



ROUTLEDGE  
COMPANIONS



# The Routledge Companion to the Makers of Global Business

Edited by Teresa da Silva Lopes, Christina Lubinski  
and Heidi J.S. Tworek

THE ROUTLEDGE  
COMPANION TO THE MAKERS  
OF GLOBAL BUSINESS

*Edited by Teresa da Silva Lopes,  
Christina Lubinski and Heidi J.S. Tworek*

First published 2020  
by Routledge  
2 Park Square, Milton Park, Abingdon, Oxon OX14 4RN  
and by Routledge  
52 Vanderbilt Avenue, New York, NY 10017

*Routledge is an imprint of the Taylor & Francis Group, an informa business*

© 2020 selection and editorial matter, Teresa da Silva Lopes, Christina Lubinski and Heidi J.S. Tworek; individual chapters, the contributors

The right of Teresa da Silva Lopes, Christina Lubinski and Heidi J.S. Tworek to be identified as the authors of the editorial matter, and of the authors for their individual chapters, has been asserted in accordance with sections 77 and 78 of the Copyright, Designs and Patents Act 1988.

All rights reserved. No part of this book may be reprinted or reproduced or utilized in any form or by any electronic, mechanical, or other means, now known or hereafter invented, including photocopying and recording, or in any information storage or retrieval system, without permission in writing from the publishers.

*Trademark notice:* Product or corporate names may be trademarks or registered trademarks, and are used only for identification and explanation without intent to infringe.

*British Library Cataloguing-in-Publication Data*

A catalogue record for this book is available from the British Library

*Library of Congress Cataloging-in-Publication Data*

Names: Lopes, Teresa da Silva, 1968- editor. | Lubinski, Christina, editor. | Tworek, Heidi, editor.

Title: The Routledge companion to the makers of global business / [edited by] Teresa da Silva Lopes, Christina Lubinski and Heidi J.S. Tworek.

Description: Abingdon, Oxon ; New York, NY : Routledge, 2019. |

Series: Routledge companions in business, management and accounting |

Includes bibliographical references and index.

Identifiers: LCCN 2019007118 | ISBN 9781138242654 (hardback) | ISBN 9781315277813 (ebook)

Subjects: LCSH: International business enterprises. | International trade. | International economic relations.

Classification: LCC HD2755.5 .R686 2019 | DDC 338.8/8-dc23

LC record available at <https://lcn.loc.gov/2019007118>

ISBN: 978-1-138-24265-4 (hbk)

ISBN: 978-1-315-27781-3 (ebk)

Typeset in Bembo  
by Werset Ltd, Boldon, Tyne and Wear

# 18

## GLOBAL VALUE CHAINS

*Jan-Otmar Hesse and Patrick Neveling*

### Introduction

In 2013, the United Nations for the first time dedicated its “World Investment Report” to Global Value Chains (GVCs). As recent fast growth of global trade had been driven increasingly by trade in semi-finished goods, the report illustrated that an incremental share of global trade resulted from a global disintegration of production processes organized by large transnational corporations, which operated as managers of GVCs. A total of 80 percent of global trade – so the spectacular figure of the report claims – were transfers of intermediates within GVCs. Since these goods moved back and forth between the different national affiliations of one and the same multinational enterprise (MNE) or its subcontractors, GVC-related trade also led to substantial double-counting in trade statistics, which was estimated as 28 percent of the total (UNCTAD 2013: X). Thus, as the trade specialist Robert Feenstra (1998) suggested in a seminal article, the significant integration of world markets by trade, globalization, is in part an effect and mirror-image of the “disintegration of production.”

International economists have discussed this development intensively in recent years. Richard Baldwin and Javier Lopez-Gonzalez have generated input–output tables from a newly released database with trade statistics to account for the many production networks behind the trade flows and discovered that these are regional production clusters rather than the long-distance international production chains often featured in the media. They named three regional production networks with Germany being the “headquarters economy” in the European cluster, Japan in Asia, and the US in the Americas (Baldwin/Lopez-Gonzalez 2015). This trend started in the “second unbundling” of the 1970s, when transportation and information costs declined significantly and thereby enabled the global disintegration of production (Baldwin 2014: 212–219). Much more provocatively, the German economist Hans-Werner Sinn already in 2005 attacked the German “bazaar economy” for trading in goods rather than manufacturing them and thereby abandoning the German economy’s traditional strength (Sinn 2005).

Yet, these are preliminary findings and provocations, curbed by the fact that national accounting is poorly equipped to make GVCs visible. Therefore, research has foremost focused on analyzing the value chains of particular multinationals or industries and has left a gap in our knowledge of their impact on global trade (Timmer *et al.* 2014: 99–118). This is where business history comes into play.

It is hard to imagine, from that discipline's perspective, that transnational production processes and transnational collaboration along the transformation of raw materials into finished goods are novel in the history of capitalism. Instead, business historians have long provided evidence that sourcing strategies and international cooperation have been common practice for centuries. However, the field has not thus far contributed rich empirical material to the most recent international debate. We therefore know little about the long-term transformation of value-chain production and especially so about the driving forces behind that trajectory. Is the disintegration of production a novel development, triggered by a sharp decline of transportation and communication costs in the 1970s, as Baldwin states? Or do trade politics interfere in this analysis? Can we find similar disintegration processes in other historical periods, in the "first globalization wave," for instance? This contribution elaborates whether long-term transformations of GVCs can explain changes and evolutions of global business. We start with a summary of chain-approaches over the last 40 years – from Terence Hopkins and Immanuel Wallerstein's notion of "commodity chains" (Hopkins/Wallerstein 1986) to recent GVC approaches and their relevance for business history. The second section shows how the changing nature of trade statistics and actual trade policies shaped the evolution of GVCs. The third section offers selected historical examples and the fourth section offers ideas for further research.

