

Export Performance of the Apparel Industry in the Post-MFA Era: Evidence from Major Exporters

by

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Abstract

The apparel industry, one of the most important industries in the world in terms of export earnings and employment generation, was regulated by quota imposition under the Multi-Fibre Arrangements (MFA) during 1974-2004. It was widely predicted that the MFA phased-out in 2005 would cause a decline in apparel exports of some vulnerable developing countries such as Bangladesh, the Philippines and Vietnam. This prediction was made on the basis that, after the abolition of the MFA, these countries may not be able to compete with major apparel suppliers such as China and India. However, the post-MFA performance (2005-2013) shows that some developing countries such as Bangladesh and Vietnam have managed to continue their growth while some others like the Philippines and Mexico have experienced a decline in their apparel exports (WTO, 2014). Based on firm-level data obtained from nine major apparel exporters, this study provides empirical evidence to show that cheap labour, firm size, firm location, foreign ownership or investment, and preferential market access are the main determinants of apparel export performance during the post-MFA period.

JEL classification: F16, F23, M16

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1. Introduction

The apparel (clothing or garment) industry is considered as one of the most important export sectors in the world, particularly for the developing and least developing countries (LDCs).¹ In 2013, world apparel trade was valued at US\$460 billion which represents 7% of the world's tradeable manufactured products and nearly 70% of the world apparel exports come from low and middle income economies (WTO, 2014). Moreover, the industry is the oldest and the most globalised industry that has shifted rapidly to different parts of the world since the early 1970s. Furthermore, many developing countries have started apparel exports, which have been playing a significant role in the initial stage of their industrialization and economic development (Gereffi and Frederick, 2010). In many developed countries such as the United Kingdom (UK) and other West European nations, the United States (US), Japan, and newly industrialized economies (NIEs) including Hong Kong, Taiwan and South Korea, the apparel industry was developed at the first stage of their industrialization and was also the first export industry (Yang and Zhong, 1998; Dickerson, 1999). Following almost the same pattern, the less developed countries in Asia and Africa, such as Bangladesh, Vietnam and Kenya, have also emerged as important apparel exporters. The transition of the industry has made developing countries as dominant exporters in the world apparel market. For instance, developing countries contributed only 25% of worldwide apparel exports in the mid-1960s, which has increased to more than 70% by 2013 (WTO, 2014). Moreover, the industry has created 40 million direct employment opportunities, especially for women, which comprises a significant portion of total manufacturing employment in some developing countries (Gereffi and Frederick, 2010).

The apparel industry was regulated from 1974 to 2004 under the Multi-Fibre Arrangements (MFA). Under the MFA, developed countries, especially the US and the European Union (EU), restricted their market by imposing quotas on apparel imports to protect their domestic markets. Developing countries were also subject to import tariffs, but some less competitive exporting nations including Bangladesh, Pakistan and Sri Lanka received a small degree of import tariff exemption under the Generalized System of Preferences (GSP) in the US and the EU markets. The implementation of MFA, therefore, was favourable to these less competitive

¹ According to the United Nations (UN, 2014), an LDC is a nation that has the lowest performance in social and economic development along with economic stability. Hence, if any country's gross national income (GNI) per capita is less than US\$1,242, human asset index (HAI) is lower than 66 (out of 100) and economic vulnerability index is less than 32 (out of 100), then it is considered as an LDC. Among the major apparel exporters, Bangladesh and Cambodia are considered as LDCs.

nations in the form of partial restriction imposed on the most competitive producers such as China and India, as these countries had to export under quota restriction and tariff. Hence, the introduction of MFA was considered as a turning point for the growth of the apparel sector of developing and least developed nations. It was widely (e.g., Nordas, 2004; Dowlah, 1999) predicted that after the abolition of the MFA in 2005, vulnerable developing countries such as Bangladesh, Vietnam and the Philippines would lose their competitiveness and accordingly lose market share to the more competitive suppliers, such as China and India in the global market, as MFA abolition would remove all restrictions and create free market competition.

However, an analysis of the post-MFA growth (2005-2013) performance of major apparel exporters shows mixed results. Some developing and least developed countries such as Bangladesh and Vietnam have managed to continue and sustain their growth while some other countries like the Philippines and Mexico have experienced a decline in the growth of the industry, particularly export growth. For example, Bangladesh and Vietnam enjoyed an average export growth of 22% and 18% per annum, respectively, while the Philippines and Mexico experienced an average negative export growth of 5% and 3% per annum, respectively, over the same time period (WTO, 2014). In order to understand the reasons behind the success of the apparel industry of some developing nations and failure of others, in the present study, we attempt to analyse the export performance and their determinants for nine major apparel exporters namely Bangladesh, China, Indonesia, Mexico, Pakistan, Sri Lanka, the Philippines, Turkey, and Vietnam.

This study makes two significant contributions to the literature of apparel exports. Firstly, this is a pioneering study that empirically investigates the determinants of apparel exports during the post-MFA period. Secondly, the outcome of this study has wider implications as it compares, in terms of apparel exports, both successful and unsuccessful countries of the MFA-phase out.

The paper is organized as follows: the next section (Section 2) provides an overview of the global apparel industry. Section 3 presents a review of the relevant literature regarding the determinants of apparel exports and Section 4 focuses on the proposed model and research methodology. Section 5 describes the data source and presents a preliminary data analysis. Section 6 presents the results while the last section (Section 7) provides the concluding remarks together with policy implications

2. Overview of the global apparel industry

In this section, we present an overview of the apparel industry. The discussion includes several important milestones of the development of the industry together with the introduction and termination of MFA. Moreover, this section highlights the economic aspects of the apparel industry in terms of contribution to international trade, foreign currency earnings and employment generation.

2.1. Historical evolution of the apparel industry

It is very important to evaluate the apparel industry from a historical perspective in order to understand the mechanism and characteristics of the industry (Hilger, 2008). Over the last two centuries, the apparel manufacturing activities have shifted from one man–artisan tailor to multinational corporations. Although the basic work steps remained almost identical within the time period, the production has been dispersed across various locations, nations and continents.

