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The impact of crisis on Fiji's garment export sector*

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The Embeddedness of Global Production Networks: The Impact of Crisis in Fiji's Garment Export Sector

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Abstract This paper explores how changing geo-political conditions reconfigure network embeddedness and theorises the conditions of network disconnection and transformation. Through a case study of the changes in inter-firm relationships within the Fiji-Australia garment production network after Fiji's 2000 political *coup d'etat*, the paper develops a relational and dynamic view of embeddedness, highlighting its multi-faceted and multi-scalar character and emphasising the interrelationships between embeddedness, trust and power.

Keywords: global production networks, embeddedness, trust, power

Introduction

In recent times, economic geographers have shifted their focus from firms, sectors or nations to examine the spatial configurations of production networks. For Dicken *et al* (2001:91, emphasis in original), global production networks (GPN) are '... neither purely organisational forms nor structures. Networks are essentially *relational processes*, which, when realised empirically within distinct time- and space-specific contexts, produce observable patterns in the global economy'. By appreciating the range

of organisational forms that emerge in different contextual circumstances, the relational approach has the capacity to comprehend the dynamic processes of change and development engendered by the diverse range and shifting intensities of relations between network actors (Boggs and Rantisi 2003:109). However, few studies have managed to operationalise relational thinking or unpack how actors' intentions and strategies relate to context, network and territorial embeddedness.

This paper addresses these issues by tracing how the dynamic changes that accompany geo-political and geo-economic crisis reveal the uneven and shifting nature of embedded network relationships. Its examination of the configuration of the Fiji-Australia garment production network before and after the May 2000 *coup d'etat* in Fiji exposes the mechanisms through which different types of relations are created and reproduced and gauges their resilience in unstable contexts. The paper contributes to the developing literature of global production networks by applying a relational theoretical framework to identify the conditions under which firms and places disconnect from production networks when institutional and political conditions change. The discussion highlights three issues that have not hitherto been incorporated sufficiently into the GPN approach. First, it draws attention to the multi-dimensional notion of trust as a key conceptual category in understanding network formation and the nature of embeddedness. Second, it highlights how, as changing geo-political and geo-economic conditions transform institutional landscapes, trust and perceptions of risk interact with inter-firm power differentials to realign the configuration of production networks. Third, it reveals the scalar interdependencies between embeddedness, trust, and power.

The discussion is divided into six main sections. Section Two develops a theoretical perspective in which the embedded relations of transnational production networks are produced by the interactions of trust and power. Section Three introduces

the methodological orientation of the paper's empirical content, describes the regulation-based interdependencies that created the Australia-Fiji garment production network, and identifies the configuration of relationships before the May 2000 *coup*. Section Four then analyses how geo-political and geo-economic crisis impacted on relationships and network structures. It specifies the conditions under which Australian buyer firms withdrew from or curtailed their involvement in Fiji after the *coup*. The penultimate section discusses the implications of these events for understanding embeddedness and the dynamic character of global production networks. It stresses that geo-political crisis exposed the contingent nature of interpersonal relationships and the dynamic nature of network embeddedness. The conclusion argues for a more dynamic and politically attuned concept of 'embeddedness' that is sensitive to shifting personal, firm and national allegiances.

The Relational Nature of Embeddedness

By viewing networks as 'multi-dimensional, multi-layered lattices of economic activity', the global production network (GPN) approach acknowledges that a diverse range of organisational formations can arise in different time- and space- contexts (Dicken *et al*, 2001; Dicken and Malmberg, 2001). The GPN re-synthesis overcomes the increasingly stale binary between regional/agglomerative/cluster and global/dispersive/value chain metaphors of production systems. In the process, it dissolves the analytical distinction between 'vertical' value-adding inter-linkages and 'horizontal' territorial or social relationships.

One of the key differences between chain and cluster metaphors – and the difference that is the focus of this paper – has concerned the nature of the 'embeddedness' of relationships. Value chain approaches view firms as embedded primarily in the sequence of interactions between buyers and sellers, while clusters

envision firms as embedded primarily in a range of place-based associations. The tendency to conceive linear chains as disembodied from territories has limited their capacity to comprehend the influence of places, intermediaries, associated sectors and institutional arrangements (see Glennie and Thrift, 1993; Hartwick, 1998; Leslie and Reimer, 1999; Raikes *et al*, 2000). On the other hand, concentrating on place-based clustering can lead to an over-territorialised perspective (Hess, 2004), an over-emphasis on the interpersonal dimension of production networks, an undervaluing of structural influences (Yeung 2002) and an overly convivial vision of embeddedness (Sayer 2002). In addition, the chain versus cluster dichotomy has been undermined by a growing body of evidence demonstrating that competitiveness involves a complicated mix of proximate and global relations (Maskell 2003); that relationships between firms cannot be read from geographical proximity (Yeung, 1998); that cross-border supply chains and local production complexes share common patterns of information and knowledge flows (Gertler, 2003); and that 'closeness' is frequently de-territorialised (Bunnell and Coe, 2001). The upshot, in GPN, is a greater appreciation of the complex interdependencies between the dimensions of embeddedness, power and value and the unique spatiality of each production network (Henderson *et al*, 2002).

While the relationship between power and the capture value have been studied extensively (see, for example, Bowles *et al*, 1999), the notion of 'embeddedness' has somewhat nebulously combined linear, buyer-supplier, cluster and territorial relations, stimulating recent discussion of 'who' exactly is embedded in 'what' (Hess, 2004). This framing of the question, to my mind, constructs embeddedness as an inert characteristic of network actors rather than as an active relational process. Moreover, thanks to the journalists 'embedded' in Iraq, the term itself is identified increasingly as an obfuscating 'weasel word' of management-speak (Watson, 2004). To overcome these failings, an adequate theorization of embedded relations must acknowledge the

dynamic, uneven and spatialised character of relations and accommodate their multiple aspects: the relationships of networks actors with each other, the relationships of each actor to the network as a whole, and relationships of the network to host territories or broader contextual circumstances. To date, examinations of network relationships have tended to privilege the micro scale, focusing on the interpersonal ties created and expressed by trust, cooperation and mutual advantage (Granovetter, 1985; Grabher, 2002; Uzzi, 1997), while paying less attention to the interests of sub-groups within networks or the range of influences with effects at scales other than the interpersonal. Moreover, the interpersonal focus has drawn attention away from the multi-dimensional operation of power, the manner in which network formations are shaped by policy frameworks, the imperatives of capitalist markets and the reflexively contingent impacts of the changing geopolitical and regulatory contexts. An adequate definition of embeddedness must appreciate the uneven and shifting character of embedded relations at multiple scales: that actors are engaged simultaneously in multiple (and sometimes competing) personal, organizational, territorial and political associations.

