

Upgrading in the European periphery

Bulgarian and Turkish textile and apparel exports to the European Union market

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Global Value Chains Workshop
“Industrial Upgrading, Offshore Production, and Labor”

November 9-10, 2006
Social Science Research Institute, Duke University
Erwin Mill Building, A103

Introduction

In the introductory section of the special IDS bulletin (collection of articles that address major achievements and gaps within the GVC literature), there is a discussion of GVC scholars on how value is conceptualized and measured (Gereffi, Gary et al., 2001: 1-7). The authors address the question of what do we mean when we argue that the firm is upgrading by moving to a high value niche or when we argue that the industry is moving to a higher value added export role. The authors cluster around three proposals for studying value added. The first one is to analyze the distribution of *profits*, which is used as primary indicator of global income shares in commodity chains. However, the authors dismiss this proposal because, on the one hand, it is often difficult to get public data on profit rates of firms, and, on the other hand, profits do not tell us about the productivity of the economy at large and about the returns to labor.

The second proposal is to study *price markups*. This indicator suggests that the higher the margin on sales, the higher the share of value-chain rents (2001: 6). The

authors again dismiss this indicator unless the analysis is related to the volume of transactions and also the activities that underline the increments in price (high rates of profitability can be generated with low price markups if the volume of the transactions is very high). The difficulty in obtaining this information, however, remains.

A third proposal is to study *value added*. This indicator, according to Gereffi and his collaborators, has two dimensions. The first one is to study the distribution of value added along the chain. For instance, a cotton shirt that is sold in Germany for 50 EUR might break down into 10 EUR for the fabric, 3 EUR for labor costs, 7 EUR for production costs and profit to the local subcontractor, 10 EUR to the contractor and 20 EUR to the retailer. This measurement of value added along the value chain is hard to trace as far as it depends on the analysis of all firms that link to each other in the chain. Failure to assess correctly the value added would undermine the whole analysis. Still, if this type of measurement of value added is possible, then it would tell us which firms have power in the chain and how this power helps them to upgrade. As such, the measurement of value added has many more advantages than the measurement of profits or price markups. However, the question of how to assess the possibilities for upgrading at the country level remains. This is the case because if some firms from developing countries, which participate in the value chain, are able to upgrade, there might be many other local firms which are not able to upgrade. In this case, Gereffi, Humphrey, Kaplinsky and Sturgeon (2001:6) suggest a second way to calculate value added, i.e. by analyzing the distribution by countries or regions, using international trade data to get estimations of national value-added. This is just a proposal, which has not received significant attention in the GVC literature. This paper aims to contribute in this respect. It

breaks down as follows. The *first section* unveils in detail the research method - unit value analysis. It is followed by the *second section* which presents unit value analysis of Bulgarian and Turkish textile and apparel exports to the European Union market as an example of how to study industrial upgrading. Recent trade flows between the European core (EU15) and periphery (Central and Southeast Europe) are given in the *third section* of the paper in order to trace the necessity for unit value study. Finally, the conclusion summarizes the major findings of the paper.

1. Research Method

Unit Value Analysis (UVA) is proposed as a research method to study value added of textile and apparel exports to a particular market. The UVA is important in itself since it gives a chance to analyze the product upgrading of certain countries which export to one and the same market in a certain period of time within a certain context of international trade policy. Thus, this type of analysis throws a significant light on the possibilities for industrial upgrading and climbing of particular industries in Gereffi's ladder of export roles.¹ Moreover, the product quality analysis could allow us to improve the concept of competitiveness (Graziani, G. 2002: 54) because upgrading does not necessarily mean increased competitiveness and vice versa. For instance, an export structure, as Graziani (2002) suggests, could be downgrading and still be competitive in the lower quality levels. In general, this statement might be true, although we would disagree if it concerns specifically the textile and apparel industry. It is simply because the international

¹ We should be careful with the analysis since unit values are second best proxies for the price and quality component in international trade, as opposed to the actual market prices. In addition, there might be different unit values for different years because of the trade protection measures. Finally, discrimination might exist among particular EU countries regarding imports under EU quota regulations. However, this could be controlled by selecting particular years for the study and controlling for some products, which although taking high value added segments shall be considered low value added products.

competition in this sector has become so fierce, especially after the elimination of textile quotas in January 2005. Hence, firms, which concentrate on the lower ends of the product quality, could easily be driven out by imports from China, Pakistan and India. Therefore, the UVA gives us a profound platform to compare the difference of upgrading of exports of countries and their industries.