Early History

Until the middle of the 18th century, every cloth was made by individuals or by tailors or their family members at home. As there was little or no mechanical support, the cutting, sewing, and the designing were done by hand and the production was fully customized. However, factory-based apparel production started in France in 1830 when a French tailor named Barthelemy Thimonnier invented the sewing machine. After just 3 years, a parallel development occurred in the US when Walter Hunt invented the same kind of sewing machine. Although the invention of these sewing machines was considered as one of the important landmarks in the evolution of the apparel industry, they could not provide any impetus to transfer tailor–based apparel production to industrialization. The industrialization process took place only when Issac Merit Singer of the US developed a practical and commercially viable sewing machine in the 1850s (Rivoli, 2006, p.84)

The advent of the sewing machine had not only brought an industrial but also a cultural revolution as the tailoring profession had been made extinct with the mass production of apparels in factories. During the period of 1860-1950, thousands of apparel factories were established in the major cities of the US and Europe. Following the principles of Taylor’s scientific management production, the apparel production was converted into sequential and separated work steps in the 1930s. Hence, the efficiency of the production increased and trade

in apparel products began in the late 1950s and early 1960s (*ibid*). The trade opportunities made Europe and the US as major exporters of apparel during the 1960s (Dickerson, 1999, pp.189,194)².

Among the Asian countries, Japan was the pioneer of apparel industrialization and it was one of the top 10 apparel exporters during the 1960s (Dickerson, 1999). Due to rapid industrialization in the major European economies (such as the UK, France and Belgium), the US and Japan during the 1970s and 1980s, labour cost increased significantly in these countries and the industry started shifting to neighbouring countries of the Southeast and East Europe as well as Asian nations where plenty of cheap labour was available.

Introduction of the MFA

In 1974, the quota system with the introduction of MFA came into practice. The imposition of quotas not only impeded the export of most dominant players at that time including newly industrialized countries (NIEs) such as Hong Kong, South Korea and Taiwan, but also forced them to shift their apparel production overseas, particularly to China, Vietnam, South Asia and Africa, in order to reduce the cost (using cheap labour) and unused quotas. They shifted their apparel production either through direct investments or subcontracting/outsourcing. Henceforth, the NIE's apparel producers became managers of apparel production networks within Asia and in some cases in Africa, a position they were able to achieve because of their recognized (trust) connections with branded marketers or retailers (from developed countries).

End of MFA

In 2001, China joined the WTO and competition in the supply of apparel increased rapidly. Although protective measures such as (high) import tariffs along with quotas were imposed to slow down the exports from China, these protections could not halt the pace of the Chinese apparel exports. Since 2005, when the MFA was abolished, Chinese exports further accelerated as the country was no longer facing any quota restrictions. Along with China, some other Asian economies such as Bangladesh, India, Vietnam and Cambodia managed to increase their apparel exports and sustain their position as top exporters of apparels in the

² The development of the fashion-oriented apparel industry commenced during 1960-1970. Many famous fashion houses of today such as GAP, JC Penny and Levi Strauss were established and developed during this period. Although there were some brand logos during 1930-1950, they offered branded products only to some elite customers but not to the masses. However, from the 1950s, fashionable apparel invaded all the major markets of Europe and the US, and everyone could afford it (Hilger, 2008).

world market during the post-MFA period. Besides these Asian countries, some Central and South American, East European and, North and South African countries also experienced moderate growth during this period.

2.2. Economic aspects of the apparel industry

Contribution to international trade

Table 1 presents the value and share of world apparel exports and imports in 2013, by leading exporting and importing countries/regions, respectively, of the world. As can be seen from Columns 2 and 3, in 2013, Asia is the main exporter among the regions capturing 60% of the world's apparel exports worth US\$274 billion. The second largest exporter is the EU contributing 30% of the exports valued at US\$137 billion. The value of apparel exports from South and Central America and other regions of the world were US\$15 billion (3%) and US\$34 billion (7%), respectively. Among the Asian countries, China is the dominant player with 65% share of the apparel exports from Asia.

Table 1 Apparel exports and imports and their share of selected regions in 2013 (in US\$ billion)

Major Exporters	Apparel Exports		Major Importers	Apparel Imports	
	Value (US\$bn)	Share		Value (US\$bn)	Share
(1)	(2)	(3)	(4)	(5)	(6)
Asia	274	60%	EU	182	40%
EU	137	30%	US	91	20%
South & Central America	15	3%	Japan	34	7%
Others	34	7%	Canada	10	2%
			Russia	9	2%
			Others	134	29%
World	460	100%	World	460	100%

Source: WTO (2014).

Columns 5 and 6 of the Table 1 give the value (in US\$ million) and share of world apparel imports for the leading apparel importing countries. As can be seen, a majority of the items produced by the worldwide apparel industry are consumed by three main markets, the EU, the US, and Japan. Together, these three regions represent 67% of world apparel imports in 2013. The EU, the largest importer, accounted for 40% of the total world apparel imports, totalling US\$182 billion. The second largest importer was the US covering 20% (US\$91 billion) of the world's imports, followed by Japan at 7% (US\$34 billion). Moreover,

Canadian (US\$10 billion) and Russian (US\$9 billion) imports were 2% each, while other countries (US\$134 billion) imported 29% of world's total apparel imports.

Table 2 presents the value of world apparel exports for 2013 by leading exporting countries and individual country shares for the years 1980, 1990, 2000, 2010 and 2013. As can be seen, China, Bangladesh, Vietnam, India, Turkey, Indonesia, the US, Cambodia, Malaysia, Pakistan, Mexico, Sri Lanka and the Philippines were the leading apparel exporters in 2013 (WTO, 2014). Among these exporters, in 2013, the top ten developing country suppliers accounted for 61% of worldwide apparel exports. As expected, China held the top position taking 38.6% of global share while Bangladesh (5.1%) was a distant second, followed by Vietnam (3.7%), India (3.7%), Turkey (3.3%), Indonesia (1.7%), Cambodia (1.1%), Malaysia (1%), Pakistan (1%), Mexico (1%), Sri Lanka (1%) and the Philippine (0.3%). During 1980 and 2013, China has managed to increase its share of apparel exports dramatically from 4% to 38.6%. During the same period, Bangladesh, Cambodia, India, Indonesia, Malaysia, Pakistan, Mexico, Sri Lanka, Turkey and Vietnam have also become significant apparel exporters. However, the export share of the US dropped sharply from 3.1% to 1.3% during this period.