The tentative framework for understanding embedded relationships developed in Table 1 incorporates the interdependencies between different types and scales of ‘embedded’ relations. In contrast to Henderson *et al* (2002), embeddedness is conceptualised as a quality produced by relationships of trust and asymmetries of power. Its multi-dimensional nature is explained below before being applied to case of the Fiji-Australia garment production system.

< Put Table 1 about here>

In general, the term embeddedness describes the multiple social, cultural, economic, political, historical and personal relationships that situate actors in networks,

regions, and social groups. Zukin and DiMaggio (1990) define four dimensions of embedded associations – cognitive, cultural, structural and political embeddedness. Cognitive embeddedness is based on bounded rationality and place-based knowledge. It is associated with proximity, although it might also describe the links that develop between groups of actors with similar ideological motivations. Cultural embeddedness has a place- or group-specific flavour, and is derived from collective understandings of the way things are done. It enables recognition of ‘out-of-placeness’ — as in the situation of Australian expatriate managers in Fiji. Structural embeddedness is generated through the incorporation of economic, social and cultural relations. It includes embeddedness in the regulatory and institutional networks that frame the operations of production systems. Finally, political embeddedness identifies relationships of actors and networks frameworks to rule-making powers and actors. The multiple aspects of embeddedness overlap considerably, with varying relevance, weight, scale and scope.

Partitioning embeddedness highlights its variability and sensitivity to context. Envisioning complex webs of ‘embedded’ associations, rather than a static state of ‘embeddedness’ opens the way to injecting the missing link of dynamism into its conceptualisation. Changes in contextual conditions will have an uneven impact - reframing some associations but barely influencing others - depending on the form and depth of embedded relations and each actor’s position relative to others. If embedded relationships are conceived as processes rather than things, then understanding their dynamics requires fleshing out the nature of relations at different scales and in different contexts. Embeddedness can then be animated, recasting it to describe firms’ and actors’ shifting *allegiances*.

Thinking of embeddedness in terms of allegiances draws attention to the notion of trust. Trust involves both an agent's acceptance of risk arising from the actions of

others, and the expectation that the partner will not take advantage of the opportunities opened up by that acceptance (Humphrey and Schmitz 1998:31). Trust is here conceived as a relational commodity produced actively in and by network interactions, where its multiple meanings and effects are intertwined with social relations, cultural expectations and inter-firm power differentials. Like embeddedness, trust adopts a variety of guises and operates at multiple scales. Zucker (1986) defines three modes of trust. First, process-based trust is a micro-level form created and reinforced in personal interactions. It builds over time through repeated exchanges. Second, characteristic-based trust operates at the meso-level where it parallels the group associations and cultural commonalities best known to geographers through the concept of *guanxi* (see Hsu and Saxenian, 2002). Third, institutionally-based trust emerges in complex systems at the macro scale, where it describes actors' faith in risk-reducing regulatory structures, rules and contractual arrangements. This impersonal form of trust emerges where there is a significant social distance between actors, when exchanges take place across extensive geographical distance, and when repeated exchanges involve 'non-separable' elements. Institutional trust is therefore related intimately to the concept of risk. Zucker (1986:67) emphasises the context-specific nature of trust-creation processes: for example, self-interested behaviour might promote trust in a bank transaction but have the opposite effect at a school working bee.

Trust is intertwined with power. In global production networks, as different forms of trust operate simultaneously to create mutually reinforcing webs, they also generate asymmetries that reflect actors' different capacities to respond to unanticipated events. In practice, it is not always possible to separate trust from power concealed by dependency or manipulation (Bieir, 1994; Hardy *et al*, 1998; Sydow, 1998). Micro-level dyad relationships between individuals and firms – as articulated in interactions based on trust, cooperation, suspicion or coercion – can be viewed, therefore, as

context-bound expressions of underlying structural power relations. Exploring asymmetries of power and their spatial expressions – what Allen (2003) has called ‘spatial assemblages of power’ – is crucial to comprehending the embedded nature of network relations. Networks are socio-spatial relations inscribed by geometries of power (Dicken *et al* 2001:92; Massey 1993; Taylor, 2002), but specifying the operation of power is difficult given its multiple expressions and multiple effects. In parallel with trust, power must be defined in relational terms, where its intensities and effects vary with actors’ positions in the network, with scale, and with context. An adequate concept of power must incorporate both capacity, as the ‘power to ...’, and its exercise, since abstract structural powers may exist in latent form and be realised only in particular contexts or contingencies. Firm power may be deployed to many ends, but in market capitalism, the capture of surplus is a primary aim.

Scale embodies and expresses power-laden processes of hierarchisation and ordering (Brenner 2001:600; Swyngedouw 2000). At the micro-level, power is a resource exercised through the minutiae of everyday interactions (Ettlinger 2003); for example, in price bargaining or in the control of information. At the meso level, within networks, power may be expressed as the ability to build network cohesion, to capture the benefit of innovations, to exclude others, to insist others act in certain ways, or to withdraw (see Allen, 2000; Mann, 1986; Strange 1996). At the macro-level, power can be discerned in the capacity to influence wider geo-political events or create an advantageous regulatory framework. At each scale, knowledge enhances the capacity to exercise power and enables access to new knowledge (Bryson *et al*, 2000). The inter-relations between embeddedness, trust, power and knowledge are illuminated by examining the impact of the 2000 crisis in Fiji

The Fiji Australia Production Network

At the outset, this case study of the Fiji-Australia production network aimed to illuminate the different characteristics of ‘network’ and ‘territorial’ embeddedness. To that end, the empirical research sought to identify constituent actors in the Fiji-Australia production network, comprehend their ongoing relationships and specify the structural outcomes of their interactions. The 2000 *coup d’etat* interrupted the research program but provided an unexpected opportunity to explore changing network forms. Following Dicken *et al* (2001), the study’s relational methodology included: (i) recognition of the discursive power of analytical categories to shape material processes; (ii) appreciation of the need to incorporate multiple scales of economic, political, social and cultural relations in a manner that recognises the contemporary relativisation of scale; (iii) commitment to eschew privileging any one organisation or site, and (iv) awareness of the danger of overgeneralising from specific cases. In the small and relatively simple structure of the Fiji-Australia garment production network, constituent firms were embedded, with minimal overlap, in vertical trans-national value-adding relationships and horizontal territorial relationships in either Australia or Fiji. This clear separation of roles made it possible to unpack the network’s relational geometry, reveal its heterogenous relations of power, and assess their diverse effects. Fieldwork included semi-structured interviews with each of Fiji’s major garment producers. Seventeen interviews were conducted in September 2001, a little more than a year after the *coup*, at a time when the future of the Fiji garment industry appeared bleak. The interviews targeted major suppliers to the Australian market and interrogated how changing geopolitical and regulatory conditions realigned relationships. The next section sets the scene by describing the relational configuration of inter-firm networks in the years before the *coup*.

