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**Survivors vs  
creators:  
upgrading and  
public governance  
in the Kenyan  
leather value chain**

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## **Abstract**

This paper highlights the complementarity of public and private governance in shaping upgrading across domestic, regional and global value chains (GVCs). This is achieved through a comparative analysis of suppliers in Kenya's leather handbag and footwear subsectors. In the former, local access to foreign knowledge within emerging SMEs and a sense of mistrust of state policies has favoured upgrading and participation in competitive global markets. Conversely, in the latter, an industry originally dominated by large subsidised firms and apprenticeship-based learning led to the cutback of production costs, a loss of product quality and poorer labour conditions, triggering informalisation and limiting participation in GVCs. By analysing the link between firms, government regulations and participation in GVCs, the study argues against a restricted focus on the private governance of buyer–supplier interactions, reinforcing the call for a 'multi-scalar' approach to the study of upgrading in GVCs.

## **Keywords**

Global value chains, upgrading, public governance, leather, Kenya

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## 1. Introduction

With the advent of globalisation and the 'slicing up' of production across global value chains (GVCs) (Krugman, 1995), scholars and international organisations have devoted increasing attention to the economic and social impact of this phenomenon for firms in the Global South (Bair, 2005; Barrientos et al, 2011; UNCTAD, 2015). While mainstream GVCs and learning-by-exporting scholarship point to global markets as a trigger of efficiency and upgrading (Baldwin & Yan, 2014; Fu et al, 2011; Gereffi, 2014; World Bank, 2019), critics have increasingly argued against this optimistic view. In particular, scholars of Global Production Networks (GPNs) have critically researched the disruptive economic and social consequences of 'development outcomes' set in motion by GVCs (Bair & Werner, 2011; Murphy, 2019). Moreover, a number of quantitative studies has questioned the link between global markets, efficiency and upgrading, emphasising how firms 'self-select' themselves into GVCs by means of knowledge and skills they acquire domestically and regionally (Brandt & Thun, 2010; Clerides et al, 1998; Navas-Alemán, 2011). Despite this evidence, the complementary role of public and private governance in shaping firms' upgrading and 'self-selection' into GVCs is still under-theorised (Gereffi & Lee, 2016). This paper asks: how do private actors and public institutions shape economic upgrading and participation in GVCs among firms in the Global South?

The aim of the paper is to address this question through a comparative study of the Kenyan leather footwear and handbag industries. Dominated by the export of semi-processed material, the Kenyan leather value chain has nevertheless witnessed a slow but steady growth in the production and export of manufactured goods (World Bank, 2015). Such growth, however, has been uniform neither in its origins nor in its outcome. While the production of leather footwear emerged during a period of import substitution (IS) in large subsidised firms, handbag manufacturing developed in a post-liberalisation institutional environment within foreign-owned micro-enterprises. Initially targeting domestic and regional markets, the leather footwear and handbag sectors have nevertheless come to display diverging outcomes, with the latter featuring more innovative business strategies that have favoured upgrading and competitive participation in global markets.

Drawing on semi-structured interviews and survey data across the two subsectors, results speak against a vertical and firm-centric approach to the study of value chains that sidelines public institutions as 'mere bystanders' (Alford & Phillips, 2018; Mayer & Phillips, 2017; Murphy, 2012). As argued here, such an approach is insufficient to explain how local suppliers become competitive in regional and global value chains by upgrading their products, processes and functions. Handbag manufacturers in Kenya upgraded through a combination of the knowledge of foreign managers and influence of newly funded fashion and design schools. In contrast, the footwear subsector remained entangled in pre-liberalisation institutions that limited upgrading and favoured a process of informalisation and price-based competition. In this context, government intervention through IS first and liberalisation later constrained upgrading among footwear producers

while prompting a sense of mistrust that contributed to the adoption of competitive and innovative strategies among handbag manufacturers.

Overall, the paper provides an analysis of the relationship between participation in GVCs, public governance and the upgrading of firms in a post-liberalisation context characterised by market fragmentation and mounting competition (Zhou, 2008). Furthermore, to the extent that the footwear and handbag subsectors coexist within domestic and regional markets, the article presents new evidence on the conditions under which trade within regional South–South value chains can trigger industrial development and economic upgrading, favouring participation in GVCs (Horner & Nadi, 2018).

The paper is organised as follows: section two presents a critical analysis of the literature on GVCs and firm upgrading, while section three discusses the article’s methodological approach. Section four introduces the Kenyan handbag and footwear subsectors and describes their divergent upgrading patterns. Most importantly, section five relates the causes of firms’ upgrading and participation in global markets to public governance. Finally, section six discusses the main outcomes of and further implications for the study of upgrading and governance in GVCs.

## **2 Literature review: upgrading and public governance**

The paper presents a scenario in which firms’ economic upgrading depends on factors internal to each firm, while public governance plays an instrumental role that further amplifies or limits this process. The following sections therefore define the concept of upgrading and discuss its relationship with the literature on innovation and industrial policy.

### **2.1 Economic upgrading**

Economic theory defines innovation in Schumpeterian terms as the creation or adoption of new products and processes, as well as organisational and marketing practices (Lundvall, 2007). Innovation refers to both codified and tacit knowledge new to the world, the region or simply the firm (Fu et al, 2011). In its different forms, innovation is expected to create and sustain firms’ competitive advantages and successful business performance (Jiménez-Jiménez & Sanz-Valle, 2011).

Defining GVCs as transnational production networks leading to a final good or service, the literature has devoted increasing attention to how firms in developing markets raise their competitiveness through improved technology and knowledge transfer from downstream global buyers (Gereffi & Lee, 2012). In this context, scholars have adopted the concept of economic upgrading to indicate the process of innovation that leads companies to raise profits through gains in market share and unit prices (Bernhardt & Pollak, 2016; Milberg & Winkler, 2013). Within a specific value chain, this is understood to be the consequence of new and more sophisticated products (product upgrading); new methods to transform inputs by superior technology and/or industrial organisation

(process upgrading); and the integration of new value-added activities (functional upgrading) (Humphrey & Schmitz, 2002).

While the relationship between economic upgrading and innovation remains contested (Morrison et al, 2008), this article understands the former as a consequence of the latter (Kaplinsky & Morris, 2002). In this respect, recent studies have conceptualised innovation as the process of learning and acquisition of intangible knowledge that precedes and leads to technological change, economic gains and, hence, economic upgrading (Fu, 2018; Whitfield & Staritz, 2019).

## 2.2 The centrality of firms and the role of public governance

In a world economy dominated by GVCs, business performance increasingly depends on firms' capacity to access globally dispersed knowledge and leverage it towards the implementation of innovative market strategies (Mudambi & Venzin, 2010). In this context, the literature on GVCs has increasingly concentrated on the governance of knowledge flows between international buyers and suppliers (Gereffi et al, 2005), ignoring the agency of local firms and 'sidelining' regulatory and public institutions as 'mere bystanders' (Mayer & Phillips, 2017; Pietrobelli & Rabellotti, 2011). In this respect, the remainder of this section addresses two major limitations embedded in the literature: (1) a vertical focus on inter-firm dynamics that deprives local suppliers of their agency in shaping upgrading and participation in global markets; and (2) a lack of attention to the role of public institutions in influencing the production process, not in isolation but through an analysis of their impact on firms' business strategy and organisation.

The GVCs and learning-by-exporting scholarship emphasises the positive impact that firms' participation in global markets has in terms of knowledge transfer and upgrading via 'trade-induced innovation' and 'relational global value chains' (Fu & Gong, 2011; Siba & Gebreeyesus, 2017; World Bank, 2019). In this respect, growing attention has been paid to the coordination of production activities underpinning the vertical interaction between buyers and suppliers (Gereffi et al, 2005; Humphrey & Schmitz, 2002). In particular, the upgrading of producers in developing countries has been associated with growing pressure to meet increasingly complex product and process specifications through top-down assistance from foreign buyers (Van Assche, 2016; Pietrobelli & Rabellotti, 2011; World Bank, 2019).

