

Jolta Kacani

Polytechnic University of Catalonia
jkacani@gmail.com/jolta.kacani@estudiant.upc.edu

Lucas van Wunnik

Polytechnic University of Catalonia
lucas.van.wunnik@upc.edu

Foreign direct investment as engine of economic development in peripheral economies. What can we learn from the study of two different cases: the *maquiladora* subsidiary (Nicaragua) and a textile manufacturing subsidiary in (Albania).

Abstract: Using the analysis of two apparently very different cases, a Taiwanese *maquiladora* subsidiary of the garment industry (Nien Hsing Textile Co.) in Nicaragua and an Italian subsidiary in Albania, we try to verify the existence of the benefits attributed by many host governments to inward manufacturing foreign direct investment as engine of development in peripheral economies. In each case, we study three specific questions: (1) the technological transfer from the subsidiary, (2) the mobility potential of the manufacturing activities of the subsidiary, and (3) the evolution of the quality of the subsidiary (integration in the territory and complexity of the activities realised) in time. In answering our questions we conduct fieldwork in the two countries. We interacted directly with stakeholders involved in the operations of each subsidiary including interviews with corporate managers and employees, data collection on subsidiary operations, and visits on production sites.

We analyze the main channels of technology transfer focusing on the quality of linkages each subsidiary established in the local economy, on the level of additional formal and informal knowledge benefiting the local labor force, and on the support offered to local suppliers in strengthening production activities.

We continue by identifying the main factors affecting the mobility of each subsidiary by differentiating between impeding and facilitating factors. Among impeding factors we concentrate on: (a) the resources (generic vs. specific) utilized by each subsidiary in the two countries, (b) market access opportunities in the local economy, (c) the nature of assets owned and engaged in realizing production activities, and (d) other factors constraining the mobility potential (exit costs and the level of integration of each subsidiary with other units of the multinational enterprise). With regard to facilitating factors we particularly consider the existence of substitute plants.

In responding to our third question, we look into the nature of linkages (developmental vs. dependent) established by each subsidiary with local suppliers. Furthermore, we examine not only the change in the level of complexity of functions and duties occurring during the operational life of the subsidiaries but also the specific factors that trigger such a change. Among the factors considered in our research are the decisions made by headquarters on allocation of responsibilities, actions taken by the managers supervising each subsidiary, and on the dynamics occurring in the local business environment. The similarities and differences found in the two cases cast doubts upon the contribution of this investment to the development potential of the economy of the host territory.

Introduction

In today's internationalization developing countries compete with each other to attract foreign investment in their host territories. Governments in developing countries continuously engage on drafting new policies and on launching new incentives just to attract foreign investment, hoping that such investment will stimulate economic growth and serve as an engine of economic development. However, the presence of foreign investors in a host economy may not yield the expected outcomes. In order to examine the possible outcomes of foreign direct investment in host economies we analyze two subsidiaries operating in the textile industry under the inward processing regime. The first one is Nien Hsing Textile Co. a "maquiladora"¹ subsidiary located in Nicaragua and the second one is Cotonella S.p.A-Shqiperia Trikot sh.p.k an Italian subsidiary in Albania. Initially, we provide an overview of the literature followed by our methodology which is based on our fieldwork in Nicaragua and Albania. We continue with a detailed analysis of the cases accompanied with a comparison between the two subsidiaries which identifies the differences and similarities among them. Finally, we present the main conclusions drawn from our analysis.

1.Literature review

The existing literature on foreign direct investment has paid particular attention on the effects it has on the economic development of host territories in general and developing countries in particular. In this section we introduce the strands of the literature we focus on to examine the impact of two subsidiaries in their respective host territories. We put particular attention to potential channels of technology transfer, factors affecting the mobility potential of subsidiaries to new locations, and on the changes in the quality of the subsidiary during its production life.

1.1.Technology transfer

Dicken (2011), Gugler and Brunner (2007), and Blomstrom and Kokko (1998) argue that one of the most important reasons countries aim to attract FDI is the anticipation to obtain modern technology. Easterly (2001) argues that technology is of outmost interest to countries as it belongs to the core of economic development. Today obtaining new technology through foreign investment has turned into the challenge and the objective of many countries.

In host territories technology can be transferred from foreign investment mainly through three potential channels. The first channel of technology transfer is through backward linkages. Turok (1993) and Navaretti and Venables (2005) argue that the "quality" of linkages is important to ensure a positive impact of foreign investment in the economic development of the host economy. They argue that *developmental linkages* encourage collaboration, mutual learning, a high level of interaction, and long-term relations with local suppliers. Contrary,

¹According to Bair and Gereffi (2001) the main characteristic of "maquiladora" are: low value added activities, assembly of imported products, a young and low skilled labor force, subcontracting of activities to smaller firms, high competition based on price, and low wages.

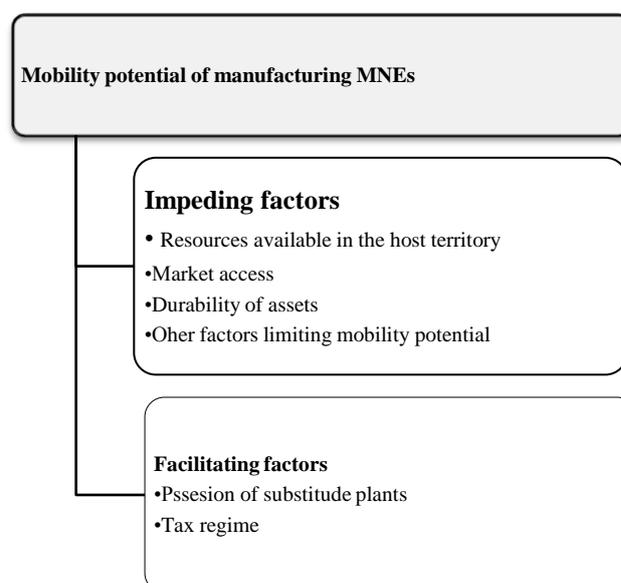
dependent linkages develop when the main purpose of MNEs is to interact with local firms in order to cut operational costs. In order to achieve their purpose, MNEs exploit local suppliers under short term contract and prevent them to obtain new technology and or to participate in research and development programs.

