



Economic Upgrading in Global Value Chains Case of textile and footwear industries in Albania

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Abstract

This paper investigates the factors that enable economic upgrading in Global Value Chains (GVCs) in the textile and footwear (TF) industries in Albania, and evaluates the extent to which Albania is ready for such an upgrade. The paper adopts an evolutionary approach by deconstructing the different stages of upgrading and independently examining the factors that enable upgrading to take place at each of these stages. Drawing on primary data from interviews conducted in June 2016, the paper validates both the factors emphasized by the GVC theory, as well as the elements of the Regional Systems of Innovation (RSI) to be important for the upgrading in GVCs. However, by adopting the evolutionary perspective, this paper shows that the contribution from RSI becomes indispensable *only* at the later stages of upgrading, and thereby makes an important contribution to the current debate on the importance of RSI for GVC upgrading. Since effectively run RSI are not a common reality in many developing countries, this finding allows policymakers with limited resources to identify when the efforts made to strengthen RSI will be most effective. This paper's analysis indicates that the textile and footwear industries in Albania are not currently ready to upgrade to the mature stages of designing and branding. Nevertheless, such an upgrade should be a long-term goal, and the paper therefore, concludes with key recommendations for the Albanian manufacturers and policymakers.

Key words: global value chain, regional system of innovation, textile and footwear, Albania, local manufactures, policy makers

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Abbreviations

ACIT	Albanian Center for International Trade
AIDA	Albanian Investment Development Agency
GIZ	Die Deutsche Gesellschaft für Internationale Zusammenarbeit/ The German Agency for International Cooperation
GVC	Global Value Chain
ISO	International Organization for Standardization
MEDTTE	Ministry of Economic Development, Trade, Tourism and Entrepreneurship
RSI	Regional System of Innovation
TF	Textile and Footwear
USAID	United States Agency for International Development
VET	Vocational Education & Training

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Chapter 1: Introduction

An important feature of the globalised economy has been the breakdown of the production process into several activities, and the expansion of the range of locations where these activities can be performed (Gereffi, 1999; IDS, 2000). In the academic sphere, this is known as the Global Value Chain (GVC) approach: a “*new form of industrial organisation*” that consists in coordinating dispersed activities, which all yield different value (Morrison et al., 2006:19). Thus, GVC approach has emerged as an important tool for analysing how value is created, differentiated and captured along the process of production, distribution and retail (Gereffi & Kaplinsky, 2001). In this global dispersion of activities, developing countries are generally contracted only for the low added value activities (IDS, 2000). However, for most of these countries, even such type of inclusion in GVCs is crucial for their industrial development, as it gives them access to global markets (Barrientos et al., 2010). This is why, during the last 25 years, the GVC approach has been particularly relevant in the analysis of major development organisations such as: The United Nations Industrial Development Organization (UNIDO), the United States Agency for International Development (USAID), the German Agency for International Cooperation (GIZ), which are aiming to understand and improve the participation of developing countries in the global economy (ibid).

For a country to enter global value chains, certain competitive advantages are required such as: abundant cheap labour, favourable trade agreements and proximity to end markets (Fernandez-Stark et al., 2011). However, developing countries cannot remain competitive for long relying only in these factors. The reason for this is that developing countries mostly participate in labour-intensive consumer goods GVCs and such GVCs are considered ‘buyers – driven’ (Gereffi & Memedovic, 2003). This means that there is a power asymmetry in favour of the global buyers, who decide where each production activity is located (ibid). As global buyers make the location decision for the lowest added value activities only with the intention of minimising costs, this leads to quick and continuous relocation, completely out of the hands of the producer. In order to avoid the relocation, local producers in developing countries should economically upgrade in GVCs. Economic upgrading is defined as the process of ‘*adding value to production or shifting to higher value activities in the global production operations*’ (Gereffi et al., 2005:171). As shown by the pioneer studies of Gereffi (1999:9), such an upgrading approach, which includes moving from only performing assembly processes to becoming an international brand, has been particularly relevant in the

development of “Big Three Asian apparel producers” - Hong Kong, Taiwan, and South Korea. While the need for developing countries to economically upgrade in GVCs has been widely recognised both by the literature and the policymakers (Humphrey & Schmitz, 2002, Sturgeon et al., 2008), the factors that enable such upgrading have been less explored. Aiming to contribute in this part of the literature, this paper draws on the case of the textile and footwear (TF) industries in Albania.

There are two main reasons why this paper focuses on the TF industries. First, they are particularly relevant in GVC’s studies since these industries’ activities are among the most globally widespread (Dickerson, 1995). Starting in the late 1960s, TF manufacturers in industrialised countries were among the first manufacturers to close down their factories and to start searching globally for low-cost sites to locate their manufacturing, while keeping their headquarters for the added value activities such as designing and branding (Martin, 2013). The global dispersion of these industries had a particular flux after the Agreement on Textile and Clothing (ATC - WTO) in 2005, which removed all previous trade quotas for these industries and enabled the lead firms of GVCs to further reorganise their production chains in new low-cost locations (Gereffi & Frederick, 2010).

Second, TF industries are particularly important for developing countries because of their major economic and social contribution. Statistical data from ODI (Oversea Development Institute) show that these industries employ 35% - 90% (ex. Lesotho, Cambodia) of the total employees in manufacturing sector, as well as constitute a dominant source of foreign exchange by comprising more than 50% of manufacturing exports (ex. 83.5% in Bangladesh) (Keane & Te Velde, 2008). In addition, since these industries are characterised by a routinized technological regime (Audretsch, 1997) – meaning that R&D activities are performed in the main headquarters of the lead firms and then the technological knowledge is transmitted in the chain, - many developing countries use the participation in the TF GVCs as a “*typical starter in their industrialisation ladder*” (Keane & Te Velde , 2008:2).

The case of Albania is particularly interesting to analyse upgrading in GVCs, as it is a small developing country in Europe where TF are still dominant manufacturing industries. The history of these industries in Albania includes a 40-year period of state owned enterprises, under a centralised socialist economy and a post-democracy period of 25-years. Operating

under the centralised economy, both sectors were able to perform the full production cycle within Albania, from producing raw materials to making the final products in the market, and managed to meet 70% of the domestic demand (ACIT, 2010). However, the focus of this paper is the period post-1990s, when most of the TF enterprises went through a process of privatisation and started export-oriented production by entering GVCs.

According to the Albanian Institute of Statistics (INSTAT, 2015), around 1000 TF manufacturing companies operate in Albania, employing more than 110,000 people, accounting for 41% of total exports and constituting 6-7% of GDP (Appendix 1¹). Skilled and cheap labour force, flexibility with small and large orders, and short distances with cheap transportation costs within the EU have enabled the participation of Albanian manufacturers in the GVC (Arqimandriti et al., 2016). Since 2000, Albania operates under the trade policies of the World Trade Organisation. Also, since 2007, Albania has been part of the Central European Free Trade Agreement (CEFTA), which has enabled manufacturing goods to be traded without customs duties within CEFTA countries. The Economic Freedom Index (EFI, 2015) reported that the manufacturing industries in Albania have benefitted substantially from the after 1990s' trade openness and flexibility. However, most of the local manufacturers still perform only low added value activities and operate under the inward processing model, which domestically is termed 'Fason' - meaning they work with global buyers' production material and only perform assembly processes (GIZ, 2010). On the other hand, the global competition is increasing with many producers in Asia and Latin America becoming more productive, while other in Africa offering cheaper productions costs (Gereffi et al., 2005). That is why a recent World Bank Report (2015) predicts that Albania's relatively small TF industry will not continue to be competitive for more than a decade, unless it upgrades to higher activities in the GVCs (e.g. following the case of "Big Three Asian apparel producers"). Based on this risk and at the same time considering the importance of these industries for the national economy, analysing the factors that would enable further upgrading in GVCs becomes essential for policymakers in Albania.

¹ By referring to other sources, such as Albanian Investment Development Agency (AIDA) or the Chamber of Fasons of Albania (CFA), a lack of uniform data is acknowledged. For example, CFA pretends that based on the National Registration Centre data 1335 production units of textile and footwear are registered. This data misalignment can be due to the lack of common understanding of what textile and footwear industries comprise, often limiting them to clothing or garment sectors and not including the raw material producers.

