Chapter 8
Globalisation, Delocalisation and Development: Conceptual Framework and Impacts on Southern European Countries

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8.1 Delocalisation: Theoretical and Methodological Issues

8.1.1 General Framework and Tendencies

In the foreword to the 2013 edition of the European Competitiveness Report (European Commission 2013) the Director General of DG Enterprise and Industry, Daniel Calleja Crespo voiced a rather disturbing warning about the future of the European Economy: *'. . .(W)hat is new however is that in the last decade the shift away from manufacturing in Europe has accelerated, reaching a critical threshold below which the sustainability of the European economic and social model might be at risk.*'(European Commission 2013, p. 3)

The financial crisis and the growing relevance of Global Value Chains (GVC) for the sourcing of a growing share of tradable goods (or components of goods) seems to imply growing delocalisation pressures to countries and regions, particularly if the latter is viewed as a vehicle of deindustrialisation, adversely impacting exports of manufactures, which are considered central in the recovery of the EU economy (European Commission 2013).

The main aim of the chapter is the analysis of delocalisation in Southern Europe and its implications on the region's recovery and economic vitality. Apart from discussing the role of technology intensity and product quality/complexity, we aim to analyse the role of geography as a factor of resilience.

Methodologically, due to the complex nature of the concept of delocalisation, the article utilizes a wide array of secondary and some primary data. The former

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aims to analyse various facets of delocalisation, such as international trade, FDI, outsourcing and trade in value added. The main sources of the secondary data used are UNCTAD for FDI and trade related data, EUROSTAT for outsourcing data and OECD for trade in value added data. In addition to secondary macro data, the article attempts to analyse locational responses to the crisis pressures of a small sample of Greek firms.

The last few decades have been a period of significant redrawing of the global economic landscape; for instance, the share of the global total Gross Value Added (GVA) of developing economies increased from 21% in 2003 to 35% in 2011 (UNCTADStat). However, in many ways this is a landscape often reminiscent of the old international divisions of labour, since there are considerable parts of the word where growth appears stagnant. The Gross Value Added (GVA) of the developing countries of Africa, America and Oceania remained fairly steady throughout the period, as opposed to the Asian developing countries, which currently account for 70% of the developing countries total, up from 51% in 1970 (UNCTADStat, own calculations).

This change is nowhere more evident than in the analysis of the trends of industry, which is in the forefront of developing countries catch-up efforts, and the strides made by specific countries. By 2011 46% of the global industry GVA was accounted for by developing countries (up from 15% in 1970), while a single developing country (China) accounted for 17% of global industry GVA, having doubled its share in less than a decade (the respective share in 2001 was 7%, (UNCTADStat, own calculation).

This huge shift is, to a very large extent, due to a changing pattern of global trade, where trade in final products is gradually becoming less significant, while trade in intermediate products, parts and more recently, tasks (Grossman and Rossi-Hansberg 2008) is fast becoming the main component of global trade flows. During the last decades trade in intermediate goods and services has fluctuated between 50% and 75%, accounting for the largest part of total trade (Sturgeon and Memedovic 2011; WTO 2013, p. 183).

An interesting point is made by Zhu and Pickles (2014) in that the development of GVCs and global production networks (GPNs) (both of which are inextricably tied to delocalisation) in developing countries is widely considered to have benefited (or taken advantage of) the governance capacity deficits of these countries, as globalisation *'destabilized the governance of nation state and local institutions through its footloose sourcing practices'* (Zhu and Pickles 2014, p. 44). In many ways the same can be considered to be true also for developed countries, as the types of activities relocated have apparently changed during the last decade from predominantly labour intensive, low cost activities to a more varied mix encompassing all business activities, even those that were traditionally considered to be the basis of developed counties' competitive advantage, such as R&D and headquarters (Contractor et al. 2010; Manning et al. 2008). The increasingly footloose character of such activities causes increasing concerns in developed countries, putting intermediate regimes such as those of Southern European countries under pressure (Kalogeresis and Labrianidis 2010).

8.1.2 What Is Delocalisation?

Delocalisation is a term that has come to mean quite a few, often rather different, things. Delocalisation can correspond to the sum of FDI and international subcontracting (Amighini and Rabellotti 2006; Labrianidis and Kalantaridis 2004); it can also be identified with the diffusion of an industry or activity to a 'less developed place', implying that this place lies outside the country of origin, although not always necessarily so (Storper 2009). To Pickles and Smith (2011, p. 171) the term refers to something involving '*...the fragmentation of tasks and the division of labour across geographical space, often with the relocation of labour-intensive elements of the production process to lower-cost locations, while core competencies (product design, network coordination, brand ownership, fabric research and development, and so on) are assumed to be more spatially inflexible, tied as they are to human capital resources and knowledge networks'*. Zhu and Pickles (2014, p. 45) identify delocalisation with outsourcing, or the 'Go out' policy of Chinese manufacturing towards the vast Chinese hinterland.

Why, then, didn't all of these authors use the relatively clearer and more straightforward term 'relocation' (OECD 2007)? We believe there are two main reasons. The first is that relocation is a term that focuses on the individual firm. The second is that the role of geography as a crucial determinant of the location of industry is implicit and often explicit in the use of the term delocalisation. Here geography extends far beyond the natural or even human resources of a specific territory to the social or political trajectories shaping the decisions of firms. As such, firms are the building blocks of local or trans-local production systems and delocalisation can be seen as the movement of '*...production activities away from the local and/or national system*' (Mazzanti et al. 2011, p. 421).

We understand *delocalisation as the spatial restructuring of industry on an international scale*. However, as we analyse further down, the establishment of some type of foreign activity is neither a necessary nor a sufficient condition for the existence of delocalisation.

