Supplier Entry Barriers to Global Value Chains for Clothing

The Roles of Business-state Relations in Vietnam and of Lead Firm Strategies in Europe

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PhD Thesis

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Paper 1: Synopsis

Introduction

In recent decades, exports of clothing have been one of the most dynamic segments of world trade. Together with textiles, the clothing industry was the first manufacturing industry to acquire a global dimension, and gradually it has become highly dispersed geographically across both developed and developing countries (Dicken, 1998). Amongst other things, this has derived from the industry's search for cheap labour, not least in developing countries, and also from the quota system institutionalised by the Multi-fibre Arrangement (MFA) and the Agreement on Textiles and Clothing (ATC) that successively regulated the clothing trade between 1974 and 2005[1]. These agreements limited the export opportunities for producers, and production activities were therefore often shifted to locations with fewer restrictions or preferential market access.

Developing countries have accounted for a rising share of clothing exports since the 1980s and produce nearly three quarters of current world exports (UNCTAD, 2005). In these countries, clothing manufacturing has generally occupied a key position in national industrialization policies. Policy-makers often believe that the clothing industry will work as a "stepping stone" to other, more capital-intensive industries, and hence they promote its development and its links to the global market. Producers in these countries also generally find the industry attractive due to its high labour-intensity and relatively low entry barriers in terms of capital and technology requirements. Consequently, a growing number of developing countries and producers have entered the industry, which has therefore become increasingly competitive (see Dicken, 1998; Schmitz and Knorringa, 2000). It has been pointed out that the phasing out of the ATC intensifies rather than decreases this competition among clothing suppliers, since buyers are now freer to place their orders where it suits them best. It has been also pointed out that a small number of suppliers (mainly in China) are likely to be the chief beneficiaries of the ending of quotas (UNCTAD, 2005; Appelbaum, Bonacich and Quan, 2005; USITC, 2006). However, it is also important to realize that although the ATC has recently ceased to exist, various other trade policy arrangements continue to regulate the global distribution of clothing production and exports.

The global clothing industry is commonly regarded as structured in so-called global value chains (GVCs), in which several nodes in different localities are privately coordinated

[1] The MFA expired in 1994 as part of the WTO-related Uruguay Round of Multinational Trade Negotiations and was replaced by the ATC. The ATC had the aim of phasing out quotas over a ten-year period (Appelbaum et al., 2005).

with the purpose of producing and trading finished clothes (Gereffi and Korzenievicz, 1994). Developing country firms' access to the world market varies greatly depending on their ability to enter these GVCs. Nonetheless most of the literature on GVCs focuses on those suppliers that are already included in them, and on their possibilities for industrial upgrading via chain participation (see e.g. Humphrey and Schmitz, 2002; Kaplinsky 2000). This is not, however, the main concern of this study: it is not the relations existing within chains as such, but rather the more fundamental question of suppliers' *entry* into GVCs that is the main focus of this thesis. A number of barriers exist for developing country suppliers seeking to enter global markets. Besides the various trade policy arrangements mentioned above, entry barriers also include the ability to perform the services that global buyers expect, as well as obtaining access to contacts with global buyers and to the resources required, such as capital and export licenses.

A central point here is that such supplier entry barriers are constructed in both the suppliers' and the global buyers' home countries. It has been pointed out that, until recently, GVC analysis largely disregarded the role of regulation (see Gibbon and Ponte, 2005). This is the case for national as well as international types of regulation. The influence of national regulation on supplier entry barriers is highlighted in this study. This topic is rather under-researched, but is nevertheless relevant to a number of issues concerning the institutional frameworks in both exporting and importing countries. Overall, this study therefore examines two separate, but related sets of empirical issues, both of which focus on the influence of national regulatory institutions[2] on the structure of GVCs: The first set broadly explores the differential possibilities and selective incorporation of suppliers from Vietnam's private sector in GVCs. The second set examines different ways of organising GVCs from the EU. The thesis is based on fieldwork conducted in the clothing industry in these two geographical locations.

In understanding the first set of issues, the construction of supplier entry barriers in Vietnam, the focus is on the *private* clothing industry in the country. As in other developing countries, the clothing industry is considered an attractive development platform in Vietnam. Hence, the number of garment enterprises in the country has been steadily rising since the introduction of economic reform in 1986. For example, they increased by almost one third from 2003 to 2004 alone (Informant interviews 25; 26, 2005). In 2005, private clothing enterprises accounted for little less than half of the total

[2] "Regulatory" is throughout the dissertation meant in a very broad sense embracing the actions of institutions at national level on firms. The institutions in focus are mainly political economic institutions and cultural institutions in Vietnam, and mainly institutional arrangements between firms and financial sectors in the EU.

number of clothing enterprises, but only an estimated[3] 30% or less of industrial output in the sector (EIU, 2006) (see Appendix I for details of the country's industrial structure). Based on the existing literature on Vietnam's emerging economic structure (see e.g. Van Arkadie and Mallon, 2003), it is also clear that nationally constructed entry barriers in Vietnam are generally higher for private enterprises than for state-owned enterprises (SOEs), making the former of particular interest here.

The nature of these supplier entry barriers in Vietnam is closely connected with the complex character of the country's political economy, both historically and at the present day. North Vietnam and South Vietnam were reunified after the Vietnam War, after which the northern (Hanoi) government attempted to implement a planned economy throughout the country. This goal was only partly reached, and meanwhile an economic crisis emerged and escalated. In 1986 the Doi Moi economic reform was introduced (see e.g. Vylder, 1995; Van Arkadie and Mallon, 2003 for details). Subsequently, the previously planned economy became generally regarded by external commentators as a "transition economy" on its way towards becoming a market economy. An important point in understanding the kind of transition that goes on in Vietnam and other Southeast Asian transition economies such as China and Laos is that the transition to a market economy has not really led to simultaneous changes in the overall political structures in these countries, where communist parties and state organs remain very powerful (see Appendix I) (see Fforde, 2003; Garnaut, Song, Tenev and Yao, 2005; Backman, 2001).

In Vietnam, the state plays an important role in defining access to economic resources, and hence continues to dominate the industrial as well as financial sectors (Steer and Tausig, 2001; Gainsborough, 2003). SOEs in the country still enjoy favourable conditions in, for instance, access to financial resources, land, utilities and labour (see Appendix I for details) (Nghia, 2001; Luong, 2001). Though the National Assembly officially recognised the private sector as a key element in the country's economy in 2001, its role is still controversial and private sector policies and their implementation are often ambiguous (see e.g. Van Arkadie and Mallon, 2003). According to Dinh (2003), this is not least because the very notion of a private sector opposes the ideology of the state apparatus and thinking within it. Accepting a society in which state enterprises and private sectors act on a level playing field would also imply that "other things are no longer correct, and this would be followed by a transfer of power from one group of persons to another" (Dinh, 2003: 29). In this highly state-controlled business environment, the great importance of personalised relationships (*quan he*) between business owners and state authorities has often been stressed (e.g. Gainsborough, 2003; Fforde and Seneque,1995).

[3] As statistics on private garment enterprises performance are sparse, this figure applies to the private sector in general, not just to garments. Since it also includes the informal sector, registered private enterprises actually contribute less (see e. g. EIU, 2006).

The point at issue here, however, is not as simple as a generally unfavourable business climate for private enterprise as opposed to SOEs in Vietnam. It is suggested that the political-economic system actually works in more complex and ambiguous ways, so that not only the official policy framework and enterprises' official (private or state) ownership forms, but also a number of other aspects that basically concern access to the state system tend to determine entry barriers for individual suppliers. This relates to the type of "business system" or systems that have come to characterise Vietnam's emerging private sector. A business system is defined as a relatively distinctive and homogeneous way of organizing business, which is influenced by society's institutional framework (Whitley, 1992; 1999). In this study, it is argued that Vietnam's current private sector cannot be seen as a homogeneous business system for a number of reasons, including a historically founded ethnic differentiation within the private sector between ethnic Vietnamese and ethnic Chinese (henceforth Vietnamese Chinese) entrepreneurs.

Against this background, the thesis sets out to explore how different types of private enterprise in Vietnam are characterised by different sets of economic practices and highly differentiated access to economic resources, and hence by different opportunities to enter world markets. It examines how these opportunities are connected with private enterprise owners' historical and present-day relationships with the state, and how these vary according to their location and/or origin in southern or northern Vietnam respectively, as well as their Vietnamese or Vietnamese Chinese ethnicity. Little has been written previously about the differences and similarities between the private sectors in contemporary northern and southern Vietnam, including their ability to enter world markets. Likewise, the contemporary economic role of the ethnic Chinese minority has not been subject of comprehensive research in Vietnam. In other Southeast Asian countries, Chinese-owned enterprises are often regarded as highly competitive, not least because of their incorporation in ethnically based regional and global socio-economic networks. A central point of this thesis is that such access may in some cases be a default option rather than a source of great competitiveness.

As regards the second set of issues – the construction of supplier entry barriers in Europe[4] – it is clear from the existing literature that the global buyers that drive clothing GVCs exert an enormous influence on the precise form adopted by industrial development and organization in developing countries due to their selection and governance of supplier bases (see e.g. Appelbaum and Gereffi, 1994). Different global buyers choose between a variety of supplier countries and an extremely large number of producers in these countries according to a variety of criteria. These criteria include the business climate and

[4] The European part of the study focuses on the UK, France and Scandinavia (Denmark and Sweden).

national regulatory system in different producing countries, while, in relation to firms in specific countries, they include their qualifications, such as price, their ability to source materials and meet lead times. The effects of global buyers' strategies therefore include exclusion of some supplier countries and producers from chains and markets.

However, as argued in the broader comparative political economy literature, corporate strategies differ between the UK and the US on the one hand and mainland Europe on the other, due to the so-called varieties of capitalism present in these countries. The varieties of capitalism approach asserts that firms seek competitive advantage in the global economy by pursuing strategies consistent with the institutional conditions that, for historical reasons, are present in their countries. Against the latter, the relationship of financial institutions to the corporate sector plays a central role in setting firms' patterns of engagement with the global economy (see Hall and Soskice, 2001)..

In the United Kingdom (UK) and the United States (US), the proportion of the population that own shares in listed companies and the role of institutional investors in stock markets and corporate decision-making are more pronounced than in mainland Europe. Correspondingly, UK and US corporate strategy is often seen as having shifted from a "managerial" to a "shareholder" orientation from the mid-1980s. This implies that corporations are first and foremost run in the interests of maximizing returns on capital employed (ROCE), thus improving the share price (see Lazonick and O'Sullivan, 2000). When this type of "financialized" firm drives a GVC, it influences the entry barriers of suppliers in terms of the roles the latter are expected to perform and the standards to which they are expected to perform them. Chain drivers tend to concentrate their supply bases to be able to "extract more from less" (see Dolan and Humphrey 2001, Fearne and Hughes 1999; Gibbon, 2002). A focal point here is therefore to examine the degree to which "Anglo-Saxon business models" have been diffused within Europe and to what extent mainland European varieties of capitalism are still reflected in the sourcing strategies of global clothing buyers from these countries, as well as how this influences opportunities for suppliers linked to them.

Thus, the overall objectives of this thesis are to:

examine the construction and outcomes of GVC supplier entry barriers in the clothing industry

- *at national level in Vietnam, by exploring the impact of the regulatory regime and business-state relations on the behaviour and opportunities of a diversity of private enterprises, including their access to resources*

- *at the international level, by exploring the impact on developing country suppliers of patterns and practices of "global sourcing" by European buyers*

It is important to stress that the aim of this study is thus to reveal certain trends in terms of the ability of different types of firms to access resources and markets; it does *not* aim to measure or compare firms according to, for instance, their profitability or relative technical and economic efficiency.

Structure of the thesis

The thesis consists of the present synopsis plus five papers, of which two have been co-written:

Paper 2: Thomsen, L. (forthcoming) "Internal business organisation in Vietnam's private garment industry: the role of ethnicity, origin and location". In Sidel, M. and M. Salomon (eds.), *Workers, entrepreneurs, enterprises and the state in Vietnam*. Volume under review for Routledge.

Paper 3: Thomsen, L. (2006a) Divisions within Vietnam's private clothing industry: business–state relations and access to finance and land.

Paper 4: Thomsen, L. (2006b) Accessing global value chains? The role of business–state relations in Vietnam's private garment industry.

Paper 5: Gibbon, P. and L. Thomsen (2002) *Scandinavian clothing retailers' global sourcing patterns and practices*. CDR Working Paper 2.14.

Paper 6: Palpacuer, F., P. Gibbon and L. Thomsen (2005) New challenges for developing country suppliers in global clothing chains: A comparative European perspective. *World Development* 33 (3), pp. 409-30.

The remainder of this synopsis proceeds as follows. First, the theoretical approaches used are briefly presented and discussed. Secondly, the thesis methodology is presented. Thirdly, the five papers are summarized. Finally, an overall conclusion is provided.