The GVC approach emphasises that the main factor of upgrading is the knowledge that global buyers transmit to local manufacturers in developing countries (Gereffi, 1999). Nevertheless, such knowledge transmitting process is not linear and it does not happen automatically (Schmitz and Knorringa, 2001; Bazan et al. 2004; Kishimoto, 2004; Morrison et al. 2006). Rather, GVC theory treats learning efforts and capability building of local actors as a ‘black box’ (Nelson, 1993), as they have no importance for upgrading. One theory, however that does clearly capture the role of learning and building capabilities through the co-operation between public and private local actors is the Regional Systems of Innovation (RSI) Framework (Iammarino, 2005). Building on this premise, this study’s main hypothesis is that successful upgrading in the GVCs requires an efficient RSI. In this view, the paper seeks to answer the following research questions:

- By adopting an evolutionary approach, which factors enable the economic upgrading of the TF industries in Albania at each different stages of the GVCs, – in other words, how the upgrading factors change while local manufacturers upgrade to upper stages?
- Do these factors encompass elements of the RSI approach, and if yes, at which stage of the upgrading?
- Are the conditions in Albania favorable to support the upgrading of the TF industries in GVCs?

As such, this case study is highly spatial, and could primarily be used as a policy paper for the case of Albania. However, while caution must be made as all processes of upgrading are contextual and sector specific, a wider theoretical application may be relevant elsewhere.

This paper is divided into five chapters. The following chapter discusses the conceptual frameworks of GVC and RSI, highlighting how one might ‘merge’ these approaches to enable upgrading in GVCs. Chapter 3 explains the methodology of data collection and analysis, and reflections on the study’s limitations. Chapter 4 presents the findings, building mainly on local manufacturers’ point of view as the key actors of the upgrading process, but also on other public and private actors, who by collaborating with each-other can facilitate the upgrading. At the same time, the section provides some discussions and evaluations, trying to indicate whether Albania is ready for the upgrading at the mature stages of designing and branding. Chapter 5 concludes and presents some recommendations.

Chapter 2: Theoretical Framework

2.1 Global Value Chain Framework

The concept this paper adopts for the economic upgrading in GVCs is not a ‘race-to-the-bottom’ approach through competing on low-prices, but rather a ‘high road’, where upgrading is associated with innovation (Kaplinsky & Morris, 2000:2). Specifically, the GVC theory recognises four types of high road economic upgrading:

Figure 1: Types of economic upgrading

- **Process upgrading** - transforming inputs into outputs more efficiently by reorganizing the production system or introducing superior technology
- **Product upgrading** - moving into more sophisticated product lines in terms of increased unit values
- **Functional upgrading** - acquiring new, superior functions in the chain, such as finishing, packaging, logistics, design, sales and marketing, or abandoning existing low-value added functions to focus on higher value added activities
- **Inter-sectoral upgrading** - using the knowledge acquired in particular chain functions to move into different sectors/industries

Source: Fernandez-Stark et al. 2011

In order to upgrade, GVC literature emphasises two main factors: a) the transfer of knowledge from the lead firm, which is the firm “leading the chain and undertaking the functional integration and co-ordination of internationally dispersed activities” (GEREFFI, 1999: 41). This firm collaborates with several 1st, 2nd and even 3rd tier suppliers, which for the local manufactures that perform the lowest of added value activities are all considered global buyers; and b) the modes of governance in the chain, defined as “the authority and the power relationships that determine how financial, material, and human resources are allocated and flow within a chain” (Gereffi, 1994: 97).

Lead firms range from “those who are producers, but source inputs from suppliers around the globe, to those who are retailers/branded marketers or brand manufacturers that do not produce goods, but play a key role in organising production at different locations scattered around the world” (Gereffi, 2002:21). All lead firms are interested in differentiating themselves and in improving the quality of their products, ex. a sports shoe brand wants to have the world’s best running shoes or a clothing retailers wants to meet all its client’s expectations and become the preferred customer choice. In order to achieve this, lead firms

have to transfer certain technical assistance and best practices to their local manufacturing firms. Providing this assistance is particularly relevant in the TF industries, because the products are not standardised and the technical knowledge is not easily codified, requiring instead more face to face contact (Giuliani et.al, 2005). By utilising this knowledge, which starts from the lead firm and then trickles down throughout the GVC, local manufacturers start the upgrading process (Humphrey and Schmitz, 2002).

Among the types of economic upgrading, the most important one is the functional upgrading (Humphrey and Schmitz, 2002). This is because functional upgrading is about acquiring new, superior functions in the chain. For the countries which have successfully achieved it such as: Hong Kong, Taiwan, or South Korea (Gereffi, 1999); Turkey and Poland (Yoruk, 2001) or Mexico (Gerrefi et al, 2005) this has made their participation in the chain more sustainable and has also provided increasing revenues. However, this is also the most challenging type of upgrading. While product and process upgrading are common in the TF industries - because increasing the per-unit value of the product and/or increasing the efficiency of the production process benefits both the lead firm and the local manufactures (Schmitz and Knorringa, 2000), - when it comes to functional upgrading, lead firms become reluctant to support the local manufacturers. They prefer to keep their supplier's dependent on them by not disclosing the superior functions, such as designing and branding (Bazan and Navas-Aleman, 2004, Giuliani et al., 2005). The reason is that the profits in buyers-driven industries come from conducting these superior functions, rather than from increasing the production scale (Gereffi & Memedovic, 2003; Yeung, 2009). Considering its importance, this paper focuses particularly on functional upgrading. According to GVC theory, there are 4 stages of functional upgrading:

Figure 2: Stages of upgrading

- 1. Assembly/Cut, Make, and Trim (CMT):** Apparel manufacturers cut and sew woven or knitted fabric or knit apparel directly from yarn.
- 2. Original Equipment Manufacturing (OEM):** The apparel manufacturer is responsible for all production activities, including the CMT activities, as well as finishing. The firm must have upstream logistics capabilities, including procuring (sourcing and financing) the necessary raw materials, piece goods, and trim needed for production.
- 3. Original Design Manufacturing (ODM)/Full Package with Design:** This is a business model that focuses on adding design capabilities to the production of garments.
- 4. Original Brand Manufacturing (OBM):** This is a business model that focuses on branding and the sale of own-brand products

Source: Fernandez-Stark et al. 2011

The first assembly stage is a pure exploitation of cheap labour by the global buyers without much interaction between them and the local manufacture. The local manufacturer only cuts and sews the fabric given to them by the buyer according to the buyers' models (Baldwin, 2011). When the Trim function is added, it means that the local manufacturer has bought a technological system called CAD, which allows them to produce different patterns from the one size sample (ibid). In both these cases, the product still needs some finishing before it can be sold. When becoming an OEM producer, the local manufacturer is able to provide ready-made products by being more autonomous and interacting more with the global buyers (ibid). In addition to providing ready-made products, at the ODM and OBM stages the manufacturer performs its own design, under its own brand which is exported in international markets. Several case studies show that upgrading in these stages takes place due to the knowledge transferred by the lead firm (Schmitz & Knorringa, 2000; Gereffi *et al.*, 2002). Nevertheless, since at the ODM and OBM stages the manufacturer is gradually gaining a leading role itself, it becomes obvious that much more than the support of the lead firm is needed for the successful upgrading (Giuliani *et al.*, 2005). Therefore, analysing the factors of upgrading separately at each stage could provide a better understanding of the upgrading process.