The second channel of technology transfer is through training of employees. The main purpose of training programs is to transmit knowledge to the employees. In the trainings employees benefit from codified knowledge that is transmitted relatively easily across nations and is mostly expressed in manuals, guidelines, blueprints, software, or hardware. This type of knowledge has enabled multinationals to perform and oversee activities located in different continents (Dicken, 2011; Pulignano, 2004). The second type of knowledge at which employees are being exposed to is tacit knowledge. It is personalized knowledge possessed by individuals which is virtually impossible to communicate to others through formal mechanisms. It requires direct experience and interaction that can be acquired through training programs composed of study visits, workshops, and roundtables (Easterly, 2001; Mylon, Harzing, Mirza, 2004).

The third channel of technology transfer is through demonstration effects. According to Fernandez Perez (2013) and Saggi (2002) MNEs contribute to the creation of local human capital that can spread innovative ideas and successful strategies to host country companies that can transform various economic sectors and generate more employment in the host economy. Demonstration effects rely on the argument that local firms including suppliers of MNEs imitate/copy technologies introduced by MNEs. Cooperation with MNEs exposes local firms to superior technology appealing them to update their production methods.

1.2. Factors affecting the mobility potential of MNEs

Figure 1. Factors affecting the mobility potential of multinational enterprises



Participation in global production networks suggests that a main characteristic of MNEs is the flexibility they have in transferring their operational activity from one territory to another. We identify the main factors affecting the locational flexibility of MNEs based on the framework introduced by Van Wunnik (2011). These factors are categorized into those that facilitate the shift of production in new territories and the ones that impede the mobility potential of MNEs.

1.2.1. Impeding factors of mobility potential

To start with Dunning (2000) argues that MNEs are after resources available in the host territory as they are a main prerequisite for making the most out of host markets. These sources can be specific and generic. Specific resources are the ones on which core activities of MNEs depend on and include research and development infrastructures, clusters of competent suppliers, pool of specialized labor, and scarce natural resources (Zvirgazde, Schiller and Diez, 2013; Morgan and Kristensen, 2007). The more dependent the MNE is on such resources the lower is its mobility potential to another host territory. On the other hand, generic resources are the ones that can be found in many territories ranging from unskilled labor performing basic tasks, cheap natural resources, and decent transport and communication networks (Bevan and Estrin, 2004). The higher the level of generic resources employed by MNEs the higher their potential to transfer production facilities in another territory.

To continue, an initial condition at which MNEs look at before starting to produce in another territory is market access or proximity. Market access allows MNEs to gain a share in expanding host markets, to experience an increase in the demand of goods, and to achieve economies of scale and scope. Market proximity is also vital for MNEs as they are urged to invest in territories with already identified suppliers and customers (Van Wunnik, 2011; Carbaugh, 2002).

Possession of durable assets is another factor that MNEs need to consider before reallocating in another territory. MNEs have to consider how to deal with the fixed assets they own in the host territory. They have the choice to transfer or sell them. However, this is not always possible as certain fixed assets can maximize their operational capacity only in a particular territory. In the same line Stopford (1998) argues that in certain territories MNEs strongly depend on durable assets that run on supplies that are difficult to be reproduced elsewhere.

Moreover, L. Van Wunnik (2011), C. Barlett, S. Ghoshal, and P. Beamish (2006), and R. Carbaugh (2002) pay attention to additional factors that limit the mobility potential of MNEs which may substantially delay their adaptation into new territories. Among the factors they have identified are: (i) the exit costs from the host territory, (ii) the importance of activities realized in the subsidiary in the overall operations of MNEs, (iii) personal and professional obstacles of the subsidiary management to shut down its activities, (iv) restrictive measures of host authorities, and (v) social and cultural bonds with the host territory

1.2.2. Facilitating factors of mobility potential

Among the factors that ease the transfer of MNE's production site into a new territory attention is paid in the literature to the possession of substitute plants and to the tax regime of the host territory. Possession of substitute plants facilitates the exit of MNEs out of the host territory when these plants produce similar products, have access to the same markets, and when they obtain key components from the same suppliers (Van Wunnik, 2011; Zvirgzde, Schiller, and Diez, 2013). In addition, the tax system is another factor which constrains MNEs to seek for different territories. Exposure to a tax system that increases the fiscal burden together with the absence of tax preferential policies forces MNEs to shift production to locations with low corporate tax rates or to the ones offering a stimulating tax package for establishing new production sites (Carbaugh, 2002; Stopford, 1998).

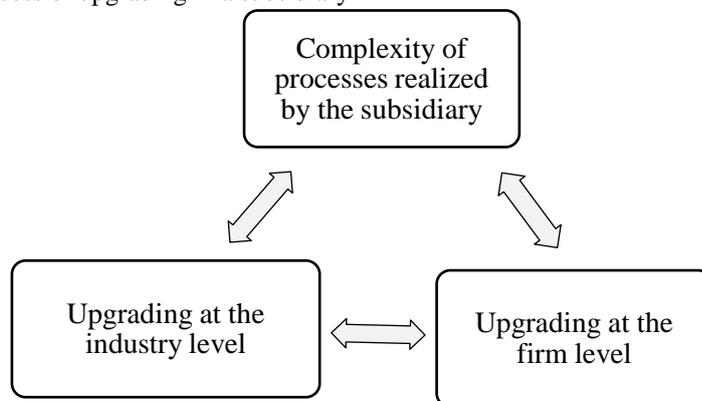
1.3. Evolution of the subsidiary

This section concentrates on the quality of subsidiary. During the "production life" the quality of the subsidiary may go up or down. *Upgrading* of the subsidiary is an evolution toward a higher quality. From the host country perspective, the quality of the subsidiary has two components (i) complexity of production function and (ii) embeddedness.

