGI.

As the world's giant of T&G sector, China is not only the leader supplier but also a consumer market of T&G products. In fact it is estimated that the size of the affluent middle class ranges between 80 and 100 million in China. In addition to this fact owing to WTO commitments, country has permitted foreign retailers to sell their products without limitations in its own domestic market since December 2004 (OECD, 2004). In this respect, large retailer groups accelerated distribution strategies in the country and they tended to perceive China as an opportunity rather than thread. In fact China is neither an entirely opportunity nor just a threat however China factor is rather a both of them. This situation can be best described by US approach on Chinese T&G industry. US importers do not tend to take the risk of sourcing from just China but rather prefer to diversify their sourcing networks through some other low wage alternative countries particularly from Caribbean and Southeast Asia (ITC, 2004). In other words there occurs what Nadvi and Thoburn states (2004) *US do not want to put its all eggs in one basket*. Therefore market shares of China are not certainly stable in the future of TGI.

China is not only the leading exporter country but also a significant importer of the sector. Country's garment exports depend mostly on the imported raw materials, fabrics and textile machinery and equipments. 50% of exported garment is made from imported textiles (ILO, 2005) and by the year 2004 China's imports exceed its exports. Country's trade deficit reached 8.4 billion dollars and tending to constantly increase due to the need for raw materials and equipments (OECD, 2004). The integration of China into global capitalism is bidirectional. On the one hand, China makes many markets dependent on itself; on the other hand in the same process it develops by becoming dependent on the markets of different countries in the sector.

There can be identified further critical issues that reshape country's competitive power. One such important factor is infrastructures of energy and transportation. In 2003 country's industrial growth outpaced the growth of electric supply and there occurred power blackout measures. This restricted T&G manufacturer's consumption of electricity and resulted in halving of production temporarily (OECD, 2004). Moreover this shortage is exacerbated through bottlenecks of transport infrastructures. In this regard China's concern rises on *how reliably country's suppliers can meet tight delivery requirements in the just-in-time manufacturing sectors* (OECD, 2004).

There are two effective state policies that contributed to China's strong competitive power in TGI. The first is its fixed parity with the US dollar. Although there are pressures on Chinese authorities to break fixed parity, government is still adopting fixed regime of exchange. Country's monetary policy underlie on the basis of impressive performance in garment exports. Secondly although there occurred a fundamental change in the ownership structure of garment firms, state owned enterprises (SOEs) still constitutes the majority of firms in textile part of the sector. One of every two textile employees is working for SOEs in China and more than 40% of these textile SOEs operated at a loss in 2001 (OECD, 2004). In other words as competitors of Chinese textile industry assert, a large percentage of Chinese textile firms do not operate on a commercial basis. Pressures on China to privatize its internal structure of textile sector is seems to increase.

In TGI, spatial division of labor is moving to China. China is leading country that concentrating on labor intensive activities of T&G sector. It is a fact that there are millions of migrant workers mostly from northeast part of the country called Manchuria to move from rural areas to urban areas for employment opportunities. T&G is the key sector in this respect. TGI provides employment for approximately 20 million workers and therefore there are 80 million people indirectly dependant on this sector. This condition can not be interpreted just as reserve of cheap labor force for assembling activities of the sector. It is not just an opportunity of being a low wage country but rather a challenge. How these inflows of millions of job seekers will be employed through improved and decent working conditions? This challenge seems to enforce China to shift its paradigm on employment issue of TGI.

China is the giant country of the world in TGI. Although the country has potentials of growth in the sector, there are challenges that will affect country's industrial development trajectory. China's story of T&G sector will be written through these opportunities and challenges.

3.2.2 Mexico

Mexico has dramatically improved its TGI under the opportunities of NAFTA. Country has doubled the employment and increased export rate after the implementation of NAFTA. Country's garment export dynamism is enhanced through some garment production centers and the most developed center of Mexico is Torreón region in this respect (Gereffi et al, 2002). In order to illustrate this transformation Gereffi and Bair (2001) focused on a descriptive analysis of Torreón region. Torreón region is known as *the new blue jeans capital of the world* and the region's production capacity is increased from 500000 pairs to 4 million pairs through 1990s (OECD, 2004).

Restructuring and development of TGI in Mexico can be traced by the transformation and success story of Torreón region. Located in the northern Mexico, Torreón was traditionally a cotton textile producer that started by the late 19th century. After a period of import substitution that characterizes between 1940s and 1970s of Mexican economy, Torreón region has undergone significant transformations since the mid 1980s. In this process of change and development, region has moved from simple sewing manufacturer to full-package exporter. There can be identified four major factors of industrial upgrading and development namely; *(1) the devaluations of the peso, (2) the implementation of NAFTA (3) the presence of new lead buyers and brand marketers and (4) the dynamism of the regional cluster of expertise* (Gereffi, Bair 2001).

Hyperinflation and subsequent peso crises in the mid 1980s directed Mexican garment producers to export particularly to US market. Experience of manufacturing for leading US garment firms enabled Mexican suppliers to learn how to manufacture quality products in a timely fashion. One year after the implementation of NAFTA, the devaluation of peso has further increased attractiveness of Mexican production particularly for US. In fact when NAFTA was implemented, governing trade regime of T&G products was changed. In this new trade regime of North America, US decided to decentralize most of the activities in supply

chain particularly labor intensive ones due to lower production cost opportunities in Mexico. This production migration has created 300000 new jobs in garment sector of Torreón region (Gereffi et al, 2002; Gereffi and Bair, 2001).

Large retailer groups in US contributed suppliers of Torreón region to upgrade their industrial structure. This industrial transformation is realized through three important processes. Firstly Mexican firms expanded their production capacity; secondly they learnt to produce higher value products and finally they became capable to implement their buyer's code of conducts (OECD, 2004). As a result suppliers in Torreón region of Mexico have become full-package producers therefore they succeed to form a local turn key network working for lead US buyers.

In the case of Mexico, it is asserted from the development story of Torreón that networks of global leading firms provide local firms a full-package link in order to upgrade their industrial base. In other words, the more integration of local suppliers to global networks means more opportunities for growth in these localities. It is a fact that Torreón region represents such a process. However there can be identified different patterns on the globalization of T&G industries. In such different stories, transformation and growth of T&G industries may cause vertical and asymmetrical developments and new power hierarchies among country's firms. A discussion on Vietnam's TGI experience is anticipated to be responsive in this respect.

3.2.3 Vietnam

Vietnam as a one of Southeast Asia country has a significantly rising profile in TGI at last two decade. Until 1980s Vietnam had an isolated position in world economy. However, it started to integrate into global economy since 1990s (Jenkins, 2004).

1990s has been interpreted as a story of success for Vietnam. Through 1990s, Vietnam has an average of 6% increase in GDP per capita annually. Between 1993 and 2002, incidence of poverty fell from 58% to 29%. In this economically development process, TGI had played a locomotive role. Through 1990s, the sector has grown on an average of 29% per annum.

TGI that enables Vietnam for economic development has an export oriented character. Such a development trajectory is aimed at economic policy of the country. According to *TGI Development Strategy* that is declared in 1998, between the years 2000-2010 it was planned the exports to quadruple and the employment to triple (Nadvi, Thoburn, 2004). During the condition of non quota period, can Vietnam succeed to maintain its offensive, export led strategy? How the country will reposition itself in order to respond to global challenges?

Vietnam makes majority of its exports to Japan and EU. Since Japan was already a non quota market, there have not been significant changes in the export rates made to Japanese market in post quota period. However, the rate of export to EU that had the quota restrictions formerly started to decline in post quota period. Moreover, with the elimination of temporary quotas, it is concerned that there will be an extra affect on the downside potential (Nadvi, Thoburn, 2004). In T&G sector, the change in trade regime in the world challenges the export led strategy of Vietnam.

The global order formed by new competitive condition requires for T&G producer countries to become full-package supplier. In this context; as stated in the context of global restructuring frame, capabilities like quality, design and delivery gain importance. In Vietnam, adapting such a transformation can identify different firm typologies in terms of becoming a full-package supplier.

The firms that can have a production quality mentioned above fulfill this transformation successfully and are mainly SOEs. SOEs in the textile, produces 1/3 of the output; in the garment produces half of the output and have a significant weight in TGI. At recent 10 years, the firms that managed to improve its performance by upgrading its industrial structure in the presence of increasing competitive pressures are mainly SOEs (Nadvi, Thoburn, 2004). In other words, potential winner in globally challenging atmosphere of TGI is SOEs.

In the country, the potential losers that failed to adapt to new global order of TGI are small firms in private sector. At recent 5-10 years, there were significant declines in the number of firms. Part of the small firms in the sector has a tendency to merge with foreign investment made in the country (Nadvi, Thoburn, 2004). In the “new” competitive conditions and global challenges, power relationship between different firm typologies becomes more hierarchical.

While small firms can not survive; state owned large firms can restructure successfully. In the country, mergers and acquisitions accelerate and vertical integration dominates local industrial relations. The restructuring process in the local context of Vietnam is experienced through such a trajectory.

3.2.4 Bulgaria

Central and east Europe have played an important role in the globalization of T&G industries particularly since 1980s. As Fröbel et al argued (Fröbel et al, 1980) since the mid 1980s, producers in central and east Europe started to involve in the assembly process of production for EU retail companies. In this period there were subcontractor manufacturing firms particularly in Hungary, Poland, and former Czechoslovakia and Yugoslavia. As competitive pressures are increased in the 1990s there emerged second tier of producers in Europe's periphery. This second tier of producers includes Bulgaria, Romania and Slovakia (Pickles et al, 2006).

Bulgaria is one of the important supplier countries in the periphery of Europe. However it is asserted that country has not managed TGI to improve its position in the international division of labor (Evgeniev, 2004). In order to research the causalities of such an assertion it is needed to evaluate state-socialist tradition of industrialization and its further effects on the development of the sector in 1990s (Evgeniev, 2006).

In the 1980s most of the central and east Europe countries including Bulgaria were primarily engaging in TGI because these countries just learnt how to work for western buyers with required quality standards and just in time production. In this period TGI was a low value added production activity for these east and central Europe countries. However after two decades although some central and east Europe countries integrated to full-package and more value added production, Bulgarian firms still focus on low value added production (Evgeniev, 2004). Bulgarian T&G firms have been working as an assembler of EU companies for three decades. EU buyers have the power to control the local production network of Bulgaria. Story of Bulgarian TGI does not reflect a development trajectory but rather a lock in of sectoral capacity.

In fact the share of subcontracting is 90% of the total export. There are not any national firms that produce with their original brand name. 60% of Bulgarian garment firms are non knitted garment exporter to EU through OPT. There are two types of garment firms in Bulgaria. Firstly there are low value added companies that concentrate on cut-make-trim phases of value chain that is the most labor intensive and lowest value added part. Secondly there exists medium value added companies. In addition to trims these medium value added companies buy the fabric and concentrates on later phases of production. However these companies are not capable of full-package production (Evgeniev, 2006). These two types of firms have large urban-based plants connecting to an extensive geography of small village workshops in the country and there are not decent working conditions particularly in village workshops (Pickles et al, 2006).

It is understood that Bulgaria have not succeed to upgrade its position in TGI value chain. When Bulgarian T&G firms faced the effects of globalization in the early 1990s, country was having a large scale state owned industrial base owing to state-socialist tradition of industrialization. In this period, these SOEs were not coordinated by a strategy of state as a result of the transition from centrally planned to market economy. Dissolution of socialist tradition in industrialization caused SOEs to respond to restructuring individually. In fact they were not ready for such a challenge. In Bulgaria when the effect of restructuring in TGI is added on the revolutionary transformation of the economy politic, the sector is locked in and could not succeed to develop as some east and central Europe countries did.

Through four cases it is discussed how experiences of some countries have reshaped. Each case reflects specific forms of restructuring and development. Diversity of patterns in restructuring and development stem from various specific historical and geographic accumulations of these countries.

3.3 Turkish Textile and Garment Industry

Turkish TGI accounts for 30-40% of all exports and 30-35% of manufacturing employment. Producing one-tenth of the country's total value added, T&G sector have been playing a significant role in generating employment opportunities and export revenues (Koçak, 2006). However T&G sector in Turkey is also known with its low levels of productivity and wages (Taymaz, 2002). T&G sector is one of the most significant industries driving Turkish economy and it will continue to play the leading role in industrial development.

However as mentioned in the previous parts, there are new competitive conditions creating a global order in the sector. This environment of growing competition is expected to be intensified after the removal of all temporary quotas. Furthermore the world scale liberalization of TGI marks the need for rapid restructuring of Turkey's T&G sector in line with global order of new competitive conditions (Tan, 2005). In this respect, the process of industrial development and change in TGI of Turkey becomes important.

As another local context of TGI, Turkey's experience on the sector deserves special emphasis owing to its relation with local case study of thesis. In this regard under this part of the research, it is attempted to emphasize the overview of development and the brief explanation on global repositioning efforts and restructuring tendencies in the sector. It is not intended to form a detailed discussion on the sector but rather to highlight the gist of TGI in Turkey in relation to further parts of the thesis.

3.3.1 An Overview on the Development of the Sector

The history of TGI in Turkey dates back to the period of Ottoman Empire. In this time period, there were woolen and cotton textile factories in different regions of the empire (Quataert, 1993). After its establishment, Turkish Republic took over 4 woolen and 8 cotton textile factories from Ottoman Empire and in the first decade of Republican period, production capacity and industrial performance did not change significantly (Tarakçıoğlu, 2002).

Under triggering effect of the *İzmir Economic Congress*, industrial development efforts grow considerably through the 1930s of the republican period. In this period first development plan of Turkey and the foundation of Sümerbank were two critical initiative force of T&G sector.

With the foundation of Sümerbank, the diffusion process of technological information is accelerated. In the following periods, with rising of the pioneering role of the state significant investment to textile sector were made. After 1964, the capacity of the sector increased as the result of extension of existing factories and modernization. Besides, private sector production increased with the effect of incentives (Tarakçıoğlu, 2002; Aras, 2006).

Since 1960s, the approach that implies sector's importance in the integration with Europe has become dominant (Kazgan, 1995). In the import substituted period between the years 1963-1972, the investment increased and the sector grew stably (Aras, 2006). Export started firstly in this period and in 1972 an export record was realized with the level of 51 million dollars (Tarakçıoğlu, 2002).

However the major breakthrough was experienced in 1970s and 1980s under an offensive export oriented strategy. In this period of the sector, investments increased and there observed a dramatic rise in the industrial performance and exports (Aras, 2006). Throughout 1980s Turkish garment exporters improved their position in global TGI value chain through learning how to create the capability in order to succeed in the exportation of higher value added products to European markets. There occurred a sevenfold increase in the exportation value of garments between 1970 and 1990. In this regard under export oriented development, Turkish TGI enhanced its capability to become full-package supplier (Gereffi, Bair, 2006).

Turkey entered 1990s with the potential of becoming a full-package supplier. However in the beginning of 1990s, high inflation rate and TL depreciation both caused production costs to increase. This led the importation of T&G products to grow (Aras, 2006). Turkey has been a significant importer of TGI since 1990s. In addition to these transformation and repositioning efforts, Turkish T&G producers have faced further global challenges in the sector. For instance integration of low cost Asian producers' countries to global TGI value chain has enforced Turkey to redefine its competitive power under a strategic restructuring frame. These challenges and transformations have formed a stagnation period in the sector since the mid 1990s. Export performance stagnated among 1995 and 2000 and there emerged an excessive capacity of the sector that marked false investments of previous periods.

However after the economic crisis of 2001 in Turkey, TGI has been experiencing a recovery. Industrial performance and export rates are tended to increase. TGI is still the locomotive sector of industrial development. There is approximately 2 million of the record employment in the sector. The key point is how to provide a sustained development in TGI of Turkey through restructuring.

3.3.2 Global Repositioning Efforts and Restructuring

Turkish garment industry provides an important example of the transition from simple assembly production to full-package production. In fact Turkey gained the potential of becoming a full-package supplier in 1980s. Although today Turkey is facing serious challenges under the effects of fierce global competition; first global effects of TGI enabled successful restructuring and development in 1980s and in some part of the 1990s. In these years, Turkey upgraded its position in global TGI value chain through three ways (Gereffi, Neidik, 2006)

As the first strategy, Turkish producers created backward linkages in the domestic economy in order to develop reliable and cheaper sources of T&G supply in the country. Secondly cross-border production networks are formed. Some Turkish firms prefer to relocate assembly plants to the foreign regions where there is higher cost advantage. By the way of such triangular manufacturing arrangements, Turkish firms gained two advantages. First an abundant low-cost and relatively skilled labor and second quota free export opportunities to US markets. In this regard, Turkish firms started to own numerous plants particularly in Turkic Republics of Asia and in some east Europe countries. As the third and the highest road to restructuring a few garment firms in Turkey have developed original brand name (OBM) manufacturing capabilities (Gereffi, Neidik, 2006). With this strategy these suppliers leaped beyond the full-package role through integrating their manufacturing capability with the design and retailing of own-branded products. As *Mavi Jeans* did, such firms succeeded to develop their original brand name (Tokatlı, 2003; Tokatlı and Kızılgün, 2004).

Turkish industry witnessed such abovementioned restructuring processes of T&G sector in 1980s. However since the mid 1990s, a new process of restructuring and change is on the agenda. In this respect the main question is how Turkish T&G firms will reposition

themselves in the global TGI value chain. It is argued that Turkish T&G sector has to make *a choice between price competitiveness in the lower value added segment of the industry and quality competitiveness in the higher value added segment of the industry* (Tan, 2005). The price competitive strategy associates with the threat of price-cutting competitors in East Asian countries¹⁷. On the other hand the later choice as the high road to restructuring is likely the only way out for Turkish TGI. In other words a significant transformative restructuring process is on the agenda of TGI in Turkey.