Building on Gereffi's initial work (1999) in the textile industry in East Asia, which emphasised the importance of forming close linkages between the local manufacturers and the lead firms, the following development of the GVC theory went on to highlight modes of governance as another key factor of upgrading (Humphrey & Schmitz, 2002; Lane, 2008). Based on "the complexity of the information involved in the transactions; the possibility to codify that information; and the competence of the suppliers along the value chain" (Giuliani *et al.* 2005:566), GVC theory identifies four main typologies of governance:

Figure 3: Modes of governance

- **Arm's length market relations.** Buyer and supplier do not develop close relationships. Product is standardized and buyer's requirements could be met by a range of firms.
- **Networks.** Firms co-operate in a more information-intensive relationship, because of reciprocal dependence.
- **Quasi-hierarchy.** One firm exercises a high degree of control over other firms in the chain, frequently specifying the characteristics of the product to be produced, and sometimes specifying the processes to be followed and the control mechanisms to be enforced. The lead firm in the chain may exercise control not only over its direct suppliers but also further along the chain.
- **Hierarchy.** The lead firm takes direct ownership of some operations in the chain

Source: Humphrey & Schmitz, 2002

Networking is the ideal mode of governance for enabling functional upgrading since it offers reciprocal dependency (Humphrey & Schmitz, 2002). However, this type of governance is also the least likely to occur in developing countries because local manufactures often lack information and capabilities that are needed to match the export markets' demands, especially when these markets are fast-moving and characterised by product differentiation, such as the TF ones (Morrison et al., 2008). This is why quasi-hierarchical governance, where suppliers are dependent on buyers, is more common in developing countries (Keesing & Lall, 1992). The problem with this mode of governance is that it does not favour functional upgrading, because of the “conflict of competences” that would hinder lead firms' opportunities to retain the main profits (Schmitz & Knorrige, 2001:178)

The modes of governance are conditioned by the strategy and the nationality of the lead firm (Humphrey & Schmitz, 2002) For example, an analysis of the footwear cluster of Sinos Valley in Brazil revealed that collaborating with European rather than USA lead firms was preferable, as the Europeans were more supportive for functional upgrading (Bazan & Navas-Alemán, 2004). Another example are the cases of Lesotho and Nicaragua textile industry, where upgrading was constrained because of working with Asian lead firms, whose strategy is to minimize knowledge-how and technology transfers (Fernandez-Stark et al., 2011). Still, for a full understanding of the role of modes of governance, the characteristics and the type of relationships formed among all the actors of the chain must be taken into consideration (Sturgeon et al., 2008). As previously mentioned, the lead firm does not collaborate directly with the local manufacturers, unless they have become first tier suppliers. So, there are generally the 2nd or 3rd tier buyers that have direct contact with the local manufactures, which through their modes of governance can affect upgrading of local manufacturers (Gibbon et al., 2008).

Despite the dominance of the quasi-hierarchical relationships, these modes of governance can change over time because “the power of the lead firm depends on the powerlessness of the local manufacturer” (Humphrey & Schmitz 2022:11). On the one side, the controlling and supervision costs can make the quasi-hierarchical governance unfavourable to the lead firm (Bell, 1984). On the other, local manufacturers can make investments and acquire new technology and capabilities (ibid). Therefore, adopting a dynamic perspective that allows for changes in the modes of governances is key to understanding the reality of functional upgrading.

Alongside the role of the lead firm and the dynamic perspective on the modes of governance, some other factors have been found to enable economic upgrading. Studies suggest that the lead firms are more willing to support functional upgrading in countries where there are also domestic efforts made to upgrade (Fernandez-Stark et al., 2011). For example, the case of Polish and Romanian textile industries indicate that despite having similar modes of governance with global buyers, Poland managed to successful upgrade to the brand stage thanks to the support of organisational networks within the country, which in the case of Romania were missing (Yoruk, 2001). Therefore, the GVC approach seems to overemphasise the role of the lead firm as a knowledge provider, without explaining the transmitting mechanisms and the efforts made by the local manufacturer to absorb such knowledge.

The empirical study by Evgeniev (2006) on the TF upgrading in Turkey and Bulgaria goes even further and discards the importance of the lead firm for GVC upgrading. Her results reveal that the most important factors for upgrading are state support and local manufacturers' investments (ibid). This study, alongside others (Pietrobelli & Rabelotti, 2010; Guiliani et al., 2005), criticise the GVC approach for neglecting how interaction between local/regional/national actors can form capabilities which facilitate the upgrading of local manufacturers in GVCs. Since modes of governance change when capabilities of the local manufacturers change, it becomes important to understand how local factors can support the upgrading process in GVCs (ibid).

2.2 Regional Systems of Innovation

Innovation is widely considered to be the main source of economic growth and development both at the micro (firm) and macro (country) level (Schumpeter, 1943). However, innovation as 'an interactive process of learning that results in new products, techniques and form of organization' (Lundvall, 1992:8) does not happen in isolation, but through the continuous collaboration and interaction of different actors embedded in space (Freeman 1988). As such, the System of Innovation approach, particularly the Regional System of Innovation (RSI) one that takes into account the differences among regional geographic areas, has become an important tool for fostering innovation and therefore, influencing local development (Asheim & Coehen 2005). The elements of RSI include a mix of local private and public actors such as firms of the same or related industries, and research, education and governmental

institutions, which through their attributes and market or non-market relations build and maintain the system (Iammarino, 2005, Carlsson, 2007). Critically, RSI focuses primarily on the interaction between the local actors and lacks some consideration for the global linkages. However, if RSI is created and sustained with the goal of supporting industries' competitiveness in the global market, there is potential for RSI to support GVCs upgrading.

A central element of the RSI is the formation and the development of technological capabilities, the "technical, managerial and organisational skills that firms need to efficiently use technological equipment and information" (Morrison et al. 2006:5). While such capabilities are firm-specific and they naturally "require continuous own firms' investments in people and equipment" (Schmitz, 2004: 356), RSI can be particularly supportive in developing countries for forming absorptive capabilities that "identify, assimilate, transform, and apply valuable external knowledge" (Cohen & Levinthal, 1989: 131). Since upgrading and technological capabilities are intrinsically linked, well-functioning RIS can provide a wider and better understanding for GVC upgrading.

In order to form technological capabilities, qualified human capital is needed (Romer, 1990). Since developing countries have an abundance supply of low-skilled labour that lack industry-related knowledge and skills, firms have to invest in costly employee training in order to increase their technological capabilities (Gereffi et al., 2011). Meyer-Stamer et al. (2004) show in their analysis of the Spanish TF industries that when local firms are "well served organisationally" with technical schools, universities and industrial associations, this increases industry related skills and knowledge and subsequently supports the upgrading (quoted in Parrilli, 2016:102). This collaboration becomes particularly important for skills and knowledge that cannot be created by the firm's training, but only by these specialised institutions (ibid).

Another characteristic of effective RSI is the active support of national/regional government (Cooke & Memedovic, 2003). In the Pakistani textile industry, the policy 'Textile Vision 2005', which fostered the collaboration between local manufacturers and raw material suppliers, was identified as the main factor to support the textile industry upgrading (UNCTAD, 2005). The same was experienced in the case of Turkey, where government support increased the competitiveness of the textile industry in the global market, by creating a special agency that was in charge of coordinating the relations between local manufacturers and of subsidizing first-hand machineries and ISO quality certification (Evgeniev, 2006).

The above mentioned case studies from Poland, Turkey, Pakistan and Spain - where many stages of industry upgrading have taken place - suggest that a well-structured and efficient RIS can reduce the dependency that local manufactures have on the global buyers, as they learn to absorb and generate knowledge (Pietrobelli & Rabelloti, 2010). Both RSI and GVC approaches offer opportunities for learning, innovation and upgrading and therefore, both are needed in order to fully capture the local and the global dimension of economic upgrading (Syark, 2011). Some scholars, pioneered by Pietrobelli & Rabelloti (2004), have started to acknowledge the need for merging these two strands of literature. However, such studies have not taken an evolutionary approach, which aims to understand how the factors that enable upgrading change while local manufacturers upgrade to upper stages of GVC. Therefore, this study adopts this novel approach in analysing the factors that enable upgrading individually at each stage of the GVC, in order to better understand at which stage the alignment with RSI becomes indispensable for the upgrading and what implications this has for policy makers.

Chapter 3: Methodology

To analyse the factors enabling the economic upgrading of the TF industries in Albania, this paper draws on a variety of sources and methods that are explained below.

General information on the TF industry in Albania was retrieved from secondary data, including: publications by international organisations; data from the National Institute of Statistics (INSTAT) and policy papers from the Ministry of Economic Development, Trade, Tourism and Entrepreneurship; Ministry of Social Welfare and Youth; Ministry of Urban Development, and Albanian Development Investment Agency (AIDA). The secondary database collected was widespread due to the lack of academic research about these industries in Albania.