### **From "commodity chains" to "value chains" and "production networks"**

There is a long tradition of thinking about (global) connections of production processes going back to Karl Marx' second volume of capital and Eugen Böhm-Bawerk's notion of "round-about production" (Böhm-Bawerk 1902: 87–121). For modern historical research, Immanuel Wallerstein's world systems approach was fundamental. Wallerstein was interested in the economic exploitation of the world by expansive European capitalism and therefore aimed at reconstructing ties between historically changing economic "centers," "semiperipheries," and "peripheries" from the fourteenth century onward (Wallerstein 1974; Wallerstein/Hopkins 1982). In a seminal article, co-authored in 1986 with Terence Hopkins (1986: 159–160), Wallerstein developed the idea of "commodity chains," which the two authors identified as "a network of labor and production processes whose end result is a finished commodity," to "show the totality of the flows or movements that reveal the real division, and thus the integration, of labor in complex production processes." The pair explored in particular the flow of goods linked to "plantation economies" across the Atlantic that fueled the triangular trade in slave labor, tobacco, sugar, and cotton. The strong global connection of farmers, merchants, retailers, and consumers in different parts of the world at the same time served as the underlying story for Sidney Mintz' (1986) path-breaking book on *Sweetness and Power*, which, similarly to the work of another anthropologist, Eric Wolf (1982), emphasized that the industrial revolution was fueled by the inflow of cheap calories from Caribbean sugar into Britain's new urban industrial centers.

Yet, such discussions of "commodity chains" emphasized connections between historical centers and peripheries without attention to systematically describe particular patterns of business relations, trade, or types of production. A paramount interest in the evolution of capitalism also prevented research on when and why commodity chains emerged and in which sectors. Via the works of Stephen Topik, William Gervase Clarence-Smith, and others (Topik *et al.* 2006), the approach entered the more recent field of "global history." The focus on commodity chains as markers of "global entanglements" and "transregional connectedness" continues, however, with Sven Beckert's *Empire of Cotton* (2014) as the most recent example. Thus, important empirical issues remain unsolved in research on early and contemporary capitalist chains. Who

actually governed and organized historical commodity chains? And what factors induced change over time?

While “world systems theory” became a stronghold of sociology rather than historical research, business historians focused on the evolution of big business and multinational corporations. Following Alfred D. Chandler, these new organizational forms of global capitalism were often seen as the result of mergers and “vertical integration” that culminated in national “big businesses” or dominant MNEs (Wilkins 2008: 251–266). This perspective was challenged in the 1980s when Charles Sabel and Jonathan Zeitlin’s article on “historical alternatives to mass production” (1985: 133–176) pointed to the many examples of successful small and specialized corporations that did not use economies of scale. While mass-production could be the proper solution for the production of some goods, disintegrated and specialized production might be more fitting for others. However, this brilliant contribution did not trigger research on the transnational disintegration of production. Rather, it drew attention to national production clusters in which different specialized small firms collaborated often on a regional basis. Gerry Herrigel’s book (1996) on the south-west German machine industry cluster was eye-opening because it explained why so many small and medium, often family-based firms, survived in a technology-driven, internationalized economy. Possibly because of the difficulty to reconstruct and measure the collaboration of companies beyond national boundaries, business history has only recently begun to study the global extension and organization of the regional networks studied in the footsteps of Herrigel. Yet, a paradigmatic approach for business history research is missing until today.

This is, in our view, because the commodity-chain approach of the 1980s and its recent application by “global historians” maintain three disadvantages that prevent them from gaining a strong analytical position in economic and business history. First, there is the above-discussed analytical focus on the emergence of capitalism and global exploitation. As this is mirrored in an empirical focus on the commodity chains of luxury goods, the stories published so far highlight the role of global production for European consumers and end in the late nineteenth century. This, second, means that a crucial turning point in many chain histories is missing, namely the changes in global trade and production that took place once raw-material scarce (Western) economies succeeded in replacing imported luxury goods with new mass consumer products: cane sugar with sugar beets, and later the invention of chemical dyestuff and fertilizer, and of synthetic fibers, oil, and rubber. Such histories of major commodities of the twentieth century and their chains are not only absent in research on the *Trentes Glorieuses*, but also for the interwar period, which therefore too often is perceived as a time of “de-globalization.” Thus, in a long-term perspective, “chain stories” and the analysis of GVCs disappear from the agenda once economic and global historians turn from the nineteenth to the twentieth century. This, third, has an effect in research on the “second globalization wave” of the 1970s and 1980s also, for which sociologists and also contemporary historians treat the emergence of commodity chains, GVCs, and also the rise of global production networks as novel historical phenomena. Yet, a long-term historical analysis of chains and GVCs should point us in the opposite direction. Not least from the perspective of business history research on the interwar period we know that many corporations, and not the least the early MNEs of that period, found ways to continue global business (Chandler/Mazlish 2005). The challenge for research would seem to help us better understand their strategies and what these meant for the post-1945 period.

Instead, economic geographer Peter Dicken (1986) prominently diagnosed a “global shift” of manufacturing from advanced capitalist nations to the developing world since the 1970s and other scholars criticized the offshoring and outsourcing strategies of large firms in Europe for their economic impact on both deindustrializing regions in Europe and newly industrializing

regions in the Third World (Fröbel *et al.* 1981). However, as for the case of MNE operations in the interwar period and other business practices discussed above, also the shifting of manufacturing to foreign countries (i.e., offshoring) or the subcontracting of production processes to partners (i.e., outsourcing) have a long history as business practices – though as historical business practices they were named differently (e.g., “third party contracting”).

Business historians thus could make an important contribution to research that so far centers on contemporary sourcing strategies of global multinationals. Of special relevance here is the advanced GVC paradigm proposed by the contributors in an edited volume by Gary Gereffi, John Humphrey, and Tim Sturgeon (2005), which calls for systematic research on the redistribution of value-added along global production “chains.” Via a comparison of various industries – textiles, apparel, consumer electronics, and automobiles – they discovered that in some cases GVCs are “governed” by the producers while in other cases the buyers are the more powerful actors. More recent research identified production processes that are more like “snakes” while others are like “spiders” (Baldwin/Venables 2013).

Economic geographers have added to this the concept of global production networks (GPNs), which identify the global organization of subcontracting, part-processing, and assembly of complex products under the auspices of MNEs, ranging from laptops to Barbie dolls. The core feature of both, GPNs as well as GVCs, is that their global chains lack formal integration and organization of the different units; the central organizing feature in the transfer of commodities within global “networks” or “chains,” from raw materials until the consumption of the finished good, is mostly the dependency of nodes in those networks on other nodes and not the legal structure of the units as such. Such dependencies are not easily detected and connecting all nodes to identify the GPN or GVC may be a major challenge. The power differentials among the actors and business units involved in commodity chains, GVCs, and also GPNs are therefore essential aspects of research, especially for identifying how the value-added is distributed among the actors along the (global) value chain (Bair 2009: 1–35; 2016: 326–335).