In fact restructuring process in Turkish TGI was started in the early 2000s within the line of global repositioning efforts. There are two dominant actors of restructuring process in Turkey. On the one hand the state has been trying to coordinate the restructuring efforts. On the other hand sector's three leading business associations namely TGSD, ITKIB and TUTSIS have been trying to form strategic responses to transformations in the sector. Following table attempts to outline major reactive documents on restructuring of TGI and their common main routes.

¹⁷ Against these threats some safeguard mechanisms of Turkey are visible. For instance Turkey has already applied temporary quotas to China in 44 T&G product categories since 2007 (see DTM, 2006)

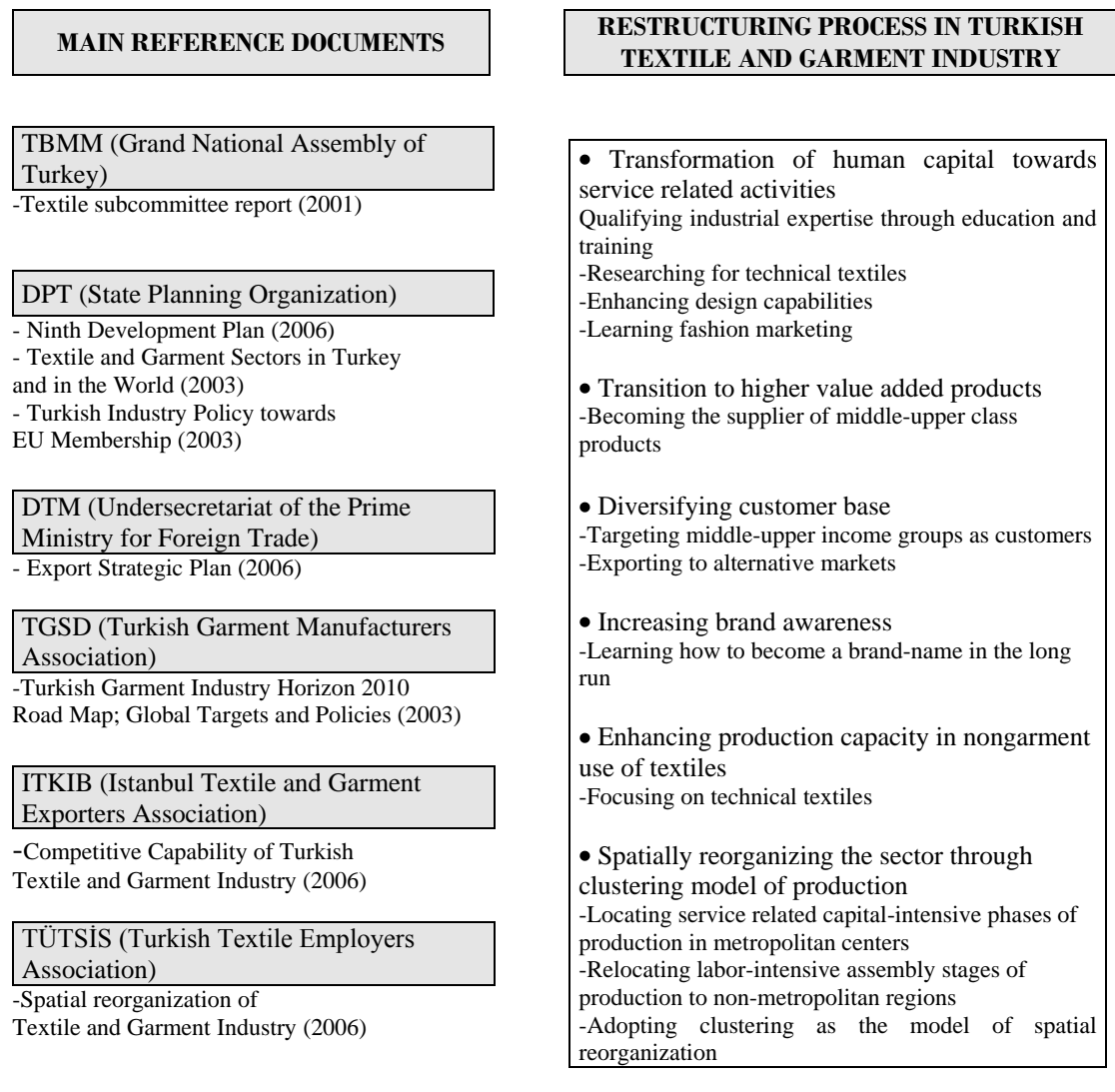


Figure 3. 6. Main reference documents and outline of restructuring process in Turkish textile and garment Industry

It is argued that three leading business associations are very influential on both restructuring efforts of firms and regulative strategies of the state (Gereffi, Neidik, 2006) Indeed this has been interpreted as a progressive role in restructuring process (Evgeniev, 2004). In the early 2000s, state's triggering efforts on restructuring are carried out with a special commission including these three associations. Furthermore TGSD, ITKIB and TUTSIS are acting as a harmonized common body, each of them shares the other's strategy as if their own one. In this regard there can be identified six significant and common strategies that shaping restructuring process.

Turkey is adopting an offensive human capital strategy through qualifying industrial expertise. This aims to create researching, design and fashion marketing capabilities by various education and training programs. There are efforts to transform textile engineering departments to more complex T&G faculties (see; TBMM, 2001). In this way it is intended to create groups of qualified workforce in targeted areas of T&G sector such as fashion marketing, technical textiles and design. Furthermore there are also various training programs of business associations and firms in line with targeted areas of the sector. For instance there is an increasing consciousness about the need to develop design capabilities and ITKIB supports young designers through competition and sending the winners to abroad for further education on fashion design (Tan, 2005; ITKIB, 2006).

Turkish garment industrialists are planning to become the supplier of middle-upper class quality products (TGSD, 2003; ITKIB, 2006). This implies a transition from cheaper, standardized products to higher value added products. In fact standardized lower value added product category accounts for 65% of the all products in the global markets. With the elimination of all quotas, the Turkish producers of this category are expected to be negatively influenced most owing to growing cost competition originating particularly from eastern Asia (Tan, 2005). it is aimed for the production of middle-upper class products that had a share of 33% in the production in 2000, to have a share above 75% in 2010 (TGSD, 2003).

Turkish garment industrialists are planning to diversify their customer base through (1) targeting middle-upper income groups as customers and (2) finding out alternative markets for export. Turkish garment sector that took into consideration of the risk of decreasing market share in EU, and they started to look for the alternative markets including middle-upper income groups for export.

As the targeted customer group, it should be planned to focus on middle and high income groups. The critical point is the existence of such affluent classes in less-developed countries or developing economies. Therefore these countries should be evaluated as the alternative export markets in garments...As targeted countries in export; new markets should be oriented in order to decrease the dependency to EU. Particularly, there should be made research about Scandinavian countries having high income and China having a great market potential in the future (DPT, 2003).

These strategic efforts of marketing are supported by the state. Turkish state supports garment industries for market research, establishment of overseas offices and brand publicity. Indeed one of the most important issues about marketing is brand name. As Turkish garment industry

started to transform from cheaper standardized production to higher value added products, there rises the awareness to becoming a brand name. Hereupon there are significant attempts of Turkish garment industry (DTM, 2006). For instance the concept and the logo of *Turquality* and *European Quality Awards* have attracted the interest of Turkish garment companies (Koçak, 2006).

Another significant issue of competitive power in restructuring process is related with the production capacity in nongarment use of textiles in other words technical textiles. Turkey has little or no share in the technical textile that is one of the determining factors of competitive power in the sector and has an above 70 billion dollar market share today. In Turkey there is not any share apart from home textile in technical textile having products in different areas like agriculture, construction, health and environment (Tarakçıoğlu, 2006). Attaching importance to technical textile having high value added and encouraging the R&D activities is emphasized (DPT, 2003; TGSD, 2003, ITKIB, 2006).

The representatives of Turkish T&G firms have a joint decision on spatial reorganization of production in the country (see: TGSD, 2003; ITKIB, 2006; TUTSIS, 2006). It is intended to spatially reorganize the sector through clustering model of production. This clustering model of Turkish T&G activities are composed of two major spatial strategies. Firstly garment industrialists want to locate service related capital-intensive phases of production in metropolitan centers such as İstanbul. According to this strategy preassembly (including design, computer aided pattern development) and post assembly (including distribution, marketing and promotion) phases of production will be carried out in metropolitan areas. In fact the grand vision of this strategy is to make İstanbul as a fashion center of the world (TGSD, 2003; Tan, 2005).

Secondly garment industrialists tend to relocate labor-intensive assembly stages of production to non-metropolitan regions owing to opportunities of cost advantage. This relocation strategy is designed to decentralize labor-intensive assembly operations of production to non metropolitan areas where there exists the chances of lower costs for production. Indeed such a

strategy does not only planning to benefit from low wages of non metropolitan areas but also some of the state incentives that particular to these areas¹⁸ (Tan, 2005; Tarakçıoğlu, 2006).

Under this part it is intended to mention the common strategies that reflect the main tendencies and routes in the restructuring process of Turkish TGI. To what extend and how soon these restructuring efforts will be realized still remains as an open question. However the point of this thesis is to research how selected locality is responding to the major tendencies and routes of country's restructuring process.

3.4 A Brief Evaluation on Global and Local Dimensions of Textile and Garment Industry

In this part of the study it is going to be mention a consideration on how new competitive conditions at the global scale affect the case study of this research. Furthermore, the effects of the new competitive conditions on some country's experiences in textile and garment sector are also examined.

In this context, technological level of the TGI and the role of innovation and design in the sector are discussed. Moreover, spatial relocation tendencies are argued out and it is asserted that China and most of the Southeast Asian and some East European countries are becoming manufacturing sites of the world in the T&G sector. This reality shows us that most of the region's T&G sector including the case study may face with dramatic challenges like deindustrialization or exclusion from major markets. In addition to this, it is demonstrated that employment and supply chain relations are changing significantly and these changes brings about the decline of the TGI in some developing countries including Turkey. Moreover, one of the most important thing is that world economy is moving to a deregulative environment of trade in T&G products. This new medium of trade forms a new import and export map and the new world map of the TGI will cause some local economies to be expelled from this industry.

¹⁸ By the law no: 5084 that put into effect in 2004, there defined state incentives for 36 provinces whose GDP per capita is less than 1500 USD. Then the scope of this support is enlarged by socio-economic development index through which 13 additional provinces are incorporated. The aim of this regulation is to *eliminate social and regional differences by supporting new investments and employment* in these 49 (36+13) provinces most of which are in the southeastern part of Turkey. State incentives include *discount on electricity process, exemption from income tax and the employer's share of Social Insurance cost* (Tan, 2005)

In fact, all of these parameters of new competitive conditions make obvious that industrial structures will change in accordance with changing global order of the TGI. Therefore most of the region's particular T&G sector will be probably affected directly from these changes and the case study region is also expected to be effected.

Moreover, in chapter 3 it is made a deliberation on how different countries will respond changing competitive conditions of the T&G sector. In order to understand that it is discussed four critical cases each of which have distinct context about industrial restructuring. By the discussion on four countries experiences it is presented some sort of national evidences about the restructuring of the TGI.

Lastly, the restructuring tendencies of the TGI in Turkey are examined. In this context, strategies of private sector and state's industrial policies are examined. It is understood that most of the private sector and public sector bodies concentrates on to transform the TGI of Turkey according to the offensive ways of restructuring. The outline of the restructuring process is presented below and it demonstrates that most of the public and private sector authorities tend to reposition Turkish textile and garment sector by innovative, design and knowledge intensive ways of the T&G sector. However it is still questionable that this offensive restructuring strategy will provide the success for Turkey.

It is possible to argue that the case study region is also expected to restructure its industrial base according to the country's T&G sector strategy. Nevertheless the examination of the condition in case study region will show whether or not the case study is moving in accordance with Turkey's written restructuring frame.

In conclusion, all discussions on global and local dimensions of the TGI constitute the global economic background for case study because chapter 3 provides the information on the new competitive conditions in which the case study region tries to maintain its industrial production. Therefore it is possible to argue that chapter 3 and chapter 4 of this study are integral parts and they form critical relational basis to fulfill the ultimate goal of the study.

CHAPTER IV

TEXTILE AND GARMENT INDUSTRY IN DENIZLI: DEVELOPMENT AND TRANSFORMATION OF AN OLD SUCCESS STORY

This chapter aims to provide local information for thesis. There are two resources of this local information. Firstly there are significant studies on TGI of Denizli in the literature. Secondly as the case study of this research, field survey and findings of this survey reflect important and critical conclusions for thesis.

In this case study chapter of thesis, there gathered together these two sources of local information. In order to reflect and discuss stages of industrial development in Denizli, a brief literature review will be mentioned through critical reinterpretations of previous researches on Denizli. In fact such an aim is anticipated to constitute related historical, economic, and societal backgrounds of case study. Afterwards field survey that is realized within the context of case study and survey's findings will be examined. In this respect the transformation of industrial structuring and local economy will be critically examined around major issues of responding and change such as employment, marketing, supply chain, investment tendencies and state regulations. These critical examinations will enable thesis to draw some interpretive and conclusive remarks.

4.1 A Brief Literature Review on Stages of Industrial Development in Denizli

Story of textile and garment industry in Denizli reflects an old success story of Turkey. This success story created an unprecedented regional development trajectory in which export oriented industrialization dynamics occurred throughout 1980s and 1990s. In these years development story of the region attracted many academic researches from various disciplines such as economics, sociology and regional planning. All these diverse studies have contributed to a more clarified and in depth understanding of region's industrial development process¹⁹. Apart from these academic ones, there realized some other researches and projects by the efforts of institutions such as public bodies and chambers²⁰. Contributed to the literature of Denizli's industrial development, all of these various studies are tried to be gathered together like a form of annotated bibliography through which contribution of different studies can be traced easily (Özgür, 2006).

Significance of the literature on Denizli's industrialization process stems from its explanatory attribute for this thesis. In fact previous researches on Denizli enable the research of this thesis to reposition itself in an evolutionary and historical manner. In other words literature review on Denizli's development process highlights historical background of the story and transformation trajectory of industrial development dynamism. For this purpose development and transformation of this old success story will be discussed with a brief literature review including before 1980s as the historical background of development dynamism and after 1980s as the period of success and transformation.

4.1.1 Industrialization Before 1980: Historical Background of Development Dynamisms

In Denizli, artisanal textile production dates back to some 2000 years ago. Fabric production was first started in Greco-Roman period of history and then it remained in its artisanal forms throughout Seljuk and Ottoman periods (Mutluer, 1995 cited in Beyhan, Armatlı-Köroğlu,

¹⁹ Among many of these studies there can be identified some predominantly referred ones (see Ayata, 1990; Mutluer, 1995; Özcan, 1993; Işık and Pınarcıoğlu, 1996; Pınarcıoğlu, 2000; Erendil, 1998; Eraydın, 2002a Küçüker, 1998; Dikmen, 2000)

²⁰ There are a lot of researches in that respect. However in here it will be mentioned three of them due to their contribution to this brief literature review (see MPM, 1998; Temel et all 2002; DSO, 2004)

2002). In the Ottoman Empire period as a town Denizli and some of its sub-districts and villages had been significant locations of artisanal cotton weavings. The cotton supplies in the Aegean region were important sources of raw material in these years (Quataert, 1993 cited in Pınarcıoğlu, 2000).

After the foundation of Turkish republic Denizli become a province. However it did not perform any significant development process in the first three decade of the new period and maintained its textile production in the form of artisanal weavings (Pınarcıoğlu, 2000). In Denizli some regions of the province were not suitable for agricultural production due to their unproductive lands and hilly geographical positions. The economy was unavoidably limited with the artisanal textile in these regions (Mutluer, 1995 cited in Beyhan, Armatlı-Köroğlu, 2002). In these regions of the province, there developed an important textile production tradition. There are two major sub-districts of Denizli that experienced such an artisanal textile production and developed the traditional historical background of the industry. These were Buldan and Babadağ. Later on Kızılcabölük started to artisanal production of textiles. In these three locations major products of artisanal textiles were original weavings, cotton fabrics, embroidered dotal products and duvet covers. According to the first industry census in 1927, there were 1581 establishments in all different economic sectors of Denizli (Mutluer, 1995 cited in Beyhan, Armatlı-Köroğlu, 2002) and 423 of them were artisanal textile producers locating in these three major locations of production (Pamuk, 1998). Productions were taking places in the small artisanal workshops of houses. Almost all households were textile producers and they were employing family members which in the long run affected major firm structure of industrial organization in Denizli (Pınarcıoğlu, 2000).

Although Denizli did not show any substantial growth in the first decades of the Turkish republic, there occurred crucial developments under import substituted industrialization period. These crucial developments constitute historical background of industrial development dynamisms and they were realized throughout the years between 1930s and 1980s. Two of them are in particular importance and will be mentioned here.

Firstly it can be argued that the roots of the collaborative environment were traced back to 1930s. Before 1930s there were a small number of tradesmen selling products and controlling textile production in the regions through buying cotton yarn and using subcontractors for

production (Erendil, 1998). However starting from 1930s with the backing of the state, many small textile producers established cooperatives to protect themselves from tradesmen and his controller position in the production process. According to Pınarcıoğlu (2000) *these cooperatives provided cheap cotton yarn to their members and enable them to enter into markets which were previously dominated by the tradesmen*. Cooperatives in 1930s triggered collaborative working habits in Denizli and constituted one of the important historical backgrounds of social capital dynamism. In addition to the establishments of cooperatives, Second World War had further strengthened collaboration among small textile producers. Owing to war conditions import of the cotton yarn became more difficult and small artisanal producers in Babadağ and Buldan were affected from this situation negatively (Pınarcıoğlu, 2000 cited in Beyhan, Armatlı-Köroğlu, 2002). A small number of producers in Babadağ migrated to Denizli province center and they wanted to maintain textile production in their new location. Thus production was relocated in the region towards the center of the province and moreover new comers from Babadağ developed active trust relations while trying to survive in the city being different from their hometown. These active trust relations enabled them to develop solidarity, reciprocity and co-operative working conditions (Pınarcıoğlu, 2000). While world was experiencing Second World War in 1941, to prevent black market conditions Turkish state introduced strict regulations over the distribution of cotton and cotton yarn. In this process cooperatives established during 1930s were given significant responsibilities for the distribution of cotton yarn given by Sümerbank (Mutluer, 1995 cited in Beyhan, Armatlı-Köroğlu, 2002). The results were progressive. During 1930s and after the war in 1940s cooperatives learned how to work collaboratively in an atmosphere of mutual trust and reciprocity.