As argued in this paper, however, such a vertical approach to the study of GVCs deprives firms of their agency and generates "a harmful neglect of the detailed mechanisms linking value chains with local firms' learning and innovation" (Morrison et al, 2008, pp.51). In this context, while it is mostly agreed that exporting firms are more efficient than their domestic counterparts, evidence on whether this is a consequence or a cause of participation in GVCs remains at best controversial (Bigsten & Gebreeyesus, 2009; Foster-McGregor et al, 2014). Notably, the literature on 'trade-induced innovation' has lately been challenged by the notion of self-selection, arguing that firms reach efficiency before entering export markets (Clerides et al, 1998; Graner & Isaksson, 2009). Moreover, despite the rich scholarship on knowledge- and innovation-transfer within

GVCs (Van Assche, 2016; Mudambi, 2008; Pietrobelli & Rabellotti, 2011), case-study research on how smallholder suppliers in developing countries acquire and make use of external knowledge to self-select and upgrade in global markets remains scarce.

As a matter of fact, the impact of actors external to the value chain on firms' economic upgrading has not been overlooked by the literature (Ponte & Gibbon, 2005). Scholars have argued in favour of government intervention through the implementation of 'control mechanisms' to prevent coordination failures while favouring innovation and industrialisation (Amsden, 2001; Chang, 2002; Hausmann & Rodrik, 2003). In particular, reverting to concepts such as 'multi-polar', 'synergistic-', 'trans-scalar-', 'multi-scalar' and 'layering' governance, scholars have recently reconsidered the role of public institutions and regulations in shaping the process of value creation across regional and global value chains (Alford et al, 2017; Bartley, 2011; Gereffi & Lee, 2016; Ponte & Sturgeon, 2014). For instance, recent research in the East African region by Staritz and Whitfield (2017) and Chang et al (2016) shows how industrial policy can foster backward linkages, enabling firms to upgrade and favouring effective participation in global markets.

However, to the extent that public governance has been discussed in the GVCs literature, the debate has focused more on governments and civil society as external agents shaping growth and competitiveness in global markets, and less on firms' own perceptions and reception of the latter's policies (Gereffi & Lee, 2016; Milberg et al, 2014; Ponte & Sturgeon, 2014). For instance, Milberg and Winkler (2013, p 240) argue that, if developing countries are to benefit from their participation in GVCs, they require "intelligent industrial policy" to identify industries with the largest upgrading potential. Furthermore, Milberg et al (2014) highlighted the importance of liberalising imports of intermediate goods to achieve the global standards demanded by GVCs, while Gereffi & Sturgeon (2013, p 352) state that "the formation of industrial policy does not always begin with policy-makers 'picking' industries but rather with attempts to improve the performance of existing industries that link their country to the global economy".

Yet, by focusing on 'facilitating structural change' and 'picking winners' (Chang et al, 2016; Lin, 2012), studies on industrial policy and public governance overlook how, even within the same sector and country, policy may achieve very different results, depending on firms' 'knowledge-based assets' (Amsden, 2001). For instance, some firms are more versatile than others and there may be times when choosing a strategy consistent with the resources a firm controls can positively shape their competitiveness (Kotabe et al, 2011). Management and business networks have been shown to have an impact on firms' upgrading strategies (Morris & Staritz, 2014; Murphy, 2012; Schrank, 2008), while further research highlights the importance of local and regional markets in providing local companies with an incubation space to foster innovation and upgrading (Brandt & Thun, 2016; Suder et al, 2015; Zhou, 2008). How firms react to public governance in a way that triggers (or prevents) upgrading and participation in GVCs has been shown to affect value creation and distribution (Bartley, 2011), especially in the Global South, where vertical forms of private governance have proven ineffective in prompting economic and social gains (Barrientos et al, 2016; Locke, 2013).

This paper argues that, in order to understand how and why firms upgrade and enter GVCs, a discussion on industrial policy and firms' vertical interaction with local and global buyers is insufficient. Rather, focusing on how knowledge is acquired and applied by a firm in response to domestic and global circumstances and opportunities is required. As Giuliani et al (2005) point out, firms' upgrading depends on both firm-specific actions and the environment in which firms operate. Similarly, scholars have shown how firms' competitive advantage is derived as much from internal management practices in exploiting competences as from value chain and cooperative linkages (Morrison et al, 2008), further reaffirming the importance of explaining "why some firms decide to and are more successful in building certain capabilities and others not" (Staritz & Whitfield, 2017).

### **3 Methodology**

The paper draws on a comparative analysis of Kenyan leather footwear and handbag producers. Handbag and footwear manufacturers were identified from official lists provided by the Kenya Footwear Manufacturer Association (KFMA) and the Leather Articles Entrepreneurs Association (LAEA). The total number of firms interviewed was 30 and 35 in the footwear and handbag subsectors, respectively.

The analysis draws on semi-structured interviews with manufacturers. Building on the specificities of the leather manufacturing industry, respondents' replies, and previous studies in the same sector (Gebreyesus & Mohnen, 2013), the study conceptualises product upgrading in terms of (1) design and product development; and (2) market segment as a proxy of product quality. Following the same logic, process upgrading is defined in terms of (1) ICT usage; and (2) sourcing strategy. Furthermore, building on previous GVCs studies on functional upgrading in regional value chains (Knorringa, 1999; Roy, 2013, p 48), functional upgrading is evaluated as a matter of marketing and branding. A summary of product, process and functional upgrading indicators is provided in Table 1.

Finally, to make sense of divergent upgrading patterns, the paper presents a narrative on firms' evolution within different time frames and policy environments. This is achieved in section five through a combined use of descriptive statistics, policy reviews, historical accounts and direct references to practitioners' statements.

Throughout the paper, footwear and handbag manufacturers are abbreviated as Ftw-# and Hnb-#, respectively, individual names are anonymised and institutions are reported using their original acronyms.

**Table 1: Selected indicators of economic upgrading**

Categories	Indicators	
<b>Product upgrading</b>	Design and product development	Own design; designs per year; fashion vs imitation-driven design; custom production; issues with copycatting
	Market segment	Market tier: local vs import competition
<b>Process upgrading</b>	ICT usage	Internet access; e-commerce; online marketing
	Sourcing strategy	Direct vs indirect sourcing; quality vs price focus
<b>Functional upgrading</b>	Marketing and branding	Branding: OBM <sup>a</sup> production; promotion of 'Made in Kenya' Marketing: use of traditional salespeople; participation in local fairs

*Note:* <sup>a</sup> OBM = original-brand manufacturers.

*Source:* Author's compilation.

#### 4 Upgrading in the Kenya handbag and footwear subsector

Footwear and handbags represent the main leather manufacturing subsectors in Kenya (Mwinyihija, 2014). While constituting a negligible share of world production, the Kenyan leather sector has drawn increasing policy attention thanks to its potential for growth and value addition, further enhanced by an estimated yearly demand for 35 million pairs of shoes, with local supply fulfilling only about 20% of the total (Krishnan et al, 2018; World Bank, 2015, p ii). In this respect, building capacity within the leather value chain has been highlighted as a crucial strategy to foster economic development in a country where livestock contributes to a large share of GDP, making Kenya the third highest country for livestock population in Kenya.

Both aggregated export data and interviews (presented in Figure 1) show a large gap between the leather footwear and handbag subsectors when it comes to downstream participation in global markets. According to official export figures aggregated for the three-year period 2013–15, almost 70% of handbags and other small leather goods are exported outside the African continent, a figure that is significantly larger than the 15% reported by footwear manufacturers.