The primary data collected in this study comes from twenty in-depth semi-structured interviews, as this is considered the most effective approach for identifying individual experiences and opinions, as well addressing unanticipated topics (Karlsson et al, 2015). The interviewees included: 5 footwear and 5 textile local entrepreneurs, the Minister of Social Welfare and Youth, representatives from Ministry of Economic Development and Ministry of Urban Development, Director of AIDA, Head of the Textile Department in the Polytechnic University, representatives from GIZ, Director of VET, Director of Economic Development in the Municipality of Tirana, economic journalists and industry consultants (Appendix 2 list of interviewees; Appendix 3 for list of questions).

The sample was selected from a list of more than 200 active local manufacturers from a study conducted by GIZ in 2010. Based on this list, a sampling grid with three main variables was created, in order to identify diverse and suitable interviewees:

- Region (Tirana, Durres, Fier, Korca, Shkodra and Berat);
- Product type (Women-man-children Shoes, Military & Professional Shoes, Lingerie and Swimwear, Jeans, Men Shirt, Sport wear, Female clothes)
- Stage of upgrading (Assembly aiming OEM or OEM aiming OBM/ODM).

The selection of local entrepreneurs was based on convenience: the entrepreneurs were contacted by e-mail in April 2016 about their willingness and availability to participate in the study and were interviewed in June 2016, if they were among the first to agree to participate in the study.

For the non-entrepreneur interviewees, a stratified purposeful sampling took place – a sample that included a wide range of actors with diverse roles and knowledge of the topic (Patton, 1990). The highest responsible persons directly involved on the issue and flexible to be interviewed was selected. The interviewees were contacted by e-mail and they were generally willing to participate in the study.

The interviews were transcribed and coded based on categories from existing theory or prior countries' case studies. This approach - named directed content coding-, gives opportunity for 'validating or extending conceptually a theoretical framework' (Hsieh & Shannon, 2005: 1281). The coding process identified three main themes: global buyers effect; own firms' investments and other local external factors, with this last one having some sub-themes.

One of the limitations of this study is that by using the convenience method, the sample had more OEM producers aiming to become OBM/ODM than assembly performers (65% vs 35%). However, the firms at (or aiming to perform at) ODM/OBM stages had already passed through the stages of Assembly and OEM and were willing to share their experiences. They were asked about the factors that had enabled/hindered their upgrading both from Assembly to OEM and from OEM to ODM/OBM and this approach provided invaluable insight into the upgrading process of Albanian manufacturer at all stages.

Another limitation is the infeasibility to interview global buyers. Therefore, the study considers the modes of governance and global buyers' contribution based on the descriptions from the local manufacturers.

Lastly, some conceptual challenges were faced during the interviews, including lack of clarity on the stages of upgrading and on the processes that constituted each stage, as well as misunderstanding of the terms 'collaboration', 'R&D' and 'innovation'. Most of the firms associated 'innovation' with high-tech, 'R&D' with market research and 'collaboration' with contractual relationships rather than knowledge sharing. Therefore, the questions were adapted with less theoretical terms. Also, due to this terminology challenge, the thematic analyses adopted a latent approach, meaning it tried to identify even underlying ideas and interpret them beyond the explicit language stated by the entrepreneurs.

Chapter 4: Main findings

When adopting an evolutionary approach, it becomes evident that the factors enabling/hindering the functional upgrading process are different at each of the upgrading stages. The following section will focus on two main categories: (i) factors that enable upgrading from Assembly to the OEM stage, and (ii) factors that enable upgrading from OEM to ODM/OBM stage². Local manufactures' region or type of product produced did not affected the factors that local entrepreneurs identified as important for upgrading.

4.1 Assembly to OEM stage

Upgrading from Assembly to OEM stage in TF GVCs seems to be primarily the result of competence accumulation within the firm. Based on the interviews, it generally takes a decade to accumulate such competences within Albanian manufacturing firms. For accumulating these competences, five main factors were identified as important.

- **Lead Firm/Global Buyers support and Modes of Governance**

In accordance with GVC literature (Gereffi, 1999; Gereffi et al. 2001; 2005), interview results confirm that the strategy of the global buyers, their nationality, and the modes of governance formed between them and the local manufacturers are important factors for upgrading at the OEM stage.

“Producing for global markets requires a know-how that we didn’t have at the beginning of the 90s. With this regard, our Italian buyers have helped us a lot. They would come to us with ready-made projects, so that there was no need for us to do research on our own and they would even send their qualified staff to train ours. Obviously, it was also our ability to be fast learners” – local entrepreneur.

² Although ODM and OBM stages in GVC are not the same - with OBM being further more challenging and requiring even more capabilities, still this papers considers them as one category that shares same upgrading factors (at least in the Albanian case) and doesn't go in further categorizations. This is encouraged to be subject of future research that adopt evolutionary approaches.

Albanian manufacturers mostly collaborate with Italian buyers and/or have started their operations as a joint venture with Italian partners. At these first stages of upgrading, local manufactures do not directly deal with the lead firm, but rather interact with the 2nd/3rd tier buyer (Sturgeon et al., 2008), usually considered ‘intermediaries’. When these intermediaries are themselves involved in the production process, as in the case with Italian intermediaries, there are many learning opportunities for the local manufactures, - e.g. *‘Since Italians have products of a broad range of styles and colours, the models we learned from them has helped us to easily reach and understand the preferences of other western buyers such as Germans, French or British’* – local entrepreneur.

In addition, Albanian manufacturers assert that increasing the level of competences is linked with the opportunity to be part of GVCs of specialised high price retailers. Working for this type of lead firms, again mostly Italians for the Albanian case, have enabled local manufacturers to learn about the best quality standards, which they have then implemented even with other buyers. Being able to maintain a high level of production quality standards (monitored yearly by the lead firms through quality audits), has allowed local manufactures to be given more production activities and responsibilities, which have subsequently enabled upgrading to OEM.

Working mostly for Italian buyers/intermediaries however, also poses obstacles and challenges. Since Italians perform themselves manufacturing activities, and in fact are considered ‘masters of this trade’ (Owen, 2003), they are often less interested in Albanian firms doing the full production cycle. In the cases where upgrading to OEM has taken place, it has been due to: a) forming relations directly with the main buyer which does not perform production activities, and thus is willing to outsource more responsibilities; or b) diversifying the range of global buyers with British, German, Dutch, Danish etc. buyers, which are not specialised in these industries. In both cases, the entrepreneurs stressed that their negotiation abilities, determination and vision to pursue these kind of relations was key to their success.

Still, despite some local manufactures being able to upgrade to OEM stage, the power asymmetry remains present and this is not only related to production knowledge but also to the asymmetries within the operational and legal spheres. An example of this is the ‘Concordato’ law in Italy, which gives Italian firms whose costs exceed revenues the right to ask the court to pay their suppliers less than the due amount. Albanian entrepreneurs explain

that the court sends a letter to them, asking if they would agree to take only 20-30 % of total amount owed. If they do not agree, the Italian firm would likely go bankrupt, in which case the Albanian manufactures risk getting nothing at all. For this reason, most of the Albanian manufactures accept the 'Concordato' and, instead, take on financial liquidity problems. In this case, modes of governance among firms are not enough, and agreements between governments would be needed to protect local manufactures' rights.

- **Local manufactures' own investment in machinery and employees' training**

One important factor that local manufacturers highlight for the OEM upgrading is the 'investment mind-set': *'It should be me the first one to invest in new machinery and labour force training, so that my firm's production performance becomes more effective and efficient'* – local entrepreneur.

Both machinery investments and investments in employee training are crucial for the absorption of all know-how that can be transmitted from the global buyers (Nelson & Winter, 1982; Meyer-Stamer et al., 2004). Entrepreneurs confirm that in order to upgrade they have to buy new machinery (ex. a CAD-CUM system), as well as to provide on-job-trainings to learn how the new machinery works. Most of the firms interviewed have made such investments without any financial support from the government. With this regard, entrepreneurs emphasise that not having barriers to access financing from commercial banks has been supportive for their upgrading.