As the term suggests, delocalisation must be understood in relation to localisation. In economics or geographical economics literature, localisation usually refers to 'spatial co-localisation' (Antonietti et al. 2013; Holmes 1999), therefore making empirical verification rather easy. In Economic Geography the term refers to specific type of economies (localisation economies), shaping industrial agglomeration or spatial clustering (Amin and Thrift 1992; Boschma and Lambooy 1999; Malmberg and Maskell 2002), two terms whose interpretations remain quite 'fuzzy' (Malmberg and Maskell 2002; Markusen 1999). Hence, localisation refers to the existence of networks of relations that bind or embed firms to wider institutional assemblages or regions.

Although delocalisation is shaped by the relocation decisions of individual firms, very often environmental (territorial) or sectoral factors are considered to be equally, if not more important than the individual decision making firm. Hence, in some of the literature on delocalisation (Bellandi and Caloffi 2008; Biggiero

2006; Sammarra and Belussi 2006) it is the territorial system that constitutes the main object of enquiry. Although territorial systems may be the most appropriate level of analysis to identify the impacts of delocalisation, they are extremely difficult to study using secondary data. It is firms as actors with *'. . .a tangible and important stake in the business environments where they are located in ways that go far beyond taxes, electricity costs, and wage rates'* (Porter 2000, p. 16), which constitute the main building blocks of local economies. Issues such as firm embededdness, local forward and backward linkages, and knowledge creation, circulation and sharing highlight the significance of the firm to local productive systems and hence to regions. Through this viewpoint, a firm delocalizes when it eliminates local linkages, or becomes less embedded.

8.1.3 How (and Why) Do Firms Delocalize?

Firms delocalize to take advantage of more favourable cost structures in other areas or countries. Technological innovations and lower trade costs allow production to be fragmented and components to be produced in geographically distant areas, creating new opportunities for international specialisation by tapping into appropriate institutional settings or resource endowments. The welfare gains come from the more efficient utilisation of resources brought about by component specialisation (Arndt 1999). More recent work (Grossman and Rossi-Hansberg 2008) has highlighted the possibility of even finer divisions of labour into 'tasks' and the welfare implications of such extreme fragmentation.

Conceptually, the decision to delocalize can be explained either through the viewpoint of the transaction cost theory, or the resource approach, or the interplay of the two.

Each firm is a bundle of resources, which constitute the building block of the many variants of Penrose's (1959) resource–based theory aiming to analyse firm growth. For Penrose, productive resources, and especially the services they offer are not general and unspecified categories accessible to all firms. Hence, they are particularly important, since they constitute the base of firm differentiation. While resources may be similar, the way firms combine their services can hardly be identical, explaining the existence of different products.

The unique combinations of firms' resources, accumulated experience, entrepreneurship and unused productive services can explain the direction of expansion at home or abroad (Kay 2000). In this case the critical decision about whether to make or buy largely depends on whether the firm's capabilities are superior to those of potential suppliers.

The alternative explanation can be traced to the work of Coase (1937) on the boundaries of the firm: outside the firm, it is price movements that direct production, which is coordinated through a series of exchange transactions in the market; within a firm, these market transactions are eliminated and it is the entrepreneur–coordinator who directs production.

On the basis of the works of Williamson (1975, 1985), for whom transaction costs, asset specificity and incomplete contracts play a central role, Grossman and Helpman (2002) argue that the decision about whether to make or buy is a trade–off between the cost of running a large and less specialized organisation and the costs involved in finding partners and incomplete contracting, which, in turn depends on asset specificity.

A constant reconfiguration of the boundaries of the firm through external (Cowling and Sugden 1987; Dicken and Thrift 1992) or internal (O'Neill and Gibson-Graham 1999) pressures makes the choice of mode of delocalisation less relevant. We do not consider FDI and outsourcing to be equipollent, primarily since the resources required for each of these can differ quite substantially. However, there are various mechanisms at work that are constantly altering this imparity, such as the feverish competition between countries and regions in attracting FDI and the constant efforts to create more liberal and hospitable international FDI regimes. Therefore, rather than studying FDI or outsourcing, and while we consider the choice of mode as important, we are interested in explaining the decision of firms to move part of their activities abroad and we are searching for underlying mechanisms and implications that are common in the two modes.

Of particular interest are efforts to combine the two seemingly opposing views (the resource-based and the transaction costs) of the firm (Argyres 1996; Broedner et al. 2009; Jacobides and Winter 2005) aiming to cover a wider array of firms, sectors and environments.

Further insight into why production systems delocalize can be gained from understanding the factors leading to localisation.

Firms' decisions about where to locate depend on the ways technology and knowledge spread in the global economy and innovation is created. The main sources of localisation are Marshall's (1920) local externalities based on horizontal and vertical specialisation and Arrow's (1962) learning by doing, highlighting the role of being at, or near where 'things happen'. The role of knowledge is clearly central in understanding these processes, and despite a long history of efforts to explain the growth inducing character of technology and knowledge (Arrow 1962; Young 1928) it was Romer (1986) and the endogenous growth model that established increasing returns as the principal source of long-run economic growth under resource constraints. The increasing returns of knowledge depend on its character as a non-rival and partially excludable good, both of which imply that it can be reused without loss and flow everywhere.

Although these three types of externalities are usually treated as one single force behind agglomeration and growth, collectively called 'Marshall–Arrow–Romer' (MAR) externalities, operating through knowledge spillovers in an industry (Glaeser et al. 1992; Henderson 1997), Storper (2009) argued that Romer (R) externalities should be treated separately from the Marshall–Arrow (MA) component. Specifically, he claimed that the MA externalities account for the creation of innovation through knowledge spillovers and exchange at 'definite territorial scales'. Then, the Romer model explains how the initial local monopoly rents are bid away by competition at the economy wide level.