Geo-political Context

While Australia and Fiji shared a long association derived from their common histories as members of the British Commonwealth, their relationship was changing in the 1980s as neo-liberal political and economic policies gained ascendancy in both nations. In Fiji, the 1987 Rabuka *coup* had installed a neo-liberal policy regime that embraced a development strategy based on garment-led Export Oriented Industrialisation (EOI) (Robertson, 1995; World Bank, 1995; see also Denoon and Wyndham, 1999).

Australia's currency float in 1987 marked the beginning of a similar policy re-orientation (Webber and Weller 2001). At about the same time, Australia began disengaging from its paternalistic involvement in the South Pacific.¹

Paradoxically, in this overall context of advancing neo-liberalism, the Fiji-Australia garment production network was created by bringing together three complementary interventionist regulatory initiatives. At the regional scale, the 1982 aid-motivated and non-reciprocal South Pacific Regional Trade and Economic Cooperation Agreement (SPARTECA) enabled Fiji firms to export goods to Australia free of duty, subject to detailed rules of origin (see Grynberg, 1998). In 1987, as part of its EOI strategy, Fiji introduced a Tax Free Factory/Tax Free Zone (TFF/TFZ) Scheme that provided 13-year tax exemptions for factories able to export 95% of production. The Scheme aimed primarily to create jobs and reduce government welfare spending (Taylor 2002), but consistent with its Washington Consensus motivation, also permitted the unrestricted repatriation of profits out of Fiji (Long 1990:102). Meanwhile, in 1992,

¹ Tickell and Peck (2003:180) view such disengagement as an aspect of 'deep neo-liberalization'

Australia established an export subsidy scheme, the Import Credit Scheme (ICS), to encourage exports of Australian textiles.

The combination of SPARTECA, TFF/TFZ and ICS brought Australian textiles firms to Fiji, where their fabric was cut and sewn by contractors operating in tax-free factories. Finished garments were then imported back to Australia duty free under SPARTECA. The combination of policy incentives created a de-facto Offshore Processing Trade (OPT) system (Weller, 2000a). Its three-fold benefits stimulated the Fiji sector's rapid expansion in the 1990s.² Figure 1 shows the exponential growth in Fiji's clothing exports between 1986 and 1997 and demonstrates the increasing importance of the Australian market (and therefore the associated Australia-Fiji production network). By 1999, the garment sector in Fiji employed 18,000 people, accounted for 28 per cent of Fiji's gross domestic exports and constituted 3.5 percent of Fiji's Gross Domestic Product (Singh, 1999). The resulting sectoral network was small and concentrated, with the 20 largest firms producing 75% of Fiji's output (Cawthorne and Weller, 2004).

<put Figure 1 about here>

Fiji production blossomed at a time of crisis in the Australian garment industry. Motivated by comparative advantage arguments and the objective of opening markets for agricultural exports, Australia had adopted a 'free trade' policy orientation in the late 1980s. As a result, Australia's garment-related liberalisations far exceeded those

² An Australian official confided in retrospect that the Fiji garment industry was an 'unintended outcome' of Australia's ICS provisions (pers. comm. 2001).

required by the World Trade Organisation's Agreement on Textiles and Clothing.³ All garment import quotas had been abolished by 1993, while tariff duties were reduced progressively throughout the 1990s. With rapid exposure to international competition, the Australian garment production industry declined relentlessly throughout the 1990s (Webber and Weller, 2001; 2002). Australian firms relocating to Fiji included former manufacturers seeking to reduce production costs, wholesalers purchasing from Fiji independent firms, and retailers switching their dedicated sourcing to Fiji-based subcontractors (Weller 2000a). Given the interplay of costs, fashion cycles and turnaround times, Fiji production for the Australian market developed a specialisation in medium-to-low fashion menswear, workwear, jeans and surfwear.

Territorial Embeddedness in Fiji

The transnational production network created by the web of intersecting regulations was organised to maximise the gains that could be extracted from different subsidies (Weller 2000a). The socio-spatial configuration of garment production in Fiji expressed firms' different forms of engagement with offshore garment production networks, their relationships to the web of government regulations and incentives, their target markets, sources of capital and forms of governance (see Figure 2).

<Put Figure 2 about here>

The sector's geographical configuration reflected firms' political, social and cultural allegiances. The offshore production plants of Australian and New Zealand manufacturing firms and the branch-plants of Asian clothing production conglomerates

³ Australia was not a signatory to the later versions of the Multi-Fibre Arrangement.

(which manufactured primarily for the US market under Multi-Fibre Agreement quota arrangements) were located to the north-west of Fiji's main island (Viti Levu), close to the international sea and air ports. The branch-plants to the west were weakly embedded territorially. In contrast, Fiji's independent export-oriented sector, which supplied Australia- and New Zealand-based retailers and wholesalers, was located to the south-east, on the outskirts of Fiji's political and administrative capital, Suva. A few entrepreneurial families with multiple business interests dominated this sector. As leaders in the local Indo-Fijian community, they derived social power from their ability to mobilise extended family networks and to access the labour of Indo-Fijian women (Slatter, 1991). They also enjoyed close links to the ethnic Fijian ruling elite. Nevertheless, some of held Australian (or New Zealand) citizenship and had financial interests in multiple locations external to Fiji. The problematic status of Indo-Fijians in Fiji society, the permeability of Fiji's borders to capital flows and the transnational aspirations of the garment sector's principal actors combined to blur the 'territorial' embeddedness of Fiji's independent garment sector.

Nonetheless, a combination of implicit and explicit collaborations embedded firms into a local network where complementary specialisations, production-based cooperation, shared forms of social engagement with buyers and unified political objectives generated multiple untraded dependencies (Storper 1995). Firms routinely borrowed trims and machinery from each other, passed on work when overloaded, borrowed workers, and generally helped each other out when delays interrupted the delivery of inputs from New Zealand and Australia. Day-to-day inter-firm cooperation supported the Fiji industry against the disadvantages of its isolated location.