Still, certain aspects of the GVCs concept must remain metaphorical because the notion of “chains” suggests that research could clearly identify a transformation process from a raw material to a finished consumer good across all the different global production steps. However, within a given subcontracting business unit any given production step in one such chain might take place in connection with other production processes entangled in entirely different chains. Therefore, it is difficult in practice to identify that subcontractor’s contribution to one particular chain, even if company audits and accounts were available to the researcher. The cargo of a ship, for example, often includes different goods and thus such a vessel operates within more than only one value chain at a time. For similar reasons, the fraction of value-added that is attributed to one production activity along the value-chain of one good is difficult to detect in practice.

However, the very notion of GVCs pushes scholars to think about the individual production steps as much as of the pre- and the post-production steps without which the production of a finished manufacturing good would simply not happen. Taking this back to our earlier remarks about the long (business) history of commodity chains and GVCs it is important to consider that already in a very early stage of the industrial revolution many corporations actively researched the different global supply options for a particular raw material and that the same and other companies produced entirely for very distant markets. Information about sourcing possibilities or export markets was often available via diplomatic channels or through family relations. When no such flow of information existed, specialized agents could be contracted to obtain it. Such practices occurred even in very small businesses, which underlines that merchant activities and manufacturing were much less separated than most of the literature in business history suggests. Very small chinaware companies in a poor region in northern Bavaria sold their complete

production to the United States in the late nineteenth century via a network of specialized sales agents (Kluge 2018). As Kluge shows, even though these companies were local businesses without formal relationships to world markets initially, they could insert themselves successfully in a GVC and thus become “global businesses.” Likewise, early nineteenth century cane-sugar planters in small island colonies such as Mauritius associated in Chambers of Commerce and Chambers of Agriculture and actively sourced information about their British export market and their buyers via British–Mauritian joint venture companies, the local colonial administration, and also by inviting agents from the UK to advise them on the kind of packaging and presentation that would make London buyers most happy with Mauritian cane-sugar supplies (Neveling 2012). On the other side of that spectrum there were, of course, large multinationals with significant power in global markets that set up GVCs for their own input or output, e.g., when direct integration of foreign pre- or post-production units was not possible for political or economic reasons.

If archival and statistical material is available, the GVC approach gives business historians a standard procedure to explore the nature and transformation of manufacturing, trade, marketing, and many more aspects in a long historical perspective via the following steps: isolate a single production process starting from a finished good; follow the stream of materials and services that are used for the composition of the good backwards to the raw material or source; analyze to which extent the different production steps are in the hands of a single economic actor (individuals or organizations); try to estimate the value-added in every single production step; analyze how all these aspects have changed over time; find the driving forces behind particular transformations. In this, the driving forces are of particular relevance to identify how local or national industries transformed into global businesses. Research so far has detected technology, market power received by branding or specialized knowledge, and state intervention, especially trade policy, as the driving forces for this transformation. The following illustrates that the last aspect in particular connects research on GVCs to business history research on the evolution of global trade.

### **GVCs and international trade**

In principle, value-chains and the disintegration of production also exist in national economies – we mentioned the cases explored by Gary Herrigel above. Yet, here our interest is with global sourcing and supply. The most simple such transaction is ordinary foreign trade, i.e., the purchase of finished or semi-finished goods on international competitive markets, which is also what trade statistics account for and trade theory elaborates on. Yet, the only possibility to discover whether a global production process is behind trade integration is to observe the relative share of raw material as opposed to semi-finished and finished goods in a given country’s overall trade statistics. When a country imports all raw materials and only exports finished goods, we may assume that the national economy processes a significant share of the raw materials imported into the consumer product and exploits the value-added from the production. When raw material imports decline and semi-finished products are increasingly imported, we assume that a country “moved up the value chain,” i.e., it specialized in the more valuable manufacturing processes.

Therefore foreign trade statistics can, to some extent, reveal structural adjustment processes in a national economy. For good reason, no systematic, global overview over the evolution of the composition of trade in this respect exists so far, as the required input–output tables are not available for most of the twentieth century in most national statistics. In fact, even an advanced industrial nation such as the Federal Republic of Germany (FRG) only began to release input–output tables on a regular basis in the 1960s and without such tables it is difficult to distinguish,

for example, whether a decline in raw material imports was the effect of a decline in domestic manufacturing or the effect of manufacturing “moving up the value chain” – possibly extended backward along the chain by the fact that initial processing of raw materials now occurred in the same country that previously supplied the raw materials. Without input–output tables it is thus impossible to gain reliable information from trade statistics on the actual changes in the structure of production in a given national economy.

This gap could be closed in part by combining trade statistics with information on foreign direct investment (FDI). Yet, similar to input–output tables, most countries began reporting FDI flows comparatively late. FDI in most cases results from an increase in the frequency of trade flows between two ends of a GVC. If these flows become more regular and costlier, it might pay for the company on one end of the chain to buy the manufacturing facility on the other end. John Dunning (1982) systematized the three main advantages of such purchases in his eclectic paradigm; these are ownership, location, and internalization. There exist several other historical examples of cross-border integration of production processes, such as the “free standing company” detailed by Mira Wilkins (1988). Yet, there are also numerous historical instances when, for political, legal, or also economic reasons, it did not make sense for global businesses to integrate across borders. This leaves us with historical GVC connections that do not show up either in trade statistics or in FDI statistics or in foreign portfolio statistics. GVCs therefore rest on relations of dependency between formally independent organizations across borders and their importance today is marked by the fact that European and American corporations invest significant sums to gain full control over their “global supply chains” and by the fact that global supply chain management is now a genuine field of training in management and business schools (Alfalla-Luque/Medina-López 2009).

The scholars who published the 2013 UN report mentioned in the introduction above identify a “correlation” between trade volume and GVCs, i.e., an increase in trade usually is driven, at least in part, by a disintegration of production. Yet, this again refers to the most recent evolution of world trade and we doubt if this correlation is valid in a long-term historical perspective. Instead, on the one hand, we can assume that during the “first globalization wave” of the late nineteenth century and again during the “second wave” since the 1970s not only trade-to-GDP ratio increased worldwide but also new GVCs emerged in each period (Findlay/O’Rourke 2007). On the other hand, and as mentioned above, we further need to account for the interwar period: this is counter-intuitive to the many studies in business history. Though trade in many regions decreased, we observe still high FDI activity, but more so new forms of the organization of GVCs. Zurich and Amsterdam appeared as new financial centers in those decades, partly as a result of the transfer of assets from Germany during that nation’s increasing hyperinflation years (Cassis 2006).