Therefore, innovation tends to be created in specific locations as a result of MA externalities. The localized character of such innovation will tend to give rise to cumulative processes of innovation and growth, as the regions that initially create such monopoly rents will most likely be better positioned for the next wave of innovations. However, at the same time R externalities will tend to spread at economy-wide or even international levels, leading to an upward growth spiral of innovation creation (by leading regions) and catch up (by lagging regions). Convergence in such a system is not guaranteed, although there may be occasional episodes of convergence, or even a—not smooth—sequence of convergence as countries make the transition from a low level of development to a rich country group (Puga and Venables 1999).

8.1.4 Causes of Delocalisation

Delocalisation usually involves some kind of physical relocation of some of the firm's activities, but not always; i.e., firms switching from manufacturing to trade or other service activities usually become detached from the local production system. Conversely, the relocation of an activity does not by definition constitute delocalisation. Consider for example a firm deciding to relocate a labour intensive activity to a lower labour cost country. The impact of such a movement is by no means straightforward. At the level of the firm itself, the movement may result in the freeing of scarce or underutilized resources; at the level of the cluster (and consequently, the locality), internationalisation may lead to either delocalisation or relocalisation, as a result of the complex interactions between local and global systems (Amin and Thrift 1992). According to Bellandi and Caloffi (2008) the outcome is a result of two types of variables. The first is the time horizon of the movement (i.e., short-term market strategies as opposed to long-term industrial and trade strategies), while the second is the industrial configuration, referring to the extent of 'co-ordination' of local and foreign firms and clusters: the more concerted the move, the more likely both localities and clusters will benefit, leading to delocalisation.

This implies that there may well be instances of unexpected outcomes, e.g., when some type of movement leads to relocalisation instead of delocalisation; in other words, to the strengthening of a local productive system instead of its weakening. Naturally, such phenomena largely depend on the wider systemic changes, such as the largely ongoing international financial crisis.

The viewpoint and timeframe determine the perceived impacts of delocalisation. One possible scenario is described by Storper (2009), contesting the dominant idea in local and regional studies that "*. . . the more a supply chain is localized, the more developmental benefits for a locality can be captured over time through expansion of the activity*". Apart from the ample evidence against the validity of such a thought (Arndt 1999; Puga and Venables 1999) in a long term perspective, a policy aimed at localizing value chains would block the mechanism of comparative

advantage, severely limiting welfare for all countries involved. This idea expresses a fundamental bias against long-distance linkages and commodity chains that are highly fragmented over different territorial jurisdictions. In simple accounting terms, it has some short-term empirical validity, in that the more localized the value chain, the more of it will be captured locally for a given increment of increase in output of the activity in question.

Going from the development perspective to the other end of the spectrum, i.e., the firm, allows for a more complete understanding of the impacts of delocalisation. Studying the firm allows for an appreciation of how outsourcing, delocalisation or relocalisation, viewed as determinants of reconfiguration of local productive systems, which usually (but not always) take the form of '*sectoral and activity "succession" and intrasectoral innovation, improvements in quality, and vertical differentiation'* (Storper 2009, p. 3) affect local productivity levels, which is what eventually matters towards local or regional development.

Empirically, the relationship between outsourcing and productivity seems to point to an overall positive relationship. Most of the studies find a strong association between firm productivity and the decision to get involved with foreign sourcing (Fariñas and Martín-Marcos 2010; Tomiura 2007), and a positive impact of outsourcing on labour and total factor productivity (Amiti and Wei 2005; Girma and Görg 2004; Görg et al. 2008; Görg and Hanley 2003; Jabbour 2010).

Most of this, generally optimistic, literature ignores issues of welfare distribution and justice. Hence, labour productivity gains usually come from high skilled labour, while labour demand is considerably reduced due to offshore outsourcing of materials (Görg and Hanley 2005). In addition, Houseman (2007) voices her concern about problems in the measurement of productivity, as well as the relatively more serious inconsistency between the surges of productivity in the American economy during the last decades and the level of wages in the economy.

On the other hand, a pure transaction costs view, according to which cost reductions through value chain disintegration and relocation will lead to overall firm productivity increases, and, in the long run, create a regional advantage, may be considerably limiting, given the extensive nature of market imperfections and failure. Along these lines Broedner et al. (2009) argue that '*the reduction of the vertical range of manufacturing . . . has a strong negative impact on a firm's labour productivity*'. Apparently, there are some limits beyond which further disintegration will affect a firm's competences.

It is more or less clear that directly measuring delocalisation is a daunting task. Numerous international organisations (Eurostat 2015, OECD, UNECE, and WTO) are directing their efforts towards various aspects of GVCs in order to overcome this problem (Sturgeon 2013).

8.2 Delocalisation in Southern Europe: A Macro Approach

The picture for Southern Europe is a highly fragmented one, since there is very little relevant data that covers all four countries (Portugal, Spain, Italy and Greece). Using several data sources on FDI, trade (particularly changes in trade specialisation), Trade in Value Added, European Outsourcing and data from a survey studying the delocalisation of Greek firms, we will try to assess the level and impacts of delocalisation.

8.2.1 Foreign Direct Investment (FDI)

The first metric used is FDI. Outward and inward FDI depend on rather different factors. Inward FDI depends on the wider global trends and is highly conditioned by the receiving country attractiveness, which, in turn, depends on a vast array of factors (Dunning 1998, 1993; Dunning and Lundan 2008). Incumbent FDI may be driven out of the economy especially if it is of the market-seeking type, given a shrinking domestic demand. On the other hand, resource seeking FDI may benefit if the cost of the resource(s) that initially attracted them to the country declines. In the case of firms in search of host countries, crises often create significant opportunities in the form of fire-sale FDI as has been the case with the Asian crisis, and Mexico before that (Krugman 2000).