Firms specialised individually and collectively to accommodate their offshore clients' specific supply needs. An informal referral system developed to introduce buyers to complementary makers (since Fiji's small sector did not support

intermediaries). Providing a choice of makers for most garment types discouraged buyers from seeking alternative production locations and enabled the Fiji industry to adjust production volumes to variations in demand. Producers understood that ‘locking in’ buyer firms to Fiji suppliers would reduce their collective vulnerability:

We are doing everything to lock them in ... so they are comfortable in dealing with us ... so there’s no reason for them to look elsewhere
(Interview F16).

The possibility that ‘lock-in’ could have negative effects – by stifling innovation or limiting strategic options – was not entertained. Tacit acknowledgement of a shared reputation limited the extent to which Fiji firms competed with each other:

Here there are no competitors here. Everyone is linked together.
Everyone refers work to each other (Interview F2).

In a context where the failure of any one firm would reflect poorly on others, the Fiji territorial network produced a high degree of ‘characteristic-based’ trust and cognitive embeddedness.

Fiji firms also cooperated politically — through organisations such as the Textiles Clothing and Footwear (TCF) Council of Fiji and the Fiji-Australia Business Council — to maintain profitable national and transnational policies. Garment entrepreneurs supported Fiji’s Export Oriented Industrialisation strategy and viewed their interests as synonymous with Fiji’s prosperity (TSRR 2001). In the years before the 2000 *coup*, the sector’s considerable influence on policy formulation testified to its political power and political embeddedness. However, not all Fijian firms were ‘embedded’ in the politics of the production system to the same degree. The branch plants in the western sector cooperated with collective political activities, but with less

vigour than independent firms in the east. Moreover, their managers were less closely embedded in Indo-Fijian social and cultural networks.

To summarise: the locally-based social and political power of Fiji garment entrepreneurs was sustained by supportive institutions at the national and supranational scales which created a territorial network featuring multiple cooperative interdependencies. The extent and nature of firms' embeddedness reflected a complex mix of territorially contingent allegiances that were grounded in both cultural and business linkages. The resulting 'cluster' developed a form of self-regulation that dampened competition between firms while promoting their collective competitiveness. The local sector's shared conventions, routines, values and expectations are characteristic of industrial clustering in its 'developing country' form (Humphrey 1995).

Embeddedness and the Value Chain

Transnational network links had a quite different character. High levels of cooperation between Australian textiles firms, Fiji manufacturers and Australian garment buyers firms created dense collaborative transnational networks dedicated to maximizing the gains from the regulatory framework (ICS, the TFF/TFZ and SPARTECA). Multiple cross-border inter-dependencies developed as firms manipulated prices, inputs and production costs to meet SPARTECA's rules of origin, which demanded (initially) that at least 50% of final value be added in Fiji. These relationships were underpinned by trust in regulatory frameworks and institutions, and were supported by cooperative relationships at the interfirm and interpersonal levels.

In their transnational relations, Fiji firms focused on building and consolidating collaborative associations. From a Fijian perspective, transnational relationships were framed by trust, which was defined in this context as an interpersonal quality established through repeated engagements and social interactions (shared meals and

scuba-diving trips, for example). Trust – in this ‘process-based’ form – is what locks buyers into the network:

We are like a family now (Interview F12).

The Fijian definition of trust was grounded in the expectation that business agreements would produce fair outcomes based on the principle of mutual advantage, where losses arising from unforeseen errors or events would be shared. From this perspective, trust signifies a commitment to share risks across the network. This definition diverges from idea of trust found commonly in the business literature, where trust describes reliable performance and reputation, conditioned by the principal of mutual advantage (Brown and Duguid 2000). The difference echoes Ettlinger’s (2003) distinction between trust as ‘emotive’ feeling and trust as ‘capacity’ to perform. In practice, the Fijian interpretation of trust resulted in transnational business being conducted on the basis of gentlemen’s agreements, where details were either not written down or were written in a generalised form. Written contracts, it seems, represented a demonstration of mistrust, but their absence created a fluidity that blurred the allocation of responsibilities and risks.

Transaction cost-based theories view interpersonal trust as positive attribute that increase the efficiency of inter-firm interactions (Uzzi 1997). Yet in Fiji, strategies directed to the production of trust generated a plethora of economic inefficiencies as social rituals developed to build relationships, relax business interactions, and ultimately create network- and territory-based ‘lock-in’. Fiji firms supported one another by enticing buyers to spend more time and money in Fiji, confident that an extended stay in paradise would break down buyers’ business orientation and lead to better outcomes for Fiji firms.

The emphasis on personal trustworthiness at the micro-level complemented a discourse constructing low business risk as the core of Fiji’s competitive advantage.

Fiji firms frequently described their advantage over other production locations in terms of quality and reliability: manufacturers in Fiji could reproduce faithfully not just written design specifications, but also buyers' design intentions. Culturally-based misinterpretations or mistakes arising from language differences were rare:

The good thing about Fiji [as a manufacturing site] is that we know their cultures. When you call the designer you know who you are talking to. You don't know in China ... and that makes buyers nervous (Interview F2).

The other side of this coin was that Fiji firms were less enthusiastic about taking responsibility for the inherent risks of clothing's unstable consumer markets. In Fiji's in Cut-Make-Trim production, offshore buyers provided designs, fabrics and trims, while Fiji manufacturers focussed on improving service efficiency:

They choose the fabric. I don't want to choose the fabric. If anything goes wrong I can get a big claim. I don't want to take any risks: if the quality of the fabric is not good, it's their responsibility not mine (Interview F12).

Contradicting the notion that trust implied shared risk, the consumer market risks of fashion mistakes remained the buyers' responsibility.

In this context, the relationship between trust, knowledge and network embeddedness was problematic. Production-related knowledge flowed freely along the supply chain. Buyer firms provided Fiji contractors with new machinery, training and information about production technologies: codified 'catch-up' knowledge that translated directly into quality improvement and assisted Fiji firms to maintain global production standards. At the same time, buyers did not offer information about the consumer market or consumer trends, nor did Fiji firms seek such knowledge:

We try to keep away from design ... most [buyer] companies feel comfortable if they control the design part (Interview F2).

Thus, notions of trust, risk and responsibility were tied complexly to understandings of the boundaries of network interactions – of what was and was not legitimately part of Fiji firms' scope of interest.