Table 2 Value of apparel exports, 2013, and apparel exports as a share of world apparel exports by leading exporters, 1980, 1990, 2000, 2010, 2013

Exporting country	Value in US\$ million, 2013	Apparel exports as a share of world apparel exports (in %)				
		1980	1990	2000	2010	2013
(1)	(2)	(3)	(4)	(5)	(6)	(7)
China	177,435	4.0	8.9	18.2	36.9	38.6
Bangladesh	23,501	0.0	0.6	2.6	4.5	5.1
Vietnam	17,230	—	—	0.9	3.1	3.7
India	16,843	1.7	2.3	3.0	3.2	3.7
Turkey	15,408	0.3	3.1	3.3	3.6	3.3
Indonesia	7,692	0.2	1.5	2.4	1.9	1.7
US	5,859	3.1	2.4	4.4	1.3	1.3
Cambodia	5,095	—	—	0.5	0.9	1.1
Malaysia	4,586	0.4	1.2	1.1	1.1	1.0
Pakistan	4,550	0.3	0.9	1.1	1.1	1.0
Mexico	4,530	0.0	0.5	4.4	1.2	1.0
Sri Lanka	4,511	0.3	0.6	1.4	1.0	1.0
The Philippines	1,558	—	1.6	1.3	0.5	0.3
Others	-	90.0	76.0	55.0	40.0	37.0

Source: WTO (2014); Note: — = Data not available.

Table 3 presents the value (in US\$m) of apparel imports in 2013 and their share (in %) of total world apparel imports for the years 2000, 2010 and 2013 for the major importing countries. The figures presented in the table shows that some significant changes have taken place in the major apparel importing countries during the last decade. Particularly noteworthy is the rapid drop in the US share of global apparel imports, which has declined from 33% in 2000 to 22% in 2010 and 19% in 2013. Moreover, the imports by the EU, Japan and Switzerland have also decreased by 3.2%, 2.7%, and 0.4%, respectively between 2000 and 2013. However, the share of imports for other developed countries such as South Korea, Australia, and the United Arab Emirates (UAE) increased moderately by 1%, 0.4% and 0.4%, respectively. Among the developing countries, the apparel imports to Russia and Turkey have also increased by 1.8%, and 0.6%, respectively over the same period.

Table 3 Value of apparel import, 2013, and apparel imports as a share of world apparel imports by leading importers, 2000, 2010, 2013

Importing country (1)	Value in US\$ million, 2013 (2)	Apparel imports as a share of world apparel imports (in %)		
		2000 (3)	2010 (4)	2013 (5)
EU	182231	41.1	44.7	37.9
US	91028	33.0	22.3	18.9
Japan	33632	9.7	7.3	7.0
Canada	9949	1.8	2.3	2.1
Russia	9014	0.1	2.0	1.9
South Korea	7535	0.6	1.2	1.6
Australia	6257	0.9	1.3	1.3
Switzerland	5904	1.6	1.4	1.2
China	5335	0.6	0.7	1.1
UAE	3921	0.4	0.7	0.8
Saudi Arabia	3447	0.4	-	0.7
Mexico	3231	1.8	0.6	0.7
Turkey	3130	0.1	0.8	0.7
Singapore	2916	0.9	-	0.6
Others	-	7.0	15.7	24.5

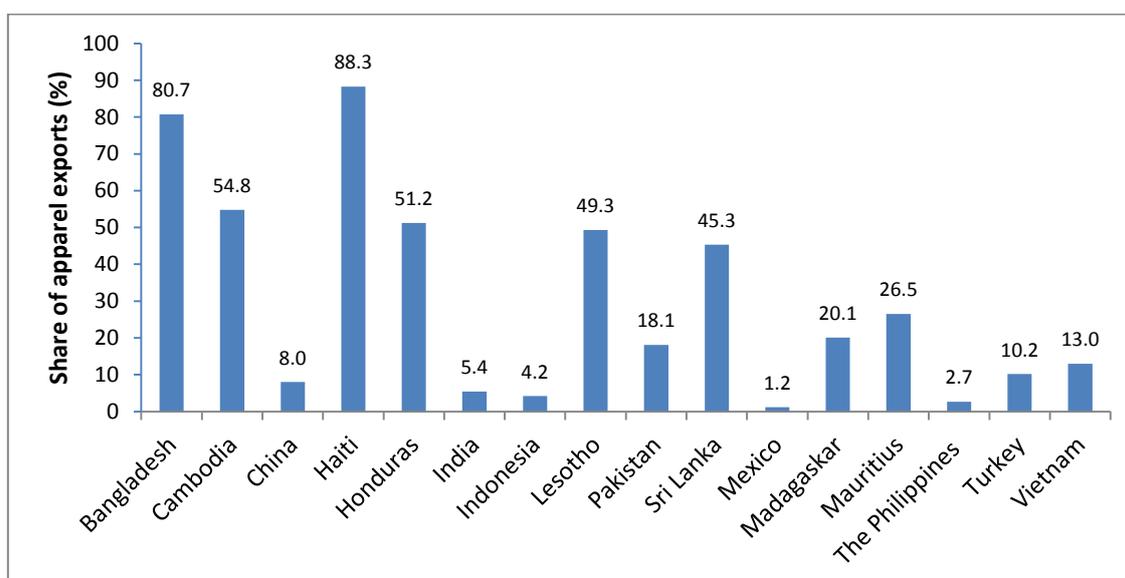
Source: WTO (2014). Note: — = Data not available; UAE = United Arab Emirates.