Secondly in 1950s there occurred major technological improvements transformed manufacturing structure of Denizli. Two of the most significant steps to transform artisanal textile production to modern industrial production were the establishment of a part of Sümerbank in the region and transition to electrical looms in production. As Erendil emphasizes the introduction of electrical looms as *the first transformation* in textile sector provided large productivity growth to producers (Erendil, 1998). In addition to this, with Sümerbank the first modern factory based industrial production was triggered in the province. In fact these two important developments were the revolutions in the road of modern textile and garment production capacity.

In addition to these two major changes generated collaborative environment and modern industrial capacity, there occurred other developments that contributed historically to industrial structuring of the region. Some of them were visible in 1970s. For instance all hand shuttle looms were replaced by electrical looms which increased productivity significantly. Between the years 1964-1979 as a result of this technological improvement value added per textile establishment increased by over 10 times (Pınarcıoğlu, 2000). Establishment of a large printing and dyeing company in 1974 enabled Denizli to increase quality, quantity and variety of its fabrics. Technological improvements and modernization of production offered a highly processed form for TGI. Thus as Pınarcıoğlu states *as 1980s approached Denizli stepped out of its artisanal production* (Pınarcıoğlu, 2000).

It should also be mentioned that owing to developing collaborative environment, industrial and subcontracting relations were very dense and highly symmetrical during 1970s (Eraydın, 2002a, Kazdağlı, 1998). Symmetrical nature of subcontracting relations shaped and gave rise to a collective development medium and a horizontally structured industry. In other words small firms found the chance to develop collectively and this was stemming from the tradition of cooperatives and their reciprocal production relations for textile production. In fact this was one of the most important social capital dynamism in the region. Apart from this there could be identified one another. *Development of fabric production in Denizli gave rise to division of production tasks among different firms specializing in different parts of the textiles including cotton yarn, weaving, dyeing and finishing* (Pamuk, 1998 cited in Beyhan, Armatlı-Köroğlu, 2002). It can be interpreted that these working traditions in textile industry formed the basis of the modern export oriented clustering structure in TGI (Öz, 2003). This clustered structure carried out significant economic development dynamisms to the region started around 1980s.

4.1.2 Export Oriented Growth After 1980s: Two Aspects of Local Transformation

After the import substituted industrialization period, there experienced an export oriented growth with the start of the 1980s. The collaborative environment whose roots were generated in the previous period was the main driver of this industrial growth process. However this industrial growth and following local transformation did not have just one face but rather had

two faces. In other words there were two aspects of export oriented industrial growth and transformation. On the one hand there was SME-led and symmetrical development with networks of mutual trust, reciprocity and solidarity in which opportunities for growth were redistributed equally among small and big firms by the system. On the other hand there was asymmetrical development creating unequal power relations among large and small firms and deconstructing local collaborative relations through which SMEs were excluded from the network and development opportunities were redistributed unequally among SMEs and leading large firms. By the way of evaluating these two distinct aspects of export oriented process, it is intended to give a realist picture of the well known development story of TGI in Denizli

Started with 1980s some entrepreneurs succeeded to strengthen their capital accumulation and marketing relations and by the way they started to enter western markets for export with towel and bathrobe production (Varol, 2002). These firms generated growth motivation and became the starters of local transformation under export orientation (Pınarcıoğlu, 2000). In 1980s leading exporter firms in the region attracted many of the small and medium sized firms to export oriented production through subcontracting relations. These active inter-firm relations attracted a lot of SMEs to profit from growth opportunities of TGI. In this symmetrical development medium of industry, enterprises learned how to supply the orders of western buyers through producing higher quality, minimum price and becoming quick and flexible. In other words in the symmetrical export oriented growth process, as a cluster Denizli become one of the significant full-package T&G supplier of western buyers. This integration to global value chains was realized through *learning by doing* and *learning by interacting* (Beyhan, Armatlı-Köroğlu, 2002). Moreover Denizli upgraded its production technology while adapting international production standards (Erendil, 1998). In brief, developments like symmetrical industrial growth and technological upgrade constituted equally progressive aspect of export oriented local transformation.

Progressive local transformation can be traced through rising numbers of industry. As can be understood from the table mentioned below between the years 1980 and 2000 number of establishments, employment, output and value added raised significantly.

Table 4. 1. Development of Industrial Performance in Denizli 1980-2000

Years	Number of establishments	Employment (000 person)	Output (billion TL)	Value added (billion TL)
1980	117	7.3	15.5	5,0
1985	115	8.4	116.2	32,0
1992	168	12.1	6.002,6	1.962,0
1996	419	27.9	136.802,3	43.401,6
2000	416	40.7	1.431.166,9	450.687,4

Note: Firms having more than 10 employees are included

Source: Annual Manufacturing Industry Statistics, various issues, TÜİK; cited in Temel et al 2002

While manufacturing industry was rising under export oriented T&G production, particularly in 1980s and early 1990s local collaboration among firms was the driving force behind the rapid growth process. Local collaboration in the form of informal institutional relations as well as formal ones contributed significantly to industrial development (Özelçi, 2002). In this respect mutual trust, reciprocity and township relations became the major dynamisms of social capital in TGI cluster of Denizli. An interesting situation could be a very appropriate example of mutual trust and township ties. For instance Pınarcıoğlu notes that (2000) *within the context of compatriotic relationships textile producers from Babadağ helped each other in the export and there was not official contract signed in transactions between them*. The well known “*Babadağ Banknotu*”²¹ is an instance of this mutual trust relationship (Küçüker, 1998; Beyhan, Armatlı-Köroğlu, 2002).

1980s and early 1990s as the initial phase of integration to global value chains was the one aspect of local transformation. In this transformation process there constituted an atmosphere of local economy in which small and large firms developed a collective environment and trust based local relations. SMEs were having critical significance in this process owing to their social capital dynamism, flexibility, cheap and skilled labor. Trust based relations, reciprocity and other development dynamisms are lost in the later stages of industrial growth.

Starting from 1990s, local transformation followed a different trajectory in export oriented industrialization. In fact this was the other aspect of local transformation. Although the exports and number of T&G establishments are increased in 1990s, the weight of SMEs

²¹ *Babadağ Banknotu* as a bearer security paper utilized for money transactions among industrialists and businessman from Babadağ. On these papers money or commodity receiver informally commits himself to pay his depth.

decreased in the TGI of local economy. As can be understood from the table mentioned below number of SMEs increased significantly between 1992 and 1997 however started from the second half of the 1990s the number of SMEs started to lessen.

Table 4. 2. The Number of SMEs in the TGI of Denizli

	1992	1997	1998	1999
Number of SMEs	71	249	207	194

Note: Firms having more than 10 employees are included

Source: Annual Manufacturing Industry Statistics, TÜİK; cited in Beyhan, Armatlı-Köroğlu, 2002

According to Erendil *in the beginning of 1990s, a tendency emerged in leading firms to integrate all complementary parts of the production in the firm in order to catch the quality demand of Europe and USE markets* (Erendil, 1998). This was an obvious move towards vertical integration. Leading textile and garment exporters of Denizli tended to prefer integrated production owing to inadequate production capabilities of subcontracting firms in quality. Changing organization of production had negatively affected clustering dynamics and the number of SMEs began to decrease. According to Işık and Pınarcıoğlu (1996) *in the new face of local transformation entry to the market was no more as easy as it had used to be*. Between 1997 and 1999 the number of textile and garment SMEs decreased from 249 to 194. Horizontal local network relations through which a symmetrical development climate had been formed were fragmented owing to unequal power relations among small and big firms.

As Erendil (1998) points out in her research towards the end of 1990s there could be identified *two worlds of textile production* in Denizli. On the one hand there were textile and garment *producers using outdated technology and producing low quality standardized goods for domestic markets*. On the other hand there were *exporters modernized their technology and producing with high quality*. The direction of the transformation was towards increasing gap between these two worlds and this was shaping an asymmetrical development climate in which there was domination of a few large firms (Beyhan, Armatlı-Köroğlu, 2002).

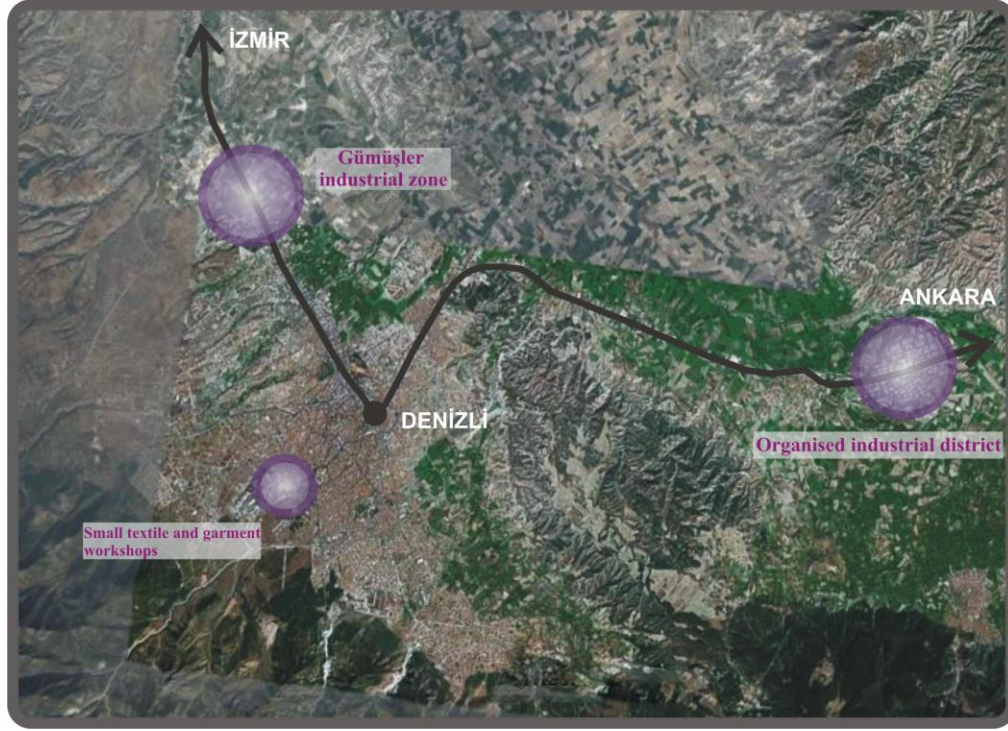
The rise and the fall of co-operative form in industrial development story of Denizli is tried to be discussed through evaluating two distinct aspects on local transformation. This evaluation is generated by a brief literature survey highlighting development and transformation of an old success story. Denizli as a well known old success story of Turkey, have experienced an

interesting industrial development trajectory for at least three decades. Throughout 1990s external position of Denizli in global TGI value chain had not changed however internal structure of industry changed significantly. This change negatively affected fundamental and specific dynamisms of region's industrial growth through deconstructing underlying mentality of cluster and social capital networks. How all these developments and transformations have affected competitive power and restructuring efforts of the region in a globally repositioning industrial sector still remains as an open question. In this regard case study of this thesis aims to answer and discuss such questions of industrial development and change.

4.2 Denizli Case and the Results of the Survey

Denizli is one of the leading cities in Turkey in terms of economic development. Being in the 21st position among 81 cities in Turkey with 2133 dollars of GDP per capita, Denizli is in the 12th position in the socio-economic development index with a score of 0.7 (DSO, 2007a). Industry has a significant role in the urban and regional development of Denizli. Especially by 1980s, the export-oriented period of development in T&G sector has had a leading role in the industrialization.

There are three main regions in Denizli where industrialization is spatially concentrated. These three regions, which are demonstrated in the satellite view below, are also the main locations of the T&G production. These industrially concentrated regions are the *organized industrial district* (OID) on the Ankara road, the *Gümüşler industrial zone* on the İzmir road, and the *small T&G workshops* located to the inner parts of the city.



Note: The satellite view is provided from Google Earth satellite images

Figure 4. 1. Three Main Locations of Industry in Denizli

The locomotive role of TGI in Denizli started to have some problems by the beginnings of 2000s. There is not a significant decrease in the level of production and sales. According to a research (DSO, 2006) more than a half of T&G industrialists reported that their levels of production and sales had increased in the last five years of period. The level of export, which has been constantly increasing especially since the beginning of 2000s, confirms this trend. However, the other side of the coin displays a fact which is hardly in disguise. The aforementioned research also shows that 67% of the industrialists of Denizli, who are mostly T&G producers, states that their profit margins had decreased.

Furthermore, according to another research (DSO, 2005), 87% of the T&G industrialists do not plan to invest into the same sector any longer. Although there is not a decrease in the level of production and export, it is possible to observe that the sector is in a period of lock-in. The

industrialists perceive the reflections of this lock-in mostly as the diminishing capacity for competition and the decreasing profit margins²².

As it can be seen in the table below, by the industrial development, more firms from Denizli have taken their places in the first 500 industrial companies of Turkey. Until the beginnings of 2000s, the majority of firms which were in this list were from T&G sector; on the other hand, the number of T&G firms in the first 500 list had decreased by 2000s. However, the number of industrialists from Denizli in the first 500 list did not decrease sharply because of the success of firms from electrolytic-copper and paper industry which succeeded in taking part in this list. The decrease in the level of success of TGI in Denizli can also be observed in these data.

Table 4. 3. The change in the number of Denizli's firms being in the most successful 500 firms of Turkey

Years	Total	TGI firms
1993	6	3
1995	7	4
1997	8	5
1999	10	6
2001	11	8
2003	12	7
2005	10	4

Source: DSO, 2007a

There is a tendency of transformation in the industrial structure of Denizli. The course of development of the industrial restructuring is going to be analyzed with the field survey which was conducted as a part of this thesis.

4.2.1 The Frame of Survey

The field survey on TGI in Denizli is composed of interviews with firms and non-governmental organizations which represent the sector. The participant firms were selected among different sized firms, in accordance with the proportion of small, medium, and large

²² One of the T&G industrialists expresses this situation as follows:

"There is not a decrease in our level of export. But, because of the negative influences on the capacity for competition and the profit margins, most of the firms are working for very low levels of profit to keep their factories alive." (informant, L1)

firms in the sector. According to 2006 data, there are 1619 establishments in Denizli which are registered to SSK (Social Security Institute) and in which T&G production takes place. Considering 2% of sampling ratio, 32 interviews with firms should be conducted. Furthermore, again according to 2006 data, while 63% of TGI is made up of small firms (10-50 employees), 27% is of medium (50-250 employees), and 10% is of large firms (more than 250 employees). Considering these ratios, among the total of 32 firms with which interviews were conducted, while 18 of them are small firms, 10 of them are medium, and 4 of them are large firms.

In addition to this, 6 interviews were conducted with NGOs which are in relation to the analyzed sector and local economy. The participant NGOs are Denizli Chamber of Industry (*Denizli Sanayi Odası* - DSO), Denizli Chamber of Commerce (*Denizli Ticaret Odası* - DTO), Denizli Union of Textile and Garment Exporters (*Denizli Tekstil ve Konfeksiyon İhracatçıları Birliği* - DETKİB), Denizli Association of Textile and Garment Industrialists (*Denizli Tekstil ve Giyim Sanayicileri Derneği* - DETGİS), Denizli Agency of the Union of Textile, Weaving and Garment Workers (*Türkiye Tekstil Örne ve Giyim Sanayi İşçileri Sendikası* - TEKSİF), and Denizli Agency of TEKSTİL-SEN.

The qualitative analysis of this thesis is based on semi-structured in-depth interviews which were conducted in field survey area. Interviews include open-ended or more categorical questions. In these interviews, a form²³ including some pre-defined key concepts of industrial restructuring process is used. These pre-defined key concepts are development of enterprises, product groups, employment change, organization of production, supply chain management and marketing. The interviews are recorded during the meetings with a tape recorder. Tape records were then deciphered and used in the study. Furthermore, the answers of the categorical questions were used for certain quantitative analyses.

During the field survey, industrialists who produce weaved, assembled and finished products were selected as participants. Among the 32 participant firms, 19 of them are towel and bathrobe, 7 of them are garment, and 6 of them are home textile producers. As a consequence

²³ Interview forms include both open ended and categorical questions. Moreover they include pre-defined key concepts of industrial restructuring process. Used in the field survey of this thesis, interview forms are presented in Appendix D and Appendix E.

of the specialization of Denizli in certain product groups of TGI, most of the participant firms (59%) are towel and bathrobe producers.

4.2.2 Employment Change and Responding through Informalization

Data on the level of employment in TGI and generally in the whole manufacturing industry signifies an easily observable transformation in Denizli. This situation is going to be discussed by an analysis of the change in the number of employees in different sectors in the last five years of time.

Table 4. 4. Number of Establishments and Workers in TGI and Total Manufacturing Industry

Number of establishments and workers	2002	2003	2004	2005	2006
Number of establishments	1312	1528	1615	1639	1674
Number of workers in TGI	49929	55492	55238	54745	53485
Number of workers in total manufacturing industry	108382	121094	128627	135755	151926
Share of TGI employment in total manufacturing employment	%46,07	%45,83	%42,94	%40,33	%35,20

Source: DSO, 2007b

Note: Numbers in the table are regularized through the data of each december of years, TGI (Textile and Garment Industry),

As it is illustrated in the table, the level of employment in TGI has been decreasing since 2003. The share of T&G in the total employment, on the other hand, has decreased 11% in the last five years. In spite of a general increase in the level of employment in Denizli, a decrease in TGI can be observed. What are the fields of economic activity which function as the source of employment in a region where the number of employees display a sectoral change? This question can be answered by looking at the change in the level of employment in different fields of economic activity.