There are at least two distinct ways of application of the methodology of the UVA. The first one is used by Graziani (2002), which is similar to the one employed by Freudenberg and Lemoine (1999). The authors consider the quality differences between the unit values of the imports of certain number of countries into the EU in comparison with the unit value of the same products/product groups of the average intra-EU import (the average UV of the exports of EU member states between each other). The other way, applied by Fontagne et al. (1997), Landesmann and Burgstaller (1997) is to calculate the unit values of the trade flows referred to the average of extra-EU flows (the average UV of the exports of all other countries to the EU market).

There is a specific difference in both approaches. In the first case, the focus of the analysis is on whether there is a process of catching up in terms of upgrading between outside EU countries and the EU average level. In the second case, the UVA research tool is used to compare quality levels of the EU importers. Since our target is to compare the upgrading between the export structures of countries that export to the EU, we would suggest utilizing the second type of the proposed methodology of unit value analysis. Hence, we calculate the values of trade flows to the average of similar flows. More particularly, we estimate the differences of the unit values (value/volume) of the product/product groups of two countries to the European communities (EC) vis-à-vis the

average unit values of the product/product groups of the imports to the European Communities from all suppliers to the EU market (average unit value of extra-EC imports). Therefore, we could identify at what quality level we could find the countries' exports to the European communities compared to extra-Communitarian imports in distinct periods. The possibilities are the following: up-market - High value added exports, if the unit value of Bulgaria's and Turkey's products is $>15\%$ from the average unit value of Extra-EC imports of the same products. Middle-market – medium value added if the unit values are $\pm 15\%$ of the average UV and down-market $<- 15\%$.²

There is a need, however, to control the results for four criteria. The first one is related to the products exported under the Outward-Processing-Traffic (OPT) regimeⁱ, while the second criteria is related to studying a concentration of exports in product groups which are biased to be low value added. Such low value added products could be T-shirts and vests of cotton, found in product groups 610910 and 610990, whereas OPT apparel exports are important for our analysis and they are found in category 61 (articles of apparel and clothing accessories) and category 62 (apparel articles not knitted and crocheted). Although, they might indicate up-market or middle-market value added of the exports, automatically they shall be considered down-market. This is the case since exports under OPT (called also international subcontracting) yield low value added for the domestic textile and apparel industry. More particularly, the local apparel firms, which perform the assembly operations and export under OPT, retain only a slight share from the value of the product for the labor-intensive operation which they perform. The value added of OPT exports is biased to be high and medium-market because of the

² The two groups of scholars agree on this percentage of ranges of product quality levels.

essence of the competitive advantage from this kind of partnership between the foreign and the local firm, for the benefit of the formerⁱⁱ.

Two additional corrections which reflect contemporary developments of international trade in textile and apparel goods are inserted. The first one is related to OPT EC imports/exports. It takes account for exports of apparel materials from EU countries to Turkey and Bulgaria, which are registered for assembly under OPT, but are not reported as OPT exports from these two peripheral countries back to the EU market. The case of Bulgaria proves impact from this criterion, while limited influence is registered in the case of Turkey. The second correction adjusted the lath for qualification of unit values into the three dimensional scale: $>20\%$ (up-market); $\pm 20\%$ (middle-market) and $<20\%$ (down-market). The reason for that is the liberalization of textile trade, which profoundly changed the competitiveness of industries because of two factors – China's entrance to the WTO and the final lifting of the textile quota barriers in 2002, and the free quota entry of textile goods since January 2005.