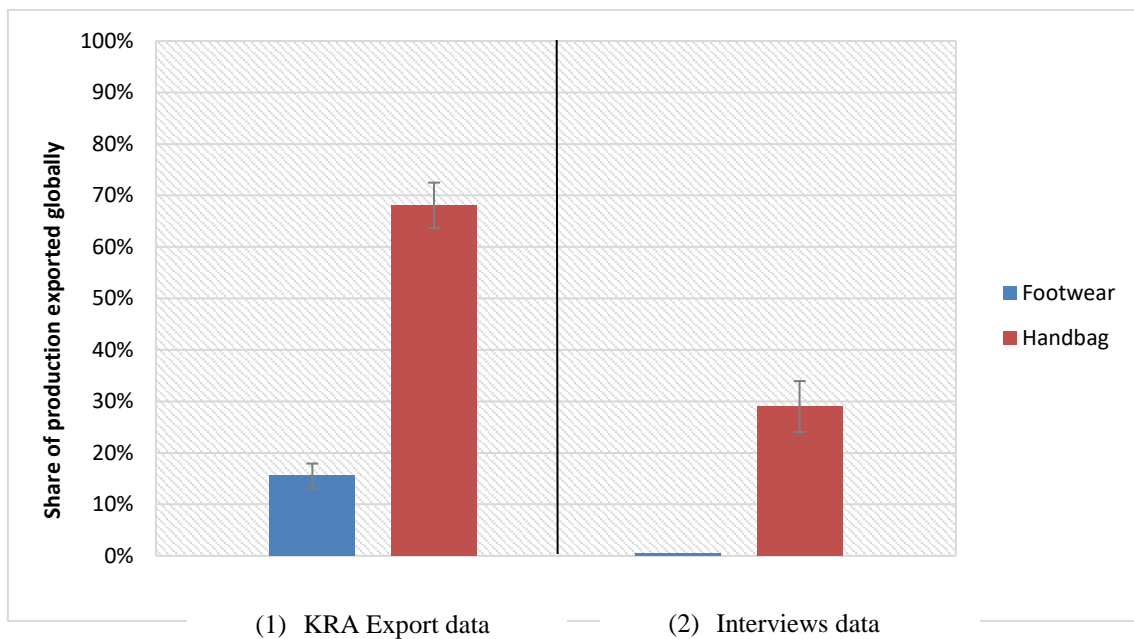
The problem of official export data is that they distort the impact of production marketed domestically. For this purpose, in Figure 1 (part 2) firms indicated the percentage of production sold outside the continent as a share of their total output. Almost 30% of the handbag output is exported to developed countries, while the entire production of footwear is purchased domestically or regionally, with negligible global exports.

The participation of handbag manufacturers in GVCs occurs not only downstream, but also upstream of the chain. While both subsectors procure leather locally and regionally, almost the entire set of inputs and components used in handbag production (eg zips,



beadings and buckles) is sourced globally from China, India and Europe. Conversely, footwear producers are more likely to procure soles and laces locally or, as is the case for four larger firms, manufacture them in-house. In addition, the presence of handbag manufacturers in GVCs is a phenomenon that has emerged in the past 15 years from an industry previously confined to the domestic market, with global exports increasing almost seven-fold between 2007 and 2013. In this context, a recent World Bank (2015, p iii) publication reports: “Footwear is the biggest leather goods subsector in Kenya, while the handbag subsector is the most competitive vis-à-vis global markets”, with a growing reputation for quality leather bags, improving standards and emerging regional brands.

**Figure 1: Share of footwear and handbag production exported outside Africa**



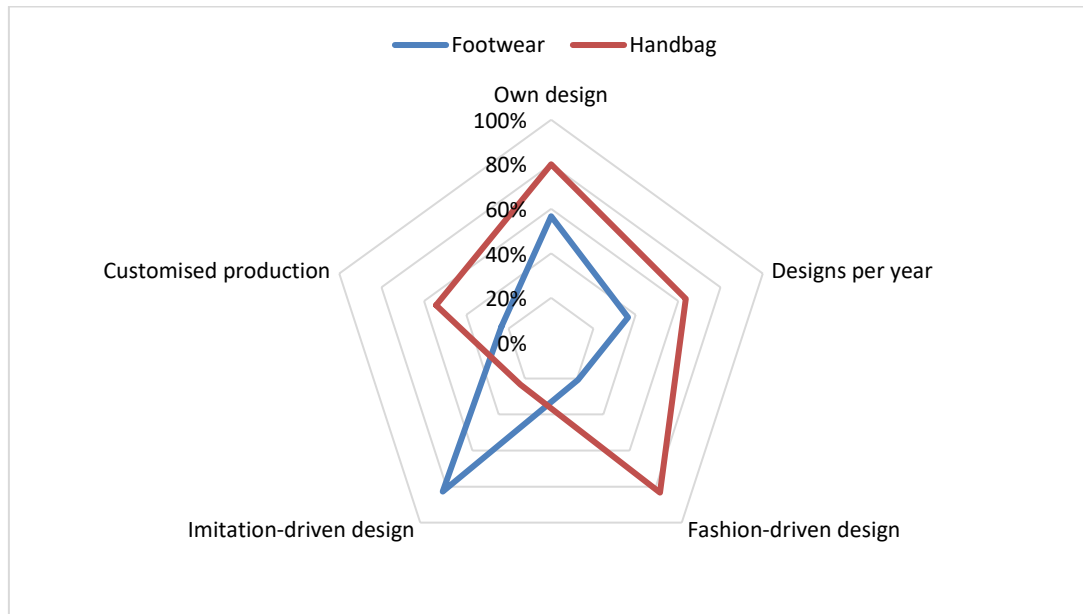
Note: Bracketed bars indicate robust standard errors.

In section 2.1, product, process and functions were defined as attributes enabling a firm to exploit and profit from its innovative capabilities. The following subsections explore the upgrading path of handbag manufacturers and how that has facilitated their competitive participation in global markets.

#### 4.1 Product upgrading

Handbag producers are more likely to develop and modify their design in-house, define their products based on fashion trends rather than imitation, and provide customisation services to their clients (Figure 2).

**Figure 2: Design and product development**



*Note:* To allow for a comparative approach, the frequency of designs per year has been expressed as a percentage of the total.

Footwear producers in Kenya tend to specialise in non-fashion items such as school shoes and security boots. A lack of skills and information, along with stiff competition and high costs are the main issues put forth to explain the lack of design variety. Some producers make use of TPCSI – a government infrastructure providing design and production assistance at a fee. Smaller producers tend to share and replicate designs they acquire from imported footwear. As reported by Ftw-17, “I rely on two or three fixed designs. I use the same pattern.” When it comes to inspiration, Ftw-1 argued: “I usually look at what people are wearing, and change my design based on the most common”. Ftw-6, like many smaller artisans, did repairs too: “I do repairs. So, if you bring a shoe, I look at the design and get inspiration there.”

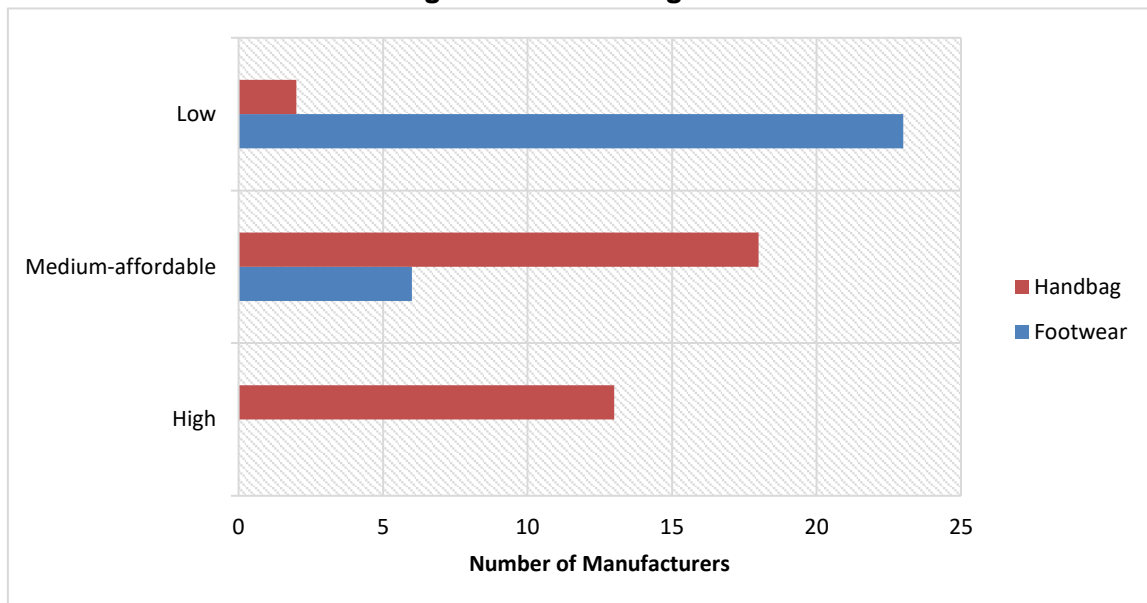
Handbag producers, by contrast, appear to pay more attention to the exclusivity of their design, which is key in differentiating products from foreign and local competitors. Time and resources are invested to ensure new and unique designs, as reported by Hnb-1: “it takes a while from the drawing, the prototype, the rejection, the next prototype”. Hnb-34 also stated: “I decided to work on functionality ... We change all the time, really. I’m always experimenting with new things.” For Hnb-28, new products were driven by demand and competition: “we do our own investigation and determine whether the modern man in Kenya is demanding these items ... We move on and innovate”.