Table 4. 5. Employment of Denizli's different economic activities in last five years

Economic activities	2002	2003	2004	2005	2006
-Construction	8872	11276	11358	14354	19274
-Retail trade	4938	5627	6578	7228	9123
-Commercial services	2985	3248	3545	3568	4948
-Overland transport and related works	4846	5780	6422	7683	8961
-Metal products industry (electrolytic-copper)	3099	4068	4443	4687	5522
-Nonmetal products industry (stone crushing and dragging)	3184	3646	4962	5485	5506
-Stock quarries (marble and travertine quarries)	1067	1247	1457	1546	1708
-Trade and service sector employment	36871	42575	47549	53650	64926
-Rate of trade and service sector employment to total employment	%34,01	%35,15	%36,96	%39,51	%42,52

Source: DSO, 2007b

Note: Numbers in the table are regularized through the data of each december of the years

The information in the table indicates that the sectors in which the level of employment is constantly increasing are commercial and service sectors. The number of employees in commercial and service sectors has increased from 36871 to 64926 in the last five years. The share of commercial and service sector in the total employment has increased 8% between 2002 and 2006.

Contrary to the case for commercial and service sectors, the level of employment in T&G sector has decreased in the last five years. Apart from commercial and service sectors, the industrial activities which increased the level of employment are electrolytic-copper and cables and natural stone and marble quarries sectors.

T&G sector has lost its role as the main source of employment in Denizli since 2003. This industrial activity has given its place to certain other economic activities with respect to employment opportunities. As we can see from the increase in the number of employees, commercial and service sectors are the most important ones among these activities. It is

possible to claim that this tendency can be secured by further investments which will increase the level of employment in commercial and service sector²⁴.

There is a shift to service sector in Denizli. My observations tell that service sector started to be a source of employment. I mean, the economy of Denizli is a dynamic one which can renew itself... Yes, there is also a problem of lock-in, but this lock-in will be outdone by city's own potential. In fact, the decrease in the level of employment in textile is a healthy indicator because it shows that labor power is moving away from a losing sector.
(informant DSO)

Most of the participant firms (16 of 32 firms) stated that although their number of employees has decreased, their productivity increased in the last five years. It is understood that the improvement in the productivity was attained by the changes in the intra-firm management and organization systems. The participant firms declared that they can increase their productivity by practices like *total quality management, improvement of quality control and assurance systems, human resources planning, or the establishment of in-service training programs*. In other words, productivity is maintained by the restructuring of intra-firm networks. MPM's *project for improving productivity in Denizli* (MPM, 1998) seems to be influential in the increasing productivity.

14 out of 16 firms which reported improvement in productivity are medium or large-sized firms. Most of the small firms could not achieve in realizing the applications necessary for improving productivity. While the number of employees in some of the small firms has decreased, there is not a change of this sort in some other small firms. What is common for the majority of small firms (16 out of 18 small firms) is that, regardless of the type of change in their number of employee, these firms could not realize necessary steps for improving productivity.

²⁴ Another important sector which is able to provide increasing employment opportunities in the last five years is the construction sector. The observations which were conducted during the field survey indicate that the employees working in construction sector are Kurdish migrants who came to the region from South-East Anatolia. By the steady increase in the employment opportunities in the construction sector in the last five years, Kurdish population has displayed an important increase in the region. It is estimated that the Kurdish population, who share their employment opportunities with their fellow countrymen from South-East Anatolia through informal network relationships, will increase by the further development in construction sector. Today there are a total of 40000 immigrants from South-East Anatolia who are settled densely in three neighborhoods in Denizli.

The level of employment in T&G sector in Denizli had constantly increased until 2000s and during the 2 years of time after the crisis. However, the impacts of the increasing competition in global scale became visible in the decreasing profit margins. The response of the employers is to informally reduce the cost of labor power, which is relatively higher than the costs in other countries, by employing unregistered workers.

Tendency towards informalization of the labor power in TGI in the last five years can also be understood from a different perspective. As the interviews and data on industrialization display, production and export in the sector is not decreasing; instead they are increasing. In addition to this, there is not a considerable technological innovation which will boost the productivity. 26 of the 32 participant firms (81%) pointed that there is not a significant technological innovation in the last five years²⁵. In this kind of an environment, one should be suspicious about the data displaying that the number of employees had decreased.

According to the interviews and observations, the decreasing number of employees reflects the decrease in the number of registered workers. There is a significant increase in the employment of unregistered workers in TGI. Most of the employers think that the taxes on the wages are too high. Employers choose to employ unregistered workers in order to cope with the increasing cost of price in global scale.

Today, 50000 textile workers in Denizli works for subsistence wage and most of them have no insurance. (informant TEKSTİL-SEN, Denizli Agency)

Look, both the exporter and subcontractor in this sector in Denizli employ unregistered worker. The number of unregistered workers has already been very high around here in the past. But by the second half of 1990s there was an increase in the number of workers who are registered to SSK. However, in the last five years, unregistered workers have increased again. (informant A. Y., 56 years old male, a retired worker)

There is too much unregistered employment. These people have no health security. What will happen to their right to retire in the future? Employers say that “instead of giving 200 or 250 liras premium and tax to state for each worker, I would give 50 liras more to the worker and employ him unregistered”. Both the buyer and the seller are content with it... And everybody is doing this, both the subcontractor and the exporter. Maybe there are 3 to 5 important big firms which do not do that. But surely even these firms use subcontractors who employ unregistered workers. I mean, what is the difference, you know? (informant S3)

²⁵ These firms reported that a significant innovation in production technology has taken place in 1990s. Most of the export-oriented firms had shifted to computer-aided production systems in 1990s. This transformation had triggered a considerable change in the organization and the productivity in that period.

There is another dimension of employing unregistered worker. The firms in Denizli which do not employ unregistered workers state that the firms which employ unregistered workers cause unfair competition in domestic markets. The employers who defend registered employment define the actors who cause unfair competition by informalization shortly as the ‘Chinese among us’ (*İçimizdeki Çinliler*)²⁶.

The increasing competition in global scale, decreasing profit margins, and the relatively higher labor costs compared to other competitors... As a consequence of these negative conditions, T&G industrialists in Denizli shift to the practices like the employment of unregistered workers. In addition to this informalization, there is a second informalization process for the labor power. A considerable amount of industrialists in Denizli also choose to increase informally the working time of laborers through overtime work. During the interviews the following information was collected from various groups:

Almost all employers make their laborers work for more than 8 hours. In some firms, workers are forced to work for 12, 14, sometimes 16 hours a day. Overtime work is increasing by the pressure of labor costs and competition. Especially the subcontractors who work according to orders make their laborers stay for overtime work during the tight summer period when orders are too intense. They pay extra for 16 hours of work. But never for 12 hours. In fact, labor law tells that they have to pay. And none of the laborers are asked if he wants overtime work or not. (informant TEKSTİL-SEN, Denizli Agency)

Although 8 hours must be compulsory, today, 12 hours of work became a necessity in Denizli. Today, anyone who does not want to work for 12 hours would be kicked out. (informant A. Y., 28 years old male, a TGI worker)

I spoke with a worker a moment ago. He said that he cannot see his child as if he is in prison. He says that my working hours are set in such a way that I find him asleep when I go home. And says that he could not see his child for 20 days, could not speak to him, could not kiss him. Now think about it, what can a person produce under these conditions? Think about the working conditions. They are forcing people to live in a prison under the disguise of freedom. (informant, TEKSTİL-SEN, Agency)

When we look at the gender distribution of workers, the significance of female labor power for T&G sector in Denizli becomes clear. According to 2006 data (DSO, 2006), 49.14% (26284 workers) of the registered workers are woman. Considering homeworking and the

²⁶ One of the industrialists from TGI express this situation as the following:

“There is an unfair competition. The other domestic firms employ unregistered workers. Big firm do that. Unfortunately, this makes 80 or 90% of the sector. Their wages are lowered in the payrolls. For example, an employee who takes 3 to 5 billion liras is reported to be working for subsistence wage. One cannot believe this but such things happen. These kinds of things cause unfair competition. Our chairman defines them as the ‘Chinese among us’.” (informant L2)

unpaid family working type of unregistered employment in Babadağ, Buldan and Kızılcabölük, it is possible to claim that female employment is higher than male employment in the sector.

4.2.3 Supply Chain Management and Internationalization Tendencies of Production

In the field survey, the supply chain management systems of the firms were analyzed. On these bases, the position of TGI firms in Denizli within the global value chains is interpreted. Furthermore, the tendencies of change in these positions during the period of restructuring are scrutinized.

10 of the 32 participant firms (32%) reported that they are supplying higher quality and finished products to overseas buyers with their foreign brand names. 4 out of these 10 firms are large, and the rest of them are medium-sized firms. These 10 exporter firms do not have any problem in terms of the maintenance of quality for global scale buyers:

As the demands from Europe for high quality goods increased, producers in Denizli had learned how to produce quality products. Producers in this region have always been dependent to outer buyers. They learned both producing in good quality and producing on time while trying to meet the demands of these buyers. (informant S4)

These 10 firms have attained considerable experience and important connections with international markets by the help of the export-oriented working system that they apply for 10 to 15 years of time. However, these 10 leading firms in export-oriented production cannot sell their products with their own brand names. European firms are making the exporters of Denizli produce under their foreign brand names. The products which were produced in Denizli are sold by these foreign firms in their domestic markets for prices higher than the purchasing price.

The 17 participant firms are making subcontracting production for export-oriented firms. More than a half of the participant firms (53%) are working as subcontractors of towel, bathrobe and home textile exporters in Denizli. On the other hand, 5 of the participant firms stated that they are making production for domestic market. All of them are a part of garment industry. Garment production is not very developed in Denizli. This sector did not maintain

growth on the basis of export-oriented production. In short, Denizli is not integrated to the global value chain in garment production.

4.2.3.1 Changing Patterns of Raw Material Supply

Most of the export-oriented textile firms in Denizli purchase directly the raw material. These firms use some of this raw material for processing it within their own plants and give the other part to the subcontractors which work for them. 18 of the 32 participant firms purchase directly the raw material. 14 firms, on the other hand, use the raw material which is provided to them by the export-oriented firms to which they work as subcontractors.

It is possible to observe a transformation in the raw material relationships of supply chain management during the restructuring period. 15 of the 18 participant firms (83% of the firms which purchase raw material) reported that import of raw material has increased considerably in the last five years. They stated that more than a half of the raw material is supplied through import. It is pointed that the three countries from which cotton thread, and rarely cotton fabric and synthetic thread are imported are China, Pakistan, and India.

In Denizli export have increased from 221 to 991 million dollars between 2001 and 2006 (DSO, 2007). A considerable amount of imported goods are raw materials and semi-finished products which are in relation to TGI. According to 2005 data, 25% of the imported products are materials eligible for weaving and goods which are made up of them (DSO, 2007). The garment industry in Denizli started to shift from a structure which supports the cotton, cotton gin, and yarn production in Turkey by supplying these products from the domestic market, into an import-oriented structure. The largest textile factory which functions as the supplier of fibre and weaved fabric for the towel, bathrobe and home textile producers, *Abahoğlu Tekstil*, is closed. The closure of this large factory which has been the most important supplier of fibre and fabric for the T&G cluster in Denizli for long years is a considerable signal of the shift towards the import of raw material and semi-finished products.

4.2.3.2 Spatial Reorganization of Production: Internationalization or Within Cluster

30 of the 32 participant firms (94%) do not predict a change for the position of their firm in the supply chain in the future. The two firms which pointed that they may change their position in the supply chain are two large firms which are not vertically integrated. These two firms have a tendency towards vertical integration. It is possible to claim that large firms have tendency towards vertical integration. Large firms reported that subcontracting may cause some problems in terms of *higher quality-price-quick turnaround times*. Thus, it is understood that they have tendency to increase vertical integration.

When we were subcontracting approximately 10 years ago, we were working with a firm from Denizli which works for the least amount of money. Later on, demands from foreign countries for quality products had increased. Then we increased our expectations for higher quality-price-quick turnaround times from our suppliers. We started to expect concordance with ISO conditions. But we ended to work with subcontractors in the last five years. Today, we are totally vertically integrated. (informant L1)

Most of the TGI firms in Denizli do not consider to change their position in the supply chain. The 30 firms, which tend to maintain their position in the supply chain, do not plan to forge subcontracting relationships with foreign firms apart from increasing import. Industrialists from Denizli points out that their supply relationship with the foreign industrialists is limited to importation of raw material. They express their general tendency in the following way: *“Our suppliers are the ones with whom we conduct the importation of raw material.”*

5 of the 32 participant firms (16%) plan to make investments in production to regions other than Denizli. The majority of the firms in Denizli (84%) stated that they do not want to shift production outside of the cluster. The firms which have tendency to shift from the cluster are some medium and large-sized firms which have been planning to make investments in countries like Egypt, China, and India. One of the firms has shifted its production to one of the 49 provinces which provide investment incentive. Spatial reorganization of production towards provinces whose development is supported by incentives is not widespread.

There are 4 firms in Denizli which internationalized TGI production in the last five years. These firms have shifted their production to Egypt, Romania, Bulgaria, and Cyprus. The interviews showed that the chief reason for shifting production to these countries is to get free

of the limitations of the quotas rather than benefiting from cost advantages. The motive behind the spatial reorganization in Denizli for the internationalization of production is to make products foreign-originated. This can more easily be understood with the fact that these firms have ended production in foreign countries after they get limited export opportunities.

Tendency to internationalize production by benefiting from the low production costs in foreign countries is not widespread in Denizli. The city could not arrive at a new tendency of restructuring which can perceive the low production costs in the newly industrializing regions of the world as an opportunity. In spite of the changing trends in the geographical organization of labor-intensive industrial activities in global scale, Denizli prefers to stay within its own cluster. Even though the production costs are lower in certain regions in the world, most of the large export-oriented firms in Denizli do not consider internationalizing their production:

Some firms started to internationalize their production by establishing cutting-sewing-assembling plants in foreign countries. But we do not have such an intention. We are a firm which wants to work in Turkey with Turkish people. (informant L2)

Private sector firms claim that they love their country and that they will solve the problem of unemployment, but they invest in China, Egypt, Bulgaria and Romania if they find it profitable. If you claim that you are nationalist, why can not you successfully encourage investing in this country? If you are that much nationalist, why do not you invest in foreign country rather than you own? If the government is that much patriotic, then why does not it solve the problem of unemployment although it can easily be solved? (informant M8)

The distant approach to make investment in production to foreign countries cannot be observed in terms of marketing and advertisement. The participant T&G exporters pointed that they can consider establishing departments for sale, distribution, and marketing in foreign countries if their financial status is convenient.

5 of the 32 participant firms have joint ventures. 4 of these 5 firms who have joint ventures are large-sized firms. In other words, all of the large firms which took part in the survey reported that they have joint ventures. The level of joint ventures in Denizli T&G sector is considerably low. Joint ventures can be realized by powerful and large firms in general. Most of these joint ventures are realized with Russian firms on marketing opportunities.

4.2.4 Export Performance and Driving Force of Development

An export-oriented industrialization process has taken place in Denizli. Export performance has been the driving force of the development. T&G firms started to work as export-oriented firms, producing for European markets in general and various other markets by 1980s. The next two decades, the region has improved in terms of higher quality-price-quick turnaround times by the help of its relationship with western buyers.

It is known that the level of export has increased in Denizli during 1980s and 1990s. This trend of growth has continued until today during the 2000s. However, the most important reason of the large amount of increase in the level of export in this period is related to the consequences of the economic crisis in Turkey in 2001.

Table 4. 6. Exportation of garment products in Denizli

Years	Export revenue (USD)
2000	201.444.998
2001	439.055.170
2002	593.518.162
2003	756.184.080
2004	819.955.855
2005	1.007.843.463
2006	1.055.572.446

Source: DETKİB, 2007

Note: Garment products include towel, bathrobe, home textiles and all other garments

As it can be seen in the table, there is a sharp increase in the revenue from the export of T&G products in 2001. Although there is not a considerable increase in the amount of exported products, such a sharp increase had taken place because of the economic crisis in Turkey in 2001. By the 2001 crisis the foreign currency has increased sharply. As a consequence of this, the export revenues of the industrialists of Denizli had increased 118%. In other words, T&G industrialists in Denizli had an unexpected “*bonus*”. According to a study which was conducted in 2004, 65% of the export-oriented T&G firms in Denizli reported that they were not negatively affected by the 2001 crisis.

The high rate of increase in the export revenues in 2001 has given its place to lower rates of increase by 2004. According to the research which was conducted as a part of this thesis, the

decrease in the volume of sales has started. 25 of the 32 participant firms (78%) have reported a decrease in their volume of sales in the last five years. Information of this sort was gathered from different sized firms which produce various product groups.

The export data are always high for Denizli. This is the situation inside Turkey... But you can not just look if the numbers have increased or not. My profit margin is decreasing; I mean, I am trying to meet lower price demands with higher costs. European firms that were purchasing my product started to work with suppliers in Far East who can produce cheaper. In other words, my sales volume is diminishing. Now my export does not increase. Then who are the ones with increasing export? These are certain large firms from Denizli which are making export for prices which are very low when compared to the case in the past. Now, in this kind of a situation, is the wealth of the industrialist increasing? Is the country in progress? (informant M1)

The interviews showed that in spite of the increase in the level of export, the profit margins are decreasing. Industrialists who are producing for stable or constantly decreasing prices find production costs very high. Profits are decreasing but, in their own words, the industrialists keep doing “*the job they know*” as they know it.