The impact of a crisis on outward FDI will tend to depend on: the type of FDI (horizontal—vertical), with the former operating as a shock absorber, particularly if the host country is not affected by the crisis, while the latter can be expected to be more severely affected, as low domestic demand may lead to lower demand for the intermediate product supplied by the affiliate. The more tied the affiliate is to the requirements of the parent the greater the pressure caused by the crisis will be. Another significant factor is the embededdness of the firm in its home economy. Highly internationalized MNEs will tend to scan the domestic and foreign environments for opportunities and threats. Having long absorbed any 'foreignness' disadvantages, such firms may more easily decide to move core (in terms of value creation and appropriation) parts abroad.

The Hellenic Bottling Company (Ball and Stamouli 2012) and FAGE (Ball and Stamouli 2012; GreekReporter.com 2012), Greece's largest bottling and dairy companies respectively, relocated their headquarters in 2012 to Switzerland and Luxembourg, while the Italian company FIAT (now FIAT-Chrysler), one of the largest car manufacturers globally, recently moved its headquarters to the Netherlands and its tax domicile to Britain (Flak 2014). In all cases the firms claimed that production and employment in the former home countries would not be affected, however the overall impacts of such moves are always hard to assess, not least because that usually evades the crucial 'what if' question, i.e., what would happen had the relocations not taken place.

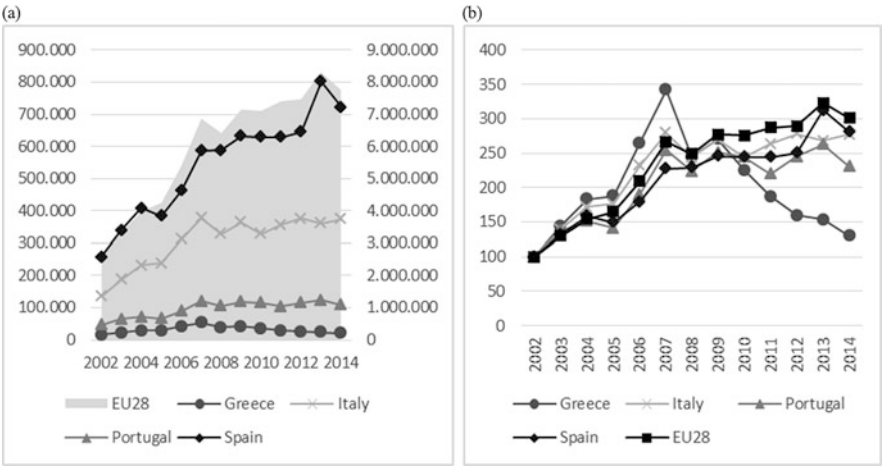

Fig. 8.1 FDI inward stocks (**a**) and their evolution (**b**) (2002 = 100). Source: UNCTAD (2015a)

Inward FDI (in terms of stocks) seems to have followed a pattern resembling that of "Developed Europe" as a whole, although the wider Southern European region seems to recover more slowly than Europe (Fig. 8.1). Greece is the country which fluctuates the most, displaying a sharp pre-crisis increase, followed by a prolonged decline post-crisis. The reluctance of foreign direct investors to invest in Greece can be an indication of the fact that the continuing debt crisis is mostly a trust crisis. In terms of the regulatory framework Greece, Portugal, Italy and Spain (in that order) are systematically the worst performing European countries in terms of quality and efficiency of their regulatory system[1]

The quality of the regulatory system is reflected in the perceived international competitiveness of the countries. According to the World Economic Forum's rankings, the four Southern European countries highlight the disparities in competitiveness in Europe as a whole (Schwab 2013, p. 27).

On the contrary, outward FDI seems to have risen in the area more quickly than in "Developed Europe" (Fig. 8.2), and, with the exception of Spain, it seems to have been less affected by the crisis. This should not be unexpected since widespread austerity has led to a 'massive negative demand shock' (Kitson et al. 2011, p. 299) leading firms to search for foreign markets.

[1]According the World Bank's 'Doing Business' 2013 rankings (http://www.doingbusiness.org/rankings), among 31 OCED countries, Greece, Italy, Span and Portugal were ranked at 30, 29, 27 and 19 respectively.

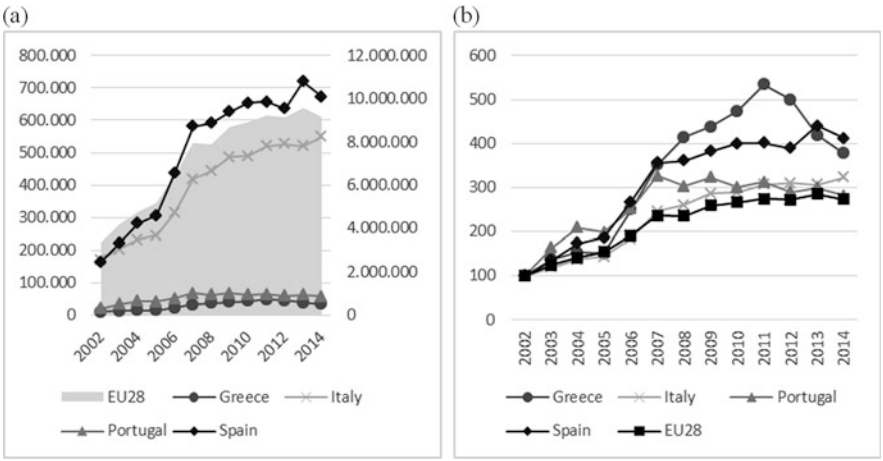

Fig. 8.2 FDI outward stocks (**a**) and their evolution (**b**) (2002 = 100). Source: UNCTAD (2015a)

8.2.2 International Trade

Moving on to data on international trade, Southern European countries are consistently less open than the average European country. In fact, in terms of the ratio of total trade as a share of GDP, Greece and Italy were the least open European countries, while Spain and Portugal were also near the bottom of the European ranking (Fig. 8.3). Naturally, the implications of this measure are very different between large and small countries. Hence, the low figures of Italy and Spain can be—at least partly—attributed to their sizeable internal markets and the consequent scale economies, which allows for greater diversity in both final and intermediate products. The pattern of limited openness is, nevertheless, still visible, since, along with France, the two Southern European 'large' countries are systematically the least open larger European countries.