Disinterest in design betrayed a tacit agreement that suppliers would not compete with buyer firms. Independent design capability in Fiji was perceived as signalling to buyers a potential to copy original designs, which, firms believed, would have created mistrust in inter-firm relationships. Learning via vertical cross-border flows was limited to knowledge relevant to the fabrication process and identifying the opportunities arising from the regulations that underpinned the transnational network. Meanwhile, the imperative to maintain institutional 'trust' effectively inhibited the transmission of crucially important knowledge about fashion and garment markets. The reality of restricted knowledge flows in the context of close cooperative relations contradicts the literature of agglomeration and local learning, where trust is valued because it lubricates interactions, improves the fluidity of knowledge flows and stimulates the developmental benefits of regional innovation (Humphrey and Schmitz, 1998; Lundvall, 1988; Gereffi 1999).

Firms' bargaining positions in price negotiations are also an important indicator of the nature of relationships (Cool *et al* 1989). Here, trust intersects with economic power. In buyer-seller interactions, the common objective of coordinating gains from the manipulation of regulations produced an unusually high degree of cross-border price transparency as fabric prices and labour costs became part of the shared knowledge base. According to Uzzi (1997), sharing such information strengthens inter-firm bonds

and extends firms' range of strategic options. In Fiji, the upshot was that factory margins, calculated as a percentage of production costs, became the basis of price negotiations:

We don't see their market costs and aren't that interested. We work out that this garment is going to take 20 minutes and cost me \$3.00 a piece. So I know what money I am going to make. ... We have learned how much mark-up [to add] in order to have a mutual situation (Interview F11).

Buyers' and sellers' different depths of knowledge of consumer preferences and the market prices of finished goods meant that price negotiations were framed by different cognitions of the relationship between price and value. In this context – where Australian buyers and Fiji sellers did not share 'cognitive' embeddedness despite their multiple cooperative links – asymmetrical knowledge generated asymmetrical bargaining positions, and therefore asymmetrical capacities (powers) to capture surplus. Under relentless price pressure from buyer firms, the profit rate of Fiji firms declined progressively through the early 1990s (Figure 3). Fiji firms' weak bargaining position and lack of knowledge of garment markets contributed to *immiserising* growth (Prebisch 1950).

<put Figure 3 about here>

To sum up: in transnational interactions, Fiji manufacturers routinely made credible commitments that would consolidate their relationships with buyers, while buyers made significant investments to secure product quality and supplier loyalty. At the same time, however, buyers retained the power to limit flows of knowledge and resources. The network's established routines and practices reduced information and search costs, but defined simultaneously Fiji firms' subordinate role and structured

incapacity for innovation. Nonetheless, because the network remained open and cooperative in order to exploit regulatory incentives, it deviated from the ‘quasi-hierarchical’ form common to cut-make-trim production in developing countries (see Humphrey and Schmitz 2002).

Transnational network links were underpinned at the macro level by ‘institutional’ trust in the regulatory framework; at the meso level by Fiji’s low risk reputation, its local collaborations and local stocks of ‘characteristic-based’ trust; while the active production of ‘process-based’ interpersonal trust at the micro level glued transnational bonds. However, Fiji’s deployment of the notion of trust, which sought to spread risks but not responsibilities combined with a narrow boundary of interest to maintain subordinate relationships relative to buyers. However, concluding that buyers, as risk-bearers, had a ‘right’ to reap the reward of surplus value ignores the reality that the capacity for accumulation in this network was underwritten by regulation (see Lee 2003).

The Crisis of May 2000

While the Australia-Fiji garment network displayed many of the features of a functional cluster, the appearance of equalities between firms concealed underlying differences in capacities that were not revealed until geo-political crisis intervened to disrupt network stability. Before the *coup* in May 2000, relationships in the transnational buyer-supplier dimension differed in character to the relationships in the local Fiji production cluster. Although both sets of relationships were ‘cooperatively’ embedded, further examination revealed their embeddedness to be based on different expressions of trust, different bases of knowledge and different geometries of power. It is not surprising, then, that crisis produced uneven impacts, altering some relationship but not others.

Precursors to Crisis

Fiji's May 2000 *coup d'état* altered the garment production network decisively as Australian buyer firms either withdrew from Fiji or dramatically reduced their Fiji production volumes. The effect was devastating: Fiji's garment sector workforce fell from 18,000 to about 13,500 workers between May 2000 and May 2001. In the 2000-2001 financial year, the Fiji Reserve Bank expected that garment production would fall by 10–20%, and that garment export earnings would fall by 40% from \$F304.7 million to \$F184.5 million (RBF, 2001). The *coup* marked the culmination of a growing regulatory, economic and political crisis.

In Fiji, the deficiencies of the EOI strategy were becoming clear. The garment export sector had not delivered national prosperity, nor had it developed a deep economic embeddedness in the Fiji economy. Only 20% of the sector's inputs were sourced locally and garment production had generated few opportunities for complementary local development (Narayan, 1999; Taylor, 2002). To meet SPARTECA rules of origin, firms had colluded to inflate Fiji value-adding, which had the effect of discouraging local productivity improvement and dampening 'sunk' investments in Fiji: rent on premises, for example, could be included in local production content, but capital works could not (Grynberg, 1998). The failure to secure significant 'trickle down' community benefits through taxation, infrastructure or wage income for workers fuelled local political opposition. In addition, the sector's record of poor wages and Dickensian working conditions generated international criticism from

NGOs and aid agencies.⁴ Narayan (1999) estimated that the loss of export garment sector would produce only a 1.2% decline in Fiji's GDP.

In 1999, a change in Fiji's political complexion put the EOI strategy and the garment production industry on notice. It also diminished the political influence of Fiji's garment entrepreneurs. The new-elected social democratic Chaudhry government – Fiji's first Indo-Fijian government – was committed to increasing the community benefits accruing from garment production, to increasing garment workers' wages, and to levying taxes on clothing firms after their TFF/TFZ Scheme tax exemption expired (Prasad, 1999; Singh 1999).⁵ The Opposition to the Chaudhry administration – which culminated ultimately in the *coup* – arose from dissatisfactions in the Fiji business sector at least as much as from communal rivalries (MacLellan 2001). These local political developments altered the nature of the Fiji production network's political embeddedness and tested long-standing intra-network associations.

The transnational regulatory framework was also changing rapidly. Australia's Import Credit Scheme had contravened the WTO's prohibition of export subsidies and was being phased out. After its scheduled termination in 2000, there would be less incentive for Australian firms to manufacture garments in Fiji. Continuing trade barrier liberalisation in Australia had forced many former manufacturing firms to close down or restructure as importers of finished garments (Webber and Weller 2001). In addition, Australian garment and textiles firms had become isolated politically as both major

⁴ Working conditions in the garment sector had attracted international attention in the late 1990s, culminating in a United Nations report critical of Fiji's wage levels and labour conditions (ICFTU 1997).