When we look at the countries with which export has been conducted, the dominance of the U.S. and the European countries becomes visible.

Table 4. 7. Major export markets of Denizli, 2006

Countries	Exports (USD)
USA	316.287.628
Germany	257.030.930
UK	228.844.740
Italy	103.720.866
France	100.690.277
Spain	59.381.099
Holland	56.600.845

Source: DETKİB, 2007

Exportation in Denizli is mostly made with Europe and then with the U.S. In addition, Russia, Morocco and Israel are the other countries to which products are exported. According to a research (DSO, 2004), 65% of the T&G firms in Denizli reported that they have the potential to export their products to alternative countries. What is the meaning of this?

As a part of the field survey, industrialists are asked about their search for alternative exportation markets. An apparent search for a particular end can be observed on this issue. All of the export-oriented firms are looking for alternative exportation market. 8 firms are dealing with marketing survey activities to this end. There is a widespread agreement on Russia as the alternative exportation market. Industrialists of Denizli have accelerated their marketing surveys on Russia. By initiating export to Russia, an important marketing strategy can be maintained in terms of developing an alternative structure for foreign trade.

4.2.5 Specialized Product Groups and Strategies

Two important product groups have the leading role in Denizli among the exported products. The level of export of towel, bathrobe and home textile in Denizli TGI exceeds 750 million dollars a year. The amount of towel and bathrobe export in Denizli is more than a half of the total export in this product group in Turkey.

Table 4. 8. Exported products groups in TGI of Denizli
(export value, 1000 USD)

Product Groups	2004	2005	2006
Towel and Bathrobe	556051	641252	641093
Home textile products	117654	115731	129767
Garments	104180	87003	109077

Source: DETKİB, 2007

10 export-oriented firms who deliver high-quality, finished products to the buyers from foreign countries reported that the specialized product groups meet the demands of the highest income groups. However, the experiences of the industrialists in Denizli tell them that improving the production quality does not mean a lot in terms of increasing the competitiveness. These ideas are defended especially by the opinion leaders of the local economy. According to this view, Denizli should abandon the production of low value-added product groups like towel and bathrobe, which offer limited design and R&D opportunities. Defenders of this view can be defined as the ones who seek for an innovative sectoral development in the local economy of Denizli.

You inevitably face with low profit margins when you produce such products, because global competition is too hot for these kinds of product groups. Product segment should be changed and production of high value-added products should be started, right? Textile is a tradition of this city. We do not want them to throw away textile totally. (informant DSO)

Shifting to product other than the specialized groups requires long-term restructuring. However, T&G industrialists in Denizli prefer short or middle-term changes in their product strategies. 11 of the 32 participant firms (34%) pointed that they improved the quality of their products and that they implemented product differentiation in the last five years. The reasons of the improvement in quality and the implementation of product differentiation are expressed as the competition for high-quality, fashion trends and the demands of the clients. Most of the 11 firms which reported that they improved the quality of their products and implemented product differentiation are medium or large-sized firms. Only the 3 of the 18 small firms could improve their product quality and applied product differentiation. Small firms seem to be incapable of developing active product strategies during the process of industrial restructuring in the region.

Becoming a brand name is one of the important strategies for specialized product groups in the long run. Among the 32 participants, 10 firms which are export-oriented cannot make trade with their own brand. Even the leading firms in the region who have an extensive experience in fields like the production of towel, bathrobe and home textile could not become international brand names. These firms have taken place within a structure which was organized for producing for the Western buyers. This situation results in the extraction of the most of the added value by the Western buyers. Most of these buyers are chain stores retailing garments or famous brands (e.g. Dockers, Massimo Dutti, GAP, Nike and some of the towel and bathrobe brands from Europe).

We are producing trousers for Dockers and Hugo Boss. We produce very high-quality products but I have to admit that we can not take what we deserve with this high quality production capacity. Today, we can only have 10% from the sale of those trousers. I mean, the trousers that we sold for 20 liras are sold by them for 200 liras. Within the value chain, most of the added value is taken by international brands. (informant L2)

Only the 3 of the 10 full-package, export-oriented industrialists could make production with their own brands in the last five years. These three firms, which define their brands as “*still crawling babies*”, have considerable expectations about exporting with their own brands. For example, one of these firms has an objective of realizing the half of its total export with its own brand by 2010. In addition, DSO has an endeavor to create a brand as “*Denizli*” with joint venture. Marketing of medium-high quality products in the chain stores in Europe is the goal of this effort. However, the endeavor to become brand name for taking higher portions

from the value added products came too late. More importantly, this endeavor is limited in TGI with the 3 leading firms in the region. Only the 3 of the 32 participant firms (9%) have considerable plans for becoming brand name in the future. In addition, the benefit of becoming a brand name in the product groups with which the firms in Denizli are specialized is highly controversial.

As a TGI exporting region, today Denizli is in a locked-in position in the global value chain. Denizli has been in a period of export-oriented development in this sector since the beginning of 1980s. During this process, the region has accumulated the knowledge of producing for foreign markets, increased its capabilities in terms of *higher quality-price-quick turnaround times*, and became a turn-key network which can conduct full-package production. However, the region started to perceive the reflections of the increasing competition for lower costs in global scale which influenced the TGI in the region negatively and forced the region to be merely a passive marketer. As a consequence of this passive position, Denizli TGI could not initiate the process of becoming a brand name and could not catch the new trends in the world markets. In other words, the TGI in this region could not initiate R&D activities and trigger innovations by which high value added, differentiated products can be produced. As a passive supplier, Denizli is caught in between high production costs in the domestic market and the lower price demands of foreign buyers.

4.2.6 Innovativeness, Capabilities of Research and Design: On the High Road of Restructuring

6 of the 10 participants, who produce for exportation, have design departments. On the other hand, as it is mentioned above, design and becoming brand name are more crucial for garment production. On these bases, the influence of design is limited in areas like towel and bathrobe production, which are the areas of specialization in Denizli. Considering the specialized product groups in the region, having a brand name or following the new fashion, and design trends seems to be futile expectation in the context of Denizli:

Textile in Denizli is limited to towel and bathrobe. These are products with least value added. We should reach new positions which bring higher value added and which requires knowledge and experience. And these are fashion, garment, brand name, and logo. With our products, design, brand name, all of them are only dream... We had to learn producing goods other than towel and bathrobe. (informant, 58 years old male, a T&G industrialist; cited in MPM, 1998)

The development of TGI in Denizli had taken place through the production of towel, bathrobe, and home textile for foreign markets on order. Innovativeness and capability in R&D has never been important issues during this development process. The industrialists in Denizli have never been in alternative quests other than their specialized product groups outside of their own cluster. However, the increasing competition for lower costs in the last five years has triggered consciousness in the significance of the organization of innovative efforts and the development of R&D capacity.

Although we have a successful history in textile, we also had some mistakes. One of them is the R&D issue. We did not try to develop new products or make technological innovations. But we ran out of fuel, I guess. If only we had seen it before getting into that much trouble. But we understood it now we immediately have to focus on R&D. It will be difficult for us to be as successful as we were 20 years before. (informant H. K., academician on economics from Pamukkale University)

There are certain groups in Denizli who defend that innovative efforts should be supported and R&D capacity should be increased in T&G sector. These groups support a sectoral transformation on the high road of restructuring. The important issue that they emphasize about the transformation towards an innovative TGI is the technical textile. Among the 32 participant firms, there is only 1 firm which produce technical textile or other high value-added TGI products or dealing with R&D. The leading firm in the region in terms of R&D has been working on the production of electromagnetic wave-resistant fabric. They had taken considerable steps towards the production of this fabric.

We can shift to knowledge-intensive products. They call it technical textile in the world. But I have to tell that there are only a few firms in Denizli which are dealing with these issues. But we are working for this kind of a transformation. We talk with the industrialists about the success stories about shifting from conventional to technical textile... Denizli can do it, because it is composed of people who are capable of renewing themselves, who like their jobs passionately, and who have entrepreneurial spirit. (informant DSO)

Firm owners who adopted an innovative approach and the opinion leaders have been trying to organize their efforts to improve R&D capacity of T&G sector within a newly developing Technopark.

We have great expectations from Technopark for technical textile. Industrialists of Denizli have high hopes for the restructuring of textile and garment from this Technopark. Here, industrialists will try to find out the way to shift towards the production of high value-added products, to transform the industrial structure. (informant M1)

With the increasing tension in the competition for lower costs in TGI, innovative efforts have increased in Denizli. The region became aware of the fact that their specialized product groups provide limited opportunities in terms of R&D, design, and becoming brand name. This situation forced the industrialists to focus on technical textiles instead of the existing product groups and to get into the endeavor to organize researches for innovating new products. Efforts for establishing the Technopark is the most apparent indicator of this effort. These innovative tendencies in Denizli TGI cannot be observed in all of the members of the sector. They are limited to large firms and the opinion leaders of the local economy. In other words, most of the small and medium sized firms in the sector are staying away from these innovative efforts. These innovative efforts and search for organization are the indicators of a tiny transformation towards the high road of restructuring.

4.2.7 Changing Social Dynamics: Family Firms in the way of Institutionalization

87% of the companies in Denizli are family firms (DSO, 2006). In this family firm-dominant region, 42% are first generation and 34% are second generation industrialists. Management of a family firm by the third generation members is a rarely observed phenomenon (DSO, 2006). Transformation of family firms in the way of institutionalization is important for both industry and the rest of the local economy in Denizli. Structuring through family firms causes two important conditions.

One of the most important problems that are experienced during the development of family firms is the disinterest of the second and third generation of the family members towards working in the same sector. The new generation in Denizli is not interested in TGI. This situation brings the issue of the management of T&G firms in the future at the forefront.

As we can see in Denizli experience, family firms are in crisis. Family firms can go on only for two generations. I can tell that there is not any family firm which is run by the third generation. The new generation will not want to take part in this business, because profits are too low. And the risk of losing even these low profits is too high. Members of this sector constantly feel this pressure. In such an environment, why should those children who saw their fathers' problems enter to this business? (informant, L2)

The local economy of Denizli is worried about the future of the family firms in T&G sector. The source of this anxiety is the problem of transferring of the established industrial structures to the next generation. Employers of Denizli, who are accustomed to use their family

relationships in business sphere, have faced with the necessity of institutionalization and the adoption of a professional mentality. In order to deal with this problem, projects and training programs are organized under the titles like “institutionalization of family firms”, “adopting the logic of professional management”, “making the next generation conscious of the continuation of family firms”²⁷. The survival of family firms in Denizli is tried to be maintained through these kinds of projects and training programs.

Endeavors for the institutionalization of the family firms cause a second significant problem. The institutionalization of family firms triggers other processes which result in the dissolution of the dynamism of social capital which is crucial for the development of Denizli. Topics like institutionalization and professional management have negative affects on the traditional types of relationships like trust, cooperation and solidarity which have been a part of business in Denizli for almost 50 years. For a successful repositioning during the restructuring process, firms should establish strategic alliances in a cooperative environment with trust and cooperation. However, during the interviews, firms described the reason for their disinterest in cooperating with other firms about issues like marketing strategy, establishing brand names as *“the lack of trust and solidarity”*. The first generation of family firms are composed of persons who can from same places, who experienced similar difficulties, and who have developed solidarity relationships during these processes. Second and especially the third generation members of family firms, on the other hand, have tendency to act in accordance with a more institutional and capitalistic logic. In other words, the dynamism of social capital which had enabled the emergence of a business culture on the bases of trust, solidarity and cooperation in the past, tended to disappear in Denizli with the new generations.

4.2.8 State Incentives and Financial Informalization

Another important dimension of the network perspective analysis of the restructuring process is the extra-firm relations. The extra-firm dimension is shaped by the transformation of firm-finance relationships in a local economy and the state’s regulatory industrial incentives. On these bases, these two issues are also included our research on Denizli.

²⁷ Examples on this issue are collected through a research on local mass media instruments (see Appendix C).

The law number 5084 which was promulgated in 2004 enabled the provision of incentives for industrialization in *underdeveloped*²⁸ provinces. In Denizli, this law is criticized for its negative influences on the development of industry and competitiveness in the domestic market. With the reduction of production costs in 49 provinces by this law, it is intended to encourage industrialization. Regulations like lower electricity utilization prices, exemption from income tax and lower insurance premium are part of the incentive.

We had foreign rivals in the past. But today, we also have rivals here. With the law number 5084, 49 provinces gained the opportunity to produce 50% cheaper than me. How can I compete with that? (informant M7)

Although they were expecting an intervention which will contribute to the competitive capacity of their region during the restructuring process, Denizli T&G industrialists came across with the law number 5084. With this law on state incentives, the industrialists of Denizli have started to feel like they are excluded.

Why does the state prefer to provide incentives to other regions rather than the one which is successful in textile sector and which have problems with the high cost of production? We have to be supported for solving the problem of employment and the development of export. If that is necessary we can bring thousands of people to Denizli everyday to work. But at this moment, with five years of, we can not go that far. Incentives should be provided to individual sectors and its criterion should not be only underdevelopment. (informant M8)

There is an integrated, clustered industrial structure here. And they support somewhere without any experience in this sector, rather than this region. They support the region right next to us, but not here. We think that the existing incentive system is wrong. You can not move industry from somewhere to another just by a command. (informant, DTO)

Two important issues can be discussed with respect to the feeling of exclusion in Denizli because of the law number 5084. The first one is about the inability of the law to cover sectoral differences and the lack of emphasis on the significance of competitiveness for exporting in international level. The second issue is that, the law is based on an insufficient understanding of provision of incentives since its implementation cannot be differentiated according to different types of industrial developments like clustering.

²⁸ In this law the criterion of development is defined on the bases of GDP per capita and socio-economic development index values. 49 provinces are provided with incentives in Turkey in accordance with this criterion.

The strength of T&G industrialists as exporters is decreasing in Denizli. Under these conditions they are expecting an industrial policy that will diminish production costs. With such a perspective, T&G industrialists in Denizli regard the law number 5084 as an exclusionary regulation. In fact, this situation displays the lock-in of the T&G industrialists in Denizli in terms of competitiveness. In other words, TGI in Denizli is far away from developing innovative and creative solutions during the restructuring process.

Secondly, although it had contributed to the development of TGI in Denizli during 1980s and 1990s, the clustered structure of industry stands as an obstacle for shifting the investments to other regions which are supported by the law number 5084. Since they are too much focused on their industrial relationships within their own clusters, the industrialists of Denizli are far away from decentralizing their labor-intensive activities by shifting to foreign countries or to other regions in Turkey which offer lower production costs. This is a reaction of a sort of an industrial structure which emerged through clustering and locked-in within itself.

The interviews showed that there are problems in financial issues about industrial development. Industrialists, especially the ones in the T&G sector, were not provided with credit and the ones who could, have difficulties in payments. These problems have increased during 1995-2000 period and triggered certain tendencies like informalization in financial relationships.

Most of the textile and garment firm are weak financially. Most of these industrialists got credits from banks in the past, but had difficulties in pay off. They took money from usurers for not to face with sequestration. There are lots of people in Denizli who are debtor to usurers some time in their life. (informant L2)

During the industrial development in Denizli, the informalization process in financial relationships especially in 1995-2000 period was not widespread. However, it should be remembered that finance is the second sphere of informalization apart from employment in the industrial development of Denizli.

According to a research (DSO, 2004), 70% of the firms in T&G sector reported that they meet their financial needs by their own resources. 27%, on the other hand, use Eximbank and private banks for their financial needs. Getting into contact with banks is not a common way of meeting financial needs. It should be noted that the 70% of the firms that are mentioned

above pointed that they use informal channels like borrowing money from family members and relatives for meeting their own financial needs.

The informalization of financial relationships is a problem which had emerged during 1995-2000 period because of the credit demands of some industrialists for expanding their production capacity. It should be remembered that a credit provision system which cannot meet the industrialists' demand for development constitutes the background of this financial informalization process.

4.2.9 The Transformation of Investment Tendencies

It is also important to understand the investment tendencies of the T&G industrialists in Denizli. Which kinds of changes occur in a region which cannot benefit from state incentives and is in a process of transformation?

According to a research which was conducted after the economic crisis in February 2001 (DSO, 2004), 54% of the T&G manufactures reported that *they do not plan to make investments in Denizli or another region*. 80% of the ones who do not want to make investment expressed the reason of their unwillingness as the *uncertainty of macroeconomic condition*. Uncertainty of macroeconomic conditions implies uncertainties in the rate of inflation and foreign currency, and the possibilities of reforms in stabilization programs.

The reason for not making investment varies according to the economic conditions in the country in a particular period of time. As a consequence of 2001 crisis, confidence of the industrialists in Denizli in the existing macroeconomic environment has diminished. This can be expressed as one reason of their reluctance to make investment.

On the other hand, investment tendencies have changed in the last five years. Motives behind making or not making investment have differentiated. It is observed that tendency to make investment in T&G sector in Denizli have diminished considerably especially in the last three years. 27 of the 32 participant firms (84.3%) expressed that they no longer think about making further investments in TGI. The reasons of the sharp fall in the investments in T&G sector are *lowering profit margins, negative expectations about the future of the sector, and the tendency*

of the industrialists towards decrease and contraction rather than expansion. T&G industrialists have been staying away from the idea of investing in their own sector especially since 2004.

Table 4. 9. Investments with incentive certificate in Denizli and their prescribed employment

Years	Number of certificate	Total investment (YTL)	Employment
2001	36	64.508.024	2001
2002	62	153.187.925	3078
2003	100	249.025.111	4928
2004	71	143.918.218	2273
2005	28	76.045.960	834
2006	23	32.978.890	440

Source: DSO, 2007b

When the investments with incentive certificates in Denizli are analyzed, a difference between the situations before and after 2004 is observed. T&G exporters in Denizli had an unexpected “bonus” with the 2001 crisis. This large “bonus” was spent for investments in expanding the production capacity of T&G sector. New investments were made with the prospects about large amount of employment opportunities. This was the general trend throughout 2001 and the following two years. It is possible to observe this trend in the data about investments with incentive certificates. These kinds of investments in TGI have increased during 2001, 2002, and 2003. Most of these investments, which were thought to be providing up to 10000 employment opportunities, were new investments.