The impact of the crisis appears to be very similar in all countries, with Greece displaying the slowest recovery.

The merchandise trade specialisation index compares the net flow of goods (exports minus imports) to the total flow of goods (exports plus imports), and is also known as 'normalized trade balance by product'. The range of values is between −1 and 1; positive values indicate that an economy has net exports (hence it specializes in the production of that specific product) and negative values means that an economy imports more than it exports (net consumption). This index removes bias of high export values due to significant re-exports activities, thus it is more suitable to identify real producers rather than traders. The normalized trade

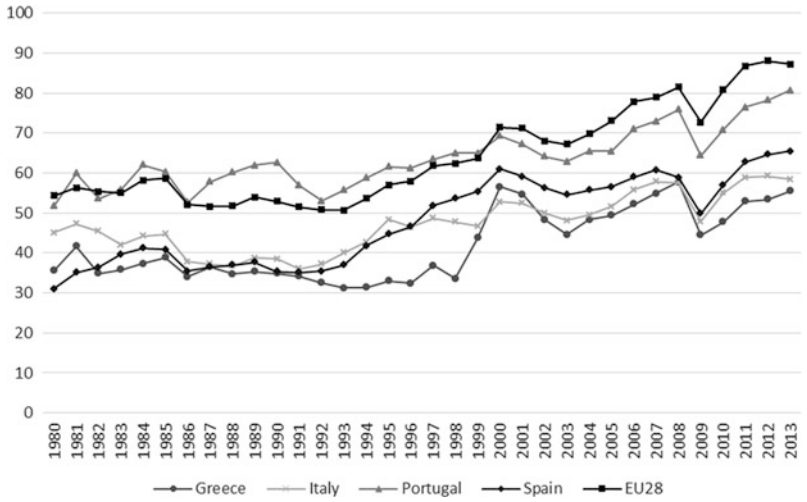

Fig. 8.3 Trade openness of Southern European countries. Note: Trade openness: sum of exports and imports as percentage of nominal gross domestic product (GDP). The indicators are calculated for total trade in goods and services. Source: UNCTAD (2015b)

balance is suitable to make comparisons across countries and product groups by removing the bias due to the size of an economy.[2]

By focusing on four main groups of products (grouped by skill/technology content) the trade specialisation index allows for a dual comparison. On the one hand we can see the medium-term evolution of the economies' structure, while assessing the relative competitiveness of the countries.

There is a rather clear divide between the four countries, with Greece and Portugal performing considerably worse than Italy and Spain (Fig. 8.4). Moreover,

[2]Formula of trade specialization index: $TSI_{ji} = \frac{X_j^i - M_j^i}{X_j^i + M_j^i}$

TSI_{ji} = the index of trade specialization of economy j for goods i in a specific period
i = product or product groups
j = economy (country or country group)
X_j^i = economy's j exports of goods i
M_j^i = economy's j imports of goods i

As the index shows the normalized trade balance at the product level and does not take into account the size of the trade, then products having low trade values may have high index numbers. This may lead to incorrect conclusions of specialization in trade. However, as those low trade values are considered important information to have, instead of removing those values they are kept but thoroughly footnoted. They are defined by having values less than a defined threshold. In order to set the threshold, first the significant products are specified (the ones that make up the cumulative market share up to 95% of total exports and imports). The lowest value of those significant products is considered as a threshold.