Theoretical and conceptual framework

Four theoretical approaches have inspired the papers included in this dissertation. In the following sections, these theories are briefly reviewed and their relevance for the present project is discussed.

Business systems

The first theoretical approach presented here is the business system approach, which was originally developed by Whitley (1992). Along with much of the orthodox economic literature, Whitley accepts that the basic economic unit is the firm. However, firms do not seem to follow a common rationality world-wide, as is implied by neo-classical economics. Rather, their rationalities systematically differ according to the prevalent "business systems", defined as "particular ways of organising, controlling and directing enterprises that become established in different contexts" (1992: 7). Two overall propositions of business system theory are hence: (i) business organisation can be characterised by how owners and managers operate firms. This tends to differ systematically between countries. (ii) underlying these differences are variations in (a) regulatory frameworks and (b) cultural institutions. Hence, the institutional context is seen as divided in two overall categories (Whitley, 1992, 1999):

Key social institutions include the state and political system, including regulation of firms' entry into markets and sectors; the education and training system and also the financial system.

Cultural institutions refer to more "diffuse" factors, which affect relationships both within and between enterprises, such as cultural preferences and beliefs, family and kinship ties and also authority structures. These institutions are seen to affect business organisation less directly and are more distant in origin than the key social institutions.

Whitley (1999: 34-36) also identifies a number of key dimensions at the business organisational- (rather than institutional-) level for comparing business systems. These key dimensions are divided into three interconnected areas, namely ownership coordination, non-ownership coordination, and also employment relations and work management[5]. Throughout the following description of these key dimensions, the so-

[5] The business system approach has been further developed since 1992, and hence the outline of the key organisational dimensions is based on the newer (1999) version. Whitley (1992) outlined business system components quite differently than in the 1999 version; most importantly, the 1999 key dimensions replaced three broad analytical "areas", namely 1) *the nature of firms as the key economic actor in a particular economy*, 2) *the connections that firms develop with each other* and 3) *the authoritative coordination and control of skills and activities within firms* employment *relations and work management*. The major difference compared to the 1999 outline is that the latter version has a somewhat greater focus on inter-firm relations, since not only the second point (as was the case in the 1992 version), but also the first contains sub-elements of production chain organisation. Nonetheless the only point connected with inter-firm

called Chinese family business (CFB) has been chosen as an example for two reasons. First, understanding the abstract components is enhanced by concrete exemplification; and second, a typology of CFBs is thereby provided. The latter makes possible comparisons and contrasts between this general notion of the CFB – which is generally seen as highly influenced by cultural institutions, especially in the form of Confucian family relations – and the Vietnamese Chinese-owned enterprises examined in the Vietnam papers of this dissertation.

Ownership coordination refers first to the primary means of owner control, such as the extent to which the owners and controllers of a firm's financial assets are involved in its management, the concentration of control over these assets, the exclusivity of ownership boundaries, and the degree of risk-sharing (Whitley, 1999: 35). Secondly, ownership coordination refers to the extent of the ownership integration of production chains within sectors, and thirdly to the degree of ownership integration across sectors. These two last points involve defining the extent to which firms in specific economies are horizontally and/or vertically integrated.

This implies examining the extent to which firms are discrete economic actors operating at arm's length from each other, and the dominant ways in which firms develop and compete. Whitley (1992; 1999) himself emphasizes the CFB as an example of a firm that is not an autonomous legal and financial entity along the lines of the typical Anglo-Saxon firm, but characterised rather by personalised management by the owner, and by a limited sharing of control and shareholdings with others. Also, CFBs are usually seen as pursuing opportunistic diversification strategies that are typically horizontal and also characterised by a degree of integration into retailing and distribution (e.g. Hamilton and Kao, 1990).

Non-ownership coordination refers to the integration of activities through alliances, obligations and similar non-ownership linkages. Non-ownership coordination may apply vertically to production chains (the extent of the "alliance coordination" of chains), or horizontally between rival firms and groups of firms (the extent of collaboration between competitors and the extent of the alliance coordination of sectors or groups of sectors).

Comparison of non-ownership coordination between different business systems therefore involves examining the degree of mutual cooperation and trust between suppliers and customers in long-term relationships, as well as of mutual obligations in networks across industries and markets. The latter may, for instance, facilitate financial assistance and risk reduction. In this context, CFBs may be seen as exemplifying participation in and

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relations that is really stressed as important by Whitley (1999: 37) is the extent to which economic activities are coordinated across sectors by horizontally diversified business groups.

dependence on trust-based vertical and horizontal coordination in a way that secures orders, credit, long-term finance and risk spreading (see for instance Redding, 1998; Menkhoff and Sikorski, 2003).

Finally the business system dimension of *employment relations and work management* draws attention to two issues: first, employer-employee interdependence, which refers to degrees of reliance on external labour markets or on commitment to and investment in the internal development of organizational capabilities; and secondly, delegation to, and trust in, employees.

This dimension subsumes issues such as the recruitment and retention of labour, intra-firm divisions of labour, the nature of subordination and dependence relations that exist between employer and employees, and the degree of managerial authority within firms. These factors are all seen to reflect more general relationships of authority and trust in a society. In the archetypical CFB, the family head or patriarch, not the manager, is the key decision-maker; labour for important positions is recruited from within the family; and the degree of trust between an employer and employees who do not belong to the former's family is generally considered very low. Hence, the delegation of tasks to supervisors or managers beyond the family is rare. Likewise, employees are commonly recruited through relatives and friends who are already working in the company (Redding, 1998; Chen, 1995).

The relevance and limitations of business system theory

The strength of the business system approach is that it provides a framework for comparing the differences in micro-level enterprise management and organisation between different societies – usually between different nation states. In this thesis, the approach is used to reveal differences and similarities between different types of private enterprise in Vietnam. It is thus applied here somewhat "untraditionally", since the aim is not to compare business organisation *between* economies, but *within* a single economy, more specifically, within Vietnam's privately-owned clothing sector.

When it comes to examining the entry barriers for international markets, however, the business system approach proves less useful. First, it pays little attention to the global dimensions (see Gereffi, 1996; Yeung, 2000b). Secondly, it only offers two stereotypical routes by which firms enter and participate in international inter-firm networks and chains via vertical integration or "alliances". More fundamentally, in the business system approach the issue of authority structures is largely limited to intra-firm relations. Thus, the approach does not really cover those authority structures that exist in relations between firms, including global buyers, agents or local suppliers. As pointed out by Gereffi (2001), a focus on power exercised by lead firms in different segments of the GVC and on how power shifts over time, although crucial, is missing in the business system approach. Hence combining the business system approach with the GVC approach (see below), and also combining national with global level perspectives, will make the analysis more realistic.

Moreover, the business system approach implies that business systems are unitary and coherent as well as stable. By using this approach, the present study shows that a variety of types of business organisation are emerging within the private sector in Vietnam. While this is an interesting result in itself, it also seems to mean that (i) from a business system perspective, the country's institutional context does not really constitute one particular type of business organisation, and hence there is no distinct Vietnamese business system; and (ii) that business system theory offers limited insight into the specific feature of the kind of economic system that is emerging in Vietnam, i.e. in the *transitional* nature of the country's economy. In this economic system national level institutions are subject to ongoing changes, and the private sector consists of both former SOEs and newly established enterprises – and, just as importantly, of enterprise owners with very different personal backgrounds and links to the state sector – all of which influences business behaviour as well as opportunities. In order to understand the particular type of supplier entry barriers that are constructed in Vietnam at the national level, some of the features that generally characterise transition economies may therefore be more important explanatory variables than those referred to in business system theory.

Transition economies

The concept of transition economies commonly refers to economies that are positioned somewhere between a planned and a market economy. Implicitly they are all moving towards a market economy, and the transition itself is considered a passing phase. The transitions occurring in these economies differ from the transitions to a market economy that have been experienced historically by other types of economies, where they went hand in hand with industrialisation. When transition economies were reformed, they already had industrial structures and networks of dependence and cooperation among producers, suppliers and distributors established during the planned economy (Róna-Tas, 1998). On the other hand, transition economies were dislocated from the international capitalist economy for a long time, while the global market and the nature of GVCs developed and changed. Hence, such transitions are taking place as much towards a global economy as towards capitalism itself (see Knutsen, 2004).

Researchers working on theorising transitions as distinctive economic categories come from a variety of disciplines. Hence, not just one, but a number of theoretical approaches on transitions have been suggested. Róna-Tas (1998) divides these approaches into two overall groups according to the disciplines from which they derive.

First, work by economists and political scientists, who generally pioneered the transition economy concept in the late 1980s, focused on how the assumed goal of a market economy could be reached. As a result, attention was paid to the reform process and the obstacles it encountered, rather than to the initial conditions in the transition economies or broader contextual factors. In general these neoclassical approaches to transition economies simply called for the destruction of socialist institutions in order to “unleash” markets (see also Stiglitz, 2000). Central discussions in this camp have concentrated on the optimal speed and pace with which market institutions should develop and the commitment (or lack of it) by transition economy governments to develop them (Smallbone and Welter, 2003; Hermes and Lensink, 2000).

Secondly, sociological approaches have been applied from an early stage to examine (i) the social outcome and distributional consequences of given transitions; and (ii) the institutional mechanisms that are responsible for those consequences. According to Rona-tas (1998), Nee’s (1989) theory of market transition was the most influential contribution from this perspective for a long period, though it ignored almost completely the question of how and why transitions occurred. Subsequent sociological approaches came to pay more attention to the historical starting points of transition economies as causal explanations for their emerging economic and social characteristics, rather than merely reporting the outcomes in question (see e.g. Staniszkis, 1991). These latter approaches claim that transition economies differ amongst themselves exactly because of their initial conditions. For example, sociological approaches stressing path-dependence suggest that it is the initial conditions of transition economies, together with the “lock-in” mechanisms (for instance, diffuse and network-based property rights) that reproduce them, that give them their distinctive features.

Those concepts in the literature on transition economies that have inspired this present dissertation derive from the latter category of mainly sociological research, and are outlined briefly below.

Trading of capitals concerns how different types of capital, such as physical objects, human skills and social ties, can be traded and accumulated for later use (Rona-Tas 1998). In transition economies, these theories deal with changes in the human, social and political capitals that are gained and “traded” amongst state and private actors in the transition economy relative to the planned economy. Staniszkis (1991) describes “political capitalism” as the direct conversion of political into economic power in these economies.

Likewise, the term “social capital” has been used to describe how it is the informal social structures developed under the planned economy rather than the market economy that redistribute assets in transition economies, and hence former state sectors (and not just former political leaderships) remain privileged.

Crony capitalism concerns rent-seeking and the corruption of state representatives, who are generally regarded as central players in the privatisation of the state sector in transition economies. It also concerns patron–client relations between bureaucrats and those private entrepreneurs that are also former bureaucrats (e.g. Kaufmann and Siegelbaum, 1997; Walder, 2003). Hence, a strong link between the former communist bureaucrats and an emerging class of private capitalist entrepreneurs is often stressed: bureaucrats who have invested in the emerging private sectors are, in some transition economies, now among the most successful business people (Benácek, 1997; Backman, 2001). According to Walder (2003), the extent to which this is evident relates to (i) the extent of regime change in transition economies and the extent to which planned economy-era elites loose political power during the transition; and (ii) the disposition of public assets, for example, the rapidity of conversion of public property to new owners, as well as the space that exists for the incumbent elite to assume ownership or retain managerial control.

The relevance and limitations of transition economy theories

Some of the theories of transition economies presented in the previous section are generally relevant to this dissertation in that they highlight the distinctiveness of this particular type of economic system in terms of the prevalence of informal links between politics and access to economic resources. However, one overriding problem in the existing literature must be pointed out.