The 6-digit disaggregated product data of the Harmonized system (HS) for textile and apparel products are used included in articles 50 until 63 from EUROSTAT Comext databases. As far as the dataset is unified, we consider that homogeneous products are compared.

The UVA methodology is applied in the following way. We take, for instance, article 62 (articles of apparel and clothing, not knitted or crocheted) and we analyze all (circa 120) product groups at the 6-digit disaggregated level from this article for one particular year in the database. Then, we form a cluster of 6-digit product groups, which represent highly reliable level, above 80 % of article 62 (in terms of value). Therefore, we take a

highly representative sample of article 62 and we calculate the unit values of all products within the representative sample and put them in the three categories: down-market, middle market and up-market. The concrete example is found below:

**TABLE 1 Unit value comparison of apparel product groups between
Average Extra-EC imports and EC imports from Bulgaria (1991)**

In 000 ECU

Total EC import from Bulgaria (CN 50-63)		112,750				
Textile (50-59)		13,134				
Apparel (60– 63)		99,616				
Total OPT import from Bulgaria (CN 50-63)						
Textile (OPT EC exports)				31,024		
Apparel (OPT EC imports)				48,032		
TOTAL 62				62,942		
% of total EC import from Bulgaria				56 %		
Total OPT 62				41,247		
Product group	Value (000)	Volume (000)	UV (BG imports)	UV Extra – EC import	Quality Level	% UV variance
620112	923	43	21.5	22.2	MM	- 3 %
620113	685	24	28.5	18.45	UpM	+ 35 %
620192	1976	72	27.4	18.3	UpM	+ 33 %
620193	3986	224	17.79 (40 % OPT)*	20.82	DM	- 15 %
620211	1019	67	15 (80 % OPT)	29.7	DM	- 49 %
620293	2509	80	31.4 (60 %)	22	UpM	+ 30 %
620331	940	44	21.5 (30 %)	41	DM	- 48 %
620339	754	35	21.5 (80 %)	38.5	DM	- 44 %
620341	869	51	17.6 (80 %)	32	DM	- 45 %
620342	1260	121	10.4 (70 %)	12.2	DM	- 15 %
620343	826	71	11.6	18.7	D M	- 38 %
620453	978	37	26.4 (85 %)	23	MM	+ 13 %
620459	4440	150	29.6 (98 %)	29	MM	+ 2 %
620462	1087	61	17.8 (90 %)	14	UpM	+ 21 %
620463	2461	123	20 (70 %)	19.4	MM	+ 3 %
620469	858	45	19 (95 %)	30	DM	- 37 %
620520	6221	525	11.8 (55 %)	18.3	DM	- 36 %
620530	4709	336	14 (60 %)	15.2	MM	- 8 %
620630	2157	67	32.2 (98 %)	26	UpM	+ 20 %
620640	10638	378	28 (98 %)	29	MM	- 3 %
621133	1300	109	11.9	15.5	DM	- 23 %
Total			50,596			
% share of Total 62			80 %			

Source: Eurostat, COMEXT database (1991), author's calculations based on analysis of 120 product groups (6-digit disaggregated level) from category 62 (articles of apparel and clothing accessories, not knitted or crocheted); OPT >20 %.

The following table 2 shows the final outcome of the UVA application for category 62. This distribution into the three segments (up-market, middle-market and down-market) is then added to a cluster of distribution of the three segments of all 2-digit categories from 50 until 63, representing above 90 % of total EC imports from Bulgaria in that particular year in terms of value.