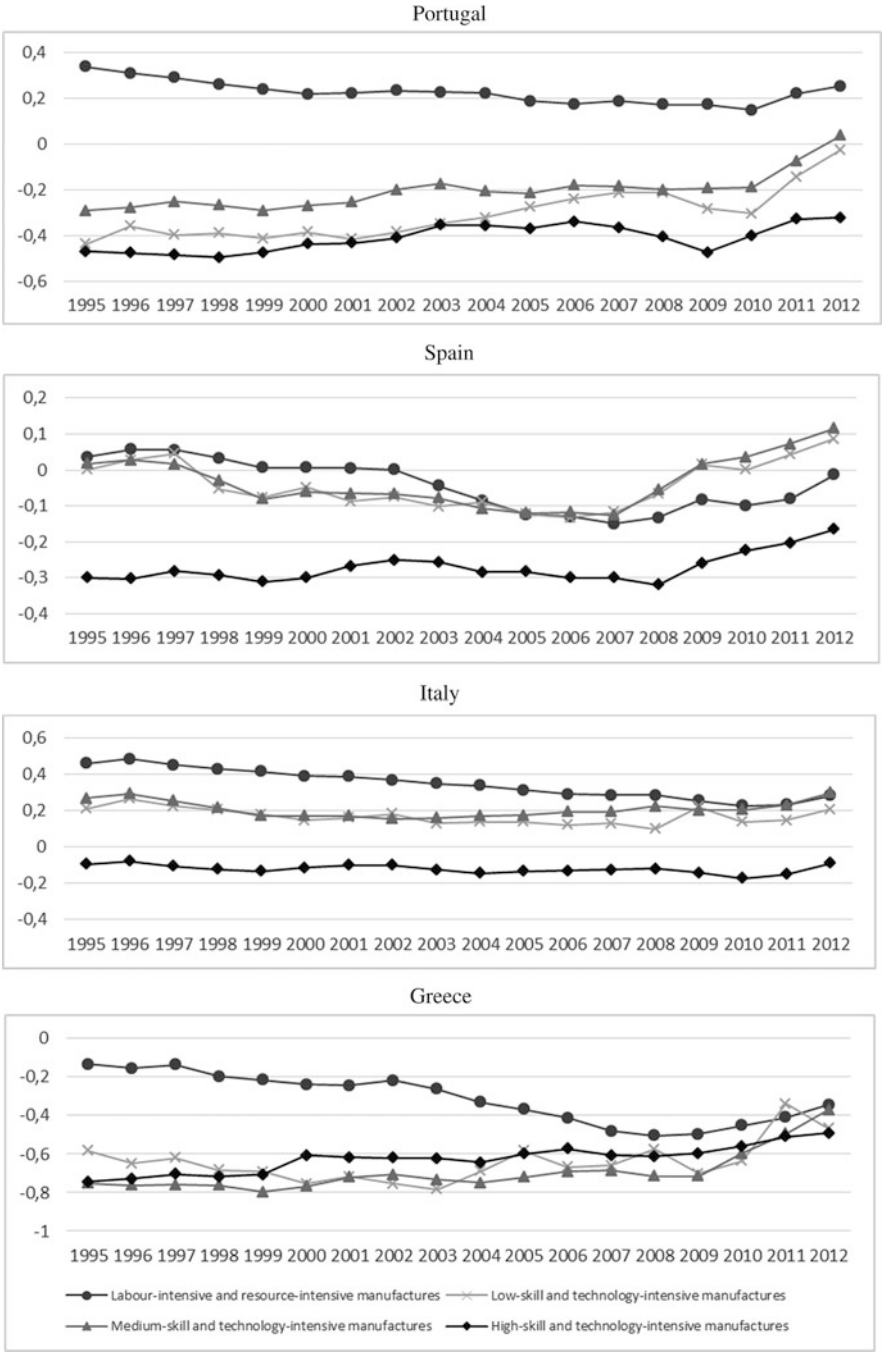

Fig. 8.4 Merchandise trade specialisation index. Source: UNCTAD (2015c)

Greece and Portugal are the two countries displaying a clear specialisation in labour intensive and resource intensive manufactures until the early 2000s. However, the magnitudes were completely different, since in the case of Portugal the index for the specific sector was positive throughout the period, while it was negative for Greece.

Portugal is the country that has changed the least, while Greece is the extreme opposite; although still not specialized in any particular sector, the country seems to be moving forward towards a more balanced industrial mix. In other words, Greece is a weak performer throughout. However, the relatively higher technology sectors are gradually gaining in importance.

Overall Italy appears to be the best performer followed by Spain. Both countries share a specialisation (much more systematic and persistent in the case of Italy) in all industry groups except high tech manufactures.

In terms of a sectoral outlook in a sector whose performance is very likely related to delocalisation, in 1995 Greece had a specialisation in five out of seven subsectors of the clothing sector (Fig. 8.5). By 2005 the specialisation was maintained in two subsectors, only one of which involved textile clothing, while currently, the country specializes in only one subsector.

Trade in Value Added (TiVA) reflects a number of aspects of the increasing interconnectedness of national economies and the blurring of the once clearer domestic character of products. The data currently available is provided by a joint OECD-WTO initiative based on national Input-Output (I-O) tables in conjunction with international trade data. Although still in many ways a work in progress, the

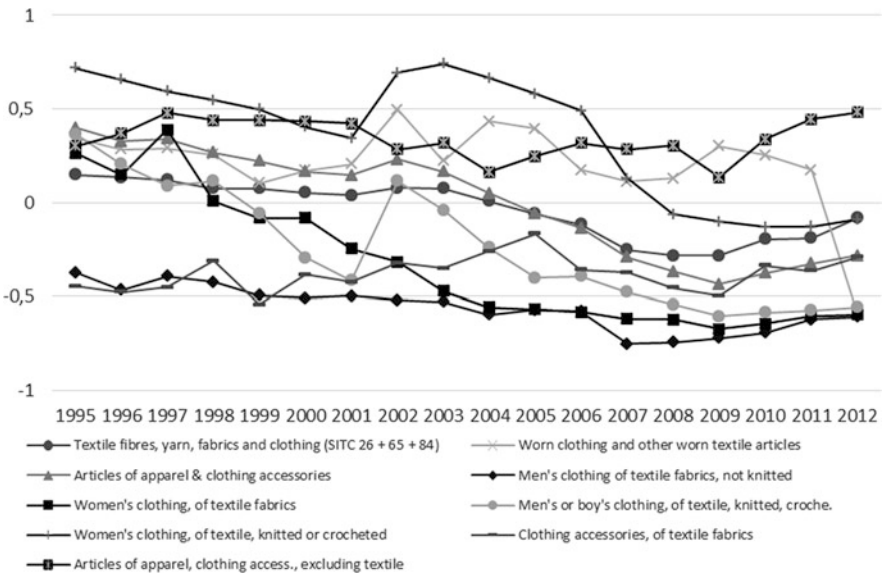

Fig. 8.5 Clothing sectors in Greece: Merchandise trade specialisation index. Source: UNCTAD (2015c)

data may inform us about the value added content of a Euro of imports or exports by value adding industry and country. Although TiVA is but one input in the effort to understand phenomena such as outsourcing, GVCs and delocalisation, it can prove to be a rather valuable input, as it may very well alter our view on the trade balance positions of countries, as well as the relative "goods" and "bads" of foreign content.