When it comes to the specificity of their product, most handbag producers agreed that uniqueness was fundamental. This often included an attempt at ‘Kenyanisation’ of the product through the use of traditional patterns. Hnb-23 said: “I do work on my style to make it ethnically Kenyan.” Hnb-30, from an emerging brand popular among Nairobi’s upper-middle class, also pointed to the uniqueness of the company’s product: “we try to

make sure that people understand that the bags come from here. It's a unique proposition that we try to present.”

As illustrated in Figure 3, most handbag manufacturers are situated in the top and mid-market tier, while footwear producers cater to lower-end customers. A manager at TPCSI noted in this respect: “one of the challenges in the shoe industry is that manufacturers are making sub-standard footwear and that has really killed the industry, generating a cut-throat competition that [has] lowered quality and profits”. Upper market tiers are further characterised by higher prices and larger mark-ups that range from 15% to 20% of the low tier to over 80% and, in some cases, 150%–200% of the top tier. As the World Bank (2015, p 10) commented, compared to footwear, “leather bags have the highest competitive advantage attracting higher prices and profit margins”.

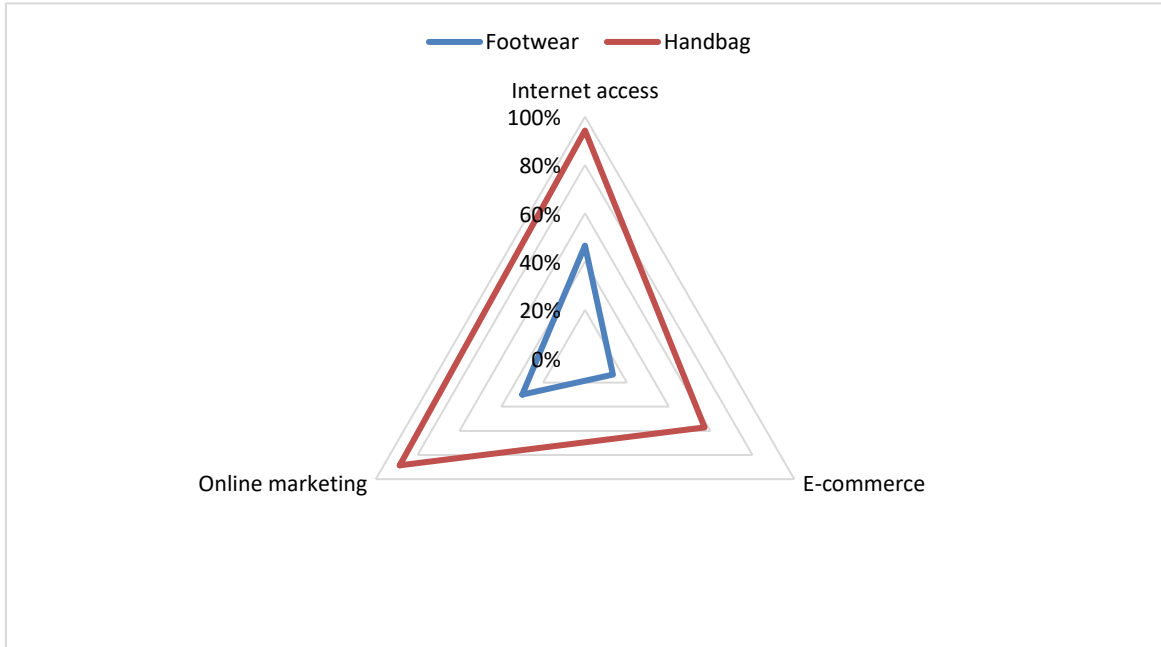
**Figure 3: Market segment**



## 4.2 Process upgrading

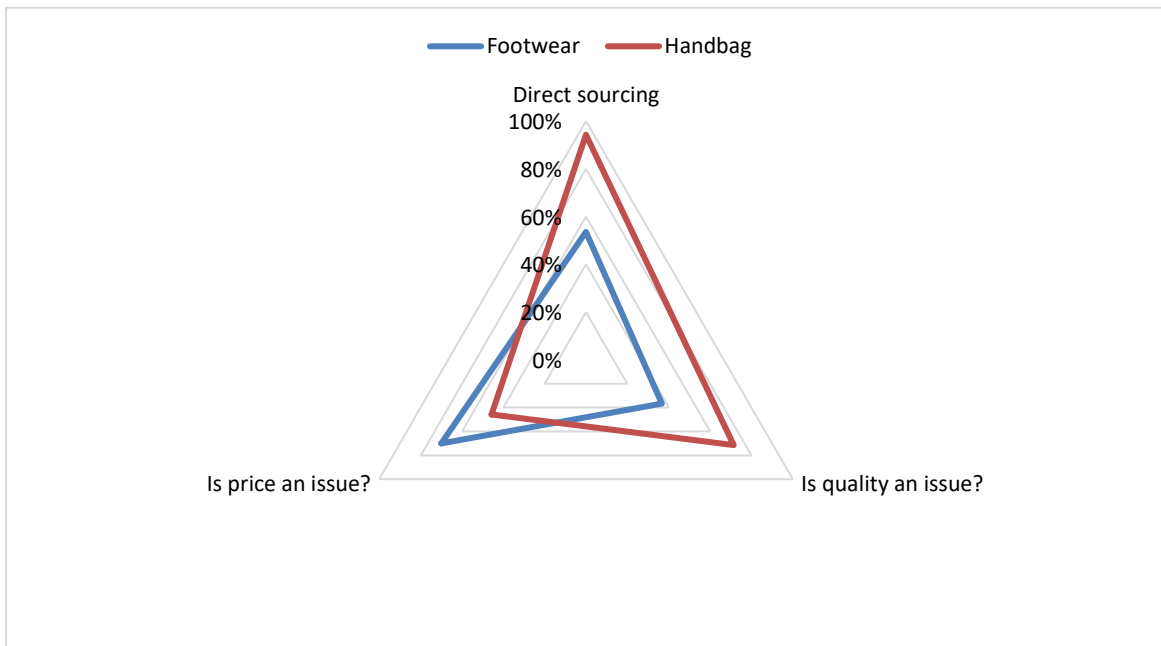
As shown in Figure 4, ICT usage is higher among handbag producers.

**Figure 4: ICT usage**



Given the high costs associated with store-based retailing, online adverts and e-commerce often represents a more practical way to reach potential clients. According to Hnb-32, whose mix of leather, denim and *kitenge* is popular in Nairobi, “locally we do not sell through stores yet. We just do everything through our website ... You pay online, and we deliver.” Similarly, Hnb-31 argued: “opening a store is a long-term plan. We are increasing social media activities. We also have an e-commerce platform.” Hnb-29, from the most popular brand in the region with over 10 flagship stores regionally, recognised the importance of online media and their company was in the process of finalising an e-commerce platform for export sales only: “we want to build our string e-commerce system ... We are planning to retail overseas this way.”