Contribution to foreign currency earnings

The apparel industry is a key industry for export revenue and one of the largest contributors to the economic development of many developing and least developed countries. Figure 1 shows the share of the value of apparel exports as a percentage of their total merchandise exports for some selected countries in 2013. As can be seen, among these countries, Haiti has

the highest dependency on apparel exports as a total share of its merchandise exports (88.3%), followed by Bangladesh (80.7%), Cambodia (54.8%), Honduras (51.2%), Lesotho (49.3%) and Sri Lanka (45.3%). In the various African countries, apparel exports accounts for by far the largest among their manufacturing exports. For example, the apparel industry accounted for 49.3% of total merchandise exports in Lesotho, 26.5% in Mauritius and 20.1% in Madagascar. Countries that have more than 50% dependency on apparel exports are low income countries. Although China, India, Indonesia, Pakistan, the Philippines, Turkey, Mexico, and Vietnam are the leading apparel exporters in major markets, they are relatively less dependent on apparel exports at 8.0%, 5.4%, 4.2%, 18.1%, 2.7%, 10.2%, 1.2% and 13.0%, respectively.

Figure 1. Share of the apparel exports as a percentage of total merchandise exports of selected countries, 2013



Source: WTO (2014).

Contribution to employment generation

The apparel industry is considered as one of the largest employment generating sectors in developing and less developed countries. Table 4 presents the number of people employed in the apparel industry and its share as a proportion of total number employed in the manufacturing industry. As can be seen, employment in the apparel industry accounted for 89% of total manufacturing employment in Lesotho, 79% in Honduras, 40% in Bangladesh, 38% in Pakistan and 35% in Cambodia. Among others, Morocco (31%), Sri Lanka (21%), the

Philippines (9.8%) and Mexico (8%) have significant share of employment in the apparel sector.

Table 4 Number of people employed in the apparel industry and its share in total manufacturing industry in selected countries

Country (1)	Number of the apparel industry employees (in '000) (2)	Share of apparel industry employment in the total manufacturing sector (in %) (3)
Bangladesh	4000.0 (2013)	40 (2013)
Cambodia	500.0 (2013)	35 (2013)
Honduras	110.0 (2013)	79 (2013)
India ^a	45000.0 (2013)	—
Lesotho ^a	39.0 (2011)	89 (2011)
Mexico	295.6 (2010)	8 (2010)
Morocco	149.5 (2008)	31 (2008)
Pakistan ^a	2000.0 (2008)	38 (2008)
Sri Lanka	276.6 (2011)	21 (2011)
The Philippines	85.8 (2010)	9.8 (2010)
Vietnam	861.1 (2010)	—

Note: — = no data available; ^a = including textile.

Source: Various Government and study reports; BGMEA (2014) for Bangladesh; GMAC (2014) for Cambodia; WoW (2014) for Honduras; MoT (2014) for India; CBSL (2013) for Sri Lanka; NSCB (2012) for the Philippine; GSO (2011) for Vietnam; and Staritzs and Frederick (2012) for Lesotho, Mexico, Morocco and Pakistan.

From the discussion above, it is evident that the apparel industry is one of the oldest and the most globalised industries. Moreover, the industry is one of the most important industries in terms of international trade, foreign currency earnings and job creation both in developing and least developed countries. The development of the apparel industry was largely dependent on cheap labour and availability of quota during the MFA implementation period. However, many researchers such as Neidik and Gereffi (2005) and Tewari (2006) argue that the growth of the industry would not be limited to these traditional factors in the post-MFA period. Hence, examining the determinants of export performance using data from major apparel exporters would be vital for policy makers.

3. Determinants of export performance

Although literature regarding the determinants of exports in the apparel industry is scarce, a wide range of literature is available on the factors that influence firm exports in the manufacturing industry (e.g., Javalgi et al., 1998, 2000; Obben and Magagula, 2003; Serra et

al., 2012). Most studies point out that internal and external characteristics, such as labour cost, firm size, firm location, foreign ownership or investment, age of the firm, manager/CEO experience and preferential market access are the major determinants of exports. Below we present a review of some of the studies grouped by possible determinants of exports.

Labour cost

A large number of existing studies (e.g., Yang and Mlachila, 2007; Ahmed, 2009) have identified cheap labour cost as one of the most significant competitive factors driving apparel exports both during the MFA and post-MFA period. One argument offered to support their findings is related to the labour-intensity of the apparel industry. As discussed earlier, the production of apparel since its birth has shifted from one region of the globe to another on the basis of the availability of abundant and cheap labour as major apparel producers and retailers/buyers always prefer to produce or source their products from labour abundant nations. In this study, using data from major apparel exporting countries, we investigate the following hypothesis

H1. Labour cost has a negative influence on apparel exports.

Firm size

Studies that used firm size as a determinant of exports argue that three fundamental rationales such as economies of scale, organizational resources and risk taking perception, leading to the argument that the size of a firm is significantly related to its export performance. A larger firm possesses relatively more capital and human resources, enjoys a higher level scale of economies and managerial resources at its disposal and a greater capacity to absorb the risk related to exporting than a smaller firm (Bonaccorsi, 1992; Wagner, 1995). As exporting requires incurring some operational costs such as obtaining market information, adapting products according to foreign customers' needs and launching international marketing and promotional campaigns, it is easier for a large organization to manage and bear these costs (Sing, 2009). Hence, firm size is also arguably one of the important determinants of export performance. While many empirical studies (e.g., Bilkey and Tesar, 1997; Majocchi and Mayrhofer, 2005; Serra et al., 2012) find that firm size has a positive relationship with export performance, some studies such as Wolff and Pett (2000) and Contractor et al. (2005) reveal no significant relationship between firm size and export performance. Hence, the results regarding the relationship between size of the firm and export development is still inconclusive. These opposing findings may arise from samples that include firms from many

sectors, or in part from the size as a variable being itself moderated by a different scale of measurements (Baldauf et al., 2000). In this study, using data from major apparel exporting countries, we investigate whether large firms have higher export performance compared to smaller firms. That is, we test the hypothesis