⁵ Nonetheless, at the time of the coup, the incoming administration had not yet implemented its election promise to increase garment workers' wages.

political parties pursued anti-protectionist policies. In addition, the competitive position of Fiji exports was also deteriorating. The advantage of SPARTECA's duty exemption was declining as Australia reduced duty rates on imports from other places, 'derogation' arrangements that had relaxed temporarily SPARTECA's local content requirements were due to expire in 2000, and appreciation of the Fiji dollar was undermining its export industries. For firms in this network, accumulation based on the exploitation of overlapping industry policy incentives was clearly under threat.

The Impact of Crisis

The *coup* nonetheless provided the catalyst for momentous change. Direct impacts on production were relatively minor in the short term. Although intermittent power supplies and curfew-induced absenteeism inconvenienced businesses in the Suva area, there were few disruptions on the west of the island. Still, Australian trade union bans interrupted deliveries across Fiji, forcing firms to charter aircraft to fulfil their obligations. Over the next year, however, the *coup*'s deeper impact emerged. Outcomes varied between sub-sectors depending on their patterns of internal and external embeddedness. Three quite distinct sets of effects emerged (Figure 4).

[Put figure 4 about here]

First, the offshore branch plants of Australian firms simply closed down (Cawthorne and Weller 2004). Most of these firms had been established to exploit regulatory incentives and had only weak political, social or cultural embeddedness in Fiji. When 'shallow' capital left them exposed in the crisis, their parent firms either exited the industry or switched to cheaper production sites (and probably would have

done so even if the *coup* had not occurred).⁶ Second, factories supplying the US market through Asian parent firms were largely unaffected by the *coup* and associated events, demonstrating that despite their ‘weak’ embeddedness in Fiji, the advantage of quota access to the US market was more important in the short term than local risk. These factories were also distant from local social and political events, and they were not affected by changes to SPARTECA and the ICS. Third, factories in the ‘independent’ Fiji export sector, which relied on orders from multiple, mainly Australian and New Zealand buyers, experienced a serious downturn. Fourth, the small number of Fijian contractors that had worked the edges of the network supplying extra capacity at times of peak demand quickly exited the industry as their work disappeared. Events in Fiji undoubtedly threatened the accumulation of capital, but the patterns of outcomes suggest that the *coup* was less important to business than the altered conditions of trade brought on by regulatory changes.

Trust, Power and Network Re-Configuration

By September 2001, Fiji entrepreneurs struggled to survive as garment orders declined by perhaps 50% compared to the previous year. As Fiji firms saw it, buyer withdrawal reflected perceptions of increased business risk:

Customers were pissed off ... so frustrated ... it carried on and carried on. It was frustrating for them because they only care about their business, about the delivery time (Interview F2).

⁶ At the peak of the crisis, the Reserve Bank of Fiji had requested that banks restrict lending to preserve Fiji’s capital stocks. After the *coup*, banks in Fiji tightened controls on overdrafts and limited access to the Fiji Export Finance Facility.

Buyer firms either exited Fiji production or reduced their orders to a minimum, retaining the option of increasing production if and when conditions improved. The network configuration altered with changing expressions of trust, different uses of knowledge, and the overt exercise of powers that had been hidden from view in the years of stable accumulation.

The first basis of trust – faith in the institutional framework and Fiji's 'low risk' production – was seriously compromised despite the fact that the Fiji firms met their current business obligations. The second basis of trust – lack of written detail of contractual obligations – operated to the disadvantage of Fiji firms as buyers cancelled long-standing verbal agreements by simply replacing the personnel liaising with Fiji suppliers. The change in line-up also obliterated the third basis of trust, the 'process-based' interpersonal trust that had been nurtured in repeated interactions over the years. The fourth basis trust – the expectation that firms would share losses from unforeseen circumstances – had no currency in the post-*coup* environment. Fiji's interpersonal understanding of trust had created the illusion that loyalty would extend through adversity, when in reality 'trust' switched rapidly to distrust when the suspicion arose that 'the disruption of expectations in one exchange is likely to generalise to other transactions' (Zucker 1986:59). After the crisis, 'trust' took on a market orientation 'underpinned by no assumptions of loyalty beyond what self-interest requires' (Humphrey and Schmitz 2002:530; see also Sayer 2002). In contrast, the 'characteristic-based' shared by Indo-Fijian entrepreneurs, which was grounded in social and cultural commonalities (but did not necessarily imply inter-personal goodwill), was not compromised by the crisis. Changes in relations of 'trust' highlight the difference between trust relationships based in economic rather than social or cultural associations.

After the *coup*, asymmetrical knowledge resources empowered buyer firms. Price transparency in buyer-seller interactions – the mainstay of pre-*coup* cooperation – was reframed from a shared knowledge resource to a power operating to the buyer's advantage. Remaining buyers used their knowledge of production costs in Fiji to force down prices:

[E]verything has ... forced the situation. Its coming down to bargaining but my margins are diminishing. Now I have stopped negotiating prices because the negotiations inevitably involve [unpleasant] compromises (Interview F4).

As buyers were well aware, Fiji's CMT factories were organised for volume production and not financed to withstand long periods of operation at below break-even capacity. Sellers had little option but to cut margins as they struggled to maintain production volumes.

As increased risk exposed latent power inequities, the relationships in the remnant network re-configured. The cooperative relationships that characterised the pre-*coup* era were replaced, at the instigation of buyers and in conjunction with personnel changes, by hierarchical 'arms-length' encounters. The central control over this shift was the collapse of the network's supportive regulatory framework, the collapse of institutional trust, and buyer firms' consequent perceptions of heightened risk.

After the *coup*, the continuing viability of the production network relied on the re-establishment of a stable regulatory context that would reduce business risk. Both Australia-based and Fiji-based firms lobbied the Australian government vigorously, but

Australia refused to enter negotiations until ‘democracy’ had been restored in Fiji.⁷

Australia’s neo-liberal policy orientation effectively precluded political solutions that did not meet national commercial advantage criteria.⁸ When Australia did eventually establish a WTO-admissible offshore processing scheme to replace the ICS, its guidelines did not provide preferential access for Fiji production (Pearson 2000).

The transnational network was no longer sufficiently powerful to secure the political support necessary to underwrite continued accumulation. Thus, and in contrast to the cross-border production networks created under NAFTA and within the EC, the Australia-Fiji production network had become estranged from national loci of power in both national contexts. This weakened political embeddedness was both a cause and an outcome of the network’s decline. In contrast to other high wage countries, Australia’s agriculture- and resources-oriented policymakers shunned the creation of cross-border garment production networks.⁹ By the end of 2000, as a direct consequence of these events, Australia’s three largest fabric producers (*National Textiles*, *Bradmill Industries* and *Austrim*) faced insolvency (Weller, 2000a; 2000b).