“Cloaking” played a large role during the war and the interwar period. Former direct links between foreign and domestic subsidiaries had to be disconnected, mainly for political reasons. The result was in many cases the replacement of trade with foreign production that was not legally attached to the former multinational (Aalders/Wiebes 1985; Jones/Lubinski 2012). There was thus a collapse of global trade especially during the Great Depression, but does this indicate a parallel collapse of the global economy and global business? Or did global business simply apply different and new forms of transactions that led to an increase of more subtle connections? And, if so, could we study the latter by using the concept of GVCs? The bilateral trade agreements and also international cartels that emerged in the times of crises might appear as aspects of the transformations of GVCs rather than a sign of “de-globalization.”

The period after World War II was driven by the return to trade liberalization. The General Agreement on Tariffs and Trade (GATT) of 1947 reduced tariffs and other trade barriers and

thereby successfully promoted a rapid increase in global trade. At the same time, however, the GATT also had many exemption clauses and “emergency” paragraphs that have been used in the years since 1947 to effectively protect national industries from global competition (Irwin 1995: 127–150; Bown/Irwin 2015). These Janus-headed provisions of the GATT have led trade scholars to use contradictory labels like “liberal protectionism” or “selective protectionism” to refer to the inconsistent trade policies of many nations (Aggarwal 1985; Wiemann 1983).

When, for example, the textile and clothing industries of the United States and Western Europe came under pressure in the 1950s, the GATT framework was used to delay rather than promote trade liberalization in these sectors. Using article XIX about “emergency action” in cases when increased imports would “threaten serious injury on domestic producers,” Western countries restricted textile imports, especially from Japan. The GATT article XIX allows for the introduction of import quotas and other protectionist measures for a limited time period when consultations with export nations have failed and a national economy is threatened. This article was invoked 132 times between 1950 and 1986 and foremost by the United States, Canada, Australia, and European Economic Community (EEC) member-states (Sykes 1991). With reference to that article the US government pushed Japan into a “voluntary self restraint” arrangement in 1957, which meant limiting Japan’s textile exports to the United States (Sugihara 2004: 527; Rivoli 2009: 193). European countries negotiated bilateral trade agreements in a similar spirit since the late 1950s. Though Japan became a member of the GATT in 1957, West Germany kept its import restrictions toward Japan with special permission by the GATT secretariat in 1959 and only later, under the aegis of the EEC in 1970, joined the prolongation of the “Long-term Arrangement in Cotton Textiles” (LTA) that was originally signed in 1962 (Minister of Economics, 1969; see also: Rivoli 2009: 193–196) and that, by the early 1970s, had already grown into a multilateral system of “self-restraint” arrangements encompassing more than 20 countries. Finally, the LTA was transformed into the well-known, often criticized “Multi-Fibre Arrangement” (MFA) of 1974 (Wiemann 1983: 122–127), which, under the surface of the GATT, consolidated a system of national and regional protectionist policies that ultimately sought to shield textiles and apparel manufacturing as well as other sensitive industries of the Western world from the exports of developing nations.

### **The example of textile and apparel industry**

In textile and apparel manufacturing, protectionism triggered an astonishing “global hopping” of production, as described in Pietra Rivoli’s seminal contribution. As soon as the textile industry discovered a country without restrictive export quotas to the United States and the EEC, it shifted its production facilities. Once the MFA quota system was extended to the new country, the industry moved on. Thus, the textile and apparel industry that made Hong Kong one of the leading textile producers worldwide in the 1960s was not a “new” industry, but to a large extent Japanese industries that relocated or subcontracted to Hong Kong partners in order to circumvent quota ceilings for Japan. In the 1970s, the dynamic reached its peak with the MFA signed among 50 countries, which extended the system of “voluntary self restraints” to synthetic fibers. From then on, 75 percent of US textile imports were “voluntarily” restricted by the export nations (Rivoli 2009: 193–207). The MFA, as well as its successor arrangements in the following decades, was preceded by a series of consultations and arrangements that provisioned for a step-by-step phasing out of the MFA toward a free world market without quotas. Only because of such promises the GATT tolerated protective arrangements, but, in fact, the successor arrangements to the MFA in particular included ever lower import quotas and therefore effectively increased protectionism in a time when Western nations struggled with high unemployment and economic crises after the

OP in the textile and apparel industry to improve the productivity of the domestic industry with its high labor costs. At least since 1965, the changing ministers of economics used OP as a strategy to improve the productivity of the German textile and apparel industry (Minister of Economics, 1965; see also: Gertschen 2013: 192). For political reasons, the FRG government treated the German Democratic Republic (GDR) as part of the FRG territory in customs so OP regulation did not apply there (Fäßler 2006: 263–268). OP was, however, extensively applied to all other Eastern European countries, because FDI was restricted or prohibited and political circumstances meant that FDI would have been insecure.

Eight percent of the value of all fabrics exported from West Germany in 1974 went to Eastern Europe (Soviet Union, Poland, Czechoslovakia, Hungary, Romania, Bulgaria) and 8.2 percent of import in cloths derived from there. The most important country in that year was Yugoslavia, which alone received 7.1 percent of West German export fabrics and accounted for 7.9 percent of all German imports of cloths (Fröbel *et al.* 1981: 252). The country became a manufacturing center of the German textile and apparel industry. In the years after 1945, Yugoslavia had switched back and forth between the Eastern and the Western economic and political systems, which caused difficult economic relations with the FRG in the 1950s. When Yugoslavia turned to “market socialism” in 1965, private business activity, FDI, and trade with the Western World followed (Kukić 2018: 8). West Germany ranked as Yugoslavia’s second-largest trading partner behind Italy. A total of 92 percent of apparel imports to West Germany were conducted as OP (Fröbel *et al.* 1981: 116–122). German economic policy used OP both to enable Eastern European countries to earn foreign currency to buy expensive German manufactures as well to incentivize productive manufacturers in textiles and apparel to further improve their competitiveness. Therefore, when Karl Schiller negotiated an extension of import quotas for textiles from Eastern Europe in March 1969, he suggested increasing both the quota for regular imports by 20 percent and the tax-free proportion of OP traffic by 33 percent (Federal Chancellery 1969b). For trade with Yugoslavia, unrestricted imports from outward processing was considered. But the plan was cancelled after protests from those in the West-German textile and apparel industry that did not profit from this activity (Federal Chancellery 1969a). Unfortunately more detailed research on the East European side of the chain is rare if not absent and usually focuses on the post-1989 period (Smith 2003).