H2. The size of a firm has a positive impact on export performance

Firm location

Most previous studies identify location as another significant factor that may influence the export performance of firms, particularly if the firm operates in an emerging economy where export facilities are concentrated in some capital or municipal areas. There are two important reasons that location plays a crucial role in influencing the export of a firm. First is the spill-over effect of the geographic concentration. This means that firms located in capital areas could have better access to certain economic inputs, raw materials and trade facilities such as adequate transportation, infrastructure including ports or rail roads and storage facilities compared with firms located at other cities or rural areas (Zhao and Zou, 2002). Second is the opportunity to increase productivity. Firms located in capital areas have better opportunity to employ skilled human capital, obtain and use marketing and other business information or services due to the urbanization effects, as most of the educational institutions and service providers are located in urban areas (Rodriguez-Pose et al., 2013; Wignaraja, 2008). Hence, these external effects of a good location not only increase the productivity and efficiency of a firm but also create the capacity to be successful in exporting to foreign markets. In this study, using the major apparel exporting countries' data, we investigate whether the export performance is higher for firms located in the capital areas than the ones located in small cities or rural areas. Thus, we test the following hypothesis

H3. Export performance of firms located in the capital cities is better than those located in other areas.

Foreign ownership (Foreign investment)

A few studies (e.g., Wilmore, 1992; Greenway et al., 2007) have investigated the influence of foreign ownership on export performance and found that, a foreign-owned firm is more likely to sell its products overseas than a local firm. These studies present three reasons to support this finding. First, foreign firms tend to possess superior market access and technology as foreign owners provide access to the foreign market connections, distributions, modern

know-how and technology which enable them to export more (Wignaraja, 2008). Second, foreign owned firms have better experience and knowledge (inherited from foreign affiliates) than domestic firms which help them to produce quality exportable goods (Greenway et al., 2007). Finally, foreign firms can afford the huge operational costs of export and enter into international markets more easily than local firms (Jongwanich and Kohpaiboon, 2008). In our analysis, using the major apparel exporting countries' data, we test the hypothesis that

H4: Foreign owned firms are more successful in exporting than locally owned firms.

Age of the firm

The absolute age of the firm in terms of operational years is also found to be one of the determinants of export performance. Some studies have found a positive (Chen and Martin, 2001; Dean et al., 2000) and others found a negative (Madsen and Servais, 1997; Baldauf et al., 2000) relationship between firm age and export performance. The studies, which concluded that age has a positive impact on export performance, have argued that an old firm has better tacit knowledge and experience through their learning-by-doing than a younger firm, which helps it to grow both in the domestic and international markets. However, the studies which concluded that age has a negative impact on export performance claim that a younger firm is more likely to be successful in exporting since a new firm faces severe competition in a domestic saturated market which forces it to look at opportunities to sell its products abroad. Moreover, in most cases, a younger firm is more proactive, flexible and aggressive than an older firm (Aggrey et al., 2010). More importantly, a younger firm exhibits more willingness to adopt modern technology and machinery that provides it with competitive advantage in production and enables it to expand its business both locally and internationally (Kirapalani and MacIntosh, 1980; Ursic and Czinkota, 1984). In this study, using data from the major apparel exporting countries, we also investigate the hypothesis that

H5. Age of a firm has a positive effect on its export performance.

Managerial experience

A review of past studies also suggests mixed impact regarding the influence of the manager's experience on the export performance of a firm. A manager with greater experience has a better knowledge of markets and environments which may assist a firm to select the most lucrative markets and adapt the appropriate marketing policies to meet the specific needs of the customers of those markets (Lages and Montgomery, 2005). Moreover, exporting needs

some documentation and paperwork (e.g., shipping documents) which may seem difficult to an inexperienced manager (Tesar and Tarleton, 1982). Hence, an experienced manager may be a contributing factor in better export performance. However, Caughey and Chetty (1994) claims that a younger manager would be more risk-averse and internationally-minded and may be more interested in additional earnings associated with exporting. We use the major apparel exporting countries' data to test the hypothesis that

H6. Firms that employ more experienced CEOs are more successful in exporting than firms that employ less experienced CEOs.

Preferential market access

The preferential market access has an important role in the global apparel production and trade patterns as well as competitive position of many developing countries (Dowlah, 1999). All of the major importers of apparel including the EU, the US, and Japan have preferential trading agreements with their selected trading partners. Besides some regional and bilateral trade agreements, Generalised Systems of Preferences (GSPs) is the major preferential market access schemes. Under the GSP, 27 developed countries have offered tariff preferences to over 100 developing and low income countries. Moreover, within the GSP, some nations have negotiated preferential access for lower-income countries, such as with the *Everything but Arms* (EBA) and the GSP+ initiatives by the EU and the AGOA by the US (Staritzs and Frederick, 2012, p.54). Furthermore, in the early 2000s, Japan and Canada also provided preferential market access for LDCs in their GSP. Hence, the countries which have preferential market access under GSP may have better success in apparel exporting. Using data from the major apparel exporters, we investigate the hypothesis that

H7. Firms that enjoy preferential market access are more successful in exporting than the firms that do not.

4. Research methodology

In most studies in the literature, export performance is measured by two variables, (1) export intensity³ (Estrin et al., 2008; Filatotchev et al., 2008; Majocchi et al., 2005) and (2) volume of exports (Baldauf et al., 2000; Kuivalainen et al., 2007; Contractor and Mudambi, 2008).