1.3.1. Complexity in production processes

When arguing about upgrading (Birkinshaw and Hood 1995; Enright and Subramanian 2007) refer to the set and complexity of activities, functions, and duties realized by a subsidiary. Bair and Gereffi (2001) and Kristen and Morgan (2006) argue that the evolution of a subsidiary occurs both at the industry level and at the firm level. Upgrading at the industry level occurs when backward linkages established in supplier networks increase the value added to the region where production facilities are found. Also, upgrading is possible when MNEs are able to engage in activities with high entry barriers that are critical in maintaining their competitive advantage. On the contrary, upgrading at the firm level occurs when new products are developed enabling MNEs to obtain international mandates, to develop better research and development skills, and to obtain a higher profit share.

Figure 2: The process of upgrading in a subsidiary



1.3.2. Embeddedness

Embeddedness refers to the integration of subsidiaries in host territories (Phelps 1998). According to Caves (1996) and Bevan and Estrin (2004) subsidiaries attain embeddedness in host territories through forward and backward linkages. *Forward linkages* happen when subsidiaries supply inputs to other firms required to fulfill their operational activities. *Backward linkages* refer to the purchases subsidiaries make from local suppliers only. Local suppliers include both domestic suppliers and foreign suppliers that have installed a production unit in the host territory to serve their customers. These linkages create networks of economic interdependence that facilitate the flow of information and knowledge between subsidiaries and suppliers. A stable network is encouraged when managers and employers understand how networks operate and when the content of contracts and agreements allows for an efficient combination of resources available in the network (Fernandez Perez, 2004). In the same time, Kristiansen and Zeitlin (2001) suggest that embeddedness in local business networks extensively defines the patterns, the skills, and the competences of different subsidiaries resulting in a unique power to influence the decisions and strategies of headquarter management.

Moreover, Phelps (1998,2000) argues that a well-constructed institutional capacity of host institutions is crucial in designing and in implementing effective policies which can maximize the impact of foreign investment on the host territory, can balance financial resources and support services between foreign investors and local firms, and can continue to keep the focus on the existing pool of investors without switching it entirely towards new potential investors. Jensen (2006) and Kristensen and Morgan (2006) argue that host institutions oriented towards flexible and friendly business climate policies appeal more to MNEs as they are able predict more accurately the trend of macroeconomic indicators, to prepare tax schedules, to hedge against currency fluctuations, and take managerial decisions.

To continue, Stopford (1998) argues that MNEs create additional business opportunities and set higher quality standards prompting the creation of a pool of specialized local suppliers. As more MNEs start to operate in host territories more specialized local suppliers can appear as there is an increase in the demand for specialized goods and services (Dicken, 2011). The pool of specialized suppliers is created in two ways. Firstly, as MNEs demand more inputs they open up new markets for the provision of goods and services which suppliers exploit. Secondly, MNEs "force" existing suppliers to adopt more efficient methods and to undertake new investments in human and physical capital (Bair and Gereffi, 2001). If existing suppliers fail to improve, they may come out of the market while resources are left to be used by the most efficient firms. In addition, Krugman and Obstfeld (1997) argue that with a pool of specialized suppliers exists key inputs are less costly and more easily available as there are many firms supplying them. As the pool strengthens, suppliers concentrate on what they can do best subcontracting other components of their activities.

2.Methodology

In analyzing the subsidiaries we realized intensive fieldwork in the two countries. We had on site visits in the manufacturing plants and where relevant in the premises of the subcontractors involved in operating activities of the subsidiaries. In addition, we conducted numerous interviews with managers, employees at all levels of organization, government officials, trade union representatives.

2.1.Why case study methodology?

Firstly, fieldwork allowed us to perceive the reality of the operational activity of the subsidiaries as an insider to the events permitting us to take a variety of roles during the investigation, to correctly maintain the sequence of events in their daily operations, and to obtain a clear picture preventing us to draw conclusions based on the beliefs of an external to the events. Direct observation permitted us to interact with all departments required to run the subsidiaries and to draw conclusions on the factors of production required for a subsidiary to operate in a host territory (Yin, 2003; Helper, 2000).

Secondly, in our fieldwork we managed to include in our analysis numerous explanatory variables taken from a variety of sources including documents, archival records, and interviews. Various sources of data and information helped us to correctly establish casual relationships among the variables under investigation and to consider alternative outcomes. (Rodrik, 2012). Also, faced with a reality in of missing cross country sectoral data to compare foreign direct investment induced economic development in the two peripheral economies, field work made possible to explore on our area of interest with little pre-existing numerical data.

Thirdly, one of the most interesting and in the same time challenging component of our research was to gain the most from the flexibility of fieldwork by generating a high level of feedback from managers, employees, and relevant stakeholders on the objectives, the strategy, functioning, and autonomy of the subsidiaries. Flexibility in fieldwork let us to discover facts on our own and to confirm or to deny them during direct observation or interviews (Schoenberger,1991).

2.2.Why these two case studies?