The *coup* also highlighted the link between network embeddedness and regional development in Fiji. It heightened awareness of the structural dependencies inherent in Cut-Make-Trim production:

⁷ The coup also represented a rejection of Fiji’s new Constitution which effectively diminished ethnic Fijian representation.

⁸ The events of 9/11 in the United States have since rekindled Australian interest in the security advantages of cooperation in the South Pacific.

⁹ This reflects the dominance of comparative advantage arguments and the resulting focus on agricultural and resource exports. Weller (2000a) discusses the implications of Australia’s island geography for OPT.

CMT was a problem for us because our destiny was dictated by our customer
(Interview F11).

However, as Cut-Make-Trim operation came to be viewed as a liability, and as Fiji firms sought to upgrade to a new, higher level of accumulation, their capacities to restructure were limited by the pre-*coup* bargain that had restricted access to fashion and design knowledge. The conventions, shared business practices and credible commitments that developed to promote successful CMT business relationships constrained Fiji firms' ability to transform their production to independent Original Equipment Manufacture (OEM).

Implications for GPN Theory

The uneven pattern of post-*coup* effects highlights firms' diverse allegiances and the extent to which embeddedness is complexly intertwined with regulatory frameworks, markets, inter-firm relationships, social connections and historical bonds. Firms' reactions to the *coup* depended on their perceptions of risk, the perceived dimensions of trust, the depth and scope of knowledge, and the realities of economic power differentials between buyers and sellers. Response options were conditioned by firms' degree and types of embeddedness in Fiji-based production. Firms' uneven capacities to alter position in their multiple networks highlights the complex, multifaceted and dynamic nature of 'embedded' relations. These opposing impacts underscore the continued utility of distinguishing 'horizontal' peer relations from 'vertical' supply chain relationships, and rekindle awareness of the differences in strategic options of larger and smaller (capital rich and capital poor) firms. To generalise from this example:

- Firms that disconnected completely from networks in crisis are those most reliant on regulatory supports, the least strongly linked territorially, and were smaller firms with weaker capital resources. Network disconnection follows the collapse of trust in the institutional framework, but is also associated also with power: in the capacity (or incapacity) to withdraw. The strategies of exiting buyers are consistent with the game theoretic expectation that selfish players will defect from cooperation when the endgame is played, even if close ties existed previously (Celly *et al* 1999).
- Geo-political change reconfigures transnational attachments. Crisis exposes the power and knowledge differences and empowers buyers over sellers. Larger buyer firms with sufficient economic power to have a *strategic* choice prefer to maintain associations but under altered rules of engagement. As risks increase, buyer firms jettison or downgrade long-standing trust-based relationships. In contrast to Humphrey and Schmitz (2002), inter-firm relationships do not rest on a continuum where trust and cooperation build incrementally. When the context becomes unpredictable, relationships switch gears quickly and decisively.
- Inter-firm linkages among local firms, which are framed by ‘characteristic-based’ trust and multiple forms of embeddedness, have greater resilience. However, the spatial fix of territorial embeddedness also reduces firms’ options for restructuring. In contrast to exiting buyers, of course, local firms face have much deeper, relatively mobile ‘sunk’ investments.

The pattern of outcomes highlights the multi-scalar relational character of trust and its crucial role in shaping the configuration of networks and the form of network embeddedness. Unpredictable circumstances violated the multiple foundations of trust, increased business risk, and undermined network complementarities that could only

operate when co-actors were considered ‘trustworthy’. Buyer responses show that without the buttress of institutional trust underpinned by regulation, interpersonal trust a fragile commodity. Personal level trust was contingent on and underpinned by the maintenance of ‘institutional’ trust in regulatory structures at the transnational scale. In this dialectic, any transformation of the regulatory framework implies revision of network relations and vice versa.

Crisis also exposed the interdependences between trust, power and embeddedness. It highlighted the need to unpack the notion of embeddedness in global production networks and understand the diversity and dynamics of relational ‘embeddedness’. Relational positioning is the outcome of differences in the scope of firms’ interactions, the type of trust that characterises those interactions, as well as asymmetries in knowledge and power. An appreciation of the power-infused dynamics of network relationships provides the answer to the question of ‘what’ networks are embedded in – they are embedded in *allegiances*.

Conclusion

The relationships between firms, in all their diverse expressions, are constructed through the socio-institutional environment in which they operate (Gertler 2001). In this context, the impacts of negative events reverberate through the network, but with uneven effects reflecting the complexities of actors’ multiple associations. Exploring the contradictory changes in relations of trust, risk, knowledge and power is crucial to understanding the underlying dynamics of global production networks. As changing geo-political conditions undermine stability, characteristics of trust and expressions of power relations change interdependently and at multiple scales – from interpersonal relationships, to social networks, to institutional expectations and vice-versa. In each dimension, the configuration and durability of network relationships is framed by the

regulatory regime. Regulatory structures and national policies, therefore, are not simply a ‘milieu’ in which network interactions are played out, but are an active force in the constitution and reconstitution of relations between firms.

It follows that the extent to which production networks adopt web-like lattice or hierarchical chain formations is framed by the regulatory context, is territorially and temporally specific, and structured by firms’ and nations’ uneven capacities to exercise power and influence. Moreover, whether network relationships appear as cooperative, trusting, competitive or hierarchical is contingent on geo-political conditions, the structures of regulation and firms’ strategic moves in the context of their multiple allegiances. Spatially extensive networks proliferate in secure, stable and profitable production arrangements, but geographically proximate network relations are more resilient in conditions of uncertainty, when underlying power inequities sever contingent associations and bring deeper allegiances to prominence. In conclusion, this suggests that the concept embeddedness could well to be replaced with a vocabulary highlighting mobility of associations and the multivalent, shifting and sometimes incompatible allegiances that develop between a diverse range of actors in different geo-political environments.