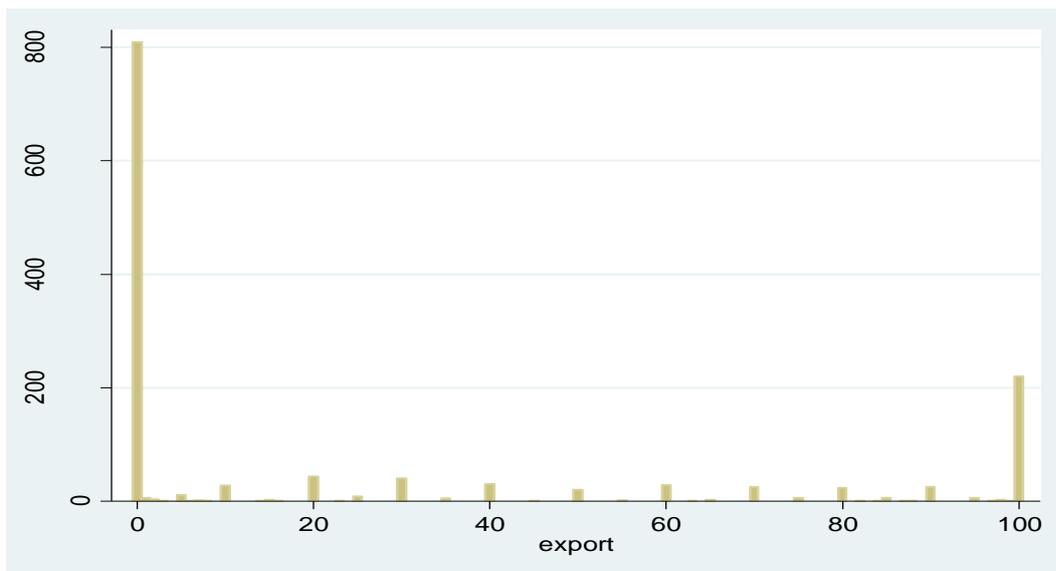
³ Export intensity is the ratio of the value of apparel exports as a percentage of the total value of apparel sales.

To arrive at robust findings, this study uses both of these two measures, export intensity and volume of export, to investigate the determinants of export performance in the major apparel exporting countries during the post-MFA period. In our analysis, when export performance is measured by the export intensity, the dependent variable (y) takes a value from 0 to 100. To identify the determinants of export performance, we estimate a linear relationship between export performance and the variables, labour cost, firm size, firm location, foreign ownership, age of firm, managerial experience and preferential market access in the following form:

$$\begin{aligned} \text{Export performance (y)} = & \beta_0 + \beta_1 \text{ Labour cost} + \beta_2 \text{ Firm size} + \beta_3 \text{ Firm location} \\ & + \beta_4 \text{ Foreign ownership} + \beta_5 \text{ Firm age} + \beta_6 \text{ Managerial experience} \\ & + \beta_7 \text{ Preferential market access} + \varepsilon \end{aligned} \quad (1)$$

Figure 2 shows the frequency distribution of the apparel firms by their export intensity. As can be seen, most of the apparel firms are left (on the far 0% export intensity) or right (100% export intensity) of the distribution. The Tobit model (also called a censored regression model) is generally used to estimate linear relationships between variables when there is left- and right-censoring in the dependent variable. Since our frequency distribution of exported also of that category, we use the Tobit model to examine the impact of the selected independent variables on export intensity.

Figure 2 Frequency distribution of apparel firms by their export intensity



On the other hand, when the export performance is measured by volume of exports (in US\$), the dependent variable (y) is a continuous variable. Hence, the standard multiple regression model framework can be applied to test the hypothesized relationship between volume of exports and a number of explanatory variables.

The measurements of independent variables used in our analysis are discussed as follows.

- **Labour cost:** labour cost is measured by the labour cost for per dollar sale of goods.
- **Firm size:** Number of employees and volume of sales are commonly used in the literature as a proxy for the size of the firm in the manufacturing industry (Lall and Kumar, 1981; Bilkey and Tesar, 1997; Calof, 1994; Zhao and Zou, 2002; Majocchi and Mayrhofer, 2005; Filatotchev et al., 2009). As the apparel industry is considered as a highly labour-intensive industry, we use the number of employees, as a proxy for the variable firm size.
- **Firm location:** For the location, we use a dummy variable. By following the World Bank enterprise survey criteria, we assign the value of 1 if a firm is located in a capital city and 0 otherwise.
- **Foreign ownership:** Foreign ownership is a dummy variable taking a value of 1 if a firm is owned by foreigners (partially or fully) and 0 otherwise.
- **Age of firm:** Age of the firm is measured by the total operational years since the establishment of the firm.
- **Managerial experience:** This is measured by the total number of years of service experience of the chief executive officer (CEO) of the firm under consideration.
- **Preferential market accesses:** A preferential market access is captured by the dummy variable, GSP (Generalised system of preference). If a firm enjoys preferential market access in major apparel markets such as the US and EU, then the variable GSP takes a value 1 and 0 otherwise.

5. Data and preliminary analysis

The current study considers nine major exporters of the apparel industry namely Bangladesh, China, Indonesia, Mexico, Pakistan, Sri Lanka, Turkey, the Philippines and Vietnam⁴. The

⁴ Although, India, the US, Cambodia and Malaysia are also considered as major exporters, we could not include these countries in our empirical analysis due to unavailability of firm-level data during the post-MFA period.

sample countries are divided into two groups, successful and unsuccessful countries, based on their performance in apparel exports during the post-MFA period. Bangladesh, China, Indonesia, Pakistan, Sri Lanka, Turkey and Vietnam are considered as successful countries since these nations were able to maintain an average positive growth of 22%, 13%, 7%, 5%, 6%, 4% and 18%, respectively, during 2005-2013. On the other hand, Mexico and the Philippines are considered as unsuccessful countries as they experienced an average negative growth of 5% and 3%, respectively, during the same time period. We use data from *World Bank Enterprise Surveys* that were conducted for Bangladesh (in 2011), China (in 2012), Indonesia (in 2009), Mexico (in 2010), Pakistan (in 2007), Sri Lanka (in 2011), Turkey (in 2013), the Philippines (in 2009) and Vietnam (in 2009). We believe that time variance in conducting these surveys in the selected countries does not have a significant impact on our analysis as all of the surveys were conducted during the post-MFA period.