Comparing two different countries (Nicaragua vs. Albania) and two different MNEs (a Taiwanese vs. Italian) may come out as bizarre to the reader. In making these comparisons we followed Ellingstad (1997) who investigated on the presence of "maquiladora" manufacturing patterns of Mexico in Central Eastern European countries by focusing primarily on Hungary. The main patterns of "maquiladora" on which he focused on the uneven regional development caused by utilisation of labor, strength of supplier networks, and regional disparity.

By comparing a "maquiladora" subsidiary in Nicaragua with an Italian one operating in Albania we tried to identify useful lessons by considering the similarities and differences

between the two. In the same time the divergences in the two case studies in MNEs, territories, and subsidiaries can deepen our analysis and make our area of interest more visible and accessible (van Wunnik, 2011). In addition, in Ellingstrand (1997) find the comparison between the "maquiladora" Mexican economy to the nascent Hungarian market useful on the European perspective of Hungary for us comparing the Italian subsidiary to the "maquiladora" one serves as a point of reference to pose questions and identify new areas of research on the future of Albania (a potential EU candidate member) in the European Economy.

3. Two case studies Nien Hsing Textile Co. vs. Cotonella S.p.A-Shqiperia Trikot sh.p.k

In this section we present an overview of the two case studies. The purpose of this section is to provide the background for each case study that follow in sections four and five.

Table 1: Overview of the two case studies

	The maquiladora subsidiary (Nien Hsing Textile Co.)	Shqiperia Trikot sh.p.k Cotonella S.p.A
Realization of the field study	Summer 1998 and March 2007	February-April 2014
Host country	Developing country (Nicaragua)	Developing country (Albania)
Policy for attracting FDI	Active policy via preferential advantages offered to foreign investors in the framework of the export processing zone	Various policies as promotion of economic zones, leasing, privatization, harmonization of EU legislation and directives
Industry	Textile-Apparel	Textile- Apparel
MNE to which the subsidiary belongs	Taiwanese subcontracting company that manufactures clothing (jeans) for retailers, branded manufactures, and branded marketers	Italian company that manufactures intimate apparel for its own brand and for retailers, and branded marketers
Degree of competition in the MNE's product market	Strong competition in (price) in the market for the apparel assembly service	Medium competition in the its own brand products Strong competition in the market for apparel assembly for other branded companies
Principal motivation for investment in the host territory	Access to the US market (essentially to circumvent trade barriers)	Reduction in the delivery time of finished products and social cultural similarities found in the host territory
Date of start of production in the host territory	1993	1995
Number of different products manufactured in the subsidiary	One (trousers or shorts)	Four (slips, shirts, bras, pyjamas)
Operations performed in the subsidiary	Assembly of the trouser (fabric cutting, washing, buttoning, ironing, packaging) Dyeing and printing of fabric (for casual trousers) Manufacturing of cardboard boxes	Quality control of raw materials Cutting of raw materials Distribution of finished products Limited research focused mostly in the neighbouring countries of the Balkan region
Investments made in the host territory	Low and in "light" capital goods (sewing machines, button-placing machines, washing machines etc)	Considerable investments in production facilities, information technology, quality control laboratories, cutting technology, ecological machinery
Relations with local suppliers of intermediary products	Nearly totally absent	Totally absent
Positions of responsibility in the subsidiary	Occupied by expatriates	Occupied by local staff only

4. Nien Hsing Textile Co. "maquiladora subsidiary in Nicaragua (2007)

4.1. Country characteristics

Nicaragua is one of the five Central American countries (Guatemala, Honduras, Nicaragua, Costa Rica, El Salvador) having a population of 5.75 million inhabitants as of the last census of the National Institute of Statistics and Census in 2005. In 2005 the country had a GDP per capita of US\$850 being one of the poorest countries in Latin America (Banco Central de Nicaragua, 2007). The Nicaraguan manufacturing industry is poorly developed: it has an old stock of capital goods, it imports a high proportion of intermediary inputs and capital goods, and it often has difficulties competing with foreign enterprises including those of Central Americans (CADIN, 2001; PEMCE, 2006).

4.2. Policies to attract foreign investment

Since the beginning of the 1990's, the Nicaraguan government has used the instrument of the export processing zone or "export industrial free trade zones" (*zonas francas industriales de exportación*) to attract foreign manufacturing investments and to promote manufacturing exports. In 2006, the totality of the firms of the export processing zones contributed, in 2006, to 4,7% of Nicaraguan GDP (CEPAL, 2007). Another advantage provided by a production location in Nicaragua is that together with Honduras they are the only two countries in Central America that will be allowed to maintain the free trade zones regime after 2009 (Sánchez and Vos, 2006; Padilla *et al.*, 2008).

Nicaragua has an additional advantage with respect to its neighbouring countries. It is the only country in the DR-CAFTA² area which can export a substantial share of its clothing items to the United States without having to respect the rule of origin. That is, a share of its clothing items may use Asian fabric (up to 100 million square metres of fabric per year) without having to pay tariffs on the value of this fabric when it enters the United States. These square metres of Asian fabric exempted from tariffs are called Trade Preferential Levels (TPLs). The TPLs will disappear in 2016. However, all the clothing categories do not benefit in the same way of the TPLs. The firm that manufactures trousers and shorts must respect "the 1:1 requirement" to qualify for the TPLs. This means that for each m² of trouser or short made with Asian fabric, it must also export one m² of pant or short made with US (more expensive) fabric in a specific annual quantity.

4.3. MNE and the activity of the subsidiary

Nien Hsing Textile Co. is a large Taiwanese MNE of the textile-clothing industry. It is vertically integrated and carries out the production of denim fabric and the manufacture of jeans and tweed (casual) trousers. As the majority of the other Asian subcontracting enterprises in the clothing industry, it offers to its clients (Lee, Wrangler, Tommy Hilfiger Jeans, Levi Strauss, The Gap, Wal-Mart, etc.) the full-package subcontracting modality. In 2007, Nien Hsing Textile Co. had more than 60.000 employees globally distributed in seven countries.