On the European level too, there was constant debate about the share of revenue that OP was allowed to generate. Apparently, German textile and apparel companies could engage in OP more easily than French, Italian, and British firms. The member countries of the EEC therefore restricted OP activities at the Eastern border. Only 30 percent of total revenue was allowed in the 1970s, increasing to 50 percent in the 1990s. While French revenue in outward processing reached 200 million euro, and British 41 million euro, West German revenue reached 1.2 billion euro in 1988 (European Commission 2006: 260; Lane/Probert 2005). The German textile and apparel industry apparently relied on OP to confront market pressures much more than their European competitors.

Increased international sourcing was of course paralleled by a domestic decline of textile and apparel manufacturing. A total of 23,000 employees of the German textile and apparel industry worked abroad in 1966, while domestic employment declined from 1.2 million in 1958 to only 950,000 in the mid-1960s. By 1970, domestic employment had dropped further and sank below half a million in 1990; international employment had doubled between 1966 and 1970 (Gertschen 2013: 190). While the international workforce equaled 6 percent of the total domestic employees in textiles and apparel in 1970, that proportion reached 19 percent in 1983. The number of foreign subsidiaries reached 174 in textiles and 139 in clothing in 1983, mainly located in the EEC and European Free Trade Association (EFTA) countries or Asia, while OP

dominated the Eastern bloc countries (Mühleck 1992: 222; Lindner 2001: 168). According to the official figures from the German apparel industry, in 1976, 25 percent of the total import of clothes resulted from OP (Beese/Schneider 2001: 116). As early as 1964, the Ministry of Economics had estimated that 30 percent of imports from Hong Kong, which had been highly criticized by the textile and clothing industry as “unfair competition,” actually was re-imported from the industry’s OP (Gertschen 2013: 192). In 1978, 9 percent of the total revenue in the textiles sector and 18 percent in the clothing sector resulted from outward processing, as well as 17 percent from the import value in textiles and 28 percent in apparel. This only reflects the public figures (Mühleck 1992: 224; Fröbel *et al.* 1981: 116). Most authors however suggest that the actual volume of OP was higher as the corporations might have exceeded the tariff-free volume in some categories.

So far, we can only identify few corporations that have engaged in OP and that could thus serve as case studies of global businesses that followed the GVC organization. This is partly due to restricted access to company archives and partly because historical research has yet to engage in detail the historical transformation of GVCs. A more generic reading of reports on textile company activities in newspapers provides first examples, however. The brand “Triumph,” a lingerie manufacturer from south-western Germany, built its first factory outside Europe in Hong Kong as early as 1962 (Beese/Schneider 2001: 75). The company had opened its first foreign sales office in Switzerland in 1933. By the late 1970s, domestic employment decreased from 18,000 to 3,000, while manufacturing abroad grew. The company sold directly from Hong Kong to Japan and overseas markets so that foreign revenues increased while domestic revenues declined in overall company earnings (Schnaus 2017). Though the corporation relocated its headquarters to Switzerland in 1977 for tax reasons, it kept facilities in Germany, where its market share peaked at around 50 percent and where it has remained until today (Triumph 2018).

Sportswear became another successful field for German apparel manufacturers. Brands like Trigema and Gerry Weber, which was founded in 1973, profited from the tennis boom in Germany and specialized in clothes and equipment. Even more successful was the sports shoe manufacturer Adidas, which also expanded into apparel manufacturing in the 1970s. As GVCs for its shoe business were already established, setting up global production structures for tricot and sportswear manufacturing was easy for Adidas. One of the best-known brands of the surviving German apparel industry, by 2000 Adidas controlled a network of 1,082 contract partners in 65 different countries that supplied 97 percent of the textile and 76 percent of the apparel input for the company’s exports from Germany (Ferenschild 2007: 46).

Among the successful brands from the apparel sector are also German producers of menswear, like the shirt manufacturer Seidensticker or the suit manufacturer Hugo Boss (Köster 2011; 2016). Less well known, though much larger, was the Steilmann-Group, which became one of the largest apparel producers in West Germany in the 1980s. It employed almost 8,000 workers domestically and another 18,000 in 43 foreign companies with 82 production facilities (Beese/Schneider 2001: 127–136, 189–194). The company was one of the most important contract partners for large fashion labels like Karl Lagerfeld but also sold to large department stores such as the German Karstadt AG and to fashion retailers like C&A. Retailers like Karstadt, Kaufhof, and Hertie had revenues of more than four billion dollars and ranked as the largest retailers for textiles and cloth in Europe in 1979 (Clairmonte/Cavanagh 1982: 212). Yet, the Steilmann Group and others were the actual drivers of this powerful position. In the UK, Marks & Spencer became an important organizer of GVCs in textiles and apparel (Clairmonte/Cavanagh 1982: 212; Toms/Zhang 2016: 9). C&A chain stores gained a similarly powerful position in European markets. Since the company archive does not hold any material for the time period

after 1961 (Spoerer 2016: 12), an analysis of C&A's business practices is difficult. In contrast to M&S, the Brenninkmeijer family that founded and ran C&A used the suppliers of the Steilmann Group rather than individual manufacturers.

Though most examples of successful adjustment to global markets derive from the West German apparel industry, examples in the textiles industry exist too. Even capital-intensive parts of the production process like spinning or weaving were off-shored by companies like Kümper, a cotton spinner near Münster that bought a company in Greece in 1976. Some of the cotton manufacturers completely gave up their domestic business and became specialized traders in yarn or fabrics, e.g., the Beyerlein company in Bayreuth (Lindner 2001: 166–171). A shift to specialized fabrics that were patented in Germany but produced globally helped many of the textile manufacturers keep their company on track. Some of the producers reached agreements with the auto industry, others found niches, e.g., the production of fireproof textiles by Webatex AG. The leading company among the textile manufacturers became the Freudenberg company in Weinheim, which specialized in synthetic fibers that were used for everything from cleaning (“vileda”) to industrial use, and later diversified into other branches, including floor-covering and gasket production. The company expanded abroad with production plants in the USA and Japan in the 1950s (Lindner 2001: 171). While most of German textile manufacturing disappeared or transformed into chemical industry we can find examples of businesses moving up the value chain even in this sector.