Foreign Value-Added embodied in Final Domestic Demand shows for a final good or service (purchased by households, government, non-profit institutions serving households, or as investment) how much value added is foreign and where it originates. It shows how industries abroad (upstream in a value-chain) are connected to consumers at home, even where no direct trade relationship exists. It can most readily be interpreted as 'imports of value-added'. Considering the four Southern Europe countries and two other countries from the North of Europe—Finland and Poland—the share of GDP declined between 2008 and 2009, reflecting the overall contraction in international trade (Fig. 8.6). Due to the market size effect and the greater variety of domestic sources of intermediates in larger countries, size appears to be a considerable determinant with smaller countries displaying higher shares (Greece and Portugal vis-à-vis Italy and Spain). However, its impact is moderated by other factors such as the relative openness of economies (Poland's share nearly doubled within the last 15 years—a period during which the Polish economy was opening up).

Is a high share of foreign VA in domestic final demand a negative sign? Although a definitive answer is difficult to come by, it could depend on the combined effects of two factors, namely the sector breakdown and the balance between foreign value added in domestic final demand and domestic value added embodied in foreign final demand. Hence, both Finland and Poland are considerably more 'open', while at the same time display a surplus (more domestic VA

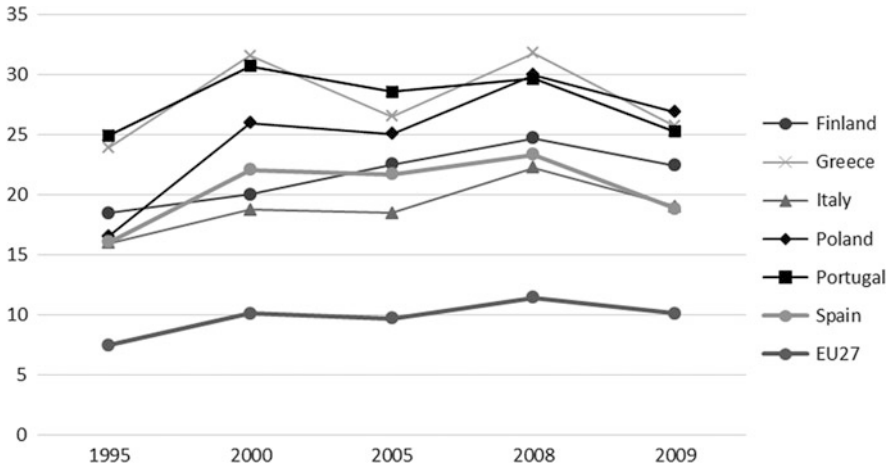

Fig. 8.6 Foreign value added embodied in domestic final demand as a % of GDP (total value added). Source: OECD (2015)

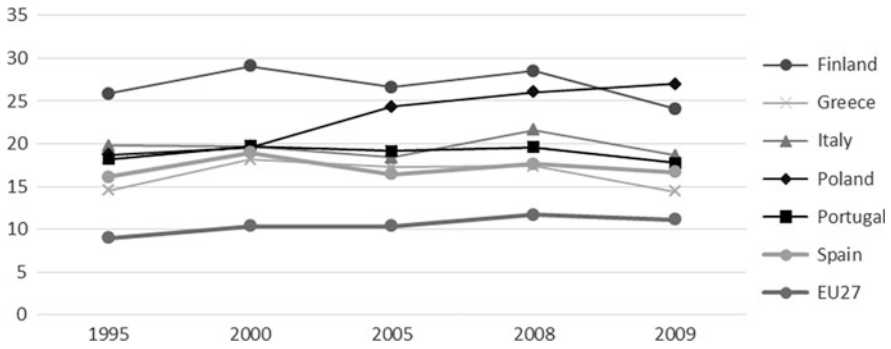

Fig. 8.7 Domestic value added embodied in foreign final demand as a % of GDP (total value added). Source: OECD (2015)

embodied in foreign final demand than foreign VA in domestic final demand) (Fig. 8.7).

8.3 An Assessment of the Impact of the Crisis on Greek Firms

In order to assess the impacts of the crisis on the delocalisation of Greek firms we performed a number of interviews with a panel of representatives from Greek firms Based on an older (Labrianidis 2008; Kalogeresis and Labrianidis 2008) survey conducted in 2006 which aimed to understand delocalisation and uncover its impacts on the firm, industry and spatial level, the current survey, conducted in 2012, enabled us to gain a good understanding of the impact of the crisis on firms that were already, one way or the other, delocalised (Table 8.1).

Our original sample consisted of firms involved in a wide array of modes of production—and/or employment—transferred abroad.[3] Such a conceptualisation focuses on the sourcing decisions of the firm, largely ignoring the possibility of *delocalisation* (understood as the various impacts on local productive systems) that can be caused by such movements.

In turn, the current wave focuses on the impact of the crisis on both the performance as well as the sourcing strategies of firms that were already involved in delocalisation. The survey is based on a rather compact semi-structured telephone questionnaire addressed to a subsample of the Greek firms that were contacted in 2006 as part of the original survey.

[3]Foreign Direct Investment (FDI); outsourcing; subcontracting; firms that traditionally bought the intermediate product (that is, never produced it in-house and therefore never stopped producing it) and are now outsourcing it; and horizontal FDI, which is very often not considered a component of delocalisation, since it involves the movement of production abroad.

Table 8.1 Responses to the telephone survey

Sector	Responses	% of original sample
Software	12	60
Electronics	11	52
Clothing	11	35
Footwear	4	50
Total	38	48

Table 8.2 Employment change among respondents

		Employment change 2008–2012 (employees)	
		Average	Total
Sector	Clothing	−20.29	−142.00
	Electronics	−4.45	−49.00
	Footwear	−12.75	−51.00
	Software	−3.00	−27.00
Respondent is affiliate	No	−9.72	−282.00
	Yes	6.50	13.00
Respondent is parent	No	−8.48	−178.00
	Yes	−9.10	−91.00
Respondent undertakes subcontracting	No	−8.00	−96.00
	Yes	−9.11	−173.00
Respondent assignes subcontracting	No	−4.11	−74.00
	Yes	−15.00	−195.00

Overall, 48% of the original sample responded to the new questionnaire. The highest non-response rates were recorded in the clothing sector. Those that did not respond can be divided into two main groups. The first group includes firms whose existence we failed to verify (18.75% of the firms), while the second includes firms that are in operation but declined to respond. The clothing sector clearly stands out as the worst represented one.