TABLE 2: Category 62 (Bulgaria) 1991

Quality levels	Concentration	Distribution in values of total 62 (in 000 ECU)
Up-market	17 %	10,700
Middle-market	48 %	30,212
Down-market	35 %	22,030
Total:	100 %	62,942

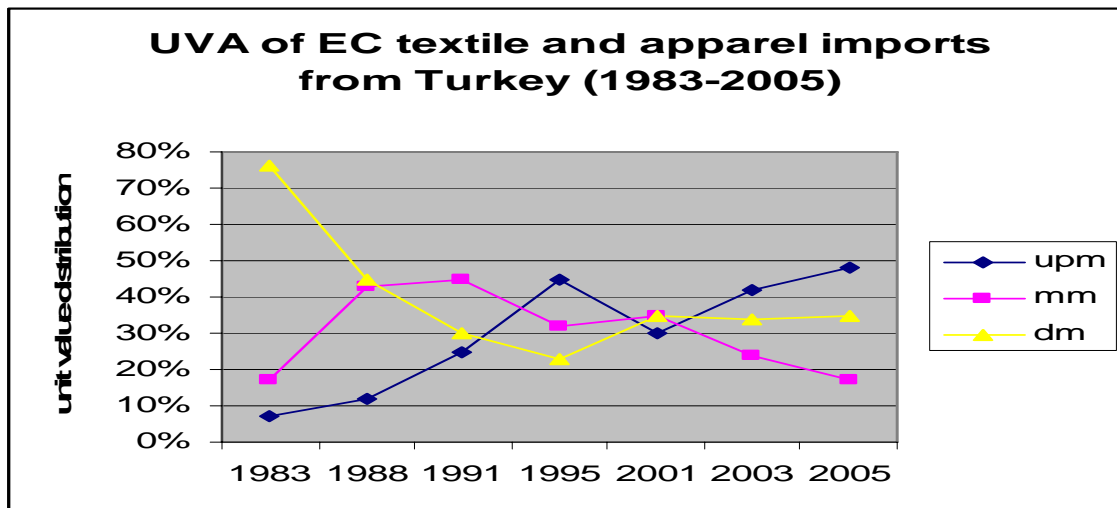
Source: Author's own calculation

The results show that there is a predominant concentration of the export structure on down-market (35 %) and middle market (48 %) exports, while the up-market exports have only 17 % share of total exports from category 62 of Bulgarian textile and apparel exports to the European Communities in 1991. However, we take account also of the share of OPT exports from total exports of category 62. This is necessary since OPT exports suggest that local firms have only participated in the assembly of the product, therefore retain an insignificant share of the accumulative profit. Hence, even if the product group shows exports of up-market or middle market quality levels of the OPT exports we should consider it as down-market export. In fact, a closer look to table 1 indicates that most of the middle and up-market exports from category 62 are registered as OPT exports (on average over 70 %). The grey zones in table 1 signify the OPT exports, which exclude only four product groups that have UP-market and MM quality levels without the presence of OPT shares. It could be concluded that in 1991, the shares of down-market exports from Bulgaria, in category 62, are much higher than the

registered 35 % share of total EC imports from Bulgaria. We state that 2/3 of the 65 % from the up-market and middle market exports (or 45 %), registered as OPT exports, could be treated as down-market exports. Therefore, we calculate that 80 % of total Bulgarian apparel goods from category 62 that were exported to the European Community market in 1991 are characterized as down-market, i.e. low value added products.

The same example is followed for each product category (50 until 63) to construct a unique database for Bulgaria by using the Comext databases of Eurostat. The estimations keep a standard level of 80 % for each product category, while each year under consideration represents a unit value analysis that covers 90 % of the value of total exports from Bulgaria and Turkey in the year under consideration. This percentage levels give high reliability of the unit value analysis.

2. Application of UVA: Turkey and Bulgaria contrasted



Source: Eurostat, COMEXT databases (1983-2005), Extra-EC imports; the author's calculations cover all product groups of 6-digit disaggregated level of 50 until 63 product group categories. The research encompasses over 90 % of total export to the EU market from Turkey (in value).