The private sector as discussed in existing transition economy theory is generally confined to the former state sector, and thus excludes the emerging private sector of newly established enterprises. As a result, a number of important features related to, for instance, differences in the nature of and opportunities available to these two types of private enterprise are lacking. This is strengthened by the general focus in this perspective on the macro economic level and hence on the effects of transitions for *all* firms. By that, the differential benefits of firms, and the polarisation between former state sectors and newly established private sectors as well as between a diversity of private enterprises is not captured. For example, the transition economy concept of crony capitalism apparently refers more or less exclusively to this former state sector and generally focuses on an assumed correlation between privatisation and corruption. The focus of work using this concept tends to be on how privatised enterprises benefit from asset stripping and asset transfers. Though this is certainly an important issue, the empirical data presented in this dissertation shows that this is not the full picture even of how public assets are allocated in transition economies, at least not in Vietnam, where types of business-state relations other than ownership history matter. Assets belonging to former SOEs in Vietnam are not necessarily linked to enterprises, but may also take a more personalised form, being linked to the former leaders of a privatised state enterprise rather than to the enterprise itself. As a result, former SOEs have some benefits, while former SOE employees (as well as people with other types of relationships to the state) owning newly established private enterprises may have others. Therefore a polarisation not only of privatised SOEs and "new" private enterprises emerges, but also between state-connected and state-unconnected "new" enterprises. It is therefore also important to examine interactions between these two latter groups – connected and unconnected private enterprises that are not privatised SOEs – i.e. business–business rather than business–state relations. While this is not a main focus of this study, it is clear that such relationships are also becoming increasingly important in Vietnam. Examples mentioned in the papers in this dissertation include the re-sale of export quotas and the leasing of land from connected private enterprises by unconnected ones, while a variety of other features, which require further research, may also be present. Ultimately, a group of highly connected enterprise owners (along with the state and former SOEs) is benefiting from the need of unconnected enterprise owners to access resources, so that the state-connected part of the private sector becomes a gate-keeper between "real" private enterprises and the state. Along these lines, private enterprises without roots in SOEs are not least segmented between those whose owners' ethnic groups are considered "loyal" and those whose owners' ethnic groups are considered "disloyal".

Thus, a more comprehensive transition economy concept should encapsulate not only the former state sectors and former state sector employees, but also newly established private enterprises, as well as entrepreneurs with all sorts of personal backgrounds, including ethnic minorities that were excluded from the (former) state system, and the dynamics and interactions between them. It is suggested here that a revised concept of this sort should focus on the segmentation of transition economy private sectors whose distinctions are rooted in initial conditions and may be reinforced by the transition itself. In other words, it is suggested that a business sector in transition is usefully regarded as systematically segmented according to the historical and present-day relationships of enterprises and entrepreneurs with the state. It is important to note that this concept of transition economies regards context-dependency as key, and hence the emerging segmentations of business sectors will take different forms in different contexts and are shaped by a variety of features. It can be also observed that it is an open question whether or not such segmented transition economies are necessarily heading towards a market economy in one of its presently known forms or for some other context-specific outcome.

While the transition economy theory provides some understanding of the transitional economic regime in Vietnam and how this affects supplier entry barriers in relation to former SOEs, it needs to be broadened into another type of theory if we are to understand Vietnam's private sector in its entirety.

Global value chains

Much contemporary research on the links between production and trade in the process of globalisation has its roots in the literature on the international division of labour (see Dicken, 1998 for details of this discussion) and world-systems analysis (see Hopkins and Wallerstein, 1986). Today, these early discussions form the basis of a number of theories dealing with the concepts of "networks" and "chains". These concepts, of which the latter is the focus here, are broadly used to describe connections between places and processes in the global economy (see Bair, forthcoming, for details).

Commodity chains were originally defined as "networks of labour and production processes, where the result is a finished commodity" (Hopkins and Wallerstein, 1986: 159). Gereffi and Korzenievicz (1994) very much formed the basis for the GVC approach by focusing on how chains consist of several nodes in different geographical locations. The lead firms that drive GVCs determine a division of labour along the chain and define the terms on which potential participants in the chain can access it (Appelbaum and Gereffi, 1994). Hence, the approach emphasises the activities of *firms* and the role of lead firms in globalisation.

Gereffi (1994) identifies three dimensions of GVCs, namely:

- *input-output structure*, such as raw materials, service functions and knowledge
- *territoriality*, meaning the spatial patterning and distribution across nation states of activities
- *governance structures*, which determine how resources and profits flow between nodes in the chain

Later, Gereffi (1995) added *institutional frameworks* defined as "rules of the game" in national and international contexts, but provided little indication of the exact meaning of this term.

The GVC notion of chain governance structures has received most attention in the academic debate so far. Two ideal types of governance structure[6] were originally defined

[6] The rather rigid typology of buyer-driven and producer-driven chains is subject to on-going discussions (see for instance Gibbon and Ponte, 2005; Gereffi, Humphrey and Sturgeon, 2004; Sturgeon, 2001; Fold, 2002).

by Gereffi (1994) so that chains are seen as either buyer- or producer-driven, depending on the lead firms that drive them:

Producer-driven chains are generally capital- rather than labour-intensive and associated with, for instance, high-tech electronics and automobiles. As a consequence, capital is a main entry barrier, so large-scale trans-national companies tend to occupy and drive these chains from the producing node (see also Gibbon, 2002).

Buyer-driven chains. Clothing and fresh food GVCs are examples of highly buyer driven chains, in which buyers have diverted all production themselves and source from a diverse range of suppliers and countries globally. According to Gereffi (2001), a main characteristic of buyer-driven chains is that the drivers concentrate on the value-added designing and/or marketing functions. Gereffi (1999) defines three types of clothing-sector lead firms on this basis, namely retailers, marketers and branded marketers.

Earlier theories of dependency and world systems pointed mainly to the negative consequences of globalisation for developing countries, and hence globalisation was mainly associated with increasing inequality. These theories may to some extent have provided a basis for GVC analysis, but discussions deriving from the latter have tried to change the terms of the debate over participation in the global economy. As Kaplinsky (2000) points out, the important question for developing countries is no longer whether or not to participate in globalisation, but how to do so. It is a major hypothesis of GVC theory, that the behaviour of lead firms conditions the nature of other firms' participation in a chain. Hence, development may entail linking up with at least some types of lead firms in the clothing industry, since the latter control certain resources that may be shared and thus may sometimes contribute to the industrial upgrading of suppliers.

Four types of upgrading for suppliers are commonly regarded as being made possible by entering GVCs: (1) product upgrading is gained by movement into more sophisticated product lines; (2) process upgrading is gained by re-organising the production system or introducing superior technology; (3) functional upgrading involves that the suppliers perform new functions or services, such as design or marketing, which had usually been performed by the lead firm previously; and finally (4) inter-sectoral upgrading means that firms move into new productive activities (Humphrey and Schmitz, 2002).

It has often been emphasised in the GVC literature that, by governing the chain in different ways, lead firms may or may not provide one or more of these upgrading opportunities to their suppliers. Where opportunities do arise, they may, for instance, allow suppliers to learn from buyers how to improve production processes and efficiency in the case of process upgrading and how to move into higher market segments in the case of product upgrading (Humphrey and Schmitz, 2002).

The relevance and limitations of the GVC approach

The GVC approach offers a good theoretical foundation for both sets of issues explored in this dissertation in the way that it contributes to an understanding of how production is increasingly organised and governed globally across national boundaries. As Bair (forthcoming) points out, the notion of buyer-driven chains especially seems to capture well the experience of many developing countries in export-oriented light industries, including clothing. Likewise, Henderson, Dicken, Hess, Coe and Yeung (2001) stress that the GVC approach "carries forward the task of transcending the limitations of state-centred forms of analysis and in so doing highlights the restrictions on firm, and thus economic and social, development that arise from the structure of corporate power embedded in the intra- and inter-firm networks which circle the globe".

However, the GVC approach sheds only limited light on the present dissertation's focus on national regulatory influences over the construction of supplier entry barriers, not least because the approach's global analytical framework deals very little with how regulatory regimes in exporting (or importing) countries affect chain dynamics. This point seems to relate to the fact that the "fourth dimension" in GVC analysis mentioned above – the institutional framework – was never really developed after its introduction by Gereffi in 1995. Also, the perspective overlooks how buyers' corporate strategies may differ more or less systematically according to their nationality. A central point in the present dissertation is that there is no single GVC for clothing, and that sourcing strategies and supplier management practices in buyer-driven GVCs do not follow a single logic or pattern. Therefore, the supplier entry barriers that derive from how global buyers drive GVCs tend to differ accordingly. National regulative systems may also have an effect on other GVC features, such as those related to chain driving, so that chains rooted in some national regulatory regimes have different power and governance structures than others. Similarly, industrial upgrading opportunities for suppliers differ between chains in terms of the nationality of the chain driver (see also Gibbon and Ponte, 2005).

It was made clear above that business system, transition economy and to some extent GVC theory provide insight into the analysis of the nature of entry barriers in Vietnam. In importing countries, attention to differences between buyers, GVCs and hence the supplier entry barriers related to them requires an analysis of home-country institutional conditions that GVC analysis alone cannot offer (see e.g. Wrigley, Coe and Currah, 2005). Recourse is therefore necessary to the varieties of capitalism literature, briefly described in the next section.

Varieties of capitalism

From the outset, the varieties of capitalism approach was directed specifically at understanding developed economies and, while attempting to pay attention to the firm, it also highlights the role of the national political economy (Hall and Soskice, 2001). As mentioned in the introduction above, it asserts that national institutional contexts influence firms' behaviour and competitive advantage. Hall and Soskice stress that *nationally* based differences in business organization (rather than, for instance, regional ones) should be the main focal point of the varieties of capitalism literature. These authors' (Hall and Soskice, 2001) definition of institutions follows North's (1990: 3), that is, "a set of rules, formal or informal, that actors generally follow, whether for normative, cognitive, or material reasons". However, in practise – and relative to business system theory[7] – the main emphasis is placed on the nature of and role played by different kinds of formal financial institutions in different national contexts.

This discussion connects national institutional contexts with firms' global strategies. In Anglo-Saxon economies, as mentioned in the introduction, national financial markets play a relatively dominant role due to the liberalization of national and international financial markets. According to Gibbon and Ponte (2005), this so-called "shareholder capitalism" results in the phenomenon of "corporate financialization". While "shareholder capitalism" refers to increases in the market values of equity and in the market capitalization of listed companies, along with an increase in levels of turnover in share ownership, "corporate financialization" refers to the process whereby corporate decision-making is driven by the goals set by financial markets alone. This in turn generates corporate behaviour that is mainly aimed at improving the share price. Cutting jobs and the externalisation of "non-core" activities frequently follows (Lazonick and O'Sullivan, 2000). For suppliers, this means that lead firms are continually externalising "low-ROCE" activities, not only manufacturing, but also manufacturing-related service functions. Also, lead firms may increasingly downsize and concentrate their supply bases, focusing on core suppliers with relatively high financial capabilities in order to exert greater control over suppliers' production (e.g. Gibbon, 2002; Dolan and Humphrey 2001, Fearne and Hughes 1999).

Hence, suppliers in GVCs that serve Anglo-Saxon markets are increasingly expected to perform a range of service functions, as well as production ones, and hence their entry to

[7] Central differences between the varieties of capitalism and business system literature include the fact that the former places the central emphasis on the role of financial institutions in relation to other institutions: thus one variety of capitalism differs from another according to whether this role is dominant or not. Business system theory attempts to provide an overall characterisation of economic and culturally dependent institutions in a society without privileging the role of any of them as determining the business system as a whole. In addition, business system theory mainly stresses the influence of institutions on *internal* business organisation, while varieties of capitalism literature mainly emphasises the links between financialization and *interfirm* relations.

the chains concerned depends profoundly on their ability to do this. These services may include ever-shorter lead times, stockholding/inventory management and new product development (see Gibbon, 2002). In the clothing industry, supplier location (which should in this understanding be increasingly closer to home, due to an importance of short lead times) has also been held to affect entry opportunities for some suppliers (Abernethy, Dunlop, Hammond & Weil, 1999).

Gibbon and Ponte (2005) stress that it is questionable how much corporate financialization applies to countries other than Anglo-Saxon ones, and thus the extent to which it underscores the formation of new types of entry barriers in importing countries in general. Aspects of the doctrine are present in corporations in mainland European countries, but are much less institutionalized than in the UK and the US. This, amongst other things, derives from differences in ownership structure between the economies in question, so that mainland European corporations tend to be dominated by the banks, which are often also creditors but have lower expectations in terms of ROCE and also longer-term relationships with corporate management, rather than through delegate investment funds and other private institutional investors.

The relevance and limitations of the varieties of capitalism approach

The varieties of capitalism approach or variants of it cast light on national institutional arrangements in importing countries (and the differences between them), and link these to the behaviour of firms in the global economy. In the words of Watson (2003: 228), the approach “reminds us that there are particular geographies of production and consumption, which represent embedded networks of economic activity, which are limited both socially and spatially”. Thus, the literature on varieties of capitalism underpins an understanding of why and how national industrial structures relate to the global arena, which is the focus of the second set of issues here.

However, at least in its original form, the major distinction in the varieties of capitalism literature between the ideal types of liberal and coordinated market capitalism – in which societies are grouped or ranked as belonging to one or another group according to the nature of four main types of institution – gives us only a limited understanding of the potential differences between, for instance, two coordinated market capitalist nations. Corporate financialization, though originating and found in its most far-reaching form in liberal capitalist systems, is slowly extending its influence into coordinated market systems, though at an uneven pace. Furthermore, it appears that coordinated market systems may differ between themselves in ways that cannot be fully grasped using either the Hall and Soskice variant of the varieties of capitalism approach or the version stressing corporate financialization.