**Figure 5: Sourcing strategy**

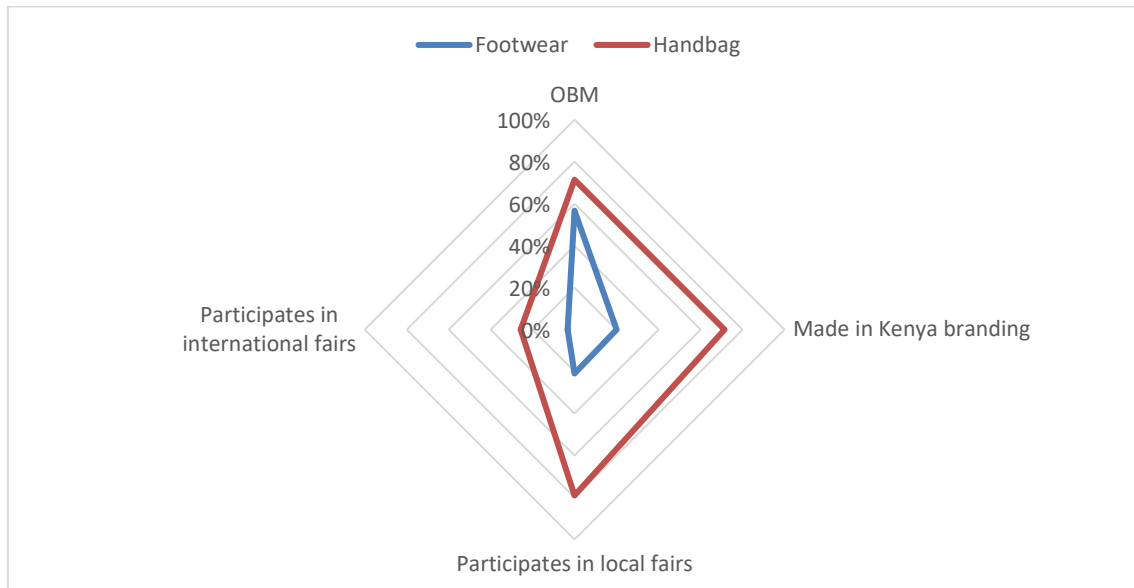


Firms' procurement strategies are a second aspect related to process upgrading. As shown in Figure 5, handbag producers prefer to source their leather directly because of the high specifications they require. In this respect, Hnb-3 explained: "We change and introduce new colours all the time ... We need to work in close relation with the supplier." Hnb-18 also pointed out: "I never order leather for delivery. I cannot buy 18 ft<sup>2</sup> and only two are good for the item. I always go there." Conversely, for footwear producers, procurement is a function of the quantity of leather needed rather than its quality. According to Ftw-18, "For big orders, I source my leather from the tannery. When I do not need too much though, I just buy from merchants in town." While complaints on quality were present, these were often overridden by price concerns: "The quality is OK for our products [but] the price is high! There's inconsistency but you can't complain that much" (Ftw-13). Quality rather than price remains a major concern among handbag producers: "the price of leather is not a big deal for us ... I am ready to pay more for better quality, but they do not give it to me!" (Hnb-21).

#### 4.3 Functional upgrading

As per Figure 6, handbag producers are mainly original-brand manufacturers (OBM), with only a handful of actors capable of original-equipment manufacturing (OEM) for regional and international brands. As emphasised by Hnb-33, branding represents "a guarantee of originality and tradition". The use of the 'Made in Kenya' brand is pivotal in this process: "my mission and message is that bags are handmade in Kenya" (Hnb-8). Hnb-4 recently introduced a Kenyan flag as part of her brand: "We have a great product. I want to express that I'm selling the fact that it is made in Kenya, I want to boast that it is made in Kenya and I'm proud that I made it in Kenya."

**Figure 6: Branding and marketing**



Although Figure 6 shows that about half of footwear producers adopt an OBM strategy, branding does not have an original market function here. As Ftw-8 explained, “We keep changing names ... to avoid monotony. If you keep changing your name, you get more customers.” Ftw-12 and Ftw-9 tried to convey an ideal of ‘foreign’ in their products, in striking contrast to the value attributed by handbag producers to the ‘Made in Kenya’ brand. According to Ftw-12, “For my fashion shoes, I put Italian model and real leather”. In the same way, Ftw-9 noted, “our brand is Italian fashion – genuine leather. Because Italians are the pioneers in shoe fashion. You copy the fashion.”

Compared to handbag producers, shoemakers not only lacked online marketing tools, but their participation in local expos and trade fairs was also considerably lower: “I have a salesman going to clients ... People get to know me mostly through word of mouth” (Ftw-12). Whereas participation in international fairs is low in both groups, only one footwear producer reported attending such fairs, while nine handbag manufacturers have attended at least once in the past two years. In this respect, OEM firms in particular acknowledge the importance of these platforms for meeting and working with international buyers.

#### 4.4 Summary

The footwear and handbag subsectors are deeply entrenched in the Kenyan leather value chain, with over 80% of their inputs consisting of locally sourced leather. Nevertheless, these two industries differ on several grounds. Firms specialised in handbags feature higher mark-ups, larger unit values and a more established presence in global markets. This, in turn, revolves around the adoption of the more innovative products, processes and functions that have recently characterised the handbag subsector. But where does this difference originate? To shed light on the roots of their

divergent pathways, the next section compares the origins of the two subsectors in relation to aspects of public governance and in-firm upgrading dynamics.

## **5 Firms: origins and public governance**

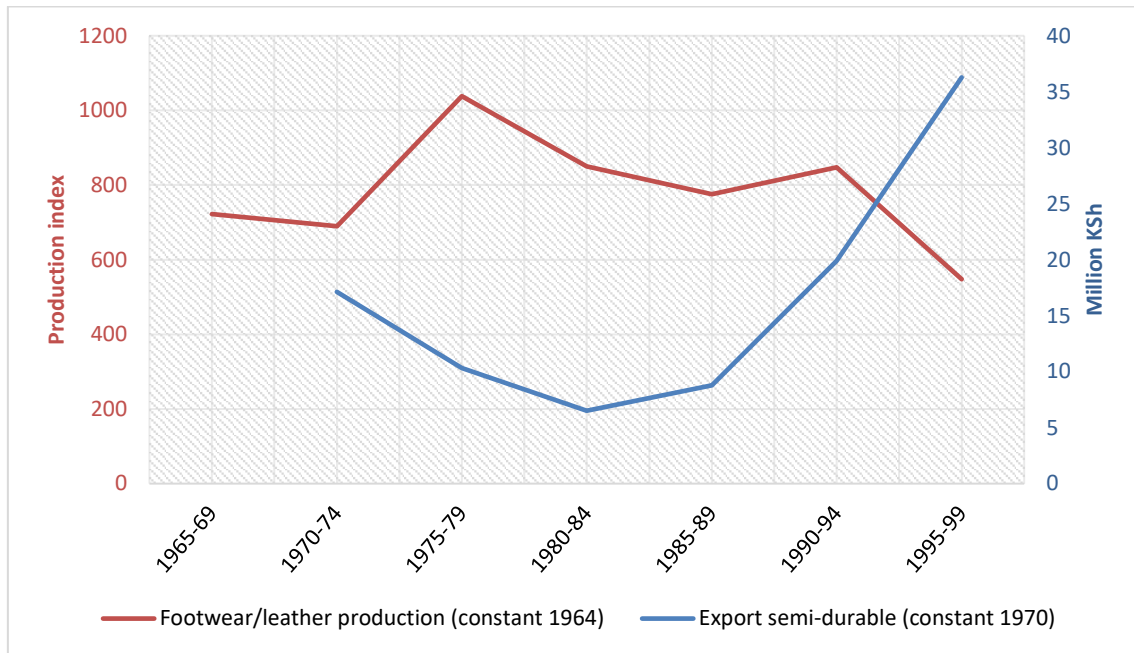
### **5.1 Footwear manufacturing: origins**

The Kenyan footwear industry emerged in the early colonial days with the opening of the Bata production unit in 1938. At this time, Kenya already possessed a small tanning industry producing leather for the colonial regime. Upon independence, the government embraced a policy of IS aimed at harnessing indigenous entrepreneurship, easing balance of payments pressures and increasing productivity through institutional support (Chege et al, 2015). In 1974, with the Export Compensation Manufacturing Act and the introduction of a 100% duty on imports of leather, a ban on the export of intermediate inputs, and a 22% export compensation scheme, the footwear industry took off. Within this context, major actors such as Tiger Shoes (1974), United Footwear (1978), C&P (1981), Sana and MacQuin (1982) were born and reached the apex of their business.