Turkey exported 75 % of its total textile and clothing exports (852 m. ECU) in 1983 to the European Community market. That same year, clothing exports represented 33 % of total T/C exports to this market. Half of Turkey's T/C exports to the EC market came from cotton products, which is a group of primary export commodities. The majority of Turkish T/C exports to the EC market in 1983 were concentrated in down-market niches (76 %), while the share of up-market products was only 7 %, leaving a 17 % share for middle-market goods. The textile exports dominate, and their value added is estimated at 59 % in the down-market segment. Therefore, at the beginning of the research analysis, Turkey is characterized as exporter of low value added goods. Moreover, it exports primary textile commodities, which means that in 1983, Turkey took the first step in the industrial upgrading.

In early to mid-1980s, the accession of Greece, Spain and Portugal to the European Community restricted the import quotas of textile and apparel goods under the Multi-Fiber-Arrangement (MFA) because the new members had high exporting capacity (Finkel and Sirman, eds. 2000). Then, the Outward-processing traffic regime (OPT) of the EC was implemented. Since 1983, the OPT allowed developing countries, including Bulgaria and Turkey, to export to the EC more than the recommended quotas under the MFA. This was to occur under the specific condition that "*EC firms supply subcontractors from third countries with materials, parts or components to be processed or assembled, and then re-import them into the EC at preferential tariffs*" (Pellegrin, J. 1997). Thus, the OPT regime provided an incentive for the Western European firms to outsource clothing assembly in the third countries, while at the same time retain the capital intensive textile production within the EC boundary.

Eurostat began tracking OPT exports in 1988, which is the next time point to analyze according to the UVA method. In that same year, Turkey more than doubled its exports of textile and apparel goods to the EC market compared to 1983 (1.9 b. ECU). The apparel exports (60-63 articles) increased substantially, almost fivefold (1.3 billion ECU) compared to five years earlier. The local apparel manufacturers, which perform the assembly operations and export under OPT retain only a slight share from the value of the product. This is because domestic firms perform only the labor-intensive operation, while value which accrues from textile inputs, logistics, design, brand and marketing is gained by the foreign contractor. The value added of OPT exports is biased to be high and medium-market because of the essence of the competitive advantage from this partnership between the foreign and the local firm which benefits the former.³ In the case of Turkey and Bulgaria, two product groups are considered as low value added which are within the category of articles of apparel and clothing accessories of 61 category (610910 and 610990).

Turkey increased its exports to the EC market in 1991 by 37 % (3 b. ECU) compared to 1988. A total of 75 % of its export has been in apparel articles, while the raw cotton exports decreased by 6 % share of total exports compared to 1988 (they took 12 % share of total T/A exports in 1991). The phenomenon of OPT exports have slightly gained importance in the Turkish case in 1991 (4.5 % of total TA exports). However, the impact is higher again (as in 1988) from the high concentration on low value added exports, which show up-market segment in the statistics (product group 610910). As seen from FIG.1, the Turkish value added of the export structure improved in 1991 compared to

³ The EU buyer imports usually expensive textile materials, supplied from an EU textile producer, and gains from the cheap assembly of the product in the peripheral economy. This increases significantly the unit value of the final product exported from the host country.

1988 (by 9 % in UpM and by 8 % in MM ranges). Although a climbing is observed, still, in 1991, about 1/3 of total Turkish exports are still in the down market segment.