Use of the four theoretical approaches in combination

The two sets of issues explored in this thesis use a variety of concepts and propositions based in the four theoretical approaches examined above.

For the first set of issues – entry barrier construction in Vietnam – the business system approach is useful for understanding the segmentation of Vietnam's private sector at the national level. Still, due to the approach's overwhelming focus on micro-level enterprise organisation, together with its lack of understanding for the specific features characterising transition economies, it remains insufficient in explaining the causal mechanisms behind this segmentation. The business system approach does not really tell us *why* these particular segments have emerged in their specific forms, nor can it engage with the outcomes of this process in terms of the possibilities different segments have for obtaining both resources and entry into GVCs. What we are faced with in Vietnam is more than a specific Vietnamese business system or even a set of varying business systems alone; rather, we are dealing with the articulation of a single national regulatory regime formally and informally privileging certain types of enterprises above others, a diversity of business systems and an equally diverse set of modes of integration into the global economy. Discussion of these issues is of wider relevance than Vietnam alone, not least due to the increasing role of transition economies in GVCs, particularly clothing GVCs. Grasping these complexities involves employing some business system concepts in combination with a revised version of the transition economy concept as well as with GVC theory.

For the second set of issues – supplier entry barriers in the EU – the GVC approach is the starting point of the present analysis. Here, the focus is on differences between EU countries rather than within a single developing one, and the analysis of the construction of supplier entry barriers by actors in Europe borrows from the literature on varieties of capitalism. Basically the differences that appear between the European countries in question are seen to relate to the presence or absence of stock market capitalism and corporate financialization versus other types of capitalism and corporate ownership and governance.

Methodological approach: researching new economic geographies

The overall objectives of this study involve examining the construction of GVC supplier entry barriers in Vietnam and in three European economies, namely France, Scandinavia (Denmark and Sweden) and the UK. Thus, it deals with a variety of social, political and economic processes at the national level in exporting and importing countries affecting the ability of developing country suppliers to participate in global trade. Combining research in these different geographical sites has been seen as benefiting from a methodological approach based in the area of the new economic geographies, which attempt to "conceptualise rather than undermine the economic, by locating it within the cultural, social and political relations through which it takes on meaning and direction" (Wills and Lee, 1997).

For this purpose, Yeung (2003) suggests a "process-based methodological framework for practising new economic geographies". The framework is defined as the creative and coherent deployment of different complementary methodological practices that are sensitive to the specific research questions and/or contexts involved. It is important to note that the framework is not a fully defined and final vocabulary of how the new economic geographies should be explored methodologically, but an attempt to create a dialogue on the subject, which up to now has not received much attention (Yeung, 2003: 6). The framework consists of a series of interrelated moments, which may or may not be included in a particular research project, depending on the research question being asked. The two moments that mainly feature in the present study are sketched below according to Yeung's suggestions. After an elaboration of each of these two moments, I will discuss its relevance here, and clarify to what extent I shall follow or alternatively deviate from it.

The need to trace chains and networks refers to a key research practice for new economic geographers to examine the territorial constitution and reshaping of economic organisation via the engagement of firm owners and managers in multiple and overlapping actor networks. These networks are seen to generate heterogeneous relations among actors and need to be examined through a close dialogue with subjects and other intensive methods (observation, action research etc.). Likewise, the role of "human and non-human beings", including norms and business rules, as well as the interconnections of actors in networks should be identified (Yeung, 2003: 17-20).

Processes *within* clothing GVCs are not the main focus of the present project, as stressed in the introduction. Hence, it is important to note that this study does not "trace chains" in the sense that buyers interviewed in the EU and producers interviewed in Vietnam were selected because they were part of the same GVC. It has not been an objective to trace interconnected firms, not least because this task is extremely difficult when it comes to so-called triangular manufacturing, involving (in this case Vietnamese) subcontractors that may know the identity of their contractor in, for instance, Hong Kong or of the SOE they are "sub-subcontracting" for, but rarely the buyers in the EU (and sometimes vice versa). Rather than inter-firm relationships in GVCs, the construction of supplier entry barriers in both the supply and "buying" ends of the chain is the main focus here. When interviewing buyers in the EU, it was therefore important to understand how their strategies contributed to entry barrier construction for suppliers in various ways, such as demanding specific services, or financial and human capacities, by concentrating supply bases in specific countries and/or by creating first-tier suppliers. In Vietnam, the construction of GVC entry barriers for private enterprises is seen as being linked to the nature of the national political economy, an understanding of which was therefore another focus. While Vietnamese enterprises were asked about their relationships and cooperation with their material suppliers and the type of buyers or contractors they worked for, as well as about the extent to which they exported directly to the EU or subcontracted for east Asian contractors or Vietnamese SOEs, an equally or more important emphasis in the questioning was how this was influenced by their relationships with the state.

In-situ research is another key methodological stance defining the new economic geography. This basically means that intensive research (including, for instance, open-ended interviews) must be conducted where firms are located and that the researcher should engage in unravelling the complexity of economic landscapes through detailed research into firms, industries and markets. Since the firm is a messy constellation of multiple identities, contestations of power and shifting representations, a rich understanding of the firm and the context in which it is situated is required (Yeung 2003, 20-22).

For this present project, *in situ* research is also considered extremely important, since it has clearly led to observations and results in Vietnam as well as in the EU that could not possibly have been obtained from a distance. The process of going to companies in Vietnam and Europe to conduct interviews personally rather than, for instance, sending them general questionnaires not only permitted a higher response rate than through standard questionnaire methods, but also allowed interpretations of answers given during interviews to be suggested to the respondents themselves, thus avoiding many pitfalls, since answers could be elaborated and discussed further with the respondent. An obvious example was that, when Scandinavian respondents were asked about their sourcing strategies, it seemed that they sometimes wanted to appear as if they were doing things in the "right" and international way, as if they were telling us what they thought we wanted to hear rather than what they actually did. Therefore, they sometimes said, for instance, that they were going to follow certain rationalisation programmes in the near future, when it was clear that they were not always really sure what these programmes involved and revised their answers when they were probed further.

In Vietnam, the process of living in the country for a period and personally meeting all respondents and visiting factories rather than researching them from a distance improved my understanding of both the society and the research topic in a number of important ways.

First, it provided an understanding of the context surrounding firms, as suggested by Yeung. This generated a different sort of knowledge about a firm than would have been provided through a survey. A firm's specific location and surroundings are not usually discernible from its address in Vietnam, but this often tells us a great deal about the firm's background and possibilities. For example, some private firms were located on the premises of SOEs, sometimes sharing offices and in a few cases even production facilities with them. This points to the complexity of private–state relations in Vietnam, and provoked me to ask additional questions in order to clarify the reasons for and implications of this complexity. This type of location on the one hand may sometimes mean that the private enterprise had no other option than renting relatively expensive land from the SOE. In other cases it meant that the private enterprise had formerly been part of the SOE. This latter type of relationship may be crucial to access to GVCs, but might not have been uncovered in the absence of a physical visit.

Secondly, it is not easy to investigate sensitive issues concerning personalised relationships with the state through surveys, and the quality of data on such issues is often improved by conducting interviews *in situ*. For example, some respondents hesitated to tell me about important personal connections until they had been asked about the portraits of themselves and state officials or the party medals on their walls. Pride in such objects often led them to talk about their relations with the state, overcoming their initial reluctance. Similarly, Vietnamese Chinese respondents often did not want to talk about their activities in the Chinese community, although this type of information is very important, especially because the community is sometimes also a potential source of capital for the company. By pointing to pictures or other objects related to their participation in community activities in factories or offices and showing an appreciation of their significance, dialogue often became easier. Being in Vietnam for a long time also made it possible to spend more time with respondents and key informants after an interview, for instance, eating dinner or lunch with them, during which the informality often produced new knowledge. Finally, simply getting to "know faces" and see who was engaged in the different activities in formal and informal associations, which I sometimes participated in too, was also helpful.

Thirdly, the combination of *in situ* research and the form of "chain chasing" conducted for this study, albeit rather truncated, also had advantages, as mentioned above. During factory visits, for example, it was often possible to read inscriptions on the import and export packages lying around, and hence to double-check or add to respondents' information on where material had come from and where the finished products were going. In addition, factory visits made it possible to examine the quality of products and technology, the division of labour etc.

Construction of interview guides

Interview guides in Vietnam and in the EU[8] were derived from the overall research objectives and reflected topics whose selection was influenced by the theoretical approaches described above. The interview guides are presented in Appendices II and III.

For the primary target of fieldwork in Vietnam, private clothing manufacturers, the interview guide included questions related to the insights of the business system, GVC and transition economy approaches that were expected to contribute to the understanding of supplier entry barriers in Vietnam. This interview guide therefore consisted of questions on four main topics: 1) basic information about the business and its owner with the purpose of categorising businesses into segments according to considerations of ethnicity, origin and location; 2) business system elements that had to do with internal business organisation and would help to explore the similarities and differences between the various segments of enterprise owners; 3) GVC elements concerning market relations, in order to obtain information concerning which segments exported to specific markets and how they did so; and 4) questions about businesses' and their owners' historical and present-day relationships with the state, including SOEs, different types of business organisation and also more personalised relationships. The aim of the latter type of question was mainly to determine the extent to which such relations improved the opportunities and access to resources, chains and thus markets for businesses. For this purpose, information on enterprise owners' personal backgrounds (including their historical and present-day relations with the state) was combined with data on his or her market orientation and access to export quotas to investigate the extent to which these parameters were related.

To improve the reliability of the data on private enterprises, comparisons and contrasts were made using material from year books, factory visits and interviews with representatives of other foreign and state-owned companies that the company being interviewed had contracts with. Thus the study used the method of triangulation (see Yeung, 2003 for details about this method according to the new economic geographies). In respect of key informants, interviews, mainly for triangulation purposes, were held with

[8] In the EU, research was conducted by a team of researchers, including myself, using almost identical interview guides in the UK, France, Denmark and Sweden. Peter Gibbon and I conducted the Scandinavian part (which constitutes the fieldwork for the whole of Paper 4 and part of Paper 5) in 2002. Florence Palpacuer and Peter Gibbon conducted the fieldwork in France and the UK (which is also used in the comparative Paper 5) respectively.

ministries, Peoples' Committees, Chinese community associations, garment organisations and other types of organisation.

In the EU, interviews were based on check-lists covering ten themes that were discussed during each interview. The themes in this checklist were mainly inspired by the GVC and varieties of capitalism literature, though with a strong predominance of GVC themes, so that interview questions were mainly about buyers' sourcing patterns and principles. An analytical coupling with the varieties of capitalism analysis was mostly undertaken later so that the approach's understanding of institutional contexts as underpinning business organisation in different societies was used to explain the differences between the typical sourcing strategies in the different countries. To this end, company annual accounts and reports and the secondary literature on varieties of capitalism in the different EU countries were used. Thus, the EU check-list covered four main topics: 1) basic information about the enterprise, its overall strategy and its place in (for instance) the Scandinavian market, to provide a background; 2) buyers' sourcing geographies. This kind of information provided knowledge of where the different buyers sourced from and made it possible to identify geographical patterns within the clothing trade for specific buyers and buying countries. Also, this enabled the entry barriers related to suppliers' geographical location (and relating sometimes in turn to questions of lead time or specific trade agreements) to be identified; 3) selection of, expectations concerning and systems for monitoring suppliers, to identify specific supplier entry barriers connected with the sourcing patterns of particular buyers; and 4) changes over time related to sourcing philosophies, patterns and practises, so as to identify the extent to which shareholder value doctrines etc. had diffused within Europe.

For both sets of fieldwork, interview guides were adjusted after the first few interviews had been conducted, when, for instance, it became obvious that questions or themes had been misunderstood by respondents and/or were too sensitive and should be posed differently. Likewise, the open-ended interview form often produced new and relevant information that I had not been aware of beforehand, and which was therefore subsequently incorporated into the interview guides.

The fieldwork conducted for this study was quite extensive in that it included a relatively large number of interviews conducted in two geographical arenas, the EU and Vietnam. Analysis of interview data was reinforced by identifying a number of topics (translated from the themes included in the interview guides), and categorizing each and every interview statement from both sets of fieldwork in relation to these topics. In this way it also became possible to group the responses according to, for instance, business owners' ethnicity (in the case of the Vietnam material) to compare and contrast the extent to which the different types of business owners had similar responses to or opinions on a specific question.

Selection of locations

Two geographical locations were chosen for the first set of issues, i.e. those related to Vietnam. These were respectively the capital Hanoi in northern Vietnam and Ho Chi Minh City (HCMC) in southern Vietnam, including the surrounding areas. These were the two places where the private sector was most active. They were also chosen with the aim of illuminating and comparing expected variations within the Vietnamese private sector. The private sector was from the outset of the study thought likely to comprise a number of segments deriving from historical-political variations, including differences between northern and southern Vietnam. I conducted around five months of fieldwork in Hanoi and three and a half months in HCMC. Fieldwork took longer in Hanoi due to a number of start-up problems, as well as the fact that I had worked in HCMC earlier and had contacts and experience to draw on from there. Fieldwork in Vietnam was conducted in 2000/2001, followed up with a couple of interviews and further data collection in December 2005 to up-date knowledge on recent changes in the industry. The Vietnam fieldwork constitutes the primary source of information for Papers 2, 3 and 4.