Nien Hsing Textile Co. had seven factories in Nicaragua six in two different export processing zones and a dyeing mill as an "isolated" factory also benefitting from the free trade zone regime. They were all situated in the outskirts of the capital Managua. The Nicaraguan plants concentrated only on manufacturing and lacked higher-level administrative functions such as sales, marketing, R&D, etc.

² The DR-CAFTA is a collection of specific bilateral trade agreements (involving each country with the United States) and not a customs union between the seven countries. The free trade agreement between the United States and Nicaragua entered into force in April 2006 (van Wunnik, 2011).

which were done in other sites of the MNE (Taiwan, United States). In 2007, the seven plants employed in total some 16.000 workers.

Labour costs are crucial in the labour intensive clothing industry, especially of standardised garments (e.g. T-shirts, knit-shirts, jeans and tweed trousers). Nonetheless, Nien Hsing Textile Co. did not decide to assemble trousers in Nicaragua because of labour costs: wages were lower in China, Vietnam and Cambodia. The main reason why it located in Nicaragua was that production in this country allowed it to circumvent US trade barriers. Contrary to Asian countries, Central American countries and the Dominican Republic benefit from a free trade agreement with the United States which allows a tariff free access to the US market.

Table 2: Plants of Nien Hsing Textile Co. in Nicaragua (2007)

Plants of Nien Hsing Textile Co. in the free trade zone "Las Mercedes"				
	Henry Garments	Chih Hsing	Nien Hsing Garments	
Products	Trousers, shorts (jeans)	Trousers, shorts (jeans)	Trousers, shorts (jeans)	
Employment (December 2006)	2,867	2,784	3,042	
Establishment date of the plant	1995	1997	1994	
Plants of Nien Hsing Textile Co. outside the free trade zone "Las Mercedes"				
	Plants of Nien Hsing Textile Co. in the free trade zone "Saratoga"			Alpha Textil
	Chao Hsing	John Garments	Cartonera Industrial	
Products	Trousers, shorts (tweed)	Trousers, shorts (tweed)	Cardboard boxes	Dyeing and printing of fabric
Employment (December 2006)	3,412	3,856	97	238
Establishment date of the plant	1999	2001	2002	2002

4.4. Technology transfer

As the other enterprises operating in the Nicaraguan export processing zones, Nien Hsing Textile Co. rented its buildings. Only the buildings of the dyeing mill (*Alpha Textil*), located outside an export processing zone, belonged to the Taiwanese MNE. Furthermore, it used light capital goods like sewing and washing machines that were often easy to transport and quickly depreciated.

Nien Hsing Textile Co.'s Nicaraguan plants employed essentially low-qualified local workers. High labour turnover by the shop floor workers seems to indicate that losing these workers' knowledge did not preoccupy the plants' managers. The high and middle management posts (plant production manager, division managers, and line managers) were almost exclusively occupied by expatriates (Taiwanese and mainland Chinese).

4.5. Mobility potential

Before January 1, 2005, when the Multi-Fibre Arrangement regulated international trade in the textile-clothing industry, the Nicaraguan location advantage appealed more to the Asian clothing firms as contrary to Asian countries it allowed for a quota free access to the US market (van Wunnik, 2011). Gereffi and Memedovic (2003), Dicken, (2007) Padilla *et al.*, (2008) argue that for a standardised garment such as jeans trousers produced in large series and where price competitiveness is crucial proximity of assembly to the market (for Nicaragua to the US market) is not that important.

Nien Hsing Textile Co. had plants assembling trousers in Lesotho, Mexico and in 2006 it opened and bought three factories in Vietnam and Cambodia. These two Asian countries did not benefit from the

trade policy advantages that Nicaragua offered, but they had significantly lower labour costs. We can see that if there was any change in the configuration of the location advantages, Nien Hsing Textile Co. could easily take off towards other horizons as it did not depend on specific Nicaraguan location advantages.

4.6. Evolution of the subsidiary

Given its narrow profit margin, Nien Hsing Textile Co. was very sensitive to small changes in wages costs in trouser assembly, the costs of intermediate inputs, and the prices of the full package service. Besides, for Nien Hsing Textile Co. the location advantages of Nicaragua were fragile, "political" or artificial. All this helps to explain why Nien Hsing Textile Co. wanted to retain its locational flexibility. Making significant investments in heavy capital goods (spinning machine, weaving machine etc.), establishing long-term economic linkages with the local suppliers, and employing and training local managers would be in contradiction with this determination to maintain the international mobility of its manufacturing activities. This must partly explain why there had not been any genuine upgrading of Nien Hsing Textile Co. in Nicaragua (van Wunnik, 2001).

Nien Hsing Textile Co.'s Nicaraguan plants practically did not have any relations with local enterprises. They imported, with the exception of the pumice stone and the cardboard boxes, the intermediary material inputs (fabric, buttons, zippers, thread, etc.) and the capital goods (sewing machines, washing machines, etc.) used in production. In addition, they did not carry out any process subcontracting (sewing, washing, ironing or packaging) among local enterprises or family workshops.

4.7. Exit of Nien Hsing Textile Co. from Nicaragua

In 2008, Nien Hsing Textile Co. closed five of its six plants. The only one that is still open is Alpha Textile, the factory that dyes fabric and the only factory whose buildings are owned by Nien Hsing Textile Co. Some 15.000 direct jobs were lost. It seems that the group decided to move its production base from Nicaragua to Vietnam and Cambodia (Oppenheimer, 2007).