### **GVCs as organizational form**

GVCs are not an institution or an organizational form as economic sociology would define the latter. The chains neither have a uniform hierarchy nor do they manifest as a coherent legal relationship. In fact, GVCs are not necessarily markers of capital connections. However, their existence reflects historical and contemporary patterns of dependencies that connect business units and institutions in different countries and possibly across different sectors and such dependencies enable one unit or institution to govern an entire GVC. It is because of the conjunction of these features that we suggest treating GVCs as a particular form of global business – a form that has, however, traveled below the radar of trade economics and history during most of its existence.

However, such dependencies have effects that not only create new global connections and reflect changing international trade regulations, they can also create significant poverty and misery, as is evidenced by the most recent political outrage over the killings of thousands of Bangladeshi garment workers in the Rana-Plaza building in 2013. That accident drew public and also academic attention to the many hidden dependencies and linkages in GVCs, where seemingly governing Western high street retailers have long lost sight of subcontracting networks, unwittingly and possibly also wittingly, and thus were not even able to say whether their garments were sewn by Rana Plaza workers and anxiously waited whether one of their labels would appear among the rubble and the dead bodies of exploited workers. This questions how we can guarantee the responsibility for death and damages caused by global profit-maximizing in the absence of legal connections (Donaghey/Reinecke 2018). And, yet, from a business history perspective we should also consider the long-term historical implications of the alleged novelty of Rana Plaza and other manifestations of GVC dependencies and governance: What are the similarities and what are the differences between the similarly devastating and globally debated Triangle Shirt Waist Factory Fire on New York's Lower East Side in 1911? Are we observing an entirely novel organizational form of global business in GVCs or can we find fore-runners? How did these structures evolve over time? Where did they originate and what are the

driving forces for their evolution? Who are the governors of GVCs and why did they come to govern? How did they gain the “power” to force distant organizations into a structure of global dependence?

This chapter has focused on the historical example of the German textile and apparel industry to highlight the explanatory power of the GVC approach. However, the approach is not restricted to that sector alone. High-end consumer electronics such as TV sets have been assembled in Western Europe and in the United States using parts supplied by global chains starting since the 1960s already (Teupe 2016). Thus, we see GVCs in many other branches, from consumer electronics and IT to the automobile industry and further into agriculture (Gereffi *et al.* 2005: 78–104). Historical research on the twentieth-century transformations of GVCs is still rare, but there are pioneering studies like Andrew Godley and Bridget Williams’ (2009: 47–61) exploration of the supply chain of “industrial chicken” in the UK, Teresa da Silva Lopes (2003: 592–598) has examined the “branding” strategies of alcoholic beverages that also encompassed GVCs, and Pierre-Yves Donzé (2015: 295–310) wrote on the GVC for watches, to name just a few.

If we discovered that GVCs are not only mechanisms for the exploitation of wage differences but a more general organizational form of global production, it may be feasible to apply the concept to other branches, such as the service sector and to banking in particular. Finance always plays a role in GVCs as raising capital for FDI, for insuring risks to property, and for securing the risks of currency volatility in payments for imports and exports or simply of unreliable buyers. In fact, financial services may have taken on the organizational form of a GVC in their own right: the complexities and specifics of the Eurodollar-Market might be more accurately captured, for example, once we addressed its value-chain-like structure. Such money, accumulated in predominantly British accounts during the 1950s, was subsequently transformed into sovereign debt as it was “sold” to states in Latin America mainly by US banks initially and then extended by the inflow of Petro-Dollars during the 1970s (Rischbieter 2015: 465–493; Devlin 1993; Underhill 1997: 101–123).

However, in order to expand the GVC research agenda into services and banking, business history first needs to research and analyze the transitions and transformations of the well-researched colonial and imperial commodity chains of the nineteenth century during the twentieth century, and especially so with a view to the globalization patterns of the interwar period. Likewise, the subsequent emergence of a seemingly bipolar global economy during the Cold War decades and the second globalization wave since the 1970s could appear in new light once business historians scrutinize the emergence and transformation of GVCs during those decades. Thus, the concept of GVCs is – from our perspective – perfectly fitting to support a wide range of novel research.

## References

- Aalders, Gerard and Wiebes, Cees (1985), “Stockholm’s Enskilda Bank, German Bosch and IG Farben: A Short History of Cloaking,” *Scandinavian Economic History Review*, 33 (1), 25–50.
- Aggarwal, Vinod K. (1985), *Liberal Protectionism: The International Politics of Organized Textile Trade* (Berkeley, CA: University of California Press).
- Alfála-Luque, Rafaela and Medina-López, Carmen (2009), “Supply Chain Management: Unheard of in the 1970s, Core to Today’s Company,” *Business History*, 51 (2), 202–221.
- Bair, Jennifer (2009), “Global Commodity Chains: Genealogy and Review,” in Jennifer Bair (ed.), *Frontiers of Commodity Chain Research* (Stanford, CA: Stanford University Press), 1–35.
- Bair, Jennifer (2016), “The Corporation and the Global Value Chain,” in Grietje Baars and Andre Spicer (eds.), *The Corporation: A Critical, Multidisciplinary Handbook* (Cambridge: Cambridge University Press), 326–335.