In Europe, three overall cases were chosen for a larger programme of work on sourcing strategies (reported in Paper 6). As noted above, these were respectively the UK, France and Scandinavia. These places were chosen to show the similarities and differences relating to varieties of capitalism and shareholder value doctrines, and hence in sourcing strategies. The UK was chosen as an example of these doctrines, France was chosen because of its hypothetical resistance to them, while Scandinavia was thought likely to be a half-way house between these apparent extremes.

Selection of respondents

In Vietnam, data collection mainly took the form of interviews with respondents in the form of owners of private enterprises. Respondents were chosen according to the common criterion that they owned registered private companies in the clothing industry in either of the two locations.

Though their historical relationship with the Communist government has been quite problematic at times, especially at Vietnam’s reunification, the ethnic Chinese minority was expected to represent a relatively strong segment of the private sector for several reasons. These included their historical importance for the economy, their relatively fast re-establishment in the private sector when economic reform was introduced and their use of ethnic networks (see Lindahl and Thomsen 2003). It was therefore intended to interview a more or less equal number of both Vietnamese and Vietnamese Chinese in Hanoi and HCMC respectively so that the study would cover four groups of enterprise owners on this basis. However, since not a single Vietnamese Chinese-owned clothing enterprise was identified in Hanoi, only ethnic Vietnamese enterprise owners were interviewed there.

Moreover, a further unexpected (and unexpectedly important) group of respondents emerged during the fieldwork in the south: besides Vietnamese of southern origin, former northerners who were now living in HCMC owned a number of enterprises in the south. The majority of these former northerners in the southern clothing industry had been placed in major state companies or in the southern administration by the central government after the country's re-unification and proved important both as actors in the private garment industry and for this research because they had unusually good connections with the central government in Hanoi. A few of these former northerners (Respondents no. 38 and 44) had very different stories from the rest. They had come to the south to escape from the northern government rather than to work for it, and had never been employed by the state. Since these two respondents accounted for a very small proportion of the sample, they are not treated as a specific sub-group or segment of the private sector in the analysis. It is, however, important to note that being a former northerner in HCMC does not necessarily imply being well-connected, as is otherwise the case for this segment of enterprise owners. In addition, it should be noted that the proportion of this sub-group in the sample may have been larger if not only registered enterprises but also "household businesses" had been included.

Thus, the 68 enterprise-owning respondents for the Vietnam study fall into four overall groupings: Vietnamese in Hanoi (all of whom originated in the north), Vietnamese of northern origin in HCMC, Vietnamese of southern origin in HCMC, and Vietnamese Chinese in HCMC. These groups of enterprise owners are referred to in each of the three papers (Papers 2-4) on Vietnam. Respondents were also chosen so that certain additional factors could be taken into account as much as possible. Enterprises in each segment were chosen in order to include all the three ownership forms that comprise the registered private sector in Vietnam, namely "joint stock companies", "limited liability companies" and "private enterprises" (see Appendix I), as well as enterprises of different sizes. The purpose of this was to distinguish those management strategies, problems or potentials that derive from ethnicity, origin or location from those that were related more to size or private-sector forms of ownership. Appendix IV records all respondents in each of the four groups according to size (number of workers) and enterprise form. In addition, their different types of relations to the state (or lack of them) is recorded in this list. It is an important point that business-state relations were not a criterion for selecting respondents, but were revealed during fieldwork, and hence the recording of them in Appendix IV serves merely as information.

Interviews in Vietnam were mainly arranged by local assistants, who first sent out letters of introduction to companies I identified, on the basis of the overall criteria referred to (location, size and ownership form), from telephone books and directories. Secondly, the research assistants contacted companies by telephone to obtain information about the ethnicity and origin of the owner. In this way, a selection of the roughly equal number of enterprises according to the overall categories based on ethnicity, origin and location was attempted. The first enterprises within these categories that agreed to meet me were interviewed. As far as possible, a further stratification within these categories according to ownership form and size was attempted in the process. This strategy also had some natural limitations due to the fact that existing enterprises in the four segments tended to be of similar size and ownership form. This, however, was not so much a problem as a result – it is an interesting finding of this study that, for instance, ethnic Chinese business owners commonly owned small enterprises registered in individual ownership forms.

Taken as a whole, it took more time and was more difficult to arrange interviews with Vietnamese Chinese enterprise owners than with Vietnamese ones, especially because the ethnicity of company owners is not recorded in any publicly available form, and hence identifying the Vietnamese Chinese was difficult. Also, most enterprises that advertised in phonebooks and directories turned out to be Vietnamese-owned for several reasons, not least that Vietnamese Chinese-owned enterprises were relatively small. To increase the number of interviews with Vietnamese Chinese, a "snow-balling" methodology was adopted so that I started asking Vietnamese Chinese respondents at the end of interviews with them whether they could introduce me to other Vietnamese Chinese clothing companies within the relevant category of ownership forms.

Most interviews had to be carried out with an interpreter. Since several of the themes discussed, including private sector development, ethnic differences and business–state relations are sensitive matters in Vietnam, interviews were conducted without a tape recorder and without the presence of "official" interpreters or assistants, to reduce anxiety and avoid risks for the respondents. Likewise, the latter were promised confidentiality. Thus, lists of respondents and quotations in the papers do not refer to any persons, businesses or brands by name. Instead each enterprise has been given a number to identify it throughout the dissertation, as recorded in Appendix IV.

Moreover, different kinds of key informants were interviewed in Vietnam (see Appendix V), while statistics, business magazines and other kinds of written material were collected from libraries, ministries, business associations, People’s Committees, international organisations etc., reviewed and analysed.

In Scandinavia (as in the UK and France, where fieldwork was carried out by two co-authors for the comparative Paper 6), interviews were conducted with clothing importers, retailers and wholesalers in spring 2002. A sample of around twenty companies was initially selected to include chain stores of various sizes, department stores, supermarkets and hypermarkets and work-wear distributors in Denmark and Sweden with the goal of distinguishing analytically between the sourcing strategies that relate to these features from those that relate to factors connected with the Scandinavian variety of capitalism.

Letters of introduction were sent to these twenty companies, after which I called them to try to obtain appointments. Interviews were conducted with the first ten that agreed to be interviewed. Hence the final sample included six Danish and four Swedish companies, of which two were supermarkets or hypermarkets, one was a department store and seven were retail chains or groups of chains of various sizes. A number of these retail chains were also wholesalers. All the interviews were conducted with the person who was ultimately responsible for sourcing decisions in the company. Interviews were held in Danish or Swedish (and English in one case). As in Vietnam, the respondents and the companies they represented were guaranteed anonymity, not least to decrease their worries about revealing the company’s strategies to their competitors or details of their sourcing practises in developing countries to a potentially critical public. Therefore, the Swedish and Danish companies are listed in Appendix VI, but references are not made to them where they are quoted or otherwise included in the papers.

In addition, information reviewed included unpublished Danish and Swedish import data for the period 1990-2001, as well as company Annual Reports, which often contain valuable information.

Summary of the papers

Overall, the papers fall in two groups, corresponding to the two separate, but related sets of issues explored in this thesis, as explained above.

The first group of papers (Papers 2, 3 and 4) attempt to show how Vietnam’s regulatory regime creates segmentation within the private sector and hence contributes to the construction of supplier entry barriers, which are in turn higher for certain segments than for others. For this purpose, three different but interrelated topics are explored. Paper 2 forms a basis for understanding how Vietnam’s transitional regulatory regime has encouraged the segmentation of the emerging private sector, and how the segments differ in terms of their internal business organisation. Paper 3 explores the effects of the emerging business sector structure in terms of the ability of businesses to obtain resources, exemplified in terms of access to finance and land. Access to these resources is shown to be one fact influencing their ability to enter chains and markets, for instance, in terms of limits to their production capacity and their ability to hold stock and source fabrics on behalf of the buyers. Against this background, the differential access of businesses to different global markets and chains is explored in detail in Paper 4.

The second group of papers (Papers 5 and 6) relate to the second sub-question addressed by this dissertation: the construction of supplier entry barriers by chain drivers in Europe. More specifically, they deal with how buyers in GVCs create supplier entry barriers. Paper 5 examines the sourcing patterns of Scandinavian retailers. Paper 6 compares these sourcing strategies with those of other groups of European clothing retailers and relates them to European varieties of capitalism. It also discusses their relative impact on developing country suppliers.

The aim and overall findings of each paper are summarized below:

Paper 2. Internal business organisation in Vietnam's private garment industry: the role of ethnicity, origin and location

This paper constitutes a foundation for examining the private sector in Vietnam. It shows that important differences exist *within* the private sector in the country, and it identifies some of the mechanisms that cause them. Theoretically the paper draws on business system theory, particularly on that aspect of it that deals with internal business organisation, in order to examine the nature of and trends in relation to firm-level management and control. It is not the intention of the paper to perform a full business system analysis of Vietnam's private sector, but rather to explore some of the complexities that characterise it.

The paper also provides an outline of the historical development of the private sector in Vietnam. The sector's current structure is rooted in the country's history and the fact that the majority of its member firms have only emerged in the past twenty years of economic reform. Before that, the reunification of communist northern Vietnam and "capitalist" southern Vietnam led to the extension throughout Vietnam of the planned economy, campaigns against "capitalist activities" and the nationalisation of enterprises in the south. In this period, the private sector consisted only of very small household enterprises.

Against this background, the paper identifies a variety of segments in the contemporary private sector in Vietnam. It suggests that these mainly relate to enterprise location in northern or southern Vietnam, and to enterprise owners' origins in either southern or northern Vietnam, and also their Vietnamese or Vietnamese Chinese ethnicity, since these factors tend to influence the relationships of owners to the Vietnamese state both historically and today. Hence, it is suggested that the private garment sector in Vietnam comprises at least four categories of enterprise, i.e. Vietnamese in Hanoi, Vietnamese Chinese in HCMC, Vietnamese of southern origin in HCMC and Vietnamese of northern origin in HCMC. The segments are examined successively in terms of classic business system variables that have to do with intra-firm relations and internal business organisation, namely 1) primary means of owner control; 2) delegation to, and trust in, employees; and 3) employer-employee interdependence.

The paper concludes that systematic disparities exist within the private sector, and that these relate principally to enterprise location, as well as to enterprise owners' ethnicity and origin. These variables are salient, however, mainly because they tend to correspond to the relationships of business owners with the state, including their former state-sector employment histories, party membership and personal relationships with bureaucrats. Large differences in this respect appear between those enterprise owners who originated in HCMC, where they had seldom been employed in or were otherwise related to the state sector, and those who originated or lived in Hanoi, where the planned economy functioned over a longer period. Of those who originated in HCMC, Vietnamese Chinese in HCMC have by far the weakest relationships with the state system, which may also be seen to reflect heavily the country's political history.

The four categories of enterprise owners identified in this paper also provide a basis for the empirical analyses in the other two papers on Vietnam, respectively Papers 3 and 4. These two papers both serve to take the discussion in Paper 2 further by identifying similarities and differences between the groups of enterprise owners and by examining the extent to which these have the same opportunities in contemporary Vietnam.

Paper 3. Divisions within Vietnam's private clothing industry: business–state relations and access to finance and land

This paper deals with access by private enterprises to two types of resources, namely capital and land, and examines the accessibility of business associations to enterprises and the extent to which they support enterprises in assisting access to these resources. The paper takes as its starting point discussion of a notion that has often been put forward in research on private enterprise in Vietnam and other transition economies, namely that the private sector is generally left with no state support, while the state sector is favoured.

While this may be true to some extent – for instance, because both regulation and its implementation tend to differ between the two sectors – this paper argues that this notion is oversimplified. The paper shows that the business climate in Vietnam depends not only on the regulation and often non-transparent registration of particular ownership forms, but also on the historical and thus present-day relationships of business owners to the state. Hence, SOEs may be generally favoured, but private enterprises are not all necessarily disfavoured in terms of accessing land and capital or the benefits generated through business associations. Access to these resources depends greatly on enterprise owners' personal relationships with officials in the relevant government offices and business associations. The paper seeks to place this discussion in the wider context of the literature on business–state relations and "crony capitalism" in respectively Southeast Asian economies and transition economies. It pays attention to the potential ethnic dimensions of the topic in the case of Southeast Asia, where the ethnic Chinese minority is often seen as canvassing political patronage.