Table 5 presents the descriptive statistics of the variables used in this study. As can be seen, the total sample covers 1374 firms⁵ from the nine major exporting countries considered in this study. Among the sample firms considered, 130 are from Bangladesh, 266 from China, 152 from Indonesia, 140 from Mexico, 182 from Pakistan, 103 from the Philippines, 120 from Sri Lanka, 168 from Turkey and 113 from Vietnam. Moreover, among the sample firms, 1131 firms are from successful countries and 243 are from unsuccessful countries.

As can be seen in Table 5, 43% and 31% of the apparel exporting firms are exporters from successful and unsuccessful countries, respectively. Overall, 41% of the total apparel firms in the nine countries are exporters. The export intensity and volume of total export (in US\$) suggest that successful countries have more firms exporting apparel than unsuccessful countries. The average for export intensity for successful and unsuccessful countries is 29 and 18, respectively. The average volume of total exports (in US\$m) in successful, unsuccessful and all of the sample countries together is US\$11.42m, US\$2.95m and US\$10.33m, respectively.

As expected, the average labour cost for per dollar sale in the successful countries (US\$0.29) is lower compared to unsuccessful countries (US\$0.39). It can also be seen that the size of the firms measured by the number of employees in successful countries is larger (203) compared

⁵ Although the original data set contains more than 1374 firms, some firms were excluded due to missing values and other data problems.

to the size of the firms in unsuccessful countries (106). Considering the location of the firms, 29% of the firms in the successful countries are located in capital cities while only 18% of

Table 5. Characteristics of the apparel firms in exporting countries

Variables	Successful Countries	Unsuccessful Countries	All Exporting Countries
Number of firms	1131	243	1374
Exporting firms (%)	490 (43%)	75 (31%)	565 (41%)
Export intensity (% of total sales)			
Mean	29	18	27
SD	40	36	40
Total exports (in millions of US\$)			
Mean	11.42	2.95	10.33
SD	39.33	6.23	36.73
Labour cost per dollar sale			
Mean	0.29	0.39	0.31
SD	0.72	0.74	0.73
Firm size (number of employees)			
Mean	203	106	186
SD	509	218	473
Firm location in capital cities (%)	325 (29%)	43 (18%)	368 (27%)
Foreign ownership (%)	71 (6%)	31 (13%)	102 (7%)
Firm age (in years)			
Mean	16	20	17
SD	11	14	11
Managerial experience (in years)			
Mean	17	21	18
SD	10	11	10
Preferential access (GSP, %)	752 (67%)	104 (43%)	855 (62%)

Note: SD = Standard deviation.

firms in the unsuccessful countries are located in capital cities. Nevertheless, the percentage of foreign-owned firms in the successful countries is lower than that of the unsuccessful countries. Among the sample firms, 6% and 13%, respectively, are owned by foreigners in successful and unsuccessful countries.

Considering the age of the firms in terms of operating years, unsuccessful countries' firms (20 years) are much older than the firms of successful countries (16 years). That is, newer firms are more successful than older ones. Moreover, years of experience of CEO in the unsuccessful countries (21 years) are also higher compared to the successful countries (17

years). On the other hand, preferential market access in the major exporting countries under GSP shows that 67% of firms of the successful countries are benefiting from GSP while 43% of firms of the unsuccessful countries export their products under GSP.

Table 6 presents the correlation matrix among the independent variables. The table shows that there is no strong correlation among the independent variables. The maximum correlation found between age of firm and managerial experience is 0.35. Therefore, it can be said that there is no multicollinearity issues in the specified model.

Table 6 Correlation matrix among the independent variables

	Labour cost	Firm size	Firm location	Foreign Ownership	Firm age	Managerial experience	Preferential market access
Labour cost	1.00						
Firm size	0.07	1.00					
Firm location	-0.02	0.22	1.00				
Foreign ownership	-0.04	0.17	-0.00	1.00			
Firm age	0.00	0.14	0.03	-0.01	1.00		
Managerial Experience	-0.01	0.12	-0.10	0.03	0.35	1.00	
Preferential market access	0.04	-0.16	-0.08	-0.10	0.08	-0.07	1.00

6. Empirical results and discussion

Considering the regression model (1) discussed in Section 4, reproduced here.

$$\begin{aligned} \text{Export performance (y)} = & \beta_0 + \beta_1 \text{Labour cost} + \beta_2 \text{Firm size} + \beta_3 \text{Firm location} \\ & + \beta_4 \text{Foreign ownership} + \beta_5 \text{Firm age} + \beta_6 \text{Managerial experience} \\ & + \beta_7 \text{Preferential market access} + \epsilon \end{aligned}$$

Let Model A represent regression equation (1) where export performance is measured by export intensity as the dependent variable (y) and Model B represent regression equation (1) where export performance is measured by total volume of exports. Table 7 presents the estimation results for both models for firms from the three sets of countries, successful, unsuccessful and all nine exporting countries.

The coefficient estimates in Table 7 shows that labour cost is negatively and significantly associated with both measures of exports in the successful, unsuccessful and all of the exporting countries except export intensity in unsuccessful countries. To support this finding, it can be argued that the exporting firms in these unsuccessful countries may be related to exporting high value-added, designable and fashionable products that may need high paid

skilled and trained workers to produce. Overall, the findings indicate that lower labour cost of the firm has a significant positive impact on export performance in the apparel industry. These findings are consistent with our expectation and support our hypothesis *H1*. *Labour cost has a negative influence on apparel exports* ($\beta_1 < 0$).