The T&G industrialists in Denizli preferred to invest their huge export revenues of 2001 crisis in a sort of an industrial organization which will produce low value-added products. This had been the dominant tendency for 2 or 3 years. However, by 2004, it was realized that the only option that these preferences provide is to produce in areas in which the only field of competition is the level of price.

In addition, it was understood that the ability to compete for providing products for Western buyers in lower prices is decreasing. It is apparent that it is no longer possible to develop through competing in the track of price competition. The price competition based investments made in 2001, 2002, and 2003 were resulted in disappointment. There was a great decline in

the investments with incentive certificate in 2004, 2005, and 2006. During these years less-costly investments like the ones for modernization or increasing productivity had been preferred generally, rather than new investments. The T&G industrialists in Denizli understood that they cannot increase their profit margin and develop in this sector by producing low value added products. This recognition resulted in the reluctance in the investments in increasing the production capacity. Investments in this sector have almost ended.

4.2.10 Entrepreneurial Trajectories and New Areas of Investment

Investments in T&G sector in Denizli has almost ended and the firms have entered into a period of shrinkage. During this process, it was observed that different fields of activities have emerged in the local economy. These rising sectors are the new fields of investment in which employment has increased, export has developed, and which shaped the entrepreneurial trajectories in the local economy.

The industrialist does not stay in a loosing sector. This is the situation for textile industry in Denizli today. Now, industrialists in Denizli are continuously searching for different field of investment. (informant DETKİB)

Denizli started to shift to alternative sectors instead of textile and garment. It is risky to depend on a single sector... All the eggs were in the same basket in the past. Now, they are distributed in different baskets. (informant DTO)

10 of the 32 participant firms (31%) made investments in sectors other than T&G in the last five years. 8 of these 10 firms are export-oriented firms with extensive economic power. It was understood that small firms lack in sufficient capital for investing in new sectors. 27 of the 32 participant firms (84%) think that there are alternative sectors in Denizli which are attractive for entrepreneurial activities and investments. Three basic sectors of this kind can be mentioned as the following:

- Industry:
 - Marble quarries and natural stone-based industries
 - Iron and steel-based industrial activities
 - Electrolytic-copper and energy cables
- Agriculture-Food Industry:
 - Non-soil greenhouse based organic products
- Tourism:
 - Geothermal resources based eco-tourism and history-culture tourism

The developments in these areas are highly important for understanding the destination of the transformation of the local economy. In this framework, information about the developments in these fields of activity will be provided and the transformation of the local economy towards these fields is going to be discussed in the following paragraphs.

Table 4. 10. Development of Exports in Rising Industries of Denizli

Product groups – dollars	2002	2003	2004
Copper and copperware	23.176.145	33.461.479	62.837.087
Iron and steel	20.944.784	27.890.405	72.035.279
Stone, gypsum, cement, amianthus, mica and their wares	21.971.022	31.063.704	55.810.512
Ironware and Steelware	5.536.897	5.283.087	12.580.684

Source: DSO, 2007b

The natural stone-based industry has displayed a continuous development as an alternative sector in Denizli. In natural stone-based industry, production of marble and travertine is conducted. 552 m³ of the 5404 m³ of marble reserve of Turkey is in Denizli. In addition, Denizli is in the second place with its visible marble reserve after Balıkesir. Marble production is concentrated in the marble basin in Honaz, Pamukkale and Çardak regions (DTO, 2006).

By the development of marble industry, a lot of industrialists have demanded to take part in this area. In order to meet these demands and regulate the development of the sector, Marble OID (*Mermer Organize Sanayi Bölgesi*) is in the process of establishment. The establishment of Marble OID displays the development in this industry. Marble OID is planned on 170 hectares of areas with a capacity of 50 firms near Kaklık Town. In 2006, 52 firms demanded a place in the field.

We started to work in natural stone-based industry in 2005. We are in marble business. We realized that we can no longer earn from textile and we will not be able to do so. Now, we know that it is a dream to work in textile with the previous profit ratios. Surely we have been looking for more profitable sectors during the process. We decided to take part in marble business. It is going well for now. One can earn a lot after establishing the order and finding a proper buyer abroad. (informant L3)

The development of natural stone-based industry is related to the existence of raw material in a particular geography. Denizli have sufficient reserves for the development of marble industry. During the decline of the leading sectors in the development of Denizli like TGI, it

was observed that activities like marble industry have developed. This development is supported by different actors in the local economy. The production in marble sector has been tried to be organized by the OID. Furthermore, technological advancements about natural stone-based industries are followed. However, it should be noted that as a price-competition based sector which depends on the existing reserve of raw material in the region, natural stone-based industry is highly improbable to maintain a continuous dynamism for the long-term development of the region.

The geothermal resources in Denizli have fostered the endeavors to follow a development path based on agriculture and tourism sectors. The agricultural activity that is planned to be developed by geothermal resources is non-soil greenhouse production. Geothermal resources have been found in 7 areas in Denizli. 4 of these 7 areas are planned for the activity of non-soil greenhouse production.

High added-valued organic vegetables and fruits can be produced with high technology by non-soil greenhouse production. It is conducted mainly for the buyers from European markets. The groups who are in non-soil greenhouse business in Denizli are the ones who have been conducting their feasibility studies on this issue, following greenhousing technology and determining their buyers before production.

Textile is not promising for the future. Depending on a single sector is an obstacle for development. I am considering investing in organic agriculture and food sector. I'm interested in non-soil greenhouse production. We did some feasibility research about it... My son is a food engineer is interested in this subject closely. If I can achieve in it, we will have a family firm serving in food sector. (informant M1)

In Europe there is a retreat from commercial growing of hothouse flowers by using soil. The European now demand organic product. And we will produce it by non-soil greenhouse production. This kind of production requires high technology and infrastructure. But we are determined to establish it and develop in this area. Just as we became a center in towel and bathrobe, we will lead in food industry in Europe too. (informant DETKİB)

The groups who have been planning to invest in non-soil greenhouse activity are trying to arrange a production organization based on high value added organic agriculture. Entrepreneurs in non-soil greenhouse production who are determining the production site according to the locations of natural water resources, conducting feasibility researches for finding out production costs, following production technologies, and most importantly,

searching for market network before production, are organizing a key process for the economic development of Denizli.

Another attractive areas in Denizli for enterprising and investments are geothermal energy based eco-tourism and history-culture tourism. The announcement of Denizli as geothermal tourism district by the Ministry of Culture and Tourism, archeological excavations that will dig out ancient cities and the well-preserved local architectural structure are the enabling factors of the development of tourism.

Denizli may be a region where history and culture tourism is concentrated. Hierapolis was dug out. Excavations have just started in Leodikya. Collesia, the largest ancient city, has not been excavated yet. Leodikya, Collesia, Hierapolis and Afrarodizyaz are a whole. This totality will have a potential for tourism when it is dug out. Besides, places like Buldan and Babadağ, which reflect culture and tradition, can be included in this tourism route... Denizli is promising for the development of history-culture and geothermal tourism. (informant H. A., 63 years old male, an architect)

Studies for the excavations of the ancient cities within the territory of the province of Denizli were initiated. In line with these efforts, the opinion leaders of local economy have started to realize the importance of local culture and history for the development of tourism and economic growth. In other words, they became aware of the possibility of the leading role that local culture and history may play in the economic development of Denizli. Cultural and historical heritage and the eco-tourism opportunities of the city create alternative sectors to industry for the economic development of Denizli in the long run.

Activities like history-culture tourism and geothermal resources-based eco-tourism have differences from marble production or non-soil greenhouse production. This difference is the potential of tourism for changing the vision of the city fundamentally as an alternative for industry oriented development.

4.2.11 Firm Typologies in the Industrial Restructuring Process

It is significant to clarify firm typologies and their responding patterns to restructuring process of TGI in Denizli. In this respect the table mentioned below is prepared to discuss how different firm typologies are responding to restructuring process. In the belowmentioned table it is intended to categorize distinct responding firm typologies for the case study of the thesis.

It is understood that there are four distinct firm typologies in Denizli's restructuring process of TGI. Firstly there are large and vertically integrated firms trying to reposition themselves through innovative and knowledge intensive ways in global value chains. In fact number of these firms is limited. Adopting an offensive manner to restructuring, these firms do not emphasize high production costs as the major problem of the sector. The underlying reason of this is their powerful tendency to move out of the track of price competition. Pioneering change in the high road of restructuring, these firms are keen on R&D, design and brand development. In other words they are pursuing an innovative and creative repositioning process at the global scale. However it is important to remind that number of these firms is very limited and therefore the major responding pattern in restructuring process of the region cannot be defined with this firm typology.

Secondly there are large and some middle sized exporter firms being far away to reposition themselves through creative, active and innovative strategies in global value chains. These firms cannot move out of a production organization that specialized to work in accordance with Western buyer's orders. They are producing standardized, low value added products and can not adopt active and innovative product strategies. These firms became passive exporters owing to their locked position under buyer's orders. These passive exporters locked to the track of price competition therefore they specify the most significant problems of the sector as employment costs, energy costs and low exchange rate. Against high production costs these firms temporarily employs unregistered workers and furthermore they use subcontractors that operates on informal employment. In other words locked to a passive exporter role in the sector these firms are trying to sustain their existence in the area of price competition through informally reducing employment costs.

Under the third and fourth typologies it is intended to categorize how small and some middle sized firms respond to restructuring process of TGI. These firms are contract manufacturers of Denizli's exporters and they directly experience the pressure of price competition that challenges the profit margin of their buyers in the sector. As a result most of the small and middle sized firms respond such pressures through keeping continuously some part of their firm's employment as off the record. Moreover most of these firms make overtime work without extra payments. These firms are striving for survival in the low road of restructuring process of TGI.

It has to be denoted that the great majority of the firms in TGI of Denizli can be described within the context of the second and the third typology. In other words, while region is reacting to restructuring process through various responses, region's dominant course of action can be characterized by the second and the third firm typologies.

Table 4. 11. Firm Typologies and Responding Patterns in Restructuring Process of Industry

-Firm Typologies-	-How they respond in restructuring process of TGI-
<p>Large and innovative, full-package OEM suppliers to western buyers</p> <ul style="list-style-type: none"> -Export oriented -Employment > 250 -Annual sales volume > 50 trillion -Vertically integrated -Supplying high quality finished products with both its own brand and western buyer's brand -Producing home textiles, garments and towel, bathrobe -Production takes place in Denizli (2 of 32 interviewed firms) 	<p><u>Proactive leaders of change in high road of restructuring</u></p> <ul style="list-style-type: none"> -Production quality is increased and products are differentiated -Productivity is increasing in production -Successfully performing higher quality-lower price-quick turnaround times in specialized product groups to global markets and having a high competitive power in Turkey about this mode of production -There are not unregistered employment, Informalization of employment is unfounded -There is an endeavor on brand development. There are investments and projects to become a brand name. It is planning to become a OBM supplier -Making R&D about knowledge intensive textiles. There adopted active strategies of change to transform conventional textile structure to technical textiles -There is not a strong tendency to spatially reorganizing sector through overseas industrial operations • High production costs are not the primary problem due to the tendency to move out of the track of price competition. The position in global value chain is being attempted to upgrade by knowledge intensive and innovative ways. In this context these firms are pioneering a sectoral transformation in the high road of restructuring
<p>Large and middle sized, Full-package OEM suppliers to western buyers</p> <ul style="list-style-type: none"> -Export oriented -Employment: 100-1000 -Annual sales volume: 10-30 trillion -Semi vertically integrated, partially subcontracting -Supplying high quality finished products with western buyer's brand -Producing predominantly towel and bathrobe -Production takes place in Denizli (8 of 32 interviewed firms) 	<p><u>Passive exporters locked through the lack of active and innovative strategies of restructuring</u></p> <ul style="list-style-type: none"> -Production quality is increased and products are differentiated -Productivity is increasing in production -Successfully performing higher quality-lower price-quick turnaround times in specialized product groups to global markets and having a high competitive power in Turkey about this mode of production -There is seasonal unregistered employment in the periods when there is pick up in the orders of buyers. Contracting some part of manufacturing activities to subcontractor firms having continuous unregistered employment -There is not endeavor on brand development. There is not any tendency to change <i>buyer's full-package supplier</i> role in global value chains -There is not any tendency to spatially reorganizing sector through overseas industrial operations. Internationalization tendencies of production is unfounded • Low exchange rate, labor and energy costs are perceived as the principal problems of TGI due to locked position to buyers' orders including standardized low value added products. This condition disables these firms to develop active and innovative strategies in accordance with differentiating tendencies of markets. In this respect these firms become passive exporters of TGI
<p>Small and medium sized, subcontractor manufacturers</p> <ul style="list-style-type: none"> -Contract manufacturers of export oriented firms in Denizli -Employment < 100 -Annual Sales volume: 200-1000 billion -Small batch production under buyer's orders -Supplying weaved textiles and assembled products to exporter firms -Producing weaved and assembled towel, bathrobe and home textile products -Production takes place in Denizli (17 of 32 interviewed firms) 	<p><u>Small Satellite firms locked to the low road of restructuring</u></p> <ul style="list-style-type: none"> -Product quality can not be increased, products can not be differentiated. There are not active product strategies -Productivity can not be increased in production -Against high production cost (1) a substantial portion of employment is continuously kept off the record (2) make overtime work without extra payments -There is not any tendency to change subcontractor manufacturer position that works for Denizli's exporters -Being far away to SME narratives in which production is organized through innovative, flexible and adaptive strategies in accordance with differentiating market conditions • Due to buyer driven character of TGI value chains, cost pressures dominating price competition track in which Denizli's exporters exist, directly affect small firms. As a reactionary strategy small firms reduce production costs informally by the way of unregistered workers and overtime work. Striving for survival, these firms constitute the low road of restructuring in the transformation of the sector
<p>Small and medium sized, contract and noncontract garment manufacturers</p> <ul style="list-style-type: none"> -(1) Contract manufacturers of export oriented garment firms in Denizli and (2) supplying nonbranded garments to local market -Employment < 100 -Annual Sales volume: 100-700 billion -Small batch production -(1) Supplying assembled garments to exporter firms and (2) supplying finished low quality, nonbranded garments to local market -Producing assembled garments -Production takes place in Denizli (5 of 32 interviewed firms) 	<p><u>Small manufacturer firms striving to survive in the low road of restructuring</u></p> <ul style="list-style-type: none"> -Product quality can not be increased, products can not be differentiated. There are not active product strategies -Productivity can not be increased in production -Against high production cost (1) a substantial portion of employment is continuously kept off the record (2) make overtime work without extra payments -There is not any tendency to change subcontractor manufacturer position that works for Denizli's exporters. Furthermore the competitiveness of small firms, producing nonbranded garments for local markets, is affected negatively • Due to increasing pressures of price competition, production costs are reduced informally through unregistered workers and overtime work. Moreover most of the firms, producing nonbranded garments for local markets, are tending to quit the sector

Note: OEM refers to *Original Equipment Manufacturing*; OBM refers to *Original Brand name Manufacturing* and TGI refers to *Textile and Garment Industry*

4.2.12 Evaluation and Conclusive Remarks

In this part, investigations about the case study are going to be evaluated. Furthermore, after a discussion about the results of the survey, certain conclusive remarks about the restructuring of TGI in Denizli are going to be expressed.

- T&G exporters have an important role in the industrial restructuring of Denizli. As a consequence of the increase in the foreign currency after the 2001 crisis, T&G exporters gained unexpected amounts of revenues. This “*bonus*”, which signifies 118% of increase in export revenues per year, has initiated the mistaken restructuring process in the sector in the last five years. This “*bonus*” was again used for being *the supplier of low value-added standard products for Western countries*, which had been the position of Denizli during 1980s and 1990s. In this period, the industrialists predicted that development can be maintained in 2000s with a sort of a structuring that brought about the expansion during 1980s and 1990s. However, the shortcomings of these predictions were realized in the following 2 or 3 years of time.

During this period, the new tendencies in the global economy have also created certain consequences that influenced the situation in Denizli. Countries with massive capacity for price competition in manufacturing especially in TGI (China, Pakistan, etc.) were integrated into the global value chain by the beginning of 1990s. With this new structure, certain regions which had become experienced in supplying high-quality T&G products to Western countries with low prices during 1980s and 1990s, started to loose their competitive capacity. Turkey has her share in this issue. Competing in the track of price competition is becoming more difficult. It is realized that repositioning in TGI through innovative, creative, and knowledge-intensive means is a necessity. In other words, the track of price competition should be left behind.

During this process, TGI industrialists in Denizli used their profits from the 2001 crisis for making large investments in areas in accordance with their predictions about maintaining their place in the track of price competition. By 2004, it was understood that these investments will not enable the expected repositioning for TGI. The exporters, who could not demonstrate a

successful development in restructuring in the last five years, are locked-in to a passive exporter position.

2001 crisis had different implications for Denizli. A huge foreign currency advantage was gained. It was almost an unexpected bonus. This situation created a misleading signal in Denizli. A lot of wrong decisions were taken. The bonuses which were collected after 2001 crisis were used by the industrialists for investing in old-fashioned methods of production. High levels of employment and export gains were predicted. But the result was a failure. The textile industrialists in Denizli could not understand the changing spirit of the age during 2001 crisis and the following period. World has another destination. But here, there was a shock and wrong things were done as a result of a misleading signal. (informant DSO)

- Important changes in the level of employment have emerged during the restructuring of TGI in Denizli. Number of registered workers in TGI has decreased drastically in the last five years. On the other hand, the level of employment has increased in rising industries and service sector. Decrease in the level of employment in a sector which is not developing and losing its competitiveness is not something unexpected. However, one should look closer with a critical stance towards the response of the sector to the process of restructuring.