In relation to the role of business associations in Vietnam, the paper begin by noting that these associations generally aim to maintain a dialogue with the government on business policies, and especially on improving the business environment for private enterprises so that their access to finance, land and other scarce resources will more closely match that of SOEs. In addition, associations generally provide non-financial business support services such as training courses, technical consultancies and trade promotion. The paper reveals how these objectives are implemented in practice. Specific attention is paid to the garment associations in Hanoi and HCMC.

The paper concludes by describing access to the resources in question for each of the four groups of private clothing manufacturers presented in Paper 2. Land and capital are examples of factors of production that should in principle now be more readily accessible for all private enterprises in Vietnam as part of the economic reform. Yet, in practice they remain highly state-controlled and scarce. Bank loans are still generally out of reach for most private enterprises, while land is allocated free of charge to SOEs. It is important to note that access to land is important both in terms of gaining production capacity and because it can be used as collateral for bank loans. The paper shows that the four segments of private enterprises tend to experience quite different opportunities. In the case of land, this differentiation is strengthened by the fact that many former SOEs are now registered in the private sector and owned by former SOE management (all of whom are ethnic Vietnamese) who usually still possess the land-use rights ("Red books") on the land they were allocated when they were still state-owned. Likewise, these former SOEs tend to have easier access to bank loans than newly established enterprises, not least due to a close relation between the possession of Red books and getting loans. The paper also shows that in practise business associations and the services they provide are not equally accessible for all private enterprises, and thus the associations tend to contribute to further marginalisation of un-connected enterprises.

Paper 4. Accessing global value chains? The role of business-state relations in Vietnam's private garment industry

Like Paper 3, Paper 4 deals with the opportunities of enterprise owners in Vietnam's private sector. In this case, the opportunities in question directly concern access to global markets, which is seen as depending upon inclusion in GVCs based in different regulated and non-regulated markets. As already mentioned, GVCs in the clothing sector are commonly seen as more or less exclusively buyer-driven. However, this paper attempts to shed new light on issues of chain governance by examining the entry barriers to GVCs that producers must face as a result of processes in Vietnam.

The paper therefore draws on the GVC approach, but develops it by distinguishing different types of entry barriers, including industry entry barriers, market entry barriers and chain entry barriers. It argues that the latter are not only constructed by buyers, but also by political- economic processes in supply countries. To illustrate this in the case of Vietnam, the paper includes an overview of the historical development of Vietnam's clothing exports (up-dated with statistics etc. from 2005) and discusses the general access for private businesses to different market channels in relation to the national policy framework.

Against this background, the paper then examines the market orientations of the four segments of enterprise owners identified in Paper 2. It shows a clear correspondence between their ethnicity, origin and location on the one hand and the markets they are able to penetrate on the other. Its main conclusion is that this is mostly because ethnicity, origin and location influence access to the state system, where export-related resources are found, including export quotas, capital, orders, technology, skilled labour, licenses or simply contact with foreign buyers. As a consequence, "state-connected" enterprise owners have easier access to regulated and quality-demanding markets, not least the EU, and better possibilities for exporting directly instead of via different types of intermediary, which is often considered an advantage by business owners. A central conclusion is that Vietnamese Chinese enterprise owners are the least state-connected ones in the sample and for this reason frequently subcontract for East Asian contractors, who are also ethnic Chinese, in so-called triangular manufacturing. While it has often been claimed that ethnic Chinese more generally tend to prefer working with other ethnic Chinese, and even that their opportunities for entry into the EU market are improved because they enter via these middlemen, this paper stresses the fact that this type of cooperation is usually seen as a default option rather than as a good opportunity by Vietnamese Chinese suppliers. Ethnic relations are exploited as an opportunity because such suppliers do not have the relationships with the state that are necessary to export directly to the EU as they generally would have preferred. The segmentation of private enterprise owners in terms of their export opportunities – also in the case of the US market, which opened itself relatively recently to Vietnamese businesses – is further shown by 2005 interview material to be perhaps widened by the actions and strategies of official business organisations.

In conclusion, the paper underlines that policy frameworks in different supplier countries affect suppliers' entry to GVCs differently, and hence that there is no single GVC for clothing. Despite the fact that the focus is on institutional frameworks in buying countries rather than in supply countries, this is also an important point in the next two papers, namely Papers 5 and 6, which show that, even within the EU, the dynamics of clothing chains and the challenges they represent for developing country producers are highly differentiated.

Paper 5. Scandinavian clothing retailers' global sourcing patterns and practices

We now move to the second set of issues in this dissertation, and hence to cover topics related to the construction of supplier entry barriers in Europe. The starting point is that, since the "global clothing market" is highly segmented by volume demands, consumption trends and retail structures, specifying the preconditions for the "global competitiveness" of industries in developing countries such as Vietnam needs to be narrowed down to questions concerning the preconditions for successful participation in specific end-markets. Thus, the paper derives from a desire to understand the challenges facing GVC suppliers and potential suppliers in developing countries, and it also serves as a background for the more wide-ranging investigation of this topic in Paper 6.

The paper focuses on Scandinavia and describes sourcing patterns and practices and also supplier management policies in the Scandinavian clothing sector. It describes some of the characteristic features of the Scandinavian situation, and explores how they are linked with dominant models of global sourcing. The results cover Scandinavian retailers' sourcing geographies, sourcing channels, the nature of their supply bases, their expectations concerning suppliers and their selection criteria for new countries and new suppliers.

The broader significance and implications of the findings for suppliers in developing countries are finally discussed via a comparison between sourcing systems in Scandinavia and the UK. This shows that Scandinavian retailers make relatively little use of "Supply Chain Management" doctrines, which include eliminating some intermediaries, concentrating on fewer but more capable suppliers, demanding more services from them and using bureaucratic procedures to monitor their performance. Scandinavian retailers tend to focus mainly on reducing lead times, but they are not making significantly looser demands on existing suppliers than UK ones on other specific indicators such as price, fabric sourcing and quality.

The paper suggests that these differences go back to the presence or absence of Anglo-Saxon doctrines of "shareholder value". Some of the precepts of this doctrine state that market leadership should be achieved by increasing store numbers and sizes, sales volumes and numbers of styles. Others advocate increasing margins by getting rid of all "back-of-house" functions, while yet others prescribe "ungluing supply chains". In Scandinavia, "shareholder value" doctrines are less evident due to the prevalence of forms of family ownership, including in listed companies. This is mainly reflected in a lower degree of pressure to externalize "back-of-house" functions. Sales maximisation strategies, by contrast, are as rampant as in the UK and are just as heavily focused on "getting lead times right". But since there is less pressure to externalize both functions, modification of direct purchasing methods is seen as the appropriate way to attain them.

On the basis of this comparison, a few common elements of a "Scandinavian" as opposed to a UK sourcing model are suggested: the importance of wholesaling and re-exports; partial supply dependence on eastern Europe (and former Danish manufacturers operating there); the prioritization of lead times; and reliance on direct sourcing. Whether this Scandinavian model offers more than the Anglo-Saxon one for developing country producers is explored in the Paper 6.

Paper 6. New challenges for developing country suppliers in global clothing chains: a comparative European perspective

Paper 6 examines varieties of capitalism–GVC relations in the EU. It takes its theoretical starting point in the GVC literature and focuses on discussions of entry barriers and industrial upgrading. It questions the notion that the clothing industry can serve as a "bootstrapper" for developing countries today as it is often seen to have done for the East Asian NICs, amongst other things because of the sector's shift away from a high level of international regulation. In addition, the paper suggests that developed-country chain-drivers' policies in respect to sourcing principles, supplier selection criteria and supply base management are a main reason for this. Recent changes in the global clothing industry are reviewed from the perspective of suppliers' opportunities for successful entry and industrial upgrading within this industry. The paper is comparative in nature and examines the sourcing patterns of Scandinavian, UK and French clothing retailers to uncover differences between the GVCs serving these three European clothing markets.

Through an analysis of the clothing import patterns and sourcing practices of major clothing retailers in these countries, the paper both attempts to explain differences in sourcing patterns and strategies in terms of varieties of capitalism differentiations and to identify their consequences for developing country suppliers.

The distinct sourcing patterns and practices in the different countries are presented as ideal types, which are distinguishable in terms of the characteristics of firms and inter-firm networks. Underlying these are different industrial structures, ownership structures, state systems, financial systems and national cultures. In the UK, the doctrine of shareholder value are important, but much less so in France and virtually absent in Scandinavia, in both of which traditional family-based and management-based forms of corporate ownership are characteristic. In Scandinavia, a predominance of informal relations with suppliers is found, which is seen as deriving from a Scandinavian organizational culture that includes a preference for internal vertical integration with attachment to the idea that external relations are best managed via a form of low-intensity personal networking and consensual management styles. In France, the levels of informality were also higher than in the UK, though there were more large firms and publicly listed companies in the French sample, and a correspondingly gradual diffusion of the shareholder value doctrine in these enterprises. Therefore, a number of leading French retailers faced mounting pressures to achieve scale economies in the context of their international expansion and/or their growing dependence on financial markets.

The paper suggests that clothing GVCs have generally reached a level of maturity that leaves few opportunities for developing country suppliers, and hence it questions the contemporary relevance of “industrial upgrading” paradigms, including those found within GVC theory itself. It particularly points to rising entry barriers and declining prospects for industrial upgrading in UK-driven chains, not least due to an increasing use of supply base rationalization policies and a concentration on preferred “first-tier” suppliers.

It is further suggested that entry barriers are lower in French-driven chains than in UK-driven ones, mainly due to an absence of established “first-tier” positions. However, Scandinavian sourcing networks are the most concentrated of all those examined. In addition, Scandinavian retailers tend to follow existing suppliers and/or personal networks when entering a new country, leaving few doors open for other potential suppliers. Few respondents in all the countries studied contribute to suppliers’ upgrading in the form of technical support, but rather adopt a generally hands-off approach to supplier capabilities.

Conclusions

The five individual papers that, together with this synopsis, make up this dissertation all offer conclusions on the particular topics they deal with. To avoid repetition, this overall conclusion therefore concentrates on issues based on the findings across the five papers. First, the main overall findings of the dissertation will be briefly outlined. Secondly, some broader discussions which have been indicated only briefly in the papers will be discussed in more detail.

The four theoretical approaches that have inspired the papers in this dissertation have been used more or less eclectically, and they have been modified in ways that emphasise in each case the segmentation of suppliers, chains and chain entry barriers. The ways in which they have been used can briefly be summed up as follows: i) business system theory has been used to show variations within Vietnam's private sector rather than to distinguish it from private sectors in other economies. A stronger emphasis on the role of the personal backgrounds and histories of enterprise owners than is normally considered is also present; ii) in the case of the transition economy literature, the exclusive focus on the state and on privatised enterprises has been played down. It has been stressed that the emerging private sector includes a combination of newly established enterprises and former SOEs, along with a variety of enterprise owners, who are also distinguished according to their former and present-day employment by the state and relations with it; iii) in the case of GVC theory, chain segmentation and external influence over how chain driving occurs have been pointed out as important and interrelated features; iv), in the case of the varieties of capitalism literature, a strong emphasis on financialization has been stressed as a key explanatory variable behind the differences in structures that are evident between chains ending in different EU countries.

Against this background, a main overall conclusion is presented, namely that there is no single or unified GVC for clothing, and hence that the entry barriers that developing country suppliers meet when attempting to enter GVCs vary according to the institutional contexts in their own country, as well as to levels of financialization and other institutional influences in the home country of those buyers that are driving the chain. This has been documented in the case of the access of Vietnamese suppliers to GVCs, which is mediated both by the specific form of transition economy found in Vietnam, and also by the diverse entry barriers constructed by buyers in three different European countries. Thus, this study adds to GVC theory by strengthening its generally weak understanding of institutional contexts, as well as strengthening its analysis of chain-related inequalities. When developing-country suppliers have been addressed previously in GVC analysis, the approach has mainly been used to examine their upgrading possibilities, the more basic question of their *entry* into chains being neglected. As a consequence, the large numbers of developing-country firms that never manage to enter chains have generally been excluded from GVC analysis. In this respect, it is significant that many firms, especially smaller ones in developing countries in general, and not just in Vietnam, are not able to enter GVCs for demanding markets since they do not meet the more general conditions for entry.

While this study has pointed out the diverse entry barriers in Europe for developing-country suppliers in general, it has limited the analysis of the influence of contextual factors in supply countries in Vietnam itself. The unequal access to chains of firms in Vietnam relates to the transitional nature of the economy in the country. Hence, similar patterns are likely to exist in other transition economies, especially in some of the other Asian ones, where reforms have been limited to economic and not political structures, and the entire economy remains deeply influenced by the state. It is worth noting that such *patterns* of differentiated access to chains and markets may also be more or less present in other non-transition types of developing country, particularly where the state is dominant (e.g. Indonesia). However, in these cases the causal mechanisms and political-economic structures behind these patterns are likely to be different.