- Baldwin, Richard (2014), "Misthinking Globalization: Twentieth-Century Paradigms and Twenty First-Century Challenges," *Australian Economic History Review*, 54 (3), 212–219.
- Baldwin, Richard and Lopez-Gonzalez, Javier (2015), "Supply-chain Trade: A Portrait of Global Patterns and Several Testable Hypotheses," *World Economy*, 38 (11), 1682–1721.
- Baldwin, Richard and Venables, Anthony J. (2013), "Spiders and Snakes: Offshoring and Agglomeration in the Global Economy," *Journal of International Economics*, 90 (2), 245–254.
- Beckert, Sven (2014), *Empire of Cotton: A Global History* (New York: Alfred A. Knopf).
- Beese, Birgit and Schneider, Brigitte (2001), *Arbeit an der Mode: Zur Geschichte der Bekleidungsindustrie im Ruhrgebiet* (Essen: Klartext).
- Böhm-Bawerk, Eugen (1902), *Capital und Capitalzins, Zweite Abtheilung: Positive Theorie des Capitals* (Second Edition, Innsbruck: Verlag der Wagner'schen Universitäts-Buchhandlung).
- Bown, Chad and Irwin, Douglas (2015), "The GATT's Starting Point: Tariff Levels Circa 1947," *NBER Working Paper 21782*.
- Cassis, Youssef (2006), *Capitals of Capital: A History of Financial Centres, 1780–2005* (Cambridge: Cambridge University Press).
- Chandler, Alfred D. and Mazlish, Bruce (eds.) (2005), *Leviathans: Multinational Corporations and the New Global History* (Cambridge: Cambridge University Press).
- Clairmonte, Frederick and Cavanagh, John (1982), *The World in their Web: Dynamics of Textile Multinationals* (London: Zed).
- Da Silva Lopes, Teresa (2003), "The Growth and Survival of Multinationals in the Global Alcoholic Beverages Industry," *Enterprise & Society*, 4 (4), 592–598.
- Devlin, Robert (1993), *Debt and Crisis in Latin America: The Supply Side of the Story* (Princeton, NJ: Princeton University Press).
- Dicken, Peter (1986), *Global Shift: Industrial Change in a Turbulent World* (London: Harper & Row).
- Donaghey, Jimmy and Reinecke, Juliane (2018), "When Industrial Democracy Meets Corporate Social Responsibility: A Comparison of the Bangladesh Accord and Alliance as Responses to the Rana Plaza Disaster," *British Journal of Industrial Relations*, 56 (1), 14–42.
- Donzé, Pierre-Yves (2015), "Global Value Chains and the Lost Competitiveness of the Japanese Watch Industry: An Applied Business History of Seiko since 1990," *Asia Pacific Business Review*, 21 (3), 295–310.
- Dunning, John H. (1982), "Changes in the Level and Structure of International Production: The Last One-Hundred Years," in Mark Casson (ed.), *The Growth of International Business* (London: Allen & Unwin), 84–139.
- European Commission (ed.) (2006), *The Moving Frontier: Changing the Geography of Production in Labour Intensive Industries* (Luxemburg: European Commission).
- Fäßler, Peter (2006), *Durch den „Eisernen Vorhang“: Die Deutsch-Deutschen Wirtschaftsbeziehungen 1949–1969* (Cologne: Böhlau).
- Federal Chancellery (1969a), Note for the Secretary of State on the Protests of the Textile Industry, 12 August, Bundesarchiv (i.e., Federal Archiv of the FRG in Koblenz) B136, No. 7742.
- Federal Chancellery (1969b), Activities of the German Government for Increases of Imports in Textile and Apparel Markets, 30 April, Bundesarchiv (i.e., Federal Archiv of the FRG in Koblenz) B136, No. 7742.
- Feenstra, Robert C. (1998), "Integration of Trade and Disintegration of Production in the Global Economy," *Journal of Economic Perspectives*, 12 (4), 31–50.
- Ferenschild, Sabine (2007), "Verliererinnen und Gewinner: Soziale Konsequenzen der Liberalisierung im Textil- und Bekleidungshandel," *Kurswechsel*, 4, 37–49.
- Findlay, Ronald and O'Rourke, Kevin H. (2007), *Power and Plenty: Trade, War and the World Economy in the Second Millennium* (Princeton, NJ: Princeton University Press).
- Fröbel, Folker, Heinrichs, Jürgen, and Kreye, Otto (1981), *The New International Division of Labour: Structural Unemployment in Industrialized Countries and Industrialization in Developing Countries* (Cambridge: Cambridge University Press).
- General Agreement on Tariffs and Trade (GATT) (1986), Text of the General Agreement (Geneva: GATT).
- Gereffi, Gary, Humphrey, John, and Sturgeon, Timothy (2005), "The Governance of Global Value Chains," *Review of International Political Economy*, 12 (1), 78–104.
- Gertschen, Alex (2013), *Klassenfeinde – Branchenpartner? Unternehmer und Gewerkschaft der Westdeutschen Textilindustrie vor der Herausforderung der Internationalisierung. 1949–1979* (Baden-Baden: Nomos).