- **The role of the entrepreneur**

Surpassing the GVC literature, interview results point out the entrepreneur him/herself for being an upgrading factor. Entrepreneurs' knowledge, experience, managerial skills, ambition and vision have affected the majority of cases of OEM upgrading. Most of the successful entrepreneurs either had an academic background or work experience in these sectors before the '90s or had worked abroad (mainly in Italy) in the TF industries. The majority of these entrepreneurs have built the factories in their home cities, which according to them helped the upgrading: *'Investing in your own city gives you easier and greater access to networking.*

You know better how to deal with bureaucracies and how to relate to people' – local entrepreneur.

All interviewed entrepreneurs were at the same time the general managers of their firms. Even though many of these firms had grown to over 500 employees, the initial entrepreneurs remained the main person in charge for any decision-making, including the investment decisions and the partnership with the global buyers. The entrepreneur role for upgrading can be a particular characteristics of the case of Albania due to the lack of qualified managerial staff in the country, as claimed by the entrepreneurs, or due to the mentality of 'family managed business' that characterises the business environment in Albania (Ernest & Young, 2014)

- **Government³ and international organisation's support**

Both Albanian manufacturers and other local actors point at the government and international organizations' role for supporting upgrading to OEM stage. In Albania, there is a special Incentives Package for the Industry of Inward Processing Regime (referred as the Fason industry), which includes several measures such as: a symbolic rent of only €1 for entrepreneurs renting previously state owned factories; accelerated VAT refunds for up to 30 days; and a return of 5% on the income tax to the firm as an incentive for supporting social and health insurances for new employees over a certain period (MEDTTE, 2014). In addition, entrepreneurs appreciate the significant infrastructure investments (roads, ports, electricity and water) that have been made during the post-communism periods, since these investments have removed the logistic barriers for upgrading. Therefore, when assessing the economic policies regarding the TF industries in Albania, it can be affirmed that they have been quite supportive for the upgrading of TF industries to the OEM stage.

Since 2010, however, the situation has changed and TF are no longer priority sectors - economic priorities have shifted towards tourism and agriculture, leaving manufacturing behind (MEDTTE, 2010). Tax on profit and electricity prices have seen a 50% increase and in addition, a new 'scanning invoice' has been added by the customs administration (Monitor,

³ If otherwise specified, 'government' in the paper refers to the national one (despite the policies might affect the regional level) because Albania does not have regional level government.

2015). Since prices continue to remain the most important competitive advantage at this stage of GVC, entrepreneurs complain that tax increases, as well as the continuous changes of the taxation policies are major hindering factors for upgrading, impeding them to plan future strategies.

Entrepreneurs also point out that there is a lot of challenging bureaucracy (ex. registration procedure for new employers) and informality. The overall informal economy in Albania in the past 20 years can be estimated between 13.6% and 38% of the GDP (Boka & Torluccio, 2013). Entrepreneurs claim that in the TF sectors a lot of work is distributed in homes, where not only adults work but also child labor is illegally exploited (Arqimandriti et al. 2016). Because all this hinders fair competition and puts pressure on prices, stricter government regulations are needed.

Up until a few years ago, entrepreneurs assert that their upgrading was also supported by different programmes financed by international donors, such as workshops and one-to-one technical assistance to improve competitiveness and export sales (USAID, 2010). In many other cases the international organisations have financially supported the participation of local manufactures in international textile and footwear fairs. However, this support is now diminishing. For example, the representatives of GIZ explain that their new programmes (ProSME and ProINVEST) are no longer guaranteed to support particularly TF sectors, but are instead demand-driven (i.e. Albanian actors approach via viable projects the GIZ business/economic development programmes). This is largely due to the Albanian government changing its priority sectors and being more interested to use the available German resources for drafting new investment laws, defining industrial zones and attracting foreign investors. Taking in consideration that governments in the neighbourhood countries (Macedonia, Serbia) are continuing to prioritise TF industries in terms of taxes and subsidies (Liperi, 2010), this risks to make Albania less attractive for global buyers and thus, to decrease the chances for upgrading.

With regard to the local government, both entrepreneurs and local policy makers confirm that its role is weak and with no influence in the process of upgrading. The local government neither has the authority nor the capacity to support industrial development, except of proving road and water facilities to the local factories. However, the experience of Pakistani or Turkish textile industry shows that the engagement of the local government can better address the needs of local manufacturers and support their upgrading (McCartney, 2014).

In addition to the above factors, it has to be taken into account that in some cases of upgrading to OEM, external events of the time-period 1990-2016, (but which probably will not be repeated) have also affected, such as: ACT agreement in 2005 or the 2008-2009 financial crisis, for the which one of the entrepreneurs said: *'I managed to close the production cycle because I was able to buy very good technology with ridiculously low prices, which without the crises, I wouldn't have been able to buy'*. Nevertheless, such external factors are subject to the local manufacturers ability to utilise them in their favour.

4.2 OEM to ODM/OBM stages

While the upgrading in the first stages is mainly driven by competence accumulation within the firm, upgrading to ODM and OBM requires more interaction-based innovation.

Entrepreneurs acknowledge that at ODM/OBM stages the role of the global buyers in transmitting know-how and in sharing technology starts diminishing. Global buyers prefer to retain these types of activities themselves (Schmitz and Knorringa, 2000) and are not interested in the creation of 'Made in Albania' brand, and in having more competition on the European market. Therefore, in order to upgrade, local manufactures need to have their own capacities to design and form the brand. Nevertheless, in the case of Albania, most of the companies that are in the stage of ODM/OBM continue to perform at the same time OEM for global buyers. Thus, they have production lines performing only OEM for global buyers, as well as a separate production line for their brand. They argue that without having a well-established brand that is able to penetrate the European markets, they cannot give up performing OEM for global buyers because that is their *'daily feeding bread'*, which provides secure revenues. This way, despite the role of global buyers diminishes at the ODM/OBM stages, while performing OEM for the global buyers, Albanian manufacturers can still learn from them – e.g. learning about the fashion trends in European markets-, and using this information smartly for their own design line.

Even though only few Albanian manufacturers have become OEM experts, the ones that already have and who are considering further upgrading to ODM/OBM stages, seem optimistic and goal-oriented. They think that the growing awareness of European customers

to buy 'Made in Europe'/'Made in EU' products will increase the demand for their products and thus, will *'push'* the upgrading. Some of these entrepreneurs aim for their firms to become lead firms of GVC by outsourcing the assembly and OEM stages to lower costs production countries in Africa. Other entrepreneurs, whose firms have capabilities to design but lack a brand, are considering buying foreign firms that already have a brand. Entering the international markets is easier with *'a recognised name'*. Some of the most successful entrepreneurs are following a more traditional approach: building the brand initially in the domestic market, learning from this experience and then, making a more challenging move to OBM. A last approach of local entrepreneurs is to work directly with retailers or end customers by trading their brand online, which provides an upgrading opportunity with less dependency on the global buyer. These different strategies confirm the previous finding that entrepreneurs' vision and firm's investments remain key factors for upgrading. However, investments needed in these stages are financially bigger and riskier (e.g. not just buying new machinery but invest in R&D), and some entrepreneurs acknowledge that they have neither the capacities, nor the financial resources to manage the upgrading *'on their own'*.

Considering what may facilitate these firms' further upgrading, the interview results point to the following factors:

- **Fostering the collaboration with universities and professional schools**

In order to do the designing and forming a brand, entrepreneurs emphasise the need for more qualified workers across the different tasks; from those performing simple production tasks, to the technicians, designers and upper management staff. While in the first stages of upgrading firms can rely on on-the-job training, at the ODM/OBM stages closer collaboration with other local actors such as universities and professional schools is needed.