Manufacturing output grew across the 1970s and 1980s; however, such growth was disproportionately driven by a protected domestic market. It is estimated that between 1976 and 1983, 64% of Kenya's industrial growth was the consequence of IS policies, 41% of increasing domestic demand and -5% of decreasing exports. Comparing the trend in footwear and leather production to the export of semi-durable goods, Figure 7 points to an initial situation characterised by increasing production and decreasing exports during the IS period. However, the launch of the liberalisation process in the 1990s coincided with a dramatic drop in local manufacturing as firms struggled to deal with foreign competition (Gitonga, 2015).

Moreover, despite promoting national manufacturing, IS policies were biased towards large companies, further supported by a whole set of public institutions aimed at providing the latter with financial support, training facilities and subsidised access to quality inputs – for the footwear and tanning sectors these included (among others) the Kenya Industrial Estate Programme (1967), the Kenya Industrial Training Institute (1965) and the Kenya Industrial Research and Development Institute (1979) (World Bank, 2015). In the footwear industry, “the monopoly given to such companies as Bata has led to the destruction of small-scale firms all over the country [that were] using leather inputs from local tanneries”. In this context, most subsidised firms failed to boost economic growth and employment, as they expanded little and slowly, with limited upstream linkages in the domestic economy (Nyongo, 1988).

**Figure 7: Leather and leather footwear internal production vs exports**



## 5.2 Footwear manufacturing: post-liberalisation

The know-how characterising the footwear subsector emerged as a spill-over from those large manufacturers dominating the market during the IS period. Many of the current producers and workers were formed as employees in large concerns, or by artisans previously trained in these firms. As Ftw-19 explained, “I learnt from my brother. He was trained here in Bata and then started his own business in 1993”. Similarly, Ftw-12 noted, “I was employed by Sana Shoes and later trained by TPCSI”. Ftw-6, from a small manufacturing unit managed by a young Kenyan, also noted: “my father had a long experience making shoes at Tiger. He started as a machinist and then became a supervisor.” And Ftw-17, whose workshop in Limuru was next door to Bata, reported how “most of the shoe makers around Limuru are former Bata employees who started their own business”.

The history of informal footwear hubs such as Kariokor Market in Nairobi and Jamhuri Market in Thika is indicative of this phenomenon. According to Ftw-25, who had worked at Kariokor since 1986 and was currently an established presence in the market, Kariokor has only recently become associated with footwear production:

“In Kariokor during the 1980s and 1990s we were not making shoes as there were other big companies like [Ftw-2]. Around 20 years ago, Kariokor started producing shoes. What happened is that many people employed in [Ftw-2], Tiger and other companies lost their jobs ... They looked for a way to keep making what they knew best and moved here:



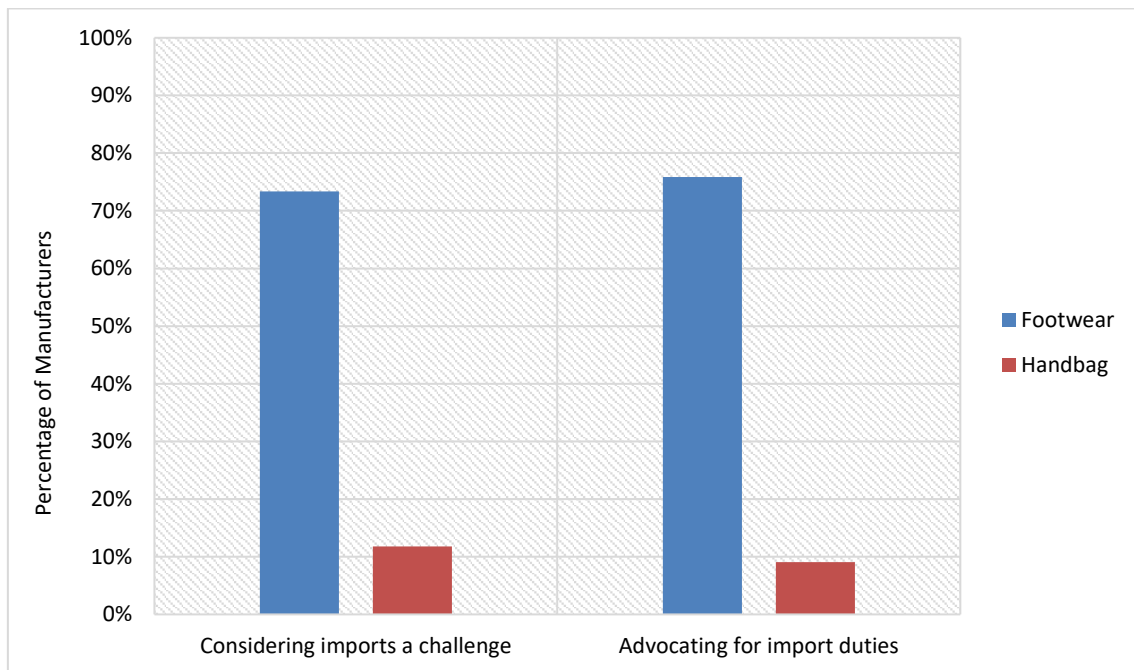
that is how Kariokor started specialising in shoes ... People came from these firms with the expertise.”

The widespread informalisation of the footwear subsector in Kenya coincided with the removal of price controls, foreign exchange licensing and trade tariffs brought about by the government’s liberalisation policy. Kenya joined the World Trade Organization (WTO) in 1994, fully liberalising capital and current transactions and abolishing the export compensation scheme. Market liberalisation and low purchasing power allowed the second-hand market (*mitumba*) to prosper and outperform most Kenyan producers, triggering a retreat of the formal sector. According to the KFMA, between 1995 and 2000 over 100 formal shoemakers and tanners shut down. In this context, the growth of informal hubs has taken place through apprenticeship-based learning from workers originally employed at companies that either closed or significantly restructured their businesses upon liberalisation (Kenya Leather Development Council (KLDC), Ftw-25, Ftw-26).

As UNIDO (1997) has noted, the decision to embrace an export-oriented model of industrialisation (EOI) diminished the involvement of the government in the economy, resulting in budgetary cuts for training, testing, R&D and extension services. The lack of financial support and the crisis experienced by most firms and institutional bodies generated a sense of helplessness among footwear managers and workers, which further drove an intense lobbying activity by sectoral associations unhappy with the outcome of the new EOI policies.

When it comes to identifying the main challenges to their present business, Figure 8 shows how managers in the footwear subsector are more prone to frame imported goods as a major obstacle. Most footwear manufacturers are disillusioned and do not envision any long-term future for the industry unless the government intervenes to stop or limit imports, as it did during the IS period. As Ftw-1 put it, “with imported shoes we cannot grow. But if they stop the importation, then we manufacture more and can grow.” Similarly, Ftw-10 pointed out: “they should stop importation ... We talked to the government several times, they even used to come here before ... They should stop sub-standard products, mainly from China.” Ftw-14, who chairs KFMA, highlighted how foreign competition was increasingly an issue: “a lot of shoes today come through porous borders to Nairobi at a retail cost that is inferior to my production cost! We need to impose standards on imports.”

**Figure 8: Imports: challenges and expectations**



Ftw-18 is one among the few who entered the market well after the end of IS. He joined the producers' association KFMA with the hope of playing a role in shaping the industry agenda and gaining knowledge from local experts:

“Shoemakers are living in the past. The [KFMA] leadership is made by [members] who were in big business before. With liberalisation, they had to close. So, they have been bitter with the government for allowing second-hand goods to enter the market ... To me it is a moaning association, crying sour grapes. We go there and have to spend a lot of time to discuss how unfair the government was.”