- Godley, Andrew C. and Williams, Bridget (2009), "The Chicken, the Factory Farm and the Supermarket: The Emergence of the Modern Poultry Industry in Britain," in Warren Belasco and Roger Horowitz (eds.), *Food Chains* (Philadelphia, PA: University of Philadelphia Press), 47–61.
- Herrigel, Gary (2010), *Manufacturing Possibilities: Creative Action and Industrial Recomposition in the United States, Germany and Japan* (Oxford: Oxford University Press).
- Hopkins, Terence K. and Wallerstein, Immanuel (1986), "Commodity Chains in the World-Economy Prior to 1800," *Review (Fernand Braudel Center)*, 10 (1), 157–170.
- Irwin, Douglas (1995), "The GATT's Contribution to Economic Recovery in Post-War Western Europe," in Barry Eichengreen (ed.), *Europe's Postwar Recovery* (Cambridge: Cambridge University Press), 127–150.
- Jones, Geoffrey and Lubinski, Christina (2012), "Managing Political Risk in Global Business: Beiersdorf 1914–1990," *Enterprise & Society*, 13 (1), 85–119.
- Kluge, Arndt (2018), *Die Deutsche Porzellanindustrie bis 1914* (Regensburg: Habilitationsschrift).
- Köster, Roman (2011), *Hugo Boss, 1924–1945: Eine Kleiderfabrik zwischen Weimarer Republik und „Drittem Reich“* (Munich: Beck).
- Köster, Roman (2016), "Geschichte von Seidensticker." Unpublished Manuscript.
- Kukić, Leonhard (2018), "Socialist Growth Revisited: Insights from Yugoslavia," *European Review of Economic History*, 22 (4), 403–429.
- Lane, Christel and Probert, Jocelyn (2005), "Domestic Capabilities and Global Production Networks in the Clothing Industry: A Comparison of German and UK Firms' Strategies," *Centre for Business Research Working Paper No. 318*.
- Lindner, Stephan H. (2001), *Den Faden verloren: Die westdeutsche und die französische Textilindustrie auf dem Rückzug. (1930/45–1990)* (München: C.H. Beck).
- Minister of Economics (1965), "Minutes of the talks with the trade union textiles and apparel on December 20, 1965," 21 December, Bundesarchiv (i.e., Federal Archive of the FRG in Koblenz), B102.
- Minister of Economics (1969), "Trade Policy Towards Japan," 3 June, Bundesarchiv (i.e., Federal Archive of the FRG in Koblenz), B102/153900.
- Mintz, Sidney Wilfred (1986), *Sweetness and Power: The Place of Sugar in Modern History* (New York: Penguin Books).
- Mühleck, Peter (1992), *Krise und Anpassung der Deutschen Textil- und Bekleidungsindustrie im Lichte der Fordismus-Diskussion* (Frankfurt am Main: Lang).
- Neveling, Patrick (2012), *Manifestationen der Globalisierung: Kapital, Staat und Arbeit in Mauritius, 1825–2005* (DPhil Thesis, Halle-Wittenberg: Martin-Luther-University).
- Neveling, Patrick (2017), "The Global Spread of Export Processing Zones and the 1970s as a Decade of Consolidation," in Knud Andersen and Stefan Müller (eds.), *Social Regulation: State, Economy, and Social Protagonists since the 1970s* (Oxford: Berghahn Books), 23–40.
- Rischbieter, Laura (2015), "Risiken und Nebenwirkungen: Internationale Finanzstrategien in der Verschuldungskrise der 1980er Jahre," *Geschichte und Gesellschaft*, 41 (3), 465–493.
- Rivoli, Pietra (2009), *The Travels of a T-Shirt in the Global Economy: An Economist Examines the Markets, Power, and Politics of World Trade* (Hoboken, NJ: Wiley).
- Rudolph, Karsten (2004), *Wirtschaftsdiplomatie im Kalten Krieg: Die Ostpolitik der Westdeutschen Großindustrie 1945–1991* (Frankfurt am Main: Campus-Verlag).
- Sabel, Charles and Zeitlin, Jonathan (1985), "Historical Alternatives to Mass Production: Politics, Markets and Technology in the Nineteenth Century Industrialization," *Past and Present*, 108, 133–176.
- Schnaus, Julia (2017), "Das leise Sterben einer Branche. Der Niedergang der deutschen Bekleidungsindustrie in den 1960er und 1970er Jahren," *Zeitschrift für Unternehmensgeschichte*, 62 (1), 9–34.
- Seabrooke, Leonard and Wigan, Duncan (2017), "The Governance of Global Wealth Chains," *Review of International Political Economy*, 24 (1), 1–29.
- Sharpston, Michael (1976), "International Subcontracting," *World Development*, 4 (4), 333–337.
- Sinn, Hans-Werner (2005), *Die Basar-Ökonomie: Exportweltmeister oder Schlusslicht?* (Berlin: Econ).
- Smith, Adrian (2003), "Power Relations, Industrial Cluster and Regional Transformations: Pan-European Integration and Outward Processing in the Slovak Clothing Industry," *Economic Geography*, 79 (1), 17–40.
- Spoerer, Mark (2016), *C&A: A Family Business in Germany, the Netherlands and the United Kingdom 1911–1961* (Munich: Beck).
- Sugihara, Kaoru (2004), "International Circumstances Surrounding the Post-War Japanese Cotton Textile Industry," in Douglas A. Farnie and David J. Jeremy (eds.), *The Fibre that Changed the World: The Cotton Industry in International Perspective, 1600–1990s* (Oxford: Oxford University Press), 521–551.

- Sykes, Alan O. (1991), "Protectionism as a 'Safeguard': A Positive Analysis of the GATT 'Escape Clause' with Normative Speculations," *University of Chicago Law Review*, 58 (1), 255–305.
- Teupe, Sebastian (2016), *Die Schaffung eines Marktes: Preispolitik, Wettbewerb und Fernsehgerätee-handel in der BRD und den USA, 1945–1985* (Berlin: De Gruyter Oldenbourg).
- Timmer, Marcel P., Erumban, Abdul Azeez, Los, Bart, Stehrer, Robert, and de Vries, Gaaitzen J. (2014), "Slicing Up Global Value Chains," *Journal of Economic Perspectives*, 28 (2), 99–118.
- Toms, Steven and Zhang, Qi (2016), "Marks & Spencer and the Decline of the British Textile Industry, 1950–2000," *Business History Review*, 90 (1), 3–30.
- Topik, Steven, Marichal, Carlos, and Frank, Zephyr L. (2006), *From Silver to Cocaine: Latin American Commodity Chains and the Building of the World Economy, 1500–2000* (Durham, NC: Duke University Press).
- Triumph (2018), *Geschichte*, [online] Available at: [www.triumph.com/de/de/7487.html](http://www.triumph.com/de/de/7487.html) [Accessed 7 September 2018].
- UNCTAD (Ed.) (2013), *Global Value Chains: Investment and Trade for Development* (Geneva: UNCTAD).
- Underhill, Geoffrey R. D. (1997), "The Making of the European Financial Area: Global Market Integration and the Single Market for Financial Services," in Geoffrey R. D. Underhill (ed.), *The New World Order in International Finance* (New York: Macmillan), 101–123.
- Wallerstein, Immanuel (1974), *The Modern World System I: Capitalist Agriculture and the Origins of the European World-Economy in the Sixteenth Century* (New York: Academic Press).
- Wallerstein, Immanuel and Hopkins, Terence K. (1982), *World System Analysis: Theory and Methodology* (Beverly Hills, CA: Sage).
- Wiemann, Jürgen (1983), "Selektiver Protektionismus und aktive Struktur-anpassung: Handels- und Industriepolitische Reaktionen Europas auf die zunehmende Wettbewerbsfähigkeit der Entwicklungsländer am Beispiel der Textilpolitik der EG," Dissertation, Berlin.
- Wilkins, Mira (1988), "The Free-Standing Company, 1870–1914: An Important Type of British Foreign Direct Investment," *Economic History Review*, 41 (2), 259–282.
- Wilkins, Mira (2008), "Chandler and Global Business History," *Business History Review*, 82 (2), 251–266.
- Wolf, Eric R. (1982), *Europe and the People without History* (Berkeley, CA: University of California Press).