In assessing where Albania stands, this research identified that the main institution collaborating with the industry (at a national level) is the Textile and Fashion Department in the Polytechnic University in Tirana. The Head of this Department, Mr. Guxho, explains that they offer three levels of studies - Bachelor, Master and Ph.D -, in three main orientations: engineering, designing and management. The number of graduates per year is on average 60; however, only 30-35% usually go on to work in the textile and footwear industry (approximate data from the University). The University and the firms both confirm the

internships collaboration, but in most cases graduates' performance does not meet the expectations of the firms and the other way round. This can be due to the students' limited industry-related knowledge and skills, as well as the Department's ability to transmit such knowledge and skills. For example, when assessing the curriculum of this Department, only two courses are identified to be linked with the footwear and leather industry. Since the footwear industry has been more dynamic than the textile one in terms of upgrading (Bagaviki, 2016), it is a major drawback that the University cannot supply this sector with knowledge and qualified staff. Another reason is that graduates have little interest in working in these industries. Entrepreneurs argue that there *'is a social perception that the 'Fason' only exploits cheap labour'* and there is little vision on how these firms can upgrade and become brands. Generally manufacturing is not promoted as an economic pillar and this affects youngsters' working preference (Cela & Kamberi, 2015). Due to these reasons, most manufacturers contract designers from abroad.

"It would be very convenient for us to work with local designers. Currently I am hiring Italians, but they are very expensive. There is no need for us to have designers employed within the firm. These designers can open their own studios locally and we can contract them, as long as they meet the quality standard" – local entrepreneur.

Entrepreneurs also highlight the collaboration with professional schools to be important for supplying them with mid/line-managers and technicians, who are responsible for the technical equipment. Assessing where Albania stands regarding the professional schools, it can be acknowledged that the current government and the international donors have increased their investments for the regeneration of professional school, including the textile ones. Still, the collaboration with the industry does not meet firms' needs. Among the identified problems, there is a geographic location mismatch between where the schools and where the firms are located. Most of these schools are inherited from the communism period, while most manufacturing building have been built after the 90s. In addition, the after 90s demographic movements have increasingly been focused towards major urban areas and do not correspond to the schools' or manufacturing firms' location. Secondly, despite the awareness campaigns, the female participation in the professional schools is low (MMRS, 2015), but on the other hand they constitute the biggest percentage of employees needed by these industries. Lastly, the curricula of these schools does not match the industries' needs and the teachers' qualification are very poor (Gishti & Shkreli, 2015). The Director of VET

education, Mrs. Limaj, argues that they have identified this problem and are working intensively and in close collaboration with international organization to adapt the curricula and make them more market orientated. A local entrepreneur would suggest:

‘My firm has always welcomed students from the professional schools to do their practices with us. In fact, I am very interested to have the same interns for 2-3 years in a row and then hire them. I believe that a Public-Private-Partnership Investments for the professional schools can increase efficiency. Several local entrepreneurs of the industry can make part of the investment for the school to be located near their manufacturing plants and can offer practical trainings, while the state can do another part of the investment and guarantee the curricula’.

At these stages of upgrading, firms also acknowledge the need for Research and Development (R&D), which they generally admit not to have the capacities to perform within the firm. That is why collaborating with universities and other research centres becomes essential. However, Polytechnic University does only limited, academic orientated research and firms confess they do not find it useful. In addition, there is a lack of financial support for R&D. By analysing the R&D funds granted from the government, specifically by the Ministry of Innovation, there is no such R&D fund for manufacturing; instead, all innovation subsidies are ICT oriented. Because of these challenges, firms consider investments in R&D out of their reach.

Another very important factor of upgrading at this stage is the quality certification. Confirmed also by the upgrading experience of textile industry in Poland (Yoruk, 2011), quality certification is crucial for entering EU markets due to the strong European regulations on quality standards (Textile Regulation 1007/2011). However, in Albania there is only one quality check laboratory and that is attached to the Polytechnic University, which emphasizes again the need to collaborate with the University at the ODM/OBM stages of upgrading. The laboratory is relatively small, and despite the University claims to be able to fulfil the demands from the industry, the situation is that firms continue to perform most of the quality checks abroad, which obviously increases their costs. Firms admit that they either were not aware that the Polytechnic University offered such service, or they claim that this laboratory does not offer all the type of quality certification they need.

- **Increasing government/international organisation support for the ‘Made in Albania’ brand**

Entrepreneurs recognise that government and international organisations support is important even at these stages of upgrading. In addition to what was important for the OEM stage (which continues to be important), in the stages of ODM/OBM specifically, the government involvement is needed to support the collective brand ‘Made in Albania’. The interviewees point out the need for international marketing to raise awareness on the quality of the overall ‘Made in Albania’ brand. According to them, such approach would facilitate the individual Albanian firms upgrading to the brand level.

Assessing what has been done with this regard, data from AIDA and other international organisation (e.g. USAID) show that firms have been subsidised to participate in some international fairs. However, entrepreneurs claim that such participation was less useful because it was not done properly: *‘Albania had a very small stand and neither looked good visually, nor allowed the potential buyers/partners to see what each of the firm produced or had to offer’ – local entrepreneur*

Moreover, for building a strong ‘Made in Albania’ brand, entrepreneurs identify the need for quality certification of the national products to be subsidised. Some firms confirm that AIDA has been helpful and has subsidised some ISO certifications. However, the subsidizing grant is limited and firms do not always get the support when it is actually needed. According to Mr. Beqiri, Director of AIDA, this is not due to lack of collaboration with the manufacturers, but because AIDA’s staff is small and the financial subsidizing capacities are limited to support firms’ upgrading at these mature stages.

- **Forming horizontal, backward and forward linkages**

Interviews indicate that interactive learning and collaboration between different local firms is very important for ODM/OBM upgrading. Such interactions include horizontal linkages with local firms of the same industry; backward linkages with different raw material suppliers and service suppliers; and forward linkages with the end-users.

Acknowledging the importance of learning from each other, Albanian manufacturers have formed the Chamber of Fasons and the Chamber of Albanian Textile Producers. However, when analysing the activity of these chambers, it becomes evident that apart from common lobbying for tax incentives or any other legal issue, little has been done with regards to knowledge and best practice sharing. Even the fact that there is not one common chamber, but instead two separate ones, is a sign of misalignment. Entrepreneurs admit that the sharing of information happens only through personal contacts among entrepreneurs who know each other. Even though the entrepreneurs agree in principle that collaboration with others would increase economies of scale and lead to collective efficiency, there is still a high degree of competition and lack of trust among local manufacturers.

Confirmed by all actors interviewed, a crucial factor for upgrading at these stages is the formation of backward linkages. The heavy dependency on the imported raw materials is considered the major hindering factor for upgrading. In many ways, it might be said that the textile industry in its current stage in Albania is a garment rather than a textile industry, as only very few natural fibres are produced locally (Bagaviki, 2016).

The case of backward linkages for the footwear industry seems more optimistic and achievable. This is due to the potential to increase leather production within the country, which is estimated to be able to meet 10-15% of the local demand (ibid). Albania has a considerable amount of livestock, and the process of tanning from fresh skin to wet blue is done within the country (Monitor, 2012). It is only the last process that turns this skin into leather that is done abroad. If this last process could be done in Albania, the waiting time would be shortened from 5 to 1 weeks (ibid). However, policy makers recognise the lack of know-how in this process and the need for more financial investments. That is why the current tendency to support the development of raw material industries is by forming joint ventures with specialised foreign firms.

Lastly, another important upgrading factors identified by entrepreneurs is the formation of forward linkages. In order to foster the forward linkages, local manufactures point out the need to have local specialised selling agents, market researcher and marketing companies. They are expected to provide information and facilitate the access to international markets and to final consumers, by thus improving the user-producer interaction. Assessing the current situation, few such specialized agents/firms are present in Albania. The only well-

developed linkage acknowledged by the entrepreneurs is the one with local transportation companies that offer international transportation.

All these factors identified for the upgrading to ODM/OBM stage: the local manufacture and its interaction with other local manufactures and local suppliers, its collaboration with government institutions and international organisations and its cooperation with universities, research institutes and professional school, coming together in the same geographical territory, are elements of RSI. Juxtaposing these finding with the theory of GVC, it becomes clear that the GVC theory neglects these factors (Appendix 5). While this paper confirms the importance of RSI for GVC upgrading, the specific experience of the textile and footwear industries in Albania show that RSI becomes a prerequisite only at the designing/ branding stages.