The TPLs was not a sufficient reason to continue producing in Nicaragua. Probably, the "1:1 requirement" greatly limited the advantage of the TPLs for trousers as North American fabric is more expensive than Asian fabric (Jansen *et al.*, 2007). Moreover, Nicaragua has lost one of its two political location advantage over its neighbouring countries. The World Trade Organisation decided, in July 2007, to allow 19 other countries (including Costa Rica, El Salvador, Guatemala and the Dominican Republic) to keep their free trade export processing zones beyond 2009 until 2015 (Aguilera, 2007). Other factors, such as the new political context of the country with the coming to power of the Sandinista candidate, Daniel Ortega, who has good relations with Hugo Chávez and the adverse economic situation prevalent in the United States, probably also played a part in this decision (Oppenheimer, 2007).

5. Cotonella S.p.A- Shqiperia Trikot sh.p.k subsidiary in Albania (2014)

5.1. Country characteristics

Albania is a small country located in the Balkan Peninsula and in the same time one of the oldest nations of the region. It has a surface area of 28,748 km² and a population of 3.2 million inhabitants. It shares borders with Montenegro, Kosovo, FYR Macedonia, and Greece. In the west it has a 476 km long coastline along the Adriatic and Ionian Seas. In addition, the west of the country lies in front of the Italian coast and the shortest distance

between them is the Otranto channel only 75 km long. In the literature Albania is considered as a “gateway” between East and West (De Lucia et.al, 2006).

According to the World Bank Country Economic Memorandum (2010), in recent years Albania has experienced an important economic transformation which has significantly reduced poverty and has placed Albania into the ranks of middle income countries. The presence of a stable macroeconomic framework together with essential improvements in the business environment, energy, financial sector, tax administration, and public financial management induced economic growth. The GDP per capita in 2012 is 4,500 \$ (INSTAT, 2013).

5.2.Policies to attract foreign investment

The Albanian government offers a wide range of opportunities to foreign investors. They can invest in economic zones (free trade zones and industrial parks) in the country. According to the Ministry of Economic Development, Trade and Entrepreneurship, the selection of the economic zone “developer” is mainly in the BOT form (build-operate-transfer) for a period up to 35 years and under a nominal fee regime of 1 €. The free trade zones and industrial parks are being established near ports, airports, or at the crossroads of international transport.

Another incentive offered to foreign investors are the subsidized leases of state-owned premises. On a case by case basis, investors are eligible to lease state owned property such as land or buildings at rents below market rates. State owned premises can be leased in all regions of Albania and they are not limited to premises previously used in production or manufacturing (FDI Report, 2010)

To continue, privatization is a central component of economic reforms in Albania and an important tool to attract foreign investors. The strategy *On Privatization in Albania* aims among others to attract strategic investors, to stimulate the economy through efficient use of human and natural resources, and to guarantee the stability of ownership. No limitations on the participation of foreign investors has been applied in the process of privatization. Foreign investors are allowed 100 per cent ownership of privatized enterprises. Finally, Albania is adopting all EU directives related to production, goods, and services. Thus, foreign investors in Albania can operate under EU legislation while enjoying the tremendous benefits Albania offers in terms of production costs (AIDA, 2014).

5.3.MNE and the activity of the subsidiary

Cotonella S.p.A was founded in 1972 in Edolo , in the province of Brescia in northern Italy as a small enterprise for the production of intimate apparel. Cotonella S.p.A is today a leading brand of quality Italian intimate apparel. Products are distributed efficiently in all regions as its main goal is to make available a wide range of quality products at competitive prices to all possible customers. Raw materials used in manufacturing are certified according to OEKO - TEX 100 standard and in 2001 the quality system managed to get the prestigious

certification UNI EN ISO 9001:2008. Currently, its products are manufactured in Albania (97%), China (1%), and India (0.5%).

Cotonella S.p.A decided to close its subsidiaries in Romania and Serbia and transfer production in its Albanian subsidiary because of: (i) the favorable political and economic conditions, the continuously improving performance of Shqiperia Trikot sh.p.k, the short distance from Italy especially from the north of the country where the headquarters of Cotonella S.p.A are located, improved logistics which accelerate delivery of finished products, and common social and cultural features including an urban population of which 90% speaks the Italian language.

Shqiperia Trikot sh.p.k was founded in 1995 and its activity has steadily grown over time. In 1998, as a result of the growing trend in production and thanks to the satisfactory performance it began producing for the first time with two shifts and within 5 years it managed to manufacture 10 to 12 million items per year. The large volume of production was the main cause of the second restructuring of Shqiperia Trikot sh.p.k that decentralized production into five main units which operate today as its subcontractors. Cotonella S.p.A and Shqiperia Trikot sh.p.k provide an ongoing support to each subcontractor especially in improving manufacturing efficiency and in strengthening staff capacities.

Table 3: The subcontractors of Cotonella S.p.A - Shqiperia Trikot sh.p.k in Albania (2014)

Cotonella S.p.A- Shqiperia Trikot sh.p.k					
Products	Slip, Shirts, Bras, Pyjamas				
Employment (April 2014)	78				
Establishment date of the plant	1995				
Subcontractors					
	Madish sh.p.k	Laurus sh.p.k	Melkans sh.p.k	Silvana sh.p.k	Andrea sh.p.k
Products	Slip, Shirts, Bras, Pyjamas	Slip, Shirts, Bras, Pyjamas	Slip, Shirts, Bras, Pyjamas	Slip, Shirts	Slip, Shirts
Employment (April 2014)	103	126	88	97	15
Establishment date of the plant	1995	2006	2008	2012	2012

5.4. Technology transfer

Cotonella S.p.A has made considerable investments to make increase the level of technology transfer at Shqiperia Trikot sh.p.k by strengthening its manufacturing capacities and enhancing the knowledge of local administrative and operational staff. The highest level of capital investments in production facilities was undertaken between 2006 and 2010 during which a new production facility of 25,000 square meters costing 3.2 million euro was built in the suburbs of the city of Shkodra, a city in the north of Albania.