There has not been a sharp fall in the level of production and export in T&G sector in the last five years. In addition, significant innovations in the production technology that will increase productivity did not occur. On these bases, the data about the decrease in the active labor power in the sector is not convincing. Interviews that were conducted as a part of our field survey help us to underline the tendencies towards informalization of labor power. In order to evaluate these tendencies, we should primarily discuss the complaints of industrialists about the production costs.

The industrialists who could not take part in the global value chain through innovative and knowledge-intensive means of restructuring are locked in the track of price competition. In this kind of a situation, industrialists declare the most important problems of the sector as (1) *low rate of foreign currency, costs of* (2) *high level of employment and* (3) *energy, and* (4) *exclusion of the region from the provision of incentives*. The high costs of production are presented as the reason of decreasing profit margins. As a passive supplier, Denizli is caught in between high production costs in the domestic market and the lower price demands of foreign buyers.

Industrialists who are locked in the track of price competition may prefer to follow informal methods for decreasing production costs. The most widely used way to decrease production costs is to employ unregistered workers and forcing them to work overtime without any increase in their wages. Exporters employ unregistered workers temporarily during the seasonal increase in the orders from buyers. Subcontractors of exporters, on the other hand, permanently employ unregistered workers. These firms also use their workers for overtime work informally.

- The T&G industrialists in Denizli are far away from reorganizing production by transferring it abroad. Before the field survey, we were expecting certain inclination about investing in foreign countries with advantages in production cost or in one of the 49 provinces in Turkey which offer cost-cutting incentives. However, the vanity of these expectations was understood after the field survey. The widespread tendency in T&G industrialists in Denizli is not to shift production to another region. A considerable amount of industrialists in Denizli have no intention in shifting production to regions like Eastern Europe and South-East Asia which offer cost-cutting opportunities. The same tendency is observed about shifting production to other 49 provinces of Turkey which offer cost-cutting incentives. In other words, Denizli seems to prefer to remain in the cluster that had developed during 1980s and 1990s.

- During the restructuring process, active product strategies like improving the product quality or applying product differentiation can be followed only by large firms and a few number of medium-sized firms. These are also the only firms which can restructure through improving productivity. Developing the turnaround times and flexibility are key features of the restructuring of the sector. These kinds of capacities can be improved only by large and relatively financially strong firms. In other words, it is observed that small firms cannot apply these kinds of active and offensive restructuring strategies. Small firms cannot improve their capabilities in terms of product quality and productivity. Furthermore, in response to the increasing demands of Western buyers for *higher quality-price-quick turnaround times*, large firms started to end their relationship with small subcontractors which may have problems in quality standards. This tendency can be observed in the endeavors of large firms for vertical integration. During this process, SMEs in Denizli are facing with the threat of losing their buyers in Denizli. These problems of the SMEs in Denizli verifies that the region is far away

from establishing a success story for the narratives about collectively and symmetrically developing industrial structures through flexible and innovative SMEs.

- The institutionalization of family firms is one of the key issues for the restructuring of not only the T&G sector but the entire local economy of Denizli. The dependence of the industrial structure of Denizli on the development of family firms brings about two problems. First problem is that the new generations in these firms do not want to work in these traditionally embraced sectors. This situation calls forth the problem of the management of these firms in the future. In order to overcome this problem, training programs are organized under the titles like “*institutionalization of family firms*”, “*adopting the logic of professional management*”, “*making the next generation conscious of the continuation of family firms*”. Endeavors for the institutionalization of family firms bring about the second problem. Accordingly, conventional trust-based cooperation and solidarity relationships which had developed among the industrialists in Denizli 20 or 30 years before are disappearing. In other words, the social capital which had a key role in the development of Denizli is losing the fundamental dynamism that sparked it.

- *Locking to specialized product groups and incapability to shifting production towards different T&G products* have contributive role in becoming a passive exporter of industry in Denizli. The industrialists in Denizli are likely to proceed in producing products like towel, bathrobe and home textile. These three product groups, which are the specialized products of the cluster, are standardized and low value added products. These products, which provide limited opportunities for alternative designs, becoming a brand name and knowledge-intensive implementations, are restrictive in terms of improving the position of the region in the restructuring process.

There are few companies in Denizli which are accelerating the process of becoming a brand name, investing in R&D, and adopting active strategies for shifting to technical textile production. These firms are among the ones which are labeled as *proactive leaders of change* in the typologies of firms.

The specialized products are the ones which are limited in quality, product design, and opportunities for becoming brand name... The one who thought that they won the lottery in the 2001 crisis would have a chance for changing themselves if they did not invest in old types of structuring. They missed that chance. See, 6 years have passed. An important

amount of time... You've just mentioned that Funika. They produce electromagnetic wave-proof textile. There are some innovative firms like that but such firms are limited in numbers. (informant DSO)

In order to take part in the high road of restructuring during the restructuring of TGI in Denizli, shifting from the production of conventional textile to the production of knowledge-intensive and high value added products like technical textiles is essential. This sort of a transformation may be a solution for the industrial structuring of the export-oriented industrialists of Denizli who are locked by the orders of the buyers. It is possible to mention some collective endeavors for increasing the capability in terms of R&D and innovativeness during this restructuring process in which a few firms take part. Establishment of the Technopark is the most apparent indicator of these efforts. With this Technopark, industrialists are going to look for the methods from shifting from conventional to technical textile production. In addition to the Technopark which is still in the process of establishment with the cooperative efforts of Pamukkale University and industrialists, there are local opinion leaders who are trying to provide guidance to the firms in the region during this transformation.

This sector could not transform itself in Denizli. People know both the problem and the solution. They do not need any guidance in these issues. But they do not know how they should move during their way out... As the Chamber of Industrialists, we are aware of it and trying to guide them. We made training sessions about clustering. We will organize an international textile convention. We are bringing certain success stories from all around the world to our industrialists. We are trying to convince them that restructuring and shifting to technical textile are doable things. (informant DSO)

Innovative tendencies in the restructuring of TGI in Denizli are limited to some large firms and local opinion leaders. In other words, small and a considerable amount of medium-sized firms in the sector do not involve in these organizational endeavors. However, there is a general tendency towards increasing the capability for innovativeness and R&D in the sector. Innovative changes that will be followed during the restructuring process may trigger a dynamism which will overcome the locked-in position of the region as a passive exporter.

- TGI is in a process of decline in Denizli. During this process, the development of different fields of activity in local economy is witnessed. These rising sectors are the fields of activity in which employment opportunities and the level of export increases, and which contribute to the transformation of the local economy. The developments in the *marble production* and *natural stone-based industries* are examples of these sectors. Furthermore, *non-soil*

greenhouse in agricultural sector and the *geothermal resources-based eco-tourism* and *history-culture tourism* activities in tourism sector have tendency to develop. The industrialists of Denizli are searching for new fields of investment in order to break away from a declining sector. These entrepreneurial tendencies and the development of new fields of investment will generate important implications for the restructuring process of the local economy.

- The locomotive sector of the development of Denizli is in a process of restructuring. The role of regional planning in this process is to design the tools of intervention necessary for providing the key dynamism of the currently locked-in industrial structure. For such an endeavor, the first step that should be taken is to understand this locked-in industrial structure and conduct a comprehensive analysis of it. In this graduate study thesis, an effort to this end was tried to be presented. What was analyzed is an industrial structure which was once regarded as a success story, but today is in a process of transformation.

Amalgamation of this survey and a regional plan that will steer the restructuring process of the region is embodied through the designs of intervention. During intervention designs, the planner may be located within a milieu of stakeholder participation which is made up of the actors of the local economy. In this kind of an endeavor, the regional planner should design future constructs about the forthcoming restructuring by combining and steering the visions, expectations and activities of different actors. Then s/he contributes to the selection and the adoption of the most relevant alternative.

CHAPTER V

CONCLUSION AND FURTHER REMARKS

It is a global fact that industrial structures need restructuring processes in order to carry on and renew their development dynamics. Industries are socially and spatially restructured through various ways including organization of production, supply chain, marketing and relocation of industrial plants. All these various forms of restructuring affect industrial relations significantly at the local scale and there appears a need to explore and research industrial restructuring processes in different localities. Textile and garment industry (TGI) provides opportunities to conduct such a research because it has been experiencing dramatic changes in the employment, production, consumption, marketing and trade relations for at least five decades.

In retrospect, throughout 1970s and 1980s, leading developed geographies of the TGI such as Western Europe and US had decentralized their labor intensive assembling operations. In 1990s newly industrializing East Asian countries became new industrial production sites of the world. These East Asian countries (China, India, Pakistan... etc) integrated to the global markets of the TGI. They were having price competition advantage owing to their low cost production capabilities and this has affected the industry at the global scale in terms of trade, supply and relocation of production. With this new structure, certain regions which had become experienced in supplying high quality-low priced T&G products to Western buyers during 1980s and 1990s, started to loose their competitiveness. Turkey has her share in this issue. Competing in the track of price competition is becoming more and more difficult as a result of increasing price competition. It is realized that Turkey has to repositioning itself by

innovative and knowledge-intensive modes of restructuring in the TGI. In other words, the track of price competition should be left behind.

On the other hand of this story there is Denizli the case study of this research. In fact, Denizli started to experience the effects of such global challenges since the mid 1990s. Challenging competitive conditions caused asymmetrical power relations among the firms in Denizli. In other words the collaborative environment by which industrial relations cooperatively developed, were affected negatively. As a result a vertically structured local economy emerged. This new climate of local economy enabled powerful and large exporter firms to dominate the markets in Denizli. Thus, the number of SMEs started to decrease and small firms lost development opportunities.

What about the development since 2000s? In 2001, owing to rising exchange rates as a result of the crisis in Turkey, Denizli reached unprecedented income levels in exports. Such a *bonus* that caused export income to increase 118% started the mistaken structuring tendency of the years 2001-2004. In this period, T&G industrialists had expected to maintain *supplying standardized and low value added products to western countries*. However, since 2004, it is understood that these investments could not secure the profit margins and previous positions. In this respect, it is obvious that these investments could not provide a desired new repositioning in the TGI value chain. T&G industrialists of Denizli could not show a successful development in the restructuring process for the last five years period and at the current picture they are locked to a passive exporter position.

The restructuring process of industry in Denizli is followed by distinct trajectories namely *low road of restructuring* and *high road of restructuring*. In other words there can be identified distinct firm typologies responding to the restructuring process differently. On the one hand, there are large, powerful and leading firms seeking to transform and change industrial structure through creative, innovative and knowledge-intensive ways. On the other hand there are small and some middle sized satellite firms locked to labor-intensive assembly operations and informal employment and overtime work. Such firms evaluate labor as a cost rather than a resource. Thus it is obvious that there exist both offensive and defensive strategies of restructuring at the same period in the region. However predominant responding pattern of

restructuring is a passive exporter role locked to buyers' orders. This passive exporter role disables region to organize active, creative and innovative transformation processes.

In this respect, it is vital to discuss the conditions that lock the industrial dynamics of TGI cluster in Denizli. It is appropriate to start such a discussion by examining the condition that locks industrial structure in the track of price competition. This locked structure disabled region to restructure its industrial base by innovative and knowledge-intensive ways. In such a situation, industrialists describe the most important problems of the T&G sector as *high production costs*. Denizli's industrialists are squeezed between high production costs in Turkey and low price demands of foreign buyers. In order to overcome this challenge, industrialists are tending to reduce labor costs informally. Such informal modes of action are *employing unregistered workers* and *informal overtime work*. These defensive ways of restructuring are realized by both the exporters and their subcontractor firms.

In addition to the informalization of employment relations, the industrial structure in Denizli could not realize a spatial reorganization process that can be alternative to existing cluster relations. Widespread tendency among Denizli's T&G industrialists is not to shift their production abroad. A significant proportion of Denizli's T&G industrialists avoid shifting production towards geographies like Eastern Europe and Southeastern Asia, where cost cutting opportunities are provided. The same tendency is also valid for shifting production to the 49 provinces providing low cost opportunities under the incentives of the Turkish state. In the restructuring process, Denizli tends to remain in the cluster that had developed during 1980s and 1990s. However this tendency minimizes the opportunities of Denizli to become a competitive region of the T&G markets in the restructuring process.

Denizli is incapable of shifting production towards different T&G products and this also causes region to become a passive exporter of the industry. Industrialists of Denizli do not tend to adopt the production of different T&G products other than towel, bathrobe and home textiles. These specialized product groups of cluster are standardized and low value added products. Moreover these products are not applicable for *design, becoming brand name* and *knowledge-intensive operations of the sector*. In other words these product groups are restrictive to develop an innovative restructuring endeavor. Thus, to be positioned in the high road of restructuring, it is crucial to transform industrial expertise from conventional textiles

to technical textiles that produces knowledge-intensive and higher value added products. Such a transformation can unlock Denizli's exporters' production capability that is locked under the orders of buyers. However it is a fact that there are a few firms actively leading for such an offensive transformation. There are collective endeavors to develop R&D and innovative capabilities in TGI of Denizli. Construction of Technopark with a joint effort of Pamukkale University and some leading firms is a dramatic example of such an endeavor.

While Denizli has been experiencing a decline in the TGI, it is observable that different economic activity areas are developing. The rising economic sectors of Denizli are those that increase employment and export of the region and transform local economy. Development of *marble quarries* and *stone crushing and dragging* are examples of this transformation. Furthermore, *non-soil greenhouse production* in the field of agriculture, the *geo-thermal based eco-tourism* and *history-culture tourism* activities in the field of tourism are the sectors that have tended to rise in the local economy of Denizli. Development of such entrepreneurial tendencies and new areas for investment can lead to significant conclusions that will affect the transformation in the restructuring of local economy.

In addition to the abovementioned points, there are other important conclusive remarks of this research. Such points of conclusion stem from the fact that conceptual discussion could dictate empirical aspect of research. In order to contest such a danger of social research, it is significant to conclude the research by open ended questions of industrial restructuring. In this respect, we can identify several possible questions arising for further research. These open ended questions of industrial change and transformation are further remarks of this thesis. In this regard there can be identified three further remarks.

First further remark is on innovative transformation tendencies of the region. Some leading large firms and local opinion leaders (DSO, DTO, DETKİB, Denizli municipality and Pamukkale University) have initiated and developed joint efforts to increase capability of R&D and innovation. This joint effort of offensive restructuring tendencies reached to a crucial point with the formation of Technopark. However, it is still controversial whether or not these efforts represent a collective endeavor of industrial structuring in the region. In other words, these restructuring efforts are organization tendencies, which lack the participation of most of the SMEs. Therefore the question that rises from this context is clear. Will such top

down modes of actions in innovative transformations unlock and activate the locked and passive role of SMEs?

Family firms and their institutionalization is also another problematic issue. Family firms have significant roles in the development story of industry in Denizli. Institutionalization of family firms is not only a critical point of T&G sector but also about restructuring of the entire local economy. Having a family firm based industrial structure brings about two significant cases in Denizli. First, throughout the development of family firms, old generations have left their place to oncoming new generations. However new generations do not tend to work in traditionally adopted industrial sectors such as textiles. In such a case, there appears the severe problem of how these firms will be managed in the future. To tackle this problem old generations tends to institutionalize their family firms. Institutionalization efforts of family firms cause a second case to emerge. Trust, collaborative working and solidarity tradition that developed through active trust relations among Denizli's industrialists some 20-30 years ago are disappearing. Is the social capital, which had a crucial role in the development of Denizli losing its fundamental dynamism?

The third remark is about innovative, flexible, learning, SME-led narratives of industrial restructuring. It is observed that industrial development in Denizli have been transforming to a vertically structured network since the mid 1990s. In such a local economic atmosphere asymmetrical development medium has been shaped. In this local economic medium, SMEs lost their developer and locomotive formerly roles in regional development. In this context, the winners of industrial structuring are large exporter firms that holding the power in the local network. Large exporter firms locked small firms to a position in which they can only make production for large firms as their subcontracting satellites. The evidence of our survey also reveals such a reality. In Denizli, it is only the large and a few middle sized firms that are able to adopt active product strategies such as increasing production quality and differentiating products. Furthermore, it is only these firms that are capable of increasing the productivity of production. In other words, it is understood that small firms can not adopt such active and offensive restructuring strategies. Besides, large exporter firms are tending to discontinue subcontracting production to small firms owing to western buyers increasing demands on *higher quality-low price-quick turnaround times*. It is likely that most of the T&G sector's SMEs are not capable to maintain their production under the subcontracting orders of

Denizli's exporters. They are open to economic vulnerability in this respect because Denizli's large exporters tend to become vertically integrated in order to supply buyers' orders and their increasing demand. In such a process small firms are facing to the condition of losing their buyers in Denizli. For most of the SMEs in Denizli entering to the T&G markets are not easy as used to be in the previous periods.

The third remark enables us to shed some light on the failure of SME-led regional development models. Thus, it is becoming difficult to conceptualize SMEs as the dynamic, innovative and locomotive actors of economic development. In this context, is it still possible to speak out SME-led development stories as *human centered industrial democracy projects* through making them regional development models?

The textile and garment industry of Denizli is restructuring and the role of regional planning in this context is to develop intervention designs that can provide key dynamics for locked industrial structure. In the way of implementation of such an effort, the starting point is to understand locked industrial dynamism and to analyze it comprehensively. This master thesis aims at contributing to such an effort. It is vital to integrate this research and a regional plan that can give direction to industrial restructuring process. Regional planning can design interventions with the guidance of this research. In this respect, this thesis contributes to regional planning by providing an analytical basis for forward-looking intervention designs.