If we consider these empirical and theoretical aspects in a contemporary "new economic geography" context, where the spatiality of globalization and the geographical distribution of its actors are the main focus (see Coe and Yeung, 2006), an overall point can be made. The conclusions made in the Vietnam papers concerning the fact that, although ethnic and cultural issues may be important, they are still secondary explanatory factors for suppliers' behaviour and access to resources, chains and markets are interesting seen from a "new economic geography" perspective. More precisely, cultural or ethnic issues are seen to matter mostly as mediations of other historical political-economic issues such as firms' access to resources in Vietnam and the importance of finanzialisation in the EU. As Coe and Yeung (2006) note, the so-called cultural turn in the new economic geography has led to the "economic" being gradually considered less and less important, while the significance of the key agents of capitalism – most notably firms and the outcomes of their actions, such as uneven development and inequality – have been underrepresented in the bulk of recent research. Thus, while the results of this thesis do not necessarily introduce any new perspectives into the debates in the new economic geography, they do suggest that an emphasis on the more purely economic aspects can repay the researcher with new insights – including into so-called "cultural issues". This is underlined when we consider the role of overseas Chinese business networks in GVCs and trade development more broadly. While these networks are often considered extremely dynamic and as empowering factors for the ethnic Chinese actors within them – since, for instance, they are seen to facilitate access to contacts, finance or other resources providing access to the global economy – this study shows that, at least in the relatively regulated clothing industry, their importance is either overrated or much more dependent on contextual factors in the relevant supply countries than is generally thought. Moreover, it is of importance that the main opportunity that these networks provide for ethnic Chinese in a typical second-tier supply country like Vietnam – subcontracting for other overseas Chinese in East Asia – is definitely not considered a real opportunity, but rather a low-profit default option by the Vietnamese Chinese themselves, who actually prefer exporting directly or in some cases even to subcontract for non-Chinese contractors (see also Lindahl and Thomsen, 2003).

Finally, policy-wise it is clear from the research reported in this thesis that it is increasingly important for developing countries to acquire knowledge of current developments in GVCs into a variety of end-markets and via a variety of market channels. It is also important to understand the prospects that entry into different clothing chain segments may offer developing country producers, what type of policy might facilitate entry into more remunerative channels and markets, and what types of upgrading firms may or may not expect. Though the opportunities of developing countries to influence both entry and upgrading are relatively few, it seems that trying to cope with them still provides the best development opportunity. Thus, supporting firms in this respect seems important for developing country governments as well as for international donors. In Vietnam, support could be given more evenly to *all* types of private enterprise. The present situation provides extremely unequal opportunities, not just between SOEs and privately owned businesses, but also within the private sector, so that private enterprises that lack connections with the state are marginalised, and the gap between them and those that are connected is widening along ethnic-political lines. In the longer run, this will also mean that some of the potential contribution of the best functioning private-sector segments to the country's economic development is being wasted.

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Paper 2: Internal business organisation in the private garment industry in Vietnam: the roles of ethnicity, origin and location

Introduction

In recent years, the private sector has become widely recognised as an important engine of economic growth. Most developing countries are introducing more market-oriented policies, and an increasing proportion of their economic activities are private. Literature on the emergence of a private sector after the introduction of the Doi Moi (renovation) economic reform programme in Vietnam in the mid-1980s has mainly focused on the progress of the reforms per se and the differential treatment of the private and state sectors. This paper argues that, although these are certainly crucial issues that present obstacles to the country's wider economic development, understanding differences within the private sector is equally important. The private sector in Vietnam may generally be acknowledged to be complex due to the country's transitional nature, but it remains an open question how the complexity is manifested, since in-depth analyses of business organisation are still rare.

This paper suggests that the distinctions within the private sector in Vietnam are based mainly on the geographical location of companies and the ethnicities and origins of their owners, since these factors tend to influence their relationships with the state, including former state-sector employment, Communist Party membership, formal education and personalised relationships with bureaucrats. The influence of the former planned economy is greatest in northern Vietnam, where the ethnic Vietnamese constitute most of the private sector, and where the economy became centrally planned after the country's independence in 1954. The tradition of a market economy is much stronger in southern Vietnam, where the planned economy was only introduced after the reunification of North and South Vietnam in 1975 and only functioned up to the introduction of reform. Moreover, certain sectors in southern Vietnam, such as the Ho Chi Minh City (HCMC) private garment sector, have a relatively large number of businesses owned by Vietnamese Chinese. Other, interacting factors contributing to the heterogeneity of the private sector include the origins of business owners in both northern and southern Vietnam.

In contemporary discussions within economic geography on industrial development, firms are on the one hand often seen as essential independent actors, while on the other they are situated within the context of wider social relations, political-economic processes and changes in business environments (see Yeung, 2000a). Similarly, debates in other fields (e.g. Whitley, 1999; Wade, 1996) suggest that, even in an increasingly global world, no single form of economic rationality or logic of efficiency is adequate to explain the actual forms of business organization that have become established in different contexts. Business organisation is influenced and governed by a diverse range of institutions, ranging from political and financial systems to more culturally influenced institutions such as family or kin relations and authority structures (Whitley, 1992; 1999). Whitley suggests that, together with their distinct institutional contexts, these diverse forms of business organisation constitute different "business systems". According to Yeung (2000b: 400), "this business system perspective is particularly relevant in analyses of the political economies of the Asia-Pacific region where national business systems are socially and institutionally embedded". Yet, the business system approach has also been criticised. For example, Gereffi (1996) stresses that it more or less neglects global issues, while Yeung (2000b) questions the stability and durability of Asian business system in the present-day situation of accelerated globalization. This paper will argue that, in spite of its weaknesses, the business system approach is a very useful starting point in attempting to understand, compare and contrast different types of business organisation. The paper therefore starts with the business system debate, though its aim is not to define or examine "complete business systems", nor does it contrast Vietnamese business systems with others. Instead it will focus on the particular parts of the business system approach that are linked to internal business organisation, broadly defined as firm-level organisation. This is also considered the most convincing aspect of this approach, the one that can best enhance our understanding of the complexity of business organisation in the private sector in Vietnam. Hence the paper contributes by highlighting important variations, some of which may pose obstacles to a dynamic economic development in Vietnam.

The key characteristics of a business system with regard to internal business organisation will be defined here as comprising primary means of owner control; the degree of managerial delegation to, and trust in, employees; and employer-employee interdependence (see Whitley, 1999). The paper examines these dimensions by looking at locally owned and registered garment enterprises in respectively HCMC in southern Vietnam and the country's capital, Hanoi, in the north. As already suggested, this particular sector cannot be fully understood in terms of *the* "Vietnamese business system" since this would imply a single homogenous system. Certainly there are factors that typically characterise the enterprises described in this study, as well as private enterprises in Vietnam more generally: for instance, they are mainly small- and medium-sized, and many of them produce export garments from imported materials on what are usually referred to as cut-make-and-trim (CMT) contracts with foreign buyers or contractors (see e.g. Knutsen, 2004; Schaumburg-Müller, 2005; Kokko and Sjöholm, 2004). However, this paper shows that the sector is in fact quite heterogeneous by uncovering a Vietnamese-owned segment in Hanoi, two different Vietnamese-owned segments in HCMC distinguished by the origins of their owners (respectively northern and southern Vietnamese), and a Vietnamese Chinese-owned segment in HCMC. Hence, the paper also contributes to wider academic discussions, which have not paid much attention to Vietnam so far, on the roles of ethnic Chinese minorities in relation to "local populations" in South East Asia.[9]

The paper is organised into the following sections. The next section will briefly present the business system approach in general and outline the elements of internal business organisation in particular. This is followed by a section on Vietnam's history to provide the context for the following analysis of the country's present-day private sector. Subsequently, an analysis of empirical data focusing on internal business organisation within Vietnam's private sector will be presented. The different segments of companies – distinguished by ethnicity, origin and location, as mentioned above – will be successively outlined. Finally, my main arguments will be summarized.

Business systems

An understanding of the internal dynamics of and differences within the Vietnamese private sector is crucial to this paper. The business system approach (Whitley, 1992; 1999) deals with such complexities. Business systems are "particular ways of organizing, controlling and directing enterprises that become established in different contexts" (Whitley, 1992: 7). A business system commonly corresponds to a nation state, as national key social institutions such as the financial system, the political system and the education and training system influence it. However, the distinctiveness of a business system also depends on more culturally dependent institutions. It can be connected to just a small part of a country, as cultural and ethnic differences may encourage a variety of business systems within certain nation states, or it can be cross-national. On this basis, Vietnam may be seen to possess at least two ethnically based business systems within the private sector, namely an ethnic Vietnamese one and an ethnic Chinese one. In addition, the latter could be regarded as part of a wider, "trans-national" overseas Chinese business system, as Whitley (1992) has also suggested we look at the overseas Chinese in Asia.

As mentioned in the introduction, it is not the aim of this paper to identify complete business system(s) in Vietnam, but rather to focus on those points that have to do with the internal business organisation that is the focus here. For this purpose, the business systems approach is considered a useful point of departure since it "involves the identification of the central phenomena of market economies in ways that are (a) sufficiently standardized across them to enable comparisons to be made systematically, and (b) flexible and variable

[9] Although the ethnic Chinese are often singled out as important actors in the private sector in Southeast Asian (see e.g. Lim and Gosling 1983; McVey 1992), little research has been done on their contemporary role in the Vietnamese economy (Lindahl and Thomsen, 2003). Amer (1996) provides a historical analysis of the Vietnamese Chinese community.

enough to incorporate the crucial aspects in which they differ" (Whitley, 1999: 31). It pinpoints specific issues that should be taken into account when business organisation and the institutional context with which it is interdependent are analysed.

Since Whitley's own specification of the elements of business systems appears fairly inconsistent and varies from one outline to another, the following outline of those elements that concern internal business organisation is limited to drawing upon Whitley (1999) in order to enhance clarity. In his 1999 version of the approach, a number of key dimensions are defined, and divided into three interconnected areas: these areas are respectively ownership coordination, non-ownership coordination, and also employment relations and work management.

This paper focuses on those key dimensions that relate to firm-level business organisation (and hence not on those dealing with production chains or non-ownership linkages between different firms); they are therefore associated with the first and third areas mentioned above. Also, since the overall task here is not to compare different business systems – that is, business systems corresponding to different nations or economies – but to identify differences within Vietnam's private sector, some of the key dimensions even within these two areas are more relevant than others. More precisely, those key dimensions that seem to characterise the garment sector in Vietnam in general because they relate, for instance, to a particular type of regulation (e.g. of labour markets) are not particularly important in terms of comparing the ethnically and/or geographically distinguished sub-sectors that are the focus here. Hence, this paper will concentrate on the following features of internal business organisation:

- *Primary means of owner control*, including:
    - A) the extent to which the owners and controllers of financial assets are involved in management
    - B) the concentration of control over these assets, which is typically high in owner-managed firms
    - C) The exclusivity of ownership boundaries, which refers to the extent to which ownership rights are regarded as indivisible, and which is, for example, considerable in owner-managed family firms (Whitley, 1999: 35).

- *The degree of managerial delegation to, and trust in, employees* (Whitley, 1999: 38-39).

- *Employer-employee interdependence*, including reliance on external labour markets and/or mutual investment in organizational capabilities (Whitley, 1999: 38).

Throughout the analysis of different types of private sector business organisation in Vietnam, some reflections are offered on how these appear to have been influenced by cultural institutions or key social institutions. In the case of East and Southeast Asian business systems (Whitley, 1992; 1999), those cultural institutions that Whitley mainly regards as influencing business organisation concern family structures and relations, for instance, the degree of loyalty and trust that stretches beyond the core family, or the degree of formalisation and depersonalisation of authority relations. Concretely, among other things this has implications for the primary means of owner control and employer-employee relations in enterprises in terms of the degrees of "personalisation" in ownership and management, the extent to which tasks are delegated to managers and supervisors (and whether or not these are family members), and the ways in which workers are recruited and trained. For example, delegating tasks to supervisors or managers beyond the family is commonly seen as rare in the overseas Chinese family business, employees normally being recruited through relatives and friends who already work in the company (Redding, 1990; Chen, 1995). These points will therefore be crucial in the analysis of the primary means of ownership and employer-employee relations for the respective business segments. In this way, the analysis will not only contribute knowledge of if and how the Vietnamese Chinese type of firm-level organisation differs from that of Chinese family businesses more generally, but also compare and contrast the former with firm-level organisation in Vietnamese-owned enterprises.

Towards a private sector

Before turning to the analysis of enterprises in Vietnam, however, some historical details need to be understood, mainly the background to the development of a private sector in Vietnam, with its formerly planned economy. Some of the contemporary divisions within Vietnam's private garment industry are clearly related to the country's history.