After transferring production to the new premises, Shqiperia Trikot sh.p.k made additional investments in technology³ amounting to 750,000 euro. Shqiperia Trikot sh.p.k is the one of the few inward processing companies in Albania that manufactures through the use particle filter (FAP) sewing and cutting machineries that is completely ecological. Machineries running with particle filtering technology absorb most of the particles generated in garment manufacturing and in the same time ensure a low level of noise in production. To continue, the machineries used in cutting various fabrics is one of the latest models of Gerber Technology which it is almost fully automated able to carry even the employees that are running it.

Laboratories have a digital and a modern controlling system that enables improvements in the quality of finished products and in the health and hygiene of customers. All products from, shorts, jackets, pyjamas, lingerie, to those for babies and children are guaranteed by 54 quality checks which are performed by specialized technicians at each production line of Shqiperia Trikot sh.p.k. Substantial investments are made for the distribution network which is supported by servers of the latest technology. Through the use of advanced software the distribution network allows for monitoring of finished products until they reach their final destination.

Moreover, Cotonella S.p.A in close cooperation with Shqiperia Trikot sh.p.k has initiated a variety of training programs designed according to the highest training standards of textile and apparel industry in northern Italy. Trainings begin on the first day of employment on which new employees start a three months training period. During the three months experienced staff closely supervise new employees and guide them on how to complete the assigned tasks. Training programs having a duration of 2 weeks, 1 month, 3 months or up to a year are available in the premises of the parent company. These trainings are supplemented with additional trainings in the facilities of Shqiperia Trikot sh.p.k. which are run by domestic and foreign experts and are supported by universities. Trainings are conducted primarily for :

- Increased reliability in quality control of raw materials
- Quality control of finished products
- Improving the structural organization of various departments
- Use of advance software to speed up delivery of products

Apart from training, employees of Shqiperia Trikot sh.p.k attend ongoing study visits at the parent company during which they gain on the spot experience and are exposed to tacit knowledge through close interaction with more experienced and qualified staff at the parent company.

³ Gerber Technology is a world leader in providing sophisticated automated manufacturing systems. The company serves 25,000 customers including more than 100 Fortune 500 companies, in the aerospace, apparel ,retail, technical textiles, furniture, and transportation interiors industries in 130 countries.

5.5.Mobility potential

Currently, the possibility that Cotonella S.p.A to move its production from Albania to another country is relatively low. Cotonella S.p.A decided to close its other two subsidiaries in Romania and Serbia and transfer their activity at Shqiperia Trikot sh.p.k, its only operating subsidiary responsible for over 97% of its total output. Today, the main objective of Cotonella S.p.A is to transfer the fraction of output that is currently manufactured in China and India in the premises of Shqiperia Trikot sh.p.k.

In addition, Cotonella S.p.A has spend large sums in modern capital investments and qualified human resources of Shqiperia Trikot sh.p.k limits its mobility potential to another location. If Cotonella S.p.A decides to transfer production in another location it will not only incur additional costs but also it will need a lot a time to build and to run a similar subsidiary which it has been supporting and monitoring since 1995.

The president of Cotonella S.p.A and the management of Shqiperia Trikot sh.p.k emphasize that producing in Albania is highly advantageous for them as it is the closest emerging country to Italy making them achieve the shortest possible delivery time to their clients at the lowest cost and because it is relatively easy to do business in the country due to similar social and cultural features present in Albania.

5.6.Evolution of the subsidiary

The production strategy of Cotonella S.p.A is oriented toward a gradual decline in production in countries like China and India in favor of manufacturing in Albania. This indicates that a competitive Albanian labor market combined with a high awareness towards quality is now able to compete with experienced Asian countries and is gradually acquiring a larger share in the total production of Cotonella S.p.A.

The manufacturing activity of Shqiperia Trikot sh.p.k has grown over the years. In its beginnings in 1998 Shqiperia Trikot sh.p.k manufactured only 60% of Cotonella's total output while in 2013 it manufactures more than 95% of total output, experiencing an increase of 35% compared to 1998. In the first years, Shqiperia Trikot sh.p.k manufactured only intimate apparel (slips and shirts) for men and women. Later on, it started to manufacture additional items like bras, jersey and items in the product line for children and babies. In the last 5 years, Shqiperia Trikot sh.p.k started to produce pyjamas for men, women, and children as well as nightgowns. Worth noting is the growth of 233% in the total output of bras from 2010 to 2013. Also, during the same period the total output of shirts has grown by 189% and that of pyjamas is higher by 150%.

Moreover, since its establishment Shqiperia Trikot sh.p.k has significantly expanded the range of its operations and functions. Initially Shqiperia Trikot sh.p.k carried out only sewing and packing of intimate apparel. Today, these activities are carried out by its subcontractors. Currently, daily operations of Shqiperia Trikot sh.p.k include:

- Storage of raw materials

- Control of raw materials
- Cutting and preparation of fabrics for sewing
- Control of finished product
- Packing and delivery of finished products to clients of Cotonella S.p.A
- Market research in the Balkan Peninsula

Domestic suppliers are absent in operations of Shqiperia Trikot sh.p.k. The general administrator of Shqiperia Trikot sh.p.k highlights that up to now no local firm is able to produce raw materials capable to meet the stringent requirements set by Cotonella S.p.A.