Table 7 Regression estimation for export intensity and total volume of exports in the apparel industry, nine apparel exporting countries

Variable (1)	Successful countries		Unsuccessful countries		All countries	
	Model A (2)	Model B (3)	Model A (4)	Model B (5)	Model A (6)	Model B (7)
Constant	-190.42* (0.000)	10.59* (0.000)	-328.14 (0.000)	8.430* (0.000)	-208.64* (0.000)	-10.500* (0.000)
Labour cost (β_1)	-26.559* (0.001)	-1.669* (0.000)	37.323* (0.000)	-0.368 (0.121)	-11.458* (0.012)	-1.258* (0.000)
Firm size (β_2)	38.939* (0.000)	0.797* (0.000)	45.656* (0.000)	0.858* (0.001)	40.984* (0.000)	0.816* (0.000)
Firm location (β_3)	16.243** (0.056)	0.338* (0.016)	-10.192 (0.639)	-0.822 (0.193)	14.786** (0.064)	0.391* (0.005)
Foreign ownership (β_4)	62.958* (0.000)	0.414** (0.075)	94.221* (0.001)	1.774* (0.003)	75.462* (0.000)	0.422* (0.026)
Age of firm (β_5)	-1.013* (0.008)	-0.003 (0.740)	1.073* (0.042)	0.021** (0.096)	-0.834* (0.011)	-0.004 (0.573)
Managerial experience (β_6)	0.285 (0.480)	-0.005 (0.469)	-0.321 (0.694)	-0.024 (0.276)	-0.047 (0.899)	-0.013** (0.080)
Preferential market access (β_7)	45.942* (0.000)	0.451* (0.001)	130.182* (0.000)	0.354 (0.550)	54.932* (0.000)	0.400* (0.002)
Observations	1131	490	243	75	1374	565

Note: *p*-values are in parentheses. *, **denotes significant at 5% and 10%, respectively.

The relationship between firm size and both measures of export performance is found to be positively significant in successful, unsuccessful and all of the exporting countries. These results suggest that larger firms are more successful in selling their products in the international markets, which support our hypothesis *H2*. *The size of a firm has a positive impact on export performance* ($\beta_2 > 0$).

Based on the estimation results, location of a firm is positively significant in explaining export performance in the successful countries and all of the sample countries combined. However, location of a firm has insignificant effect on both measures of exports in unsuccessful countries. Overall, findings imply that firms located in the capital cities have

significant better performance in selling their products in the international markets rather than the other cities or local areas, especially among the successful countries. This provides evidence of the hypothesis *H3. Export performance of firms located in the capital cities is better than those located in other areas* ($\beta_3 > 0$).

Foreign ownership is positively significant in explaining the export performance of both measures in the successful and unsuccessful countries, and all countries combined. These findings infer that the foreign owned firms are more successful in exporting than the local owned firms. The findings regarding the impact of foreign ownership or investment on export performance also support our hypothesis *H4: Foreign owned firms are more successful in exporting than locally owned firms* ($\beta_4 > 0$).

The effect of age of the firm on the firm's sales in international markets provides interesting findings. The age of the firm is found to have positive and significant association with export intensity in unsuccessful countries while it is the opposite with the successful countries and when all countries combined. These findings indicate that an aged firm in unsuccessful countries is successful in selling its products in international markets, as it possesses better tacit knowledge and experience than younger firms. However, the aged firms in successful countries may find it to be more profitable and less risky to sell their products in domestic markets compared to foreign markets. However, with regards to volume of export sales, the age of the firm do not have a significant effect. Therefore, we conclude that there is not enough evidence to support the hypothesis, *H5. Age of a firm has a positive effect on its export performance* ($\beta_5 > 0$).

Manager (CEO) experience on export performance also gives mixed results in terms of the sign of the coefficient and statistical significance. Therefore, we conclude that there is not enough evidence to support the hypothesis, *H6. Firms that employ more experienced CEOs are more successful in exporting than firms that employ less experienced CEOs* ($\beta_6 > 0$).

Finally, preferential market access seems to play a crucial and positive role on export performance in the successful, unsuccessful and all countries combined. These findings support our hypothesis *H7: Firms that enjoy preferential market access are more successful in exporting than the firms that do not* ($\beta_7 > 0$).

7. Conclusions and policy implications

The MFA phase out scheme has certainly affected the export performance of firms in the major apparel exporting countries as some developing countries such as Bangladesh and Vietnam have managed to continue their growth while some others like the Philippines and Mexico have experienced a decline in apparel exports. However, there is inadequate knowledge about the competitive factors that resulted in the expansion of exports in some countries, while shrinking in some others during the post-MFA period. Based on the firm-level data from nine major exporting countries, this study investigates the competitive factors of apparel exports during the post-MFA period. Various econometric methods are employed to investigate the impact of selected variables on apparel export performance of the sample countries.

Empirical results from nine apparel exporting nations suggest that cheap labour, firm size, firm location, foreign ownership, and preferential market access have significant positive contribution to the export performance in all of the major apparel exporters during the post-MFA period. However, age of the firm appears to have a mixed impact on export performance. The findings of this study offer various policy implications both for policy makers as well as business managers. First, although cheap labour cost is one of the important factors for enhancing apparel exports, high labour cost incurring firms can also be successful in exporting as the labour cost is found to have a positive and significant impact on export intensity in the context of the Philippine and Mexico. Hence, firms operating in higher labour cost countries or regions should focus on high value-added, designable and fashionable products. Second, as firm size is appeared to be positively associated with exporting, managers/investors should invest more in their businesses to increase the size of their firms. Third, policymakers and government should introduce and implement foreign investment friendly policies that will attract more inward foreign investment. Fourth, firms that want to be successful in the international markets should be located in the capital cities due to their urbanization and spillover effects. Finally, policy makers and government should take proactive policies and actions under multilateral and bilateral trade agreements so that firms in their countries can enjoy preferential market access.

Like most studies, this study has some limitations that the reader should consider when they interpret the findings of this study. First, although managerial experience, measured by the total number of years of service experience of the chief executive officer (CEO), is not found

as an important factor for export performance, a more refined measure of managerial experience focusing on the years of service of the CEO in international markets may provide more acceptable and reliable results. Second, although this study is one of the few studies that investigate the impact of the preferential market access captured by GSP, future studies may investigate the impact of other preferential markets schemes.

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