Overall, footwear manufacturers have not acquired the resources to facilitate upgrading, either during the IS period or in the post-liberalisation era. Instead, once protectionist schemes were removed, most firms and workers continued their previous activities in a context of cut-throat competition that further triggered a race to the bottom across the industry. Immiserising growth, a situation where increasing output and employment is accompanied by falling economic returns and labour standards, emerged through widespread informalisation, where previous knowledge and apprenticeship-based skills were replicated on a smaller scale as workers left their original companies. In this context, producers and their associations have been looking to the government to re-establish the climate that characterised the IS period and to provide them with the regulatory environment required to out-compete imported goods on price. As Ftw-25 argued, “instead of being competitive in the market, we are competing amongst each other. The client is not relying on my quality or name but is buying the cheapest available: we are making all the same products! The same design, the same quality.”

### 5.3 Handbag manufacturing: origins

Before 2000 the handbag industry was rather dormant, with few formal actors. The pioneer in the sector was Hnb-18. Currently employing around 40 workers in the Nairobi industrial area, the company was founded in 1984 by Idris, a Kenyan of Indian origin who benefited from a government loan to encourage local entrepreneurship. Around the same time, Jacques started Hnb-19 in Thika, a few miles north of Nairobi. Of British descent, Jacques trained in London before setting up his workshop which, during the pre-liberalisation period, hired over 200 workers making a large variety of leather goods, from upholstery to bags, saddlery, apparel and belts. Both Jacques and Idris focused on OEM for export and, since liberalisation, corporate items for the domestic and regional markets. In both cases, their business followed the destiny of the footwear industry, shrinking considerably with the emergence of foreign competitors, to whom Western brands found it more convenient to outsource production. Unlike the footwear industry, however, these OEM companies were deeply integrated into GVCs before liberalisation, with an export-dominated market structure that still prevails today.

Pioneering firms that did not suffer from liberalisation and foreign competition were the OBMs' LC and AT. LC, run by a Kenyan of British origin trained in Europe, started producing leather waistcoats in 1986, moving into handbags a few years later. Her business has been fairly stable over the years, employing about 15 workers. Similarly, at AT, a British Kenyan like LC, travelled extensively, learning her skills in Europe and the US, before setting up her workshop in Nairobi. With some 20 permanent workers and 30 casual artisans, over time she has trained several *fundis* (specialised workers), most of whom are now working across a multitude of local workshops and firms. In contrast to Idris and Jacques, LC's and AT's owners developed their own brand working predominantly within local and regional markets and have only recently begun exporting into global markets.

Between the early 2000s and 2016, through a combination of design and handcrafting skills stemming from existing workshops and new fashion institutes, several new actors entered the handbag industry. Currently, between Nairobi and Mombasa alone there are at least 35–40 formal bag and leather goods (excluding footwear) manufacturers. While most of these are small workshops with five to ten workers, there are also some regionally established brands like Hnb-29, Hnb-25 and Hnb-34, all permanently employing over 80–100 workers.

### 5.4 Handbag manufacturing: upgrading

Upgrading in the handbag sector appears to rest on two intertwined aspects: (1) access to foreign knowledge and local institutes of design and fashion studies; and (2) a sense of distrust towards public institutions that has contributed to the development of competitive and innovative strategies. The remainder of this section concentrates on the first of these aspects, while section 5.5 looks at the second in more detail.

The first handbag workshops were all managed by Kenyans of British or Indian origin with international experience. The same is true for all larger producers like Hnb-29, Hnb-25, Hnb-34 (British) and Hnb-3 (Italian). As shown in Table 2, more than half the formal workshops and all the major brands are presently owned either by expatriates or by British or Indian Kenyans. As per Table 2, of 35 businesses interviewed, the 16 owned by Kenyans were created on average nine years after their foreign counterparts. Moreover, as indicated in column 2, most foreign managers were educated abroad and carried with them a package of knowledge and experience new to the country. By comparison, all but four managers in the footwear subsector are Kenyans, with only three trained abroad. As emphasised by the president of the LAEA, the knowledge input from foreigners was crucial in kick-starting the handbag subsector: “In the late 1990s foreigners coming into the country started some small leather stores. Most of these people were European ... Some of these people moved into shops and workshops and increased production. Kenyan designers got inspired by this work and started following this trend.”

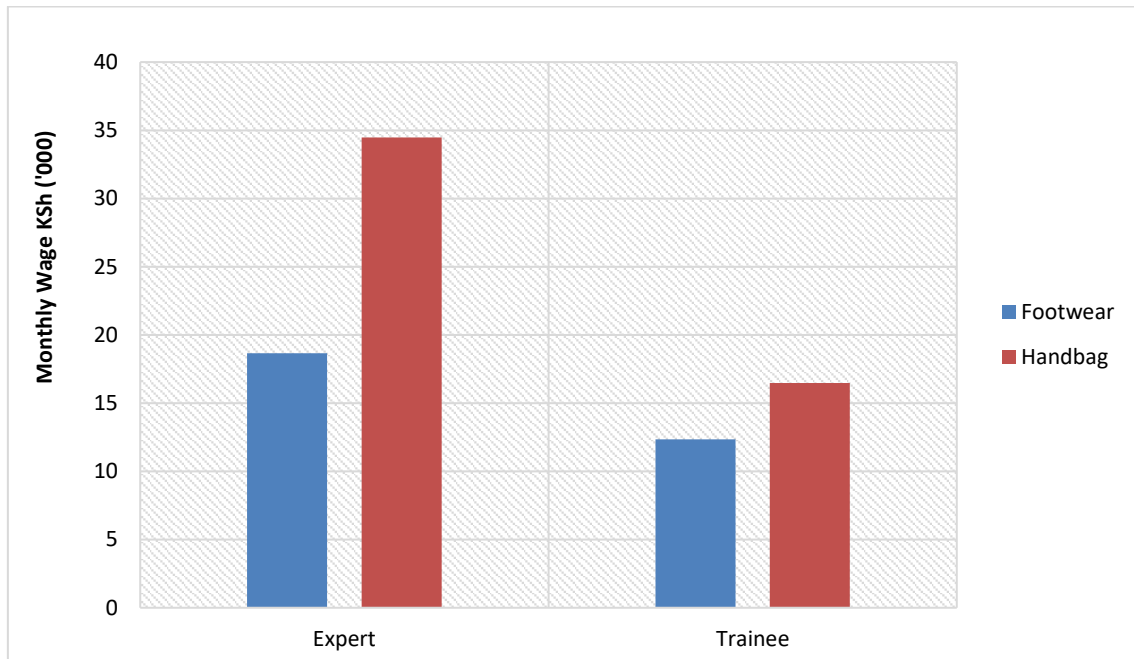
**Table 2: Firms’ age and management education by provenance (handbags only)**

	(1) Firm age	(2) Studied abroad	
	Mean	YES	NO
<b>Foreign</b>	15.32	18	1
<b>Kenyan</b>	6.75	2	14

In addition, the number of Kenyan faculties and institutes providing a diploma in fashion- and design-related subjects has grown in the past two decades. Compared to footwear producers, who learn mostly through apprenticeship-based programmes, more than 75% of handbag managers have a degree or diploma in marketing, fashion or other design- or business-related subjects. At least seven firms reported training students as part of short-term internships. According to the LAEA, most of these education programmes operate in cooperation with local workshops: “some teachers bring students to firms’ workshops to train and give them a state-of-the-art sense of how things are practically done”.

While a discussion of labour conditions is beyond the scope of this article, the lack of an apprenticeship-based framework, as in the footwear sector, has favoured firms’ and faculties’ co-investment in capacity building, further boosting wages as a way to retain expertise. In fact, more attractive remuneration and working conditions are often the only way to prevent ‘labour poaching’ by local competitors. As Hnb-28 explained: “there are few good *fundis* and many firms entering the market hunting for experts! I try to pay them more, give them job security, pay for the medical expenses and pension.” Figure 9 compares wages across the footwear and handbag subsectors as of 2016. Overall, wages paid by handbag manufacturers to both expert and training employees are significantly higher.