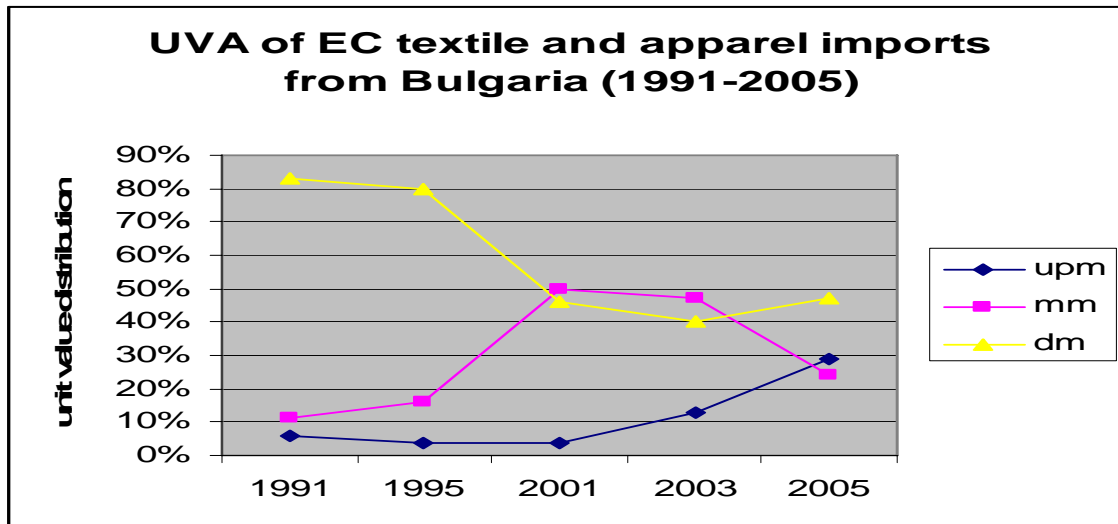
The case of Turkey is already very different in the mid-1990s. The highest concentration of the Turkish T/A exports is in the up-market segment. In fact, it doubled its share between 1991 and 1995. The down-market segment represents about 1/4 of the total T/C exports and there is an improvement by 7 % compared to 1991. At this stage, the comparison of the value added between the two export structures shows 3/5 DM concentration in the case of Bulgaria, while Turkey has managed to export almost 1/2 of its textile and apparel products in medium-and-up-market segments.

Competition increased substantially in more liberalized global textile and apparel market. The Agreement on Textile and Clothing entered into force in 1995 and since then developed countries began to lift their textile quotas progressively. Hence, Turkey has managed to increase substantially its T/A exports in 2001. In fact, it doubled the value of its exports in the period 1995-2001 (8 b. ECU). However, the up-market segmentation focus has decreased compared to 1995, but it is still about 30 % of total exports. At the same time, DM-products have increased by 12 %, which is a direct result of the high competition from Asian countries.

In 2003, OPT is insignificant because full-package production continues to dominate in the Turkish textile and apparel sector. However, the concentration in article 610910 and article 610990 has reached 20 % of total apparel exports. Half of Turkish textile and apparel exports are made up of up-market segment in the EU market, which is an increase by a spectacular 20 percentage points compared to 2001. The down-market segment has continued to take 1/3 of total exports, which is likely to be a consequence of increased

international competitiveness as a result of liberalization of the global trade regime in textiles. Middle-market export is only 16 % of total value added, which leaves the impression that there is a large group of Turkish manufacturers that target low cost products, which co-exists with even larger group of Turkish manufacturers which target high-value added market niches.

In 2003 and 2005, Turkey preserved its concentration in down-market exports (34% and 35 %). The middle-market exports decreased to 24 % and 17 %, respectively, compared to 2001 (35 %), but this has happened at the expense of up-market exports from Turkey to the EU market, which increased in 2003 (42%) and in 2005 (28 %) compared to 2001 (30 %). Therefore, after analyzing the UVA for the period between 1983 and 2005, it can be concluded that the up-market and middle-market exports have increased substantially at the expense of down-market exports.



Source: Eurostat, COMEXT databases (1991-2005), Extra-EC imports; the authors' calculations cover all product groups from 6-digit disaggregated level of categories 50-63. The research encompasses over 90 % of total export to the EU market from Turkey (in value).

The breakdown of COMECON has been an important factor which affected Bulgaria, as far as this market absorbed about 75 % of its textile and apparel exports before 1990.

Therefore, Bulgarian enterprises had to reorient totally their exports to the Western European or North-American textile and apparel markets. In fact, they managed to do that. The Bulgarian exports doubled in 1991 compared to 1988 (113 m. ECU of T/A exports) due to the West-European exports of mostly apparel (consisted about 90 % of total T/A export).