The formation of such RSI has been taken into consideration by The Ministry of Urban Development in its *Inter-Sectoral Integrated Plan of Economic Zone Tirana-Durres 2015-2030*. According to this plan, the textile and footwear industries are expected to be located mainly in the area of Kashar – Vore and the supportive industries are expected to be located nearby. Despite the plan displays theoretical elements of the RSI, the approach still resembles more to the cluster approach rather than a RSI - focusing more on the co-location of the industries, rather than on the active learning and collaboration between the local actors. The plan lacks the instruments needed to foster this learning and collaboration. These instruments might not be in the competences of the Ministry of Urban Development, that is why more alignment is need with the Ministry of Economic Development, Trade, Tourism and Entrepreneurship, Ministry of Social Welfare and Youth, and Ministry of Innovation. In addition, a pitfall of this plan (and many others alike) is their top-down character, without involving local actors in the planning process. That is why, during the interviews, entrepreneurs expressed their reluctance with this plan. Most of them are not willing to relocate in DURANA because of the difficulty to find labour force in this region, due to low number of people willing to work in these industries. They also feel that this decision favours the manufactures that are already located in this area. However, on the other part, the limited government capacities to multiply the actors: suppliers, government agencies, research institutions and professional schools in each of the 5-6 main regions where the textile and footwear manufactures are located, have to be acknowledged. Therefore, taking in consideration that Albania has relatively good infrastructure and a small territory, reachable

by road transportation in few hours, it can be more feasible to start by fostering all the elements and their collaboration at a national level, and then reconsider the most feasible boundaries of an effective RSI.

Table 1: Summary of main findings

Stage	Factor	Theoretical Framework
Entering the GVC⁴	Cheap labour force	GVC
	Proximity to markets & favourable logistic	GVC
	Favourable trade agreements	GVC
	Flexibility with small and large orders	GVC
Assembly to OEM upgrading	Knowledge and technology transmitted from the buyer. Subject to: <ul style="list-style-type: none"> - Nationality of the buyer - Whether the buyer performs production itself - The expertise of the buyer in this sector - The opportunity to be part of GVC for high price/quality retailers 	GVC
	Modes of governance. Subject to: <ul style="list-style-type: none"> - Nationality of the buyer - The processes performed by the buyer - The diversity of the global buyers with the which the local manufacturer collaborates - The ability of the local manufacturer to be efficient and keep a certain level of quality 	GVC
	Local manufacturer investments in machinery and employees' training. Subject to: <ul style="list-style-type: none"> - Subject to easy access to financing from commercial banks 	GVC
	Role of entrepreneur (knowledge, experience, ambition, vision)	RSI
	Collaboration with government agencies and	RSI

⁴ These factors are not subject of this study but they are based on previous publication on the case of the textile and footwear industries in Albania, which have been cited in this paper.

	international organizations. Subject to: <ul style="list-style-type: none"> - Fiscal stability and favourable legal environment - Capacity to subsidize machinery - Capacity to fight informality - Capacity to provide trainings - Capacity to subsidize international fair participation 	
OEM to ODM/OBM upgrading	Local manufacturer investments in technology and employees' training ⁵	GVC
	Role of entrepreneur (ambition and vision)	RSI
	Collaboration with universities and professional schools for qualified staff. Subject to: <ul style="list-style-type: none"> - Quality of these local actors (infrastructure, curricula) - Frequency of collaboration 	RSI
	Collaboration with universities and research institutions for R&D. Subject to: <ul style="list-style-type: none"> - Know-how to perform R&D - Frequency of collaboration - Availability of funds/subsidies 	RSI
	Collaboration with specialized laboratories for quality certification. Subject to: <ul style="list-style-type: none"> - Quality of these local actors (modern technology, know-how, wide range of certifications offered) 	RSI
	Collaboration with government agencies and international organizations. Subject to: <ul style="list-style-type: none"> - Capacity to support the common national brand - Capacity to subsidize R&D 	RSI

⁵ However, the investment amount needed in these stages is enormous and not feasible to be covered only by the local manufactures. So, it remains an unrealistic factor. The support of RSI's elements remains a prerequisite

	<p>Formation of horizontal, backward and forward linkages. Subject to:</p> <ul style="list-style-type: none"> - Quality of products/service these local actors provide in comparison to international ones - Frequency of collaboration 	RSI
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Source: Author's compilation

Chapter 5: Conclusions and Recommendations

Global Value Chain theory provides a framework through which this paper explored the factors that enable economic upgrading in GVCs in the case of the Albanian textile and footwear industries. Results confirmed that factors promoted by GVC theory - the support of the lead firm/global buyers and the modes of governance in the chain -, are important for the upgrading process. However, these factors were validated only at the first stages of upgrading. By adopting an evolutionary approach, results indicated that the upgrading in the high-value-added stages requires the systemic characteristics of the Regional Systems of Innovation. Therefore, this paper has contributed to GVC studies by: i) demonstrating that the upgrading factors change at each stage of the GVC; ii) showing that the ‘merging’ of the GVC with RSI approach becomes indispensable only at the mature stages of designing and branding, and iii) expanding the geographical coverage of such studies drawing on the case of Albania.

Trying to evaluate whether the textile and footwear industries in Albania can upgrade to the designing and branding stages, this paper identified several shortcomings, such as: weak collaboration with professional schools and universities, which in addition do not have industry-oriented curricula; lack of R&D activities; need for product/process quality certification; weak horizontal, backward and forward linkages; and lack of government support, both in terms of capacity building and financial support. However, by prioritizing the formation of an effective RSI, policymakers can still support the upgrading of TF industries. Based on the findings from this study, the following recommendation can act as general guidelines for points of intervention:

Recommendations for local manufactures individual efforts for upgrading

- Local manufacturers should consider diversifying the range of global buyers. Working for buyers that are specialised in TF industries themselves (such as the Italians) is favourable only at the first stage of upgrading. Afterwards, they become reluctant to share the added-value activities. Albanian manufacturers should instead aim to collaborate with other high price retailers in the Western Europe
- Local manufactures should start by creating the brand locally/ being retailers in the local markets. This approach enables learning opportunities on how to manage a brand and how to create a solid network of suppliers, both in terms of raw material

and supportive service (ex. marketing suppliers), before aiming to upgrade in the GVC as ODM. When aiming to upgrade to the ODM stage in GVCs, based on this empirical evidences of textile industry in Brazil (Schmitz, 2004), the best approach would be to first start dealing with small rather than large customers

- Local manufacturers should use the benefits of trading own brand online. The online selling decreases the dependency from global buyers by providing direct contact with the customer (B2C), as well as accurate feedback on the products. All this information is valuable to support firm's upgrading
- Chambers and Associations should play an active role in fostering collaboration and best practices sharing among the local manufacturers

Recommendations for policymakers' support for upgrading

- Policy makers should provide a stable and favourable taxation system for the TF industries, that allows local manufacturers to remain competitive (compared to other neighbourhood countries) and to make investment plans without fearing that the tax rates will change in the near future
- Policy makers should be lobbying on behalf of local manufacturers for anti-discriminatory trading and legal frameworks with other countries participating in the GVCs (ex. Concordato law)
- Policy makers should invest in the promotion of the collective 'Made in Albania' brand through preparing international marketing campaigns and better organising participation in international fair
- Policy makers should invest in a modern quality check laboratory which can support the TF industries, as well as other related industries of the raw material and should also provide training on Quality Managements, since quality standard are a prerequisite of upgrading in EU market
- Policy makers should support the development of raw material industries (ex. fibre, leather). Considering the lack of know-how within the country, the right approach can be attracting specialized FDIs by providing favourable condition for the initial investments
- Policy makers should help fostering the networks of local firms through a dedicated agency that coordinates all related firms to form horizontal and backward linkages.