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List of Informants

Firms

Informant L1 – E.A., Sales Manager of firm L1

Informant L2 – Ö.T., Sales Manager of firm L2

Informant L3 – N.Ö., Board chairman of firm L3

Informant M1 – S.İ., Owner of firm M1

Informant M7 – A.G., Owner of firm M7

Informant M8 – M.C., Owner of firm M8

Informant S3 – M.Ç., Owner of firm S3

Informant S4 – A.V., Owner of firm S4

Nongovernmental Organizations

Informant DSO – B.U., secretary general, Denizli Chamber of Industry

Informant DTO – M.Y., chairman, Denizli Chamber of Trade

Informant DETKİB – R.G., chairman, Denizli Textile and Garment Exporters Union

Informant TEKSTİL-SEN, Denizli representation – H.Ç., president of Denizli agency of TEKSTİL-SEN labor union

Employees

Informant A.Y. - 56 years old male, a retired employee

Informant A.K. - 28 years old male, an uninsured employee working in a large weaving establishment

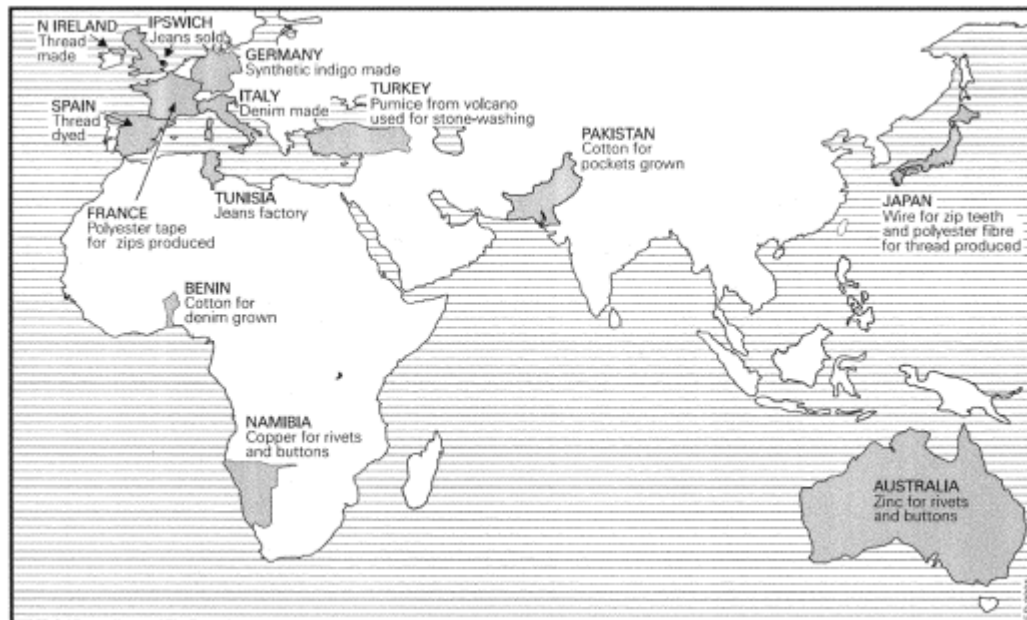
Some other opinion leaders

Informant H.K. -58 years old male, Professor of economics in Pamukkale University

Informant H.A. - 63 years old male, an architect

Note: L refers to large firms, M refers to middle sized firms and S refers to small firms.

APPENDIX A: THE MAKING OF LEE COOPER JEANS



An example of a commodity chain: the making of Lee Cooper LC10 jeans. The jeans consist of (a) denim, (b) pockets, (c) zips, (d) rivets, (e) buttons, and (f) thread.

(a) Denim: Cotton is grown by small farmers in Benin, West Africa; synthetic indigo is made in Frankfurt, Germany; cotton and indigo are transported to Milan, where workers of Italdenim spin, mill and dye the cotton into Kansas denim.

(b) Pockets: Cotton is grown in Pakistan or Korea. The cotton is milled and heat-treated in Pakistan.

(c) Zips: Brass wire for the teeth of the zips is made in Japan; polyester tape is produced in France by a Japanese company, YKK.

(d) and (e) Rivets and buttons: Zinc is dug up by miners in Australia; copper is mined in Tsumeb, Namibia; workers of Prym, a German-based firm produce brass for rivets and parts of the buttons using the zinc from Australia and the copper from Namibia.

(f) Thread: Polyester is manufactured from petroleum products by chemical workers in Japan. The thread is made in Ireland and dyed in Spain.

Assemblage: All parts are transported to Ras Jebel, Tunisia. Here the Kansas denim is stonewashed using pumice from an inactive volcano in Turkey. 500 women assemble the jeans.

Sale: The finished product is offered for sale in Ipswich, UK.

Fran Abrams and James Astill, "Story of the Blues", The Guardian, Europe, 29 (May 2001)

Source; Linden, 2001

APPENDIX B: OUTWARD PROCESSING OF GARMENTS

(million euros)

	1988	1990	1994	1996	1997	1998
France	200	347	463	489	501	466
Germany	1216	1830	3246	3579	3553	3196
Italy	6	21	316	613	693	689
Netherlands	161	209	369	440	366	266
UK	41	35	145	326	334	444

Source; Dunford, 2001

APPENDIX C: INFORMATIVE NEWS ABOUT PROJECTS AND EDUCATION PROGRAMS ON INSTITUTIONALIZATION OF FAMILY FIRMS



Source: Newspaper Articles of Deha20 (local newspaper of Denizli)
<http://www.dso.org.tr/tvinindex2.html> last accessed on March, 2007

APPENDIX D: INTERVIEW FORM 1

(Including categorical and open ended questions and key concepts of industrial restructuring process)

Firma Görüşmeleri – Sorular ve anahtar kavramlar

Genel Bilgiler	
Firmanın adı:.....	Görüşülen kişinin adı:.....
Firmanın kuruluş tarihi:.....	Görüşme tarihi:.....
Sektör:.....	Adres:.....
Çalışan Sayısı:.....	

I- ÜRÜN VE ÇALIŞMA

1. Firmanız ağırlıklı olarak hangi ürünleri üretmektedir?

.....

2. Son beş yıllık dönemde ürünlerinizle ilgili aşağıda belirtilen konularda nasıl bir değişim gerçekleşmiştir? Değişimler hangi nedenlerden kaynaklanmaktadır?

Ürün kalitesi	Mevcut Ürünlerin Farklılaştırılması	Farklı tekstil ve konfeksiyon alanlarındaki ürünlerin üretimine geçilmesi
<input type="checkbox"/> arttı <input type="checkbox"/> azaldı <input type="checkbox"/> değişmedi	<input type="checkbox"/> farklılaştırıldı <input type="checkbox"/> farklılaştırılmadı	<input type="checkbox"/> geçildi <input type="checkbox"/> geçilmedi

.....

3. Ürünlerinizi kendi markanızla mı pazarlıyorsunuz?

.....

4. Firmanızda tasarım bölümü var mı? Kendi tasarımlarınızla üretim yapıyor musunuz?

.....

5. Firmanızda Ar-Ge personeli bulunuyor mu? (eğer bulunuyorsa) Teknik tekstiller konusunda araştırma ve ürün geliştirme faaliyetleri yapıyor mu?

.....

6. Son beş yıllık dönemde firmanızda çalışan sayısı ve işgücünün niteliği nasıl değişmiştir? Değişimler hangi nedenlerden kaynaklanmaktadır?

<input type="checkbox"/> çalışan sayısı azalmış	<input type="checkbox"/> çalışan sayısı artmış	<input type="checkbox"/> değişim olmamıştır
işgücünün niteliği artmıştır işgücünün niteliği azalmıştır		

II- ÜRETİM ORGANİZASYONU

.....

7. Son beş yıllık dönemde üretim teknolojisinde bir yenilenme gerçekleşti mi? (eğer gerçekleştiyse) Yenilenme hangi üretim aktivitesini nasıl değiştirmiştir?

.....

8. Firmanız hammaddeleri (iplik, kumaş... vb) hangi yolla temin etmektedir?

<input type="checkbox"/> Kendi üretimimiz
<input type="checkbox"/> Denizli'deki diğer üreticilerden tedarik edilmektedir
<input type="checkbox"/> Yurt içinde diğer şehirlerden tedarik edilmektedir
şehirler:.....
<input type="checkbox"/> Yurt dışından ithal edilmektedir
ülkeler:.....

9. Firmanız üretiminde nasıl bir strateji uyguluyor

- ☐ Yalnızca kesim ve dikim aktivitelerinde faaliyet veriyor
☐ Yalnızca kesim ve dikim aktivitelerinde tedarikçi kullanılıyor
☐ Siparişe yönelik, kaliteli ve tamamlanmış ürün üretiliyor
☐ Kaliteli ve tamamlanmış ürün satın alınarak kendi markamız ile pazarlanıyor
☐ Üretimin her aşaması firma bünyesinde gerçekleştiriliyor
☐ Diğer,

Belirtiniz.....

10. Firmanızın gelecekte tedarik ilişkilerinin nasıl değişmesi beklenmektedir?

- Uluslararası tedarikçi firmalarla işbirliği
-Farklı ithalat bağlantılarının gelişimi
-Dikey entegrasyon eğiliminin artışı

.....

11. Firmanızın gelecek 5–10 yıllık dönem içerisinde diğer bölgelerde ya da yurt dışında yeni bölüm açma konusunda beklentileri nedir?

	açmayı düşünmüyoruz	açmayı düşünüyoruz	(düşünülyorsa) Nerede? Yurt içi (il) / Yurt dışı (ülke)
Tasarım ve model geliştirme bölümü	<input type="checkbox"/>	<input type="checkbox"/>
Kesim, dikim ve tamamlama bölümü	<input type="checkbox"/>	<input type="checkbox"/>
Satış, sevkiyat ve pazarlama bölümü	<input type="checkbox"/>	<input type="checkbox"/>
Diğer	<input type="checkbox"/>	<input type="checkbox"/>

12. Yurt dışındaki firmalarla üretim, teknoloji ve pazarlama konularında ortak yatırım (JV) ve/veya işbirliğiniz var mı?

Üretim:.....

Teknoloji:.....

Pazarlama:.....

III- PAZARLAMA

13. Firmanızın yıllık satış hacmi ne kadardır? (TL, ciro) Son beş yıllık dönem içerisinde nasıl değişmektedir?

- ☐ 100 milyarın altında ☐ 1-5 trilyon
☐ 100-500 milyar ☐ 5 trilyonun üzerinde
☐ 500 milyar-1 trilyon

.....

14. Satışlarınız hangi pazarlara yönelmektedir?

- ☐ çoğunlukla iç pazara ☐ çoğunlukla dış pazara ☐ her iki pazara

15. Dış pazara yönelik çalışıyorsanız karşılaştığınız sorunlar nelerdir önem sırasına göre belirtiniz

- ☐ fiyat rekabeti ☐ kalite rekabeti ☐ uygulanan kotalar
☐ diğer, belirtiniz:

.....

16. Firmanızın müşteri profilinin ve pazarlanan ürün gruplarının geleceğe yönelik nasıl değişmesi beklenmektedir?

- Yerel pazarlara, standart, katma değeri düşük ürün pazarlanması
- Orta üst gelir grubuna, yüksek katma değerli ürün pazarlanması

17. Dış pazarlara yönelik çalışıyorsanız, artan rekabet dolayısıyla alternatif ihracat pazarları arayışına girdiniz mi? Gelecekte hangi ülkelerde satış yapmayı düşünüyorsunuz?

IV DİĞER YENİDEN YAPILANMA STRATEJİLERİ VE GÖRÜŞLER

18. Sektörün yeniden yapılanma sürecinde firmanızın karşılaştığı en önemli üç sorun nedir? Sorunların çözümüne ilişkin görüş ve beklentileriniz nelerdir?

- | | | |
|---|--|---|
| <input type="checkbox"/> hammadde tedariki | <input type="checkbox"/> kalifiye işgücü | <input type="checkbox"/> işgücü maliyetleri |
| <input type="checkbox"/> enerji maliyetleri | <input type="checkbox"/> pazarlama gücü | <input type="checkbox"/> atıl kapasite |
| <input type="checkbox"/> diğer, | | |
- belirtiniz.....

19. Devlet destekleriyle düşük maliyetle üretim avantajı sunan 49 ilde desteklerden faydalanmaya yönelik yatırımlar gerçekleştirmeyi düşünüyor musunuz? Yeniden yapılanma sürecinde sanayinin teşvik edilmesi ve yönlendirilmesine odaklı politikalar hakkında görüşleriniz nelerdir?

20. Firmanız son beş yıllık dönemde tekstil ve konfeksiyon sektörü dışında farklı sektörlerde yatırım gerçekleştirdi mi?

- | | |
|---|---|
| <input type="checkbox"/> evet, gerçekleştirdi | <input type="checkbox"/> hayır, gerçekleştirmedim |
|---|---|
- (eğer gerçekleştirildiyse) Hangi farklı sektörlerde yatırım gerçekleştirildi?

21. Denizli’de girişimcilik ve yatırım açısından cazip olan diğer alanlar hangileridir? Bu alanlarda faaliyet göstermeyi düşünüyor musunuz?

22. Sizce tekstil ve konfeksiyon sektörü, Denizli ekonomisindeki öncü ve geliştirici rolünü terk etmekte midir? Küresel düzeyde gelişen rekabetçi ortamda, Denizlide sektörün başarıyla yeniden yapılanarak gelişimini devam ettirebilmesi üzerine düşünceleriniz nelerdir?

Teşekkürler

APPENDIX E: INTERVIEW FORM 2

(Including questions and key concepts of industrial restructuring process)

Oda, Birlik, Sendika ve Dernek Görüşmeleri

Kuruluşun adı:.....

Görüşülen kişinin adı:.....

Görüşme tarihi:.....

Adres:.....

1. Denizli’de tekstil ve hazır giyim sektörünün yeniden yapılanma sürecinde karşılaştığı en önemli sorunlar nelerdir? Sorunların çözümünü ve başarıyı sağlayabilecek gelişmeler nelerdir?

.....
.....

2. Tekstil ve hazır giyim sektöründe dış ticaret ve rekabet gücünün artırılması ile ilgili olarak devlet politikalarını nasıl değerlendiriyorsunuz? Bu politikalar Denizli’de sektörün gelişimini nasıl etkilemektedir?

.....
.....

4. İstihdam ve çalışma ilişkilerinin değişimi

-İstihdamın yapısındaki değişimler (nitelikli ve nitelsiz işgücü gereksinimlerinde farklılaşma?)

-Ücretler ve çalışma koşullarının değişimi

.....
.....

5. Tekstil ve Konfeksiyon sektörü Denizli’de öncü ve geliştirici rolünü terk etmekte midir? Girişimcilik ve yatırım açısından daha cazip olan alanlara bir kayma gerçekleşmekte midir? Bu konudaki görüşleriniz nelerdir?

.....
.....

6. Denizli’de tekstil ve konfeksiyon sektörün ve ilin ekonomik gelişimine yönelik olarak belirtmek istediğiniz diğer görüş ve beklentileriniz nelerdir?

.....
.....
.....

Teşekkürler

APPENDIX F: SURVEY RESULTS INCLUDING KEY POSITIONS AND TENDENCIES OF FIRMS IN INDUSTRIAL RESTRUCTURING PROCESS

Note: L refers to large firms, M refers to middle sized firms and S refers to small firms

	Supplying high quality and finished products to overseas buyers	Subcontracting for exporter firms of Donzidi	In last five year period, have a decrease in the number of workers; increase in productivity	In last five year period, have a significant increase in imports from abroad	Stable position in supply chain; import rather than international subcontracting	Involve in overseas joint ventures and associations on production technology and marketing	Not planning to make investment abroad	In last five year period, have a increase in product quality and differentiation in product	In last five year period, have a decrease in sales volumes	Searching for alternative export markets	Exporting to markets of highest income groups in specialised products	Producing or making R&D about technical planning to make other higher value added T&G products	Not planning investment on TGI	In last five years period made investment to different sectors except TGI	Thinking that there are various attractive sectors in terms of both entrepreneurship and investment
L1	✓		✓	✓		✓		✓		✓	✓	✓		✓	✓
L2	✓		✓	✓		✓	✓	✓		✓	✓		✓		✓
L3	✓		✓	✓	✓	✓	✓	✓		✓	✓		✓		✓
L4	✓		✓	✓	✓	✓	✓	✓		✓	✓		✓		✓
M1	✓		✓	✓	✓		✓	✓		✓	✓		✓		✓
M2	✓		✓	✓	✓		✓	✓		✓	✓		✓		✓
M3	✓		✓	✓	✓		✓	✓		✓	✓		✓		✓
M4	✓		✓	✓	✓	✓		✓		✓	✓				
M5			✓	✓	✓			✓							✓
M6	✓		✓	✓	✓		✓	✓		✓	✓		✓		✓
M7	✓		✓	✓	✓			✓		✓	✓		✓		✓
M8		✓	✓	✓	✓		✓	✓		✓					✓
M9		✓	✓		✓			✓							✓
M10		✓	✓		✓		✓	✓		✓					✓
S1		✓			✓		✓	✓					✓		✓
S2		✓			✓		✓	✓							✓
S3		✓			✓		✓	✓							✓
S4					✓		✓	✓							✓
S5					✓		✓	✓							✓
S6					✓		✓	✓					✓		✓
S7		✓	✓	✓			✓	✓					✓		✓
S8		✓	✓	✓			✓	✓							✓
S9		✓			✓		✓	✓							✓
S10		✓			✓		✓	✓							✓
S11		✓			✓		✓	✓					✓		✓
S12		✓			✓		✓	✓					✓		✓
S13		✓			✓		✓	✓							✓
S14		✓			✓		✓	✓							✓
S15		✓			✓		✓	✓							✓
S16		✓			✓		✓	✓							✓
S17		✓			✓		✓	✓							✓
S18					✓		✓	✓							✓