In terms of employment change during the crisis, it seems that the vast majority of firms reduced employment, although it is clear that the employment losses were more severe in the 'low tech' sectors (clothing and footwear). The average clothing firm lost 20.29 employees during the period, a figure which sharply contrasts with the software sector, where the respective figure was 3 (Table 8.2).

It appears that being an affiliate of a foreign firm is a significant source of strength, since the group of foreign affiliates is the only one where employment was increased.

In terms of the types of changes in production since 2008 (an approximation for the beginning of the crisis) there seem to be a number of distinct strategies

Table 8.3 Production change since 2008 by firm size and sector

		Has production changed since 2008?			
		No		Yes	
		Count	%	Count	%
Sector	Clothing	4	50.0	4	50.0
	Electronics	5	45.5	6	54.5
	Footwear	1	25.0	3	75.0
	Software	3	33.3	6	66.7
	Total	13	40.6	19	59.4
Employment size	1–9	1	25.0	3	75.0
	10–19	3	60.0	2	40.0
	20–49	9	52.9	8	47.1
	50–99	0	0.0	4	100.0
	100–249	0	0.0	2	100.0
	250–499	0	0.0	0	0.0
	Total	13	40.6	19	59.4
Region	Attiki	9	40.9	13	59.1
	Thessaloniki	4	40.0	6	60.0

(Table 8.3). The most prevalent one is specialisation, while considerably fewer firms are opting for diversification and development of new products and activities.

In terms of the role of the crisis in the changes in production, only two of the 16 firms whose production was altered claimed that the crisis was irrelevant. The remaining 14 firms identified a small number of aspects of the crisis that led to the change in production. The most prevalent ones were dwindling domestic demand, lack of liquidity and the effects of the decline of other sectors of the domestic economy (mainly construction).

In only one firm that responded to the specific question was the foreign participation eliminated during the last 5 years. Specifically, a small software firm located in Attica, which during this period completely diversified into a commercial firm.

Not surprisingly, very few firms managed to increase their turnover (20% of the sample—Table 8.4). With the exception of footwear firms, which are clearly under considerable pressure, there is no clear picture of any trends identifying any kind of resilience.

Table 8.4 Change in turnover since 2009

		Considerably lower		Lower		Same		Higher		Considerably higher	
		Count	Row N%	Count	Row N%	Count	Row N%	Count	Row N%	Count	Row N%
Sector	Clothing	2	25.0	2	25.0	1	12.5	2	25.0	1	12.5
	Electronics	1	9.1	5	45.5	3	27.3	0	0.0	2	18.2
	Footwear	3	100.0	0	0.0	0	0.0	0	0.0	0	0.0
	Software	1	12.5	6	75.0	0	0.0	0	0.0	1	12.5
	Total	7	23.3	13	43.3	4	13.3	2	6.7	4	13.3
size	1–9	2	66.7	0	0.0	0	0.0	0	0.0	1	33.3
	10–19	1	20.0	3	60.0	0	0.0	0	0.0	1	20.0
	20–49	3	17.6	9	52.9	4	23.5	0	0.0	1	5.9
	50–99	0	0.0	1	33.3	0	0.0	1	33.3	1	33.3
	100–249	1	50.0	0	0.0	0	0.0	1	50.0	0	0.0
	250–499	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
	Total	7	23.3	13	43.3	4	13.3	2	6.7	4	13.3
Region	Attiki	6	28.6	11	52.4	1	4.8	1	4.8	2	9.5
	Thessaloniki	1	11.1	2	22.2	3	33.3	1	11.1	2	22.2

8.4 Conclusions: Discussion

In one of the most classic books on Southern Europe of the early 1980s Alain Lipietz (1987), while describing the common elements of the 'European periphery', identified the rather clear differences of three of the countries: *'One immediately assumes that (in relative terms), Greece is closest to the 'old international division of labour' (producing and exporting primary commodities), that Portugal is characterized by a form of 'primitive Taylorization' (exporting cheap industrial goods, and with a weak home market) and that only Spain represents a fully developed form of 'peripheral Fordism'.*(Lipietz 1987, p. 123)

Nearly 30 years later could one, equally succinctly, describe the region's elements of 'unity' and 'diversity'? Apparently, 30 years of participation in the core European institutions have done a lot to change the economies of the countries of the region; however, the issue of convergence with the European 'core' is still debatable.

So, where do we stand on the issue of delocalisation? Both the theory and the evidence appear rather fuzzy. According to international trade theory, it seems that more fragmentation may induce growth; however the role of market size impacts, timing of entry, infant industry arguments, as well as path dependences tend to blur the regularities of trade economics. If issues such as learning capacities, local innovations systems, entrepreneurial densities, oligopolistic conditions or more generally, the temporal, spatial, social and organisational particularities were unimportant then, participation in Global Value Chains would, more or less automatically, put firms and regions on upgrade paths. In reality, though, upgrade is not at all automatic and depends on very idiosyncratic factors (Hardy et al. 2011; Starosta 2010; Tokatli 2012).

Southern Europe is still an introverted part of the Union, whose countries are still focused on producing medium to low tech products and constitute an area of low competitiveness. In addition to these endogenous characteristics, there appear to be exceptionally strong centripetal locational forces at work in Europe, a process that seems to have accelerated since the crisis.

Nonetheless, it would be naïve to consider the region homogenous, as there are considerable factors of diversity at work, size being the most obvious one. Greece is currently faced with a crisis that is considerably more internal that external, and is in much greater need for a new development model, which will be more or less inevitable after the current destruction.

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