This can be better done by a dedicated and specialized regional/sectoral agency (AIDA type if its capacities are increased)

- Policy makers should improve the provision of scientific knowledge and qualified labour force by investing in the infrastructure and in the industry-orientated curricula of professional schools and universities
- Policy makers should subsidise R&D and new machinery infrastructure through a specific Technology Upgrading Fund for firms. This could be given under the condition that some targets have to be met
- Policy makers of all the institutions of the executive should collaborate more on plans and strategies that overlap in the competences of several institutions and should adopt more elements of a bottom-up approach while preparing this plans and strategies
- As a last discussion, which in fact goes beyond the scope of this paper but can be the focus of further research agenda, policy makers of the Balkan countries that prioritize TF industries, can join efforts to form a Balkan RSI. Since most of these countries are small and with limited capabilities to fully support TF industries with backward linkages within the country, instead of competing on low costs, they can specialize on certain raw material or services that are needed by TF industries and form a network of collaboration that can make Balkan region more attractive for both global buyers and direct customers

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Appendices

Appendix 1: Statistical data from textile and footwear industry in Albania

Table 2: Number of textile and footwear manufacturing firm in Albania

Year	No. of manufacturing firms	
	Textile	Footwear
2015	803	233
2014	748	190
2013	707	154
2012	665	131
2011	736	126
2010	753	114
2009	741	119
2008	774	117
2007	697	112
2006	671	103
2005	570	78

Source: INSTAT register of enterprises, 2015

Table 3: The distribution of textile and footwear manufacturing firms by regions

Albanian Regions	No. of factories	
	Textile	Footwear
Berat	38	
Dibër	4	0
Durrës	128	44
Elbasan	25	
Fier	67	12
Gjirokastrë	21	
Korçë	73	
Kukës	5	
Lezhë	24	9
Shkodër	33	17
Tiranë	286	87

Source: INSTAT register of enterprises, 2015

Table 4: Shoe⁶ Industry in Albania in EUR

Y ear	2011	2012	2013	2014
Total exports shoes in EUR	216,401,304	212,058,631	241,596,713	306,230,551
Total exports in EUR	1,406,404,234	213,03	1,759,982,250	1,826,850,041
The ratio of the shoes industry with the other exports	15%	99544%	14%	17%
Total GDP in EUR	9,290,172,164	9,520,078,495	9,646,819,908	10,003,924,491
The report of the shoes industry with the GDP	2.3%	2.2%	2.5%	3.1%

Source: INSTAT, 2014

Table 5: Garment Industry in Albania in EUR

Y ear	2011	2012	2013	2014
Total exports garment in EUR	239,460,423	230,679,803	252,947,902	305,783,227
Total Exports (EUR 1€=140 leke)	1,406,404,2 34	1,521,642,8 57	1,759,982,250	1,826,850,0 41
The report of the garment industry with the other exports	17%	15%	14%	17%
Total GDP in EUR	9,290,172,1 64	9,520,078,4 95	9,646,819,9 08	10,003,924,491
The report of the Apparel industry with the GDP	2.6%	2.4%	2.6%	3.1%

Source: INSTAT, 2014

⁶ Since few raw materials are produced within the country, instead of textile and footwear industries, data are calculated only for shoe and garment sectors

Appendix 2: List of interviewees

	Name Surname	Position	Firm/Institution
1.	Donika Mici	Entrepreneur	Mici Shoes, Tirana
2.	Elton Radovani	Entrepreneur	Berttoni, Shkoder
3.	Esmeralda Qirko-Cuedari	Entrepreneur	Berat-Confex, Berat
4.	Flamur Hoxha	Entrepreneur	Kler, Tirana
5.	Genci Cellci	Entrepreneur	MasTor, Korce
6.	Krienko Memo	Entrepreneur	Blue Sky, Fier
7.	Kriton Prendi	Entrepreneur	MiTo, Berat
8.	Mimova Vojka-Emanuel	Entrepreneur	SAM, Tirana
9.	Skender Pashaj	Entrepreneur	Fital, Tirana
10.	Xhemal Burxulli	Entrepreneur	Ambra, Durres
11.	Blendi Klosi	Minister	Ministry of Social Welfare and Youth
12.	Sonila Limaj	Director	National Agency of VET
13.	Deni Klosi	Director of Projects Implementation	National Agency of Territorial Planning, Ministry of Urban Development
14.	Genti Beqiri	Director	AIDA
15.	Enkelejd Musabelliu	Director of Economic Development	Municipality of Tirana
16.	Prof. Dr. Genti Guxho	Head of Textile and Fashion Department	Polytechnic University
17.	Roland Bagaviki	Consultant	Bagaviki Consultancy
18.	Peter Feldman	Head of ProINVEST & ProSME Programmes	GIZ
19.	Helmut Müller-Glodde	Previous Head of Development Programmes	GIZ
20.	Ornela Liperi	Chief Editor	Monitor (Economic) Magazine

Appendix 3: List of questions

The following questions acted as general guidelines, because all interviews were semi-structured – ex. the interviews initially didn't include anything about the role of the entrepreneur, but once this was pointed out by the interviewees, then it was further explored. Entrepreneurs were all the time encouraged to come with unanticipated topics that could lead to other important factors for upgrading.

General Question

- When did you started the manufacturing activity and what was your motivation to start this activity?
- Did it start as a joint venture or just as an Albanian investment? If it started as a joint venture, who were your partners?
- Which were the reasons why your company is located in this region? Have you been relocating during this period?
- How would you describe the development of the firm in terms of no. of employees, revenues, and type of activities performed? Which are some milestone year you would particularly identify as important for your firm upgrading? What was particular in these years?

*After the question 'type of activities performed', firms were categorized in Assembly producer aiming to become OEM or OEM producers aiming for further upgrading (ODM/OBM)

Assembly to OEM Producer

- Which are the factors that you would identify as supportive or hindering in your upgrading towards performing full production cycle?
- With how many buyers do you collaborate? Where are these buyers from? Have you considered to collaborate with other buyers? If yes, what constrains do you face for doing so? If no, why?
- How would you describe the relationship with your buyers? Do they transfer technology or help you with training employees? Has this relationship changed with passing of the time? If yes, why do you think it has changed?

- How much have you invested in the firm since its establishment? In what have you mainly invested? How do you think this investment facilitates your upgrading? Have you ever got subsidized for such investments?
- Where do you hire your employees from – do you collaborate with universities and/or professional schools? If yes, how would you describe such collaboration? Do you provide on-the-job-trainings? Are you contented your employees' performance? How important are your employees for the upgrading? (for the ODM/OBM producers more questions were developed at this point)
- When did you last acquire new machinery? How important are the machineries in your performance and upgrading? Have you ever been subsidized about buying new machinery? Do you find any financial constrains to get loans from the banks? (more like a consistency check question for the previous ones about investments)
- Do you think government policies have a role in your firms upgrading? How would you describe this role? Which government policies would you identify as supportive and which hindering? How do you judge the infrastructure investments – do you find any logistical constrain for upgrading? What about the relationship with international organization – how would you describe that?

OEM to ODM/OBM Producers *in addition to the above questions

- Which are the factors that you would identify as supportive or hindering for your upgrading in the ODM/OBM stage?
- Have the relationships with your global buyers changed? If yes, how?
- Do your products/processes have quality certification? Where do you do such quality certification? Have you considered to collaborate with the laboratory at the Polytechnic University?
- Do you perform any R&D activity – meaning any scientific, engineering activity to improve your existing products/processes or to development new ones? Do you collaborate with any research institution or the university with this regard? Why? Do you get any financial support/subsidies for conducting R&D activities?
- How would you describe the role of government at this stage? Has this role change with the time? Have your needs changed? At this stage, in which areas do you mostly need government/international organization support?

- How would you describe the relationship with other local manufacturers? Do you share knowledge and know-how with each other? What about the role of the Chamber of Textile?
- Where do you get your raw materials? How would the formation of raw material industries within the country impact your upgrading? Do you think there is potential for the formation of such industries?
- What other supportive services do you need in the designing and branding stage? Do you find qualified suppliers within the country?
- How important is it to have direct contact with the final market/customer? What strategies does your firm follow in order to create such linkages? What would you find helpful with this regard?

Concluding questions

- What are your companies' plans, do they include upgrading? If yes, what strategies do you plan to follow for upgrading?
- How do you consider the general local and global environment – is that supportive for upgrading? Do you think Albania has the capacities to support these industries upgrading to the brand level?
- Based on your needs, what recommendations would you give to policymakers with this regard?

*Ask if there is any last thing they would like to add

The questions asked to the other actors interviewed were all different, trying to focus on the role and strategies that the institutions they represented have regarding textile and footwear industries upgrading. The questions were also oriented to understand their personal opinions regarding the potential of these industries' upgrading.