Shqiperia Trikot sh.p.k imports its raw materials mainly from Turkey and a minor fraction from Italy, Romania, Bulgaria, and China. Raw materials are imported based on price-quality ratio and according to the preferences of the clients of Cotonella S.p.A. Shqiperia Trikot sh.p.k guarantees the quality of raw materials through continuous tests and controls immediately after they are stored in the facilities of the company. In order to intensify cooperation with its suppliers Shqiperia Trikot sh.p.k schedules regular meetings every three months during which executives and technicians get familiar with the latest technology and the newly invented fabrics.

6.Comparison of the two case studies

Initially we were reluctant to write about two apparently very different subsidiaries. However, after carefully analysing them we found various similarities and identified key differences among the two. In this section we compare the subsidiaries based on: (i) technology transfer, (ii) mobility potential, (iii) upgrading of the subsidiary.

6.1.Technology transfer

Firstly, Nien Hsing Textile Co. has made relatively little efforts in transferring technology in Nicaragua. It has spent low amounts in capital investments including production facilities, machineries, or advanced information technology. Nien Hsing Textile Co. operates under rented facilities in Nicaragua. It owned only the buildings of the dyeing mill. In addition, Nien Hsing Textile Co. does not have a planned training program for its employees who are low skilled and are not exposed to any opportunities to acquire new knowledge and additional expertise. Contrary to the maquiladora subsidiary, Shqiperia Trikot sh.p.k has invested large amounts to build state of the art facilities, to use ecologically friendly technology, and to track delivery of finished products using the latest information technology. On going training of its employees is a core activity of Shqiperia Trikot sh.p.k. Its employees strengthen their know-how and gain additional skills through on site trainings permitting them to be hired from Armani and Calvin Klein.

6.2.Mobility Potential

The two subsidiaries differ substantially in their potential to transfer production in another host territory. Nien Hsing Textile Co. has various plants assembling trousers in Lesotho,

Mexico, Vietnam and Cambodia. Possession of substitute plants and the sensitivity to small changes in the costs of labour, intermediate products, and full package service constrained Nien Hsing Textile Co. to maintain a high degree of mobility potential. On the other hand, Shqiperia Trikot sh.p.k has a lower mobility potential. It is the only subsidiary of Cotonella S.p.A and it also aims to absorb in the near future production from China and India, becoming the only manufacturing facility. Cotonella S.p.A finds in Albania advantages like proximity and socio-cultural similarities that hardly can be found in another country and which are of secondary interest in the activity of Nien Hsing Textile Co.

6.3.Evolution of the subsidiaries

The two subsidiaries differ in the type of manufacturing activity. Nien Hsing Textile Co. manufactures trousers exclusively based on the orders of its clients. To international players like Levi Strauss and Tommy Hilfiger Jeans Nien Hsing Textile Co. serves as an international subcontractor. Differently, Shqiperia Trikot sh.p.k has a more diverse portfolio of products. It manufactures the “Cotonella” brand and in the same time serves as a subcontractor for the clients that are decided by the headquarters of Cotonella S.p.A.

Thirdly, among the two subsidiaries Shqiperia Trikot sh.p.k is the one with the highest degree of embeddedness. Its embeddedness results mainly from the five subcontractors that provide sewing and packing services. Also, since its beginnings Shqiperia Trikot sh.p.k has employed at all levels only Albanian staff. A different scenario occurs with Nien Hsing Textile Co. which has a low degree of embeddedness. Management positions are occupied only by expatriates and it does not have any local subcontractors supporting its operational activity.

Both subsidiaries operate under the inward processing regime. They manufacture finished products that are delivered to clients residing outside the manufacturing country. Part of the inward processing regime is also producing based on imported raw materials. Both subsidiaries do not have the right to select suppliers of raw materials. Suppliers are chosen either by the clients according to their needs or are determined in the headquarters. Additionally, raw materials originate from countries to avoid extra tariffs for exporting in foreigner markets. Raw materials imported from Asia are used to produce both in Nicaragua and Albania.

The two subsidiaries offer full package services to their clients in their respective host territories. Services range from sewing and buttoning to quality control and delivery of finished products. Despite full package service, neither of the subsidiaries is specialized in the design and marketing of manufactured items. Research and development capacities able to introduce new products in line with market demand or headquarters’ competitiveness strategy are absent from both subsidiaries. Due to the inward processing activity and the high quality finished products manufactured local suppliers are lacking in the daily production activities of Nien Hsing Textile Co. and of Shqiperia Trikot sh.p.k.

7. Conclusions

The manufacturing activity of Nien Hsing Textile Co. did not have any major impact in the economic development of Nicaragua. In 2008, Nien Hsing Textile Co. decided to close the five factories operating in rented facilities closing 15,000 direct jobs. It kept only the factory it owns the buildings which specializes in dyeing of fabrics. Also, for Nien Hsing Textile Co. location advantages of Nicaragua were unstable as they depended on domestic politics. During its presence in Nicaragua Nien Hsing Textile Co. aimed at maintaining its locational mobility avoiding considerable investments in capital goods, having strong connections with domestic firms, or employing local staff. Under these conditions Nien Hsing Textile Co. did not experience any upgrading and it decided to close its trousers assembling activity.

A slightly different situation occurs with Shqiperia Trikot sh.p.k. Since its establishment it has experienced upgrading at some extent. It strengthened its operational activity by increasing the range finished products, by providing additional services (quality control, and logistics) to the parent company, by promoting an extensive staff training program, and by acquiring know-how transfer from Cotonella S.p.A. It has also achieved some degree of embeddedness through employment of local staff and close cooperation with five subcontractors.

However, both subsidiaries have not engaged towards private sector development through the creation of a strong base of local suppliers and towards establishing a pool of specialized labor as qualified employees are limited within the ones working for each subsidiary, casting doubt on the potential development of in host territories.

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