The textile and apparel exports from Bulgaria to the EC market still kept a very high concentration on the down-market segment of 83 % of total T/A exports after we have corrected for the OPT exports (they account for 40 % of total T/A exports in 1991). The mid-1990s were important for Bulgaria, which tripled its export to the EC market (317 m. ECU). Bulgarian middle market T/A exports have gained a high share of 32 % compared to 11 % in 1991. In fact, these have shifted from the down-market exports, while the up-market exports have kept the same levels (6 % of total value added of the exports). In 1991, Bulgarian T/A exports concentrate 3/5 on DM segments.

The Bulgarian textile and apparel exports increased by 45 % in 1998 and 70 % in 2001 compared to 1995. The high concentration of OPT exports has slowed down as 68 % of total T/C exports were OPT in 1996, 45 % were OPT exports in 1998 and 33 % were registered in 2001. This has impacted Bulgarian T/A exports to the EC market, but the concentration on DM segment products has continued, while the percentage share of UpM products has even decreased between 1995 and 2001.

In 2003 and 2005, Bulgaria exported textile and apparel estimated at above €1 billion to the EU market. The apparel exports, knitted or crocheted (62) represented 65 % of total exports. Bulgaria has considerably improved at the end of the research period compared to the initial point. Between 1991 and 2005, the down-market textile and

apparel goods from Bulgaria to the EU market decreased by 34 percentage points, but the up-market exports increased only by 23 percentage points. The middle-market products represented one-tenth of all exports in 1991, while at the end of the research period they represent a quarter. These distribution of unit value shares of up-market vis-à-vis middle-market and down-market products is lower compared to the Turkish textile and apparel distribution of unit value shares of exports to the EU market.

3. Trade flows between the European core and the European periphery

TABLE 3 : EU-15 trade with Central and Southeast European countries (mio euros)

	1995				2000				2005			
	Import		Export		Import		Export		Import		Export	
	Textile	Clothing	Textile	Clothing	Textile	Clothing	Textile	Clothing	Textile	Clothing	Textile	Clothing
<i>Central Europe</i>												
Hungary	109	792	502	330	228	1066	799	515	205	763	596	516
Poland	137	1750	1345	403	329	2114	1892	683	448	1298	1703	721
Czech Republic	305	549	467	280	602	746	903	393	716	630	1117	600
<i>Southeast Europe</i>												
Turkey	779	3495	707	92	1341	6128	1401	335	1417	9081	1440	388
Romania	49	991	600	184	82	2632	1359	687	221	3592	1797	840
Bulgaria	55	262	202	76	50	798	390	257	145	1103	570	417

Source: Eurostat (2006). textile (50-59). clothing (60-63). author's calculations.

In 2005, the Southeast European countries, namely Turkey (8,670 m. EUR), Romania (1,176 m EUR), and Bulgaria (281 m EUR) are the trade partners, which have a positive trade balance with EU, whereas the Central European countries have a negative trade balance – Poland (-678 m EUR), Hungary (-144 m EUR) and the Czech Republic (-371 m EUR).

EU clothing imports from Turkey have increased in 2005 by 33 % compared to 2000 and by spectacular 62 % compared to 1995. The EU textile imports from Turkey have registered a fairly high growth in volume between 1995 and 2000 but not that high

between 2000 and 2005. Similarly, EU clothing imports from Romania have increased by 27 % compared to 2000 and by spectacular 72 % compared to 1995. However, EU textile exports to Romania have augmented substantially too in 2005 (1.8 b. EUR) by 24 % compared to 2000 and by 67 % compared to 1995. By opposition, Bulgaria registered a negative trade balance in textile trade with EU (-425 m EUR) in 2005 and a substantial positive balance in clothing trade with EU (686 m EUR). The high volume of clothing exports of Bulgaria to the EU is due to the large percentage of subcontracting that Bulgarian companies are doing with EU buyers.