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Table 1 Embeddness, Trust and Power

	Scale			
	Interpersonal	Territory	Network	Nation
Nature of Embeddedness	Cognitive	Cultural	Structural	Political
Form of Trust	Process	Characteristic	Business	Institutional
	(Repeated Interactions)	(Social Commonalities)	(Reputation) (Mutual Adv.)	(Risk Minimisation)
Facet of Power	Information Knowledge	Social Inclusion/ Exclusion	Buyer-seller asymmetry	Regulation

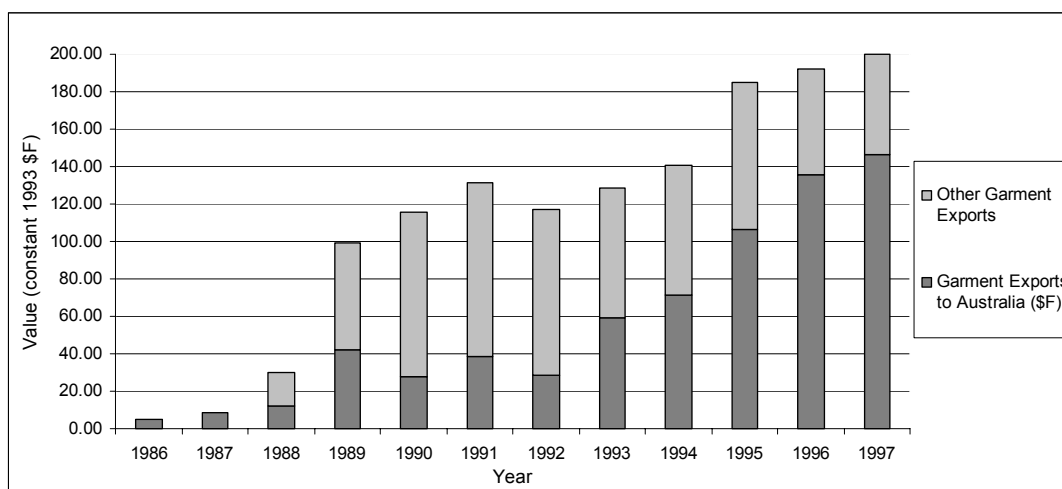


Figure 1 Fiji Garment Exports, 1986 – 1997.

Source: Unpublished tables from Trade Data Reports, Bureau of Statistics, Fiji, Suva.

Note: Data based on constant 1993 Fiji dollar values.

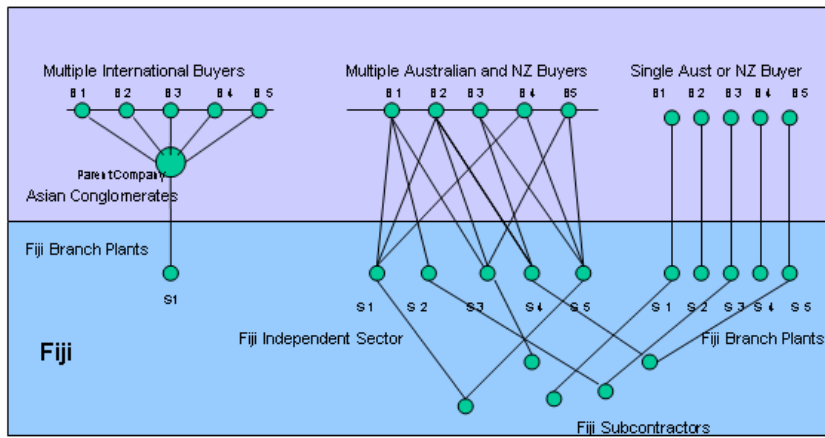


Figure 2 The Fiji Garment Industry before the May 2000 Coup

Source: compiled from interview data.

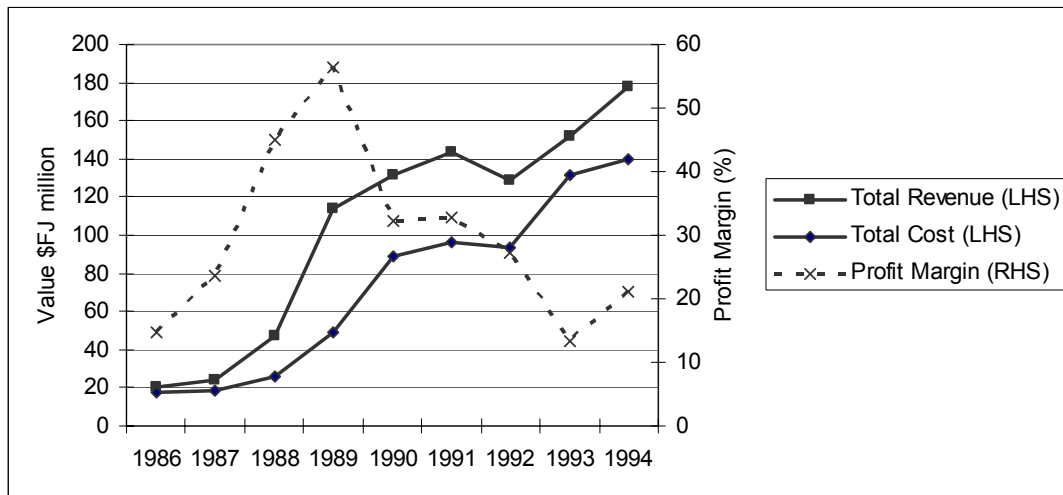


Figure 3 Revenue, Cost and Profit Margins, Fiji Clothing Firms, 1986-94

Source: Unpublished tables, Fiji Bureau of Statistics, Census of Industries.

Note: This is the most recent available data.

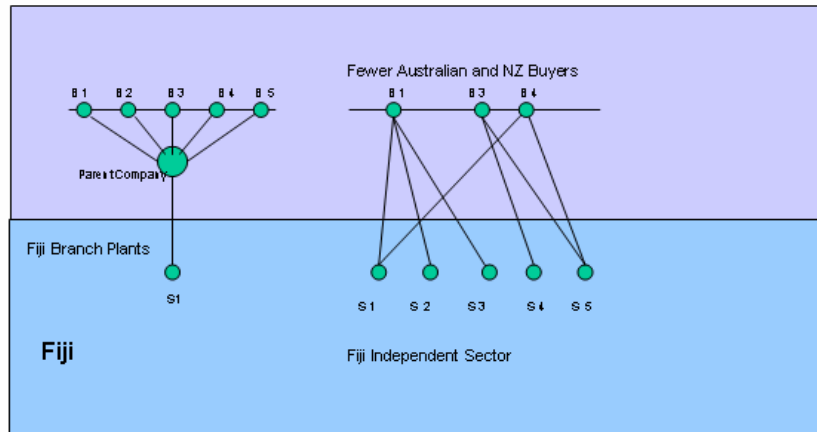


Figure 4 The Fiji Garment Industry after the May 2000 *Coup*

Source: compiled from interview data.