When the formerly separate states of South Vietnam and North Vietnam were reunified in 1975, the Soviet-inspired Democratic Republic of Vietnam (DRV) model, which had been followed in North Vietnam since 1954, was applied to the entire country. Previously, since South Vietnam had had a market economy supported by the US, the economic system was very different from that in the north. The industrial sector in the south was mainly concentrated in Saigon (now HCMC) (Cortés and Berggren, 2001). The Hanoi government's industrialisation strategy for the reunified country aimed at establishing an economy consisting solely of state-owned enterprises (SOEs) and cooperatives and at promoting heavy industry. Thus, SOEs were assisted by the government in many ways, including direct subsidiaries, tax reductions and debt freezes (Dinh, 2003). According to

Cortés and Berggren (2001: 15), however, the state sector never employed more than 20% of the labour force in North Vietnam, and the co-operative agrarian sector remained the largest employer.

As part of the industrialisation strategy, the Hanoi government initiated a clampdown on private business in the south. Campaigns to eliminate capitalist activities were implemented, and private enterprises were nationalised; only households were accepted as "private" economic units. Historically, the Vietnamese Chinese area of former Saigon, Cholon, was the main centre for private trade. The consequences of the anti-capitalist campaign, which apparently peaked when Vietnam went to war with China in 1979, were therefore most drastic for the Vietnamese Chinese (Amer 1996; Pan, 1998). As Dolinski stresses (2004), like everyone in southern Vietnam, the Chinese of Cholon were dispossessed of their properties and wealth, but they also lost all the privileges that their community had acquired through the years, becoming "the losers among the losers" and social outcasts. This feeling was strengthened when former North Vietnamese families, soldiers and civil workers moved into some of the numerous confiscated or abandoned houses in Cholon. Many Vietnamese Chinese had fought with Vietnamese forces to conquer the territory they now lived in from the Khmer and shared a common cultural background with the Vietnamese, both of which had made them feel like "co-owners" of the place before the country's reunification (Dolinski, 2004; see also Khanh, 1991).

In the late 1970s, a major economic crisis occurred in the entire country. According to Beresford (1989), this was largely caused by the country's reunification, since the socio-economic systems in the communist north and the capitalist south proved incompatible. It has also often been stressed that the south had never really been integrated into the collectivised system after 1976. Hence, the following transition from a planned to a market economy, which started in the early 1980s, is often seen as having been triggered by this crisis (see e.g. Vylder, 1995; Cortés and Berggren, 2001).

In 1986, the *Doi Moi reforms* were promulgated. Nonetheless price controls and state subsidies persisted, as did hyperinflation (MPDF, 1999). The crisis further weakened the "conservatives'" position in the government, and the goal became one of building a market economy with an export-oriented industrialisation strategy, a so-called market economy with socialist orientations (Fforde and Vylder, 1996; Dinh, 2003). In 1988 the private sector was officially recognised, and by the end of 1990 the enterprise law established its legal basis[10]. Simultaneously, the official perception of the Vietnamese Chinese changed

[10] Since its introduction, Vietnam's enterprise law has been revised and developed in 2000 and again very recently (1 July 2006). The outcomes of the most recent changes are still not clear at the time of writing (See Appendix I for details).

somewhat, since it seems that they were suddenly recognized as potential contributors to the country's economic development (Lindahl and Thomsen, 2003).

The reforms that followed among other things aimed at creating a "multiownership system and developing enterprises of various economic components" (Dinh, 2003: 8). It is, however, important to note that, although a private sector was permitted from the end of the 1980s, it was not encouraged (Kokko and Sjöholm, 2000). Today, SOEs still enjoy favourable conditions, such as access to financial resources, land, infrastructure and labour (see Appendix I for details) (Nghia, 2001; Dinh, 2003). Unlike in transition economies in eastern Europe, the private sector in Vietnam was formed mainly by newly established enterprises rather than privatised SOEs (Cortés and Berggren, 2001). Due to the country's transitional nature, private enterprises have short histories either as "limited liability companies" (Ltds), as "private enterprises" (Ptes) or as "joint stock companies" (JSC), the ownership forms that jointly constitute the registered private sector[11] (see Box 2.1). However, some enterprises were established prior to the Law on Private Enterprises in other (private or state) ownership forms and only registered in their current forms later. Southern Vietnam is still the economically dominant region in Vietnam. The private sector was especially quick to re-emerge in HCMC, which currently hosts around a quarter of all private enterprises in the country (Cortés and Berggren, 2001).

In what follows, four different categories of enterprises will be examined, respectively Vietnamese in Hanoi, Vietnamese Chinese in HCMC, Vietnamese of southern origin in HCMC and Vietnamese of northern origin in HCMC. The analysis will take as its starting point the business system approach to internal business organisation and therefore focus on the primary means of owner control, employer-employee interdependence and managerial delegation to and trust in employees. A few general remarks, mainly on enterprise size by number of employees and origin of enterprise owners, are made at the outset of each of the four sections in order to set the scene.

[11] A fourth type of enterprise form, the partnership, also exists. Since it is rarely used and no enterprises in the sample are registered in it, it is not included here.

Box 2.1: Private ownership forms in Vietnam

Private company:

Owned by one individual who is liable for all activities to the limit of all his/hers assets. An individual is entitled to establish one private company only.

Limited liability company (Ltd) with one member:

Owned by one organisation or individual. The owner is liable for all debts and other property obligations up to the amount of the charter capital of the enterprise. The company is managed by the owner as the chairman of the company and a director or general director.

Limited liability company (Ltd) with two members or more:

Owned by several (up to 50) members, who may be individuals or organisations. A member is liable for the debts and other property obligations of the enterprise up to the amount of capital he/she has contributed. The company is managed by a member's council, a chairperson of the council and a director.

Joint Stock Company (JSC):

A JSC is either established from the outset as private or an equitized SOE. The charter capital is divided into shares, and shareholders (a minimum of three), who may be either individuals or organisations, are liable for the debts and other property obligations of the enterprise up to the amount they have contributed. A JSC must have ordinary shares and preference shares, and usually shareholders are free to assign their shares to other persons with some restrictions. The company is managed by a General Meeting of Shareholders, a Board of Management and a director.

Source: Vietnam Economic Times No. 150, August 2006

The Vietnamese in Hanoi

On average, enterprises in Hanoi employed little more than 200 workers, with JSCs representing the largest firms; on average, Ltds employed approximately 150 and JSCs 370. There were no Ptes in the Hanoi sample, which reflects a more general shortage of garment Ptes here (see Appendix IV). As we shall see in the following, this is closely connected with a preference for collective ownership and management forms in Hanoi. All enterprise owners in the Hanoi sample were ethnic Vietnamese and had been born in northern Vietnam, mainly in Hanoi.

Primary means of owner control

Enterprise owners in Hanoi were generally involved in managing their enterprises to some extent, though most of them had little experience in running a garment company, except in a few cases, where garment manufacture had been a traditional occupation of their families. More than half of the Hanoi respondents had been occupying positions in the state sector (though rarely garment-related) before opening private enterprises and were university educated, usually at the economic and foreign trade universities in Hanoi or former Eastern Europe. They often emphasized that their education, which had usually been acquired during the period of the planned economy, was hardly any use in contemporary Vietnam. In addition, the decision to produce garments seemed "accidental" for most of these former state employees, as in the case of this director of a JSC:

> "Like many people in the garment sector here I studied another subject, construction and engineering, and I have been managing a SOE producing food and carpets for thirty years. I entered the garment industry (…) because that SOE merged with a garment SOE" (Respondent 7, 2000).

A few other enterprise owners had had (now bankrupt!) private enterprises in other industrial sectors, and seemed to have switched to garments because of the industry's relatively low entry barriers in terms of, for instance, start-up capital. In spite of the fact that few of these educated former state employees possessed advantages in garment production regarding qualifications, they often had other advantages in the form of different types of personalised relationships (*quan he*). These relationships with various types of authority seemed to have emerged in contexts within or between the state and SOEs, and had been recently re-configured into personalised relationships between particular officials and themselves as private-sector business owners. Such relationships appear to be almost mandatory in terms of accessing certain resources and markets in Vietnam, as well as in avoiding or decreasing corruption-related visits by officials.

Hanoi enterprise owners without a background in the state sector did not have university educations either, yet they were among the most experienced in garment production in Hanoi. They were commonly self-taught women, who had initially started out in household businesses during the period of the planned economy, after which they generally targeted the local market with tailored products of good reputation. Rather than rely upon connections, this group of Hanoi business owners emphasized the importance of "learning by doing".

The long period of the planned economy in northern Vietnam means that private initiative has only started to emerge here recently. Hence, the majority of enterprises in the sample in Hanoi were founded after the introduction of the 1990 enterprise law in the specific ownership form that they still remain in. Exceptions were a few former SOEs and households, which were now either JSCs or Ltds. Also, a relatively large number of the Hanoi enterprises in the sample were not under individual ownership. First, this was the case for JSCs, which were mainly former SOEs and still had state stock. Secondly, some Ltds were also owned by groups of people, who attended the members' councils. According to the law, members of Ltds with multiple owners should appoint a council, a chairperson and a director (see Box 2.1); which also seemed to be the actual situation in Hanoi. Respondents in enterprises with multiple owners often pointed out that they did not want to take the risk of owning a company on their own, which indeed they were not used to doing. They preferred more collective forms of ownership, which were also commonly perceived as less "selfish" and less "capitalist".

However, there was also a group of Hanoi Ltds that were family-owned. The majority of them had been registered as Ltds from their foundation, while others were former household businesses that mostly started producing between the early 1980s and mid-1990s. Only two family-owned Ltds were older: one of them was a former production unit belonging to the local Youth Union[12] (Respondent 12, 2000), while the other had been established during the colonial period (Respondent 2, 2000). The latter became a household business under the planned economy and reregistered as a Ltd after the Doi Moi.

Delegation to, and trust in, employees

Few alterations in management or personnel had been made in any of the former SOEs, which were therefore managed by people who had (perhaps only) entered the private sector

[12] After the introduction of the *doi moi*, the Communist Party and mass organisations created companies, which were subsequently governed by the law on private enterprises in 1999 and registered as Ltds or JSCs (Nghia, 2001).

because of the authorities' decisions on "equitization"[13]. In these as well as in Ltds not under individual ownership more generally, directors were commonly in charge of daily operations, though certain tasks were usually delegated to other representatives of the Board of Management or Members' Council, which had full responsibility for these tasks. The main reason given for this was that it increased managers' confidence that they had the support of their boards in the sense that they did not have to take all the decisions single-handedly, i.e. they could share the responsibility with others.

In family-owned companies, it was often stated that all or many family members worked for the company, for example as secretaries or supervisors, and responsibility was delegated to them to a relatively large extent. It was generally considered "nice to be able to supply jobs for relatives" (e.g. Respondent 3, 2000). The benefits obtained from employing one's family or relatives were usually believed to include risk reduction and the preservation of profits within the family. Yet, a few respondents noted some disadvantages, mainly in terms of maintaining individual authority One male respondent, for instance, explained:

> "Employing the family has two sides. It's great if the person from your family is somebody you can trust – really trust. If not, it's embarrassing for them and also for us. It's easier to punish outsiders who have done something wrong than somebody from your own family" (Respondent 18, 2000).

Some respondents also stressed that relatives were not automatically preferred since "it is not our ambition to employ them just because they are family – they should also be qualified. But if it's possible, family members are always more welcome" (Respondent 9, 2000). When asked what safeguards there were against relatives taking advantage of their relatively secure positions in the companies, only a few respondents were able to give any examples. One business owner (Respondent 2, 2000) explained how she once told her uncle to "stay away from work for a month, because he refused to follow instructions". Yet, she still paid his salary during that period.

The interdependence of employers and employees

As is often the case in the garment industry, the vast majority of workers in all enterprises in both Hanoi and HCMC were women, and wages were usually paid by the piece. In Hanoi, workers employed by all types of enterprise were mainly recruited through advertisements. Workers were commonly tested by supervisors before being employed. It was often stated that, due to the relatively large surplus of workers in Hanoi, supervisors

[13] In Vietnam, selling off SOE equity is called equitisation (see Appendix I, for detail). It was generally difficult to obtain information on whether or not former SOEs still had state institutions among their shareholders.

simply chose the best and best-trained applicants from the beginning. Often, these workers were initially employed for a month without training, after which they were either fired or hired. Hanoi business owners in the sample seldom invested much in training themselves. Exceptions were a few enterprises engaged in tailoring. Besides, workers in some companies, mainly family-owned, were trained on-the-job – not by persons specifically employed and qualified as a trainer, but in the sense that “older workers work together with the new ones on the same machine for a while” (Respondent 6, 2000). Some of the former state employees also recruited workers through vocational schools, especially initially after the business had been established, when no employees were “old” enough to train newcomers.

The Vietnamese Chinese in HCMC