**Figure 9: Average wage by subsector**



### 5.5 Handbag manufacturing: public governance

The second aspect underpinning the upgrading of the handbag firms has been a sense of mistrust towards public institutions that has contributed to the adoption of competitive and innovative strategies.

Handbag manufacturing mostly emerged following liberalisation. In this period, public governance promoted by government intervention has either been absent or counterproductive. In particular, by concentrating on upstream export tariffs rather than downstream access to inputs and components, trade regulations favoured large tanneries over small and medium-sized enterprises (SMEs). The introduction of a 20% export tax on the value of raw exports in 2006, increased to 40% in 2007 and 80% in 2012, was driven by the government's decision to encourage local processing in consultation with tanners. Yet the consequent increase in the export of semi-processed leather did not translate into a direct benefit for handbag manufacturers, who found it increasingly costly to procure finished leather for their products: "if you are so focused on exporting semi-processed, what you cannot export is what you process and sell to me. I asked them to give me the good material, but they say it is for export" (Hnb-28). At present, post-liberalisation policies have harmed handbag manufacturers, who are experiencing technical difficulties in sourcing leather locally, while importing is further complicated by the speed-to-market that characterises the leather industry and by a 25% import tax.

**Figure 10: Do you trust public institutions to support your business?**

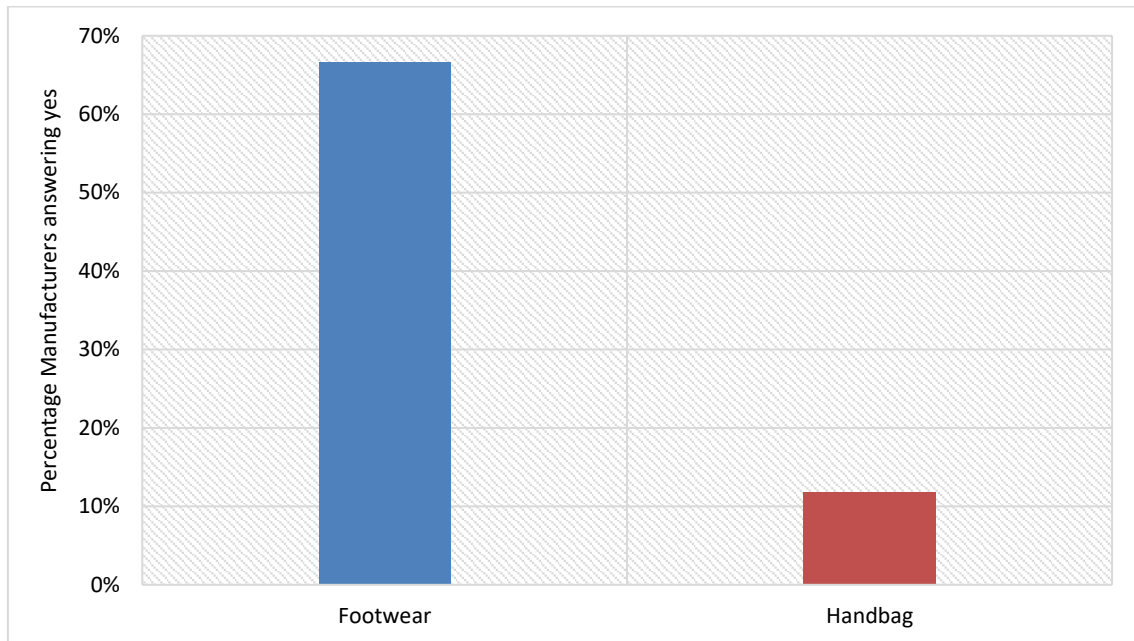


Figure 10 compares the level of trust in the government and public institutions among footwear and handbag manufacturers. The general perception among the latter is that the government is not interested in supporting SMEs, and SMEs, in turn, have no power to influence regulatory policy. According to the LAEA's president, "Unfortunately, for SMEs it is hard to be listened to ... It is difficult for me to satisfy the market under these conditions." Similarly, Hnb-34 said: "they [government] do not support anything on a small scale. They think we are a little bit of a joke ... For where I am right now I would give zero credit to the government!" In contrast to footwear producers, handbag manufacturers expect the government to do less rather than more. Hnb-26's words are indicative of a sentiment shared by many managers in the handbag subsector: "I walked alone on my own legs, I don't expect anything from the government ... They've been an obstacle to my business."

Overall, as summarised in Table 3, public governance has had different impacts on the handbag and footwear subsectors. This can only be understood in relation to in-firm learning dynamics and business strategy, which further calls for a contextualised analysis of employers' perception of and reaction to government intervention.

**Table 3: Characteristics of footwear and handbag manufacturers**

	<b>Footwear</b>	<b>Handbag</b>
<b>Skills and knowledge</b>	Apprenticeship within large firms /informal learning	Foreign knowledge/fashion-design institutes and faculties
<b>Type and origin of investment</b>	Large investors/state-driven	Small investors/foreign entrepreneurship
<b>Public governance</b>	Import substitution	Export-oriented
<b>Perception of public institutions</b>	Dependency and support-seeking	Mistrust and independence

## **6 Discussion and conclusion**

In the Kenyan leather footwear and handbag subsectors, firms' upgrading and access to global markets cannot be understood in isolation from firm-specific characteristics, including their origins, size, internal organisation and learning processes. In turn, these aspects are not independent of the external environment surrounding the value chain, but emerge as a consequence of and in reaction to government policies, education programmes and other "contingent, contested, and often complex sets of social and spatial factors" (Murphy, 2012, p.228). By focusing on the firm as the fulcrum of value-addition and its interaction with state policy, this paper has overcome the vertical approach dominating the literature and (re)claimed the centrality of firms and public governance in shaping upgrading across local, regional and global value chains.

Footwear producers, whose success during the 1970s and 1980s was underpinned by a regime of IS and apprenticeship-based learning, failed to innovate in the aftermath of liberalisation. During the IS period, firms focused on technical production skills, while aspects of product differentiation such as design, marketing and sales were overlooked as foreign competition was limited by IS measures. The transition to a liberalised economy in the 1990s sparked a crisis among large subsidised companies, triggering an informalisation of the subsector. Challenged by the inflow of low-cost imports, producers clustered within informal hubs to cut costs, constraining their potential to access more competitive global markets and negatively affecting economic and social returns.

By contrast, handbag manufacturing developed more recently via foreign knowledge initially embedded in domestic and regional value chains. Having emerged in a post-liberalisation scenario where state policy was perceived more as an obstacle than an incentive to compete, handbag manufacturers became disillusioned with government intervention. Under intense foreign competition and counterproductive regulations, handbag SMEs channelled their skills and capital into an effort to differentiate production and increase participation in global markets. This strategy triggered product, process and functional upgrading through the adoption of original branding, up-to-date design, online marketing, e-commerce platforms and customised sourcing. Moreover, the scarcity of skilled workers meant that handbag firms had to train their labour force in cooperation with recently established fashion and design schools, favouring higher wages and improved labour conditions.

By analysing the link between firms, government intervention and participation in GVCs, this study has argued against a restricted focus on the governance of buyer–supplier interactions, reinforcing a ‘multi-polar’ approach to the analysis of competitiveness and value distribution in value chains that goes beyond adherence to foreign firms’ governance structures (Locke, 2013). In the Kenya footwear and handbag subsectors, public governance failed to reach its initial objective of favouring innovation and upgrading, while liberalisation further estranged emerging SMEs who self-selected in global markets in spite, rather than because of EOI policies.

Furthermore, while more research is warranted, the paper has shed light on how upgrading in regional and global VCs is not a linear phenomenon that occurs independently of firms’ internal characteristics. Handbag manufacturers have not ‘moved up the ladder’ from CMT to OEM and OBM (Gereffi, 1999). By contrast, most of them entered the market as OEMs and OBMs and still operate within this segment. In this context, access to GVCs rests more on unique, high-quality handicraft and design rather than economies of scale and low production costs.



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