As far as Central Europe is concerned, EU clothing imports from Poland have decreased by 38 % in 2005 compared to 2000 and by 26 % compared to 1995, whereas EU clothing exports to Poland have increased by spectacular 44 % in 2005 compared to 1995. The trade balance of Polish textile and apparel trade with the EU is negative in 2005 (-678 m EUR), which is about 80 % decline compared to 2000 (-132 m EUR).

The trade balance in textile and apparel trade of the Czech Republic with EU is negative in 2005 (-371 m EUR), which is a substantial decline compared to 2000 (52 m EUR) and 1995 (107 m EUR). The major reason for that is the increase of EU textile exports to the Czech Republic in 2005 by 20 % compared to 2000 and by 60 % compared to 1995. The EU clothing exports to the country have also increased in 2005 (600 m EUR), compared to 2000 (393 m EUR), and 1995 (280 m EUR).

Hungary encountered a decline and in 2005 it became the least important trade partner in textile and clothing goods from the selected six country cases. It has negative trade balance with the EU in textile and apparel trade (-144 m EUR) in 2005, registering a substantial trade decline by 86 % compared to 2000 (-20 m EUR). This is primarily due

to the decline of EU imports of Hungarian clothing which have dropped by 28 % in 2005 compared to 2000 and kept the same level as in 1995.

These trade flows help us understand growth in Southeast Europe and decline in Central Europe in apparel and textile trade with the European core (EU-15). It seems, however, that the analysis of trade flows necessitates also analysis of unit values of textile and apparel exports to the EU15 as we have already shown for the case of Turkey and Bulgaria. Thus, we could see whether despite the decline in exports to the EU15, there is industrial upgrading in Central Europe and similarly, we could also trace whether the growth in exports results in industrial upgrading or downgrading for the case of Romania.

Conclusion

The paper used unit value analysis as a research tool to study value added of textile and apparel exports of Bulgaria and Turkey to the European Union market. It demonstrated that Turkey substantially increased the value added of its exports between 1983 and 2005, compared to Bulgaria between 1991 and 2005. It also compared trade flows of textile and apparel trade between EU15 and three countries from Southeast European and three other countries from Central Europe to argue that the analysis of trade flows necessitates also unit value study as complementary.

Recently, Peter K. Schott (2004) has proved the usefulness of the unit value analysis. The author applied a similar unit value methodology, as we have used in this paper, to study product-level US trade data at the low/medium/high value level. Schott proved “high-wage countries use their endowment advantage to add features or quality to their varieties that are not present among the varieties emanating from low-wage countries”.

Thus, simply by using UVA, Schott challenges the new trade theory models as he concludes that unit value patterns are inconsistent with the trade models which argue that producer price varying inversely with producer productivity.

By way of conclusion, we would argue that the UVA application refers also to the imperative issue of development today: it is not important how much you export, but what you actually export, as put by Ricardo Hausmann, J. Hwang and Dani Rodrik (2006) in a recent paper "*What You Export Matters*". The scholars create a quantitative index to study traded goods in terms of their implied productivity. They provide evidence that shows that countries that latch on to a set of goods that are placed higher on the quality spectrum tend to perform better. Therefore, we might conclude that the UVA method proves to be useful to study sectors, countries and markets and could easily fit in the context of the GVC analysis and its pursuit to study industrial upgrading.

NOTES

ⁱ Outward Processing is an EU customs duty relief scheme provided for under Council Regulation (EEC) No.2913/92 and implementing Commission Regulation 2454/93 (amended). It allows Community goods to be temporarily exported from the customs territory of the Community in order to undergo processing operations or repair and the products which result from these operations can be released for free circulation in the Community territory with a total or partial relief from import duties.

ⁱⁱ The EU buyer imports expensive and qualitative textile or apparel materials, supplied from an EU textile producer in order to use only the labour intensive operation at the host country. This increases significantly the unit value of the final product produced in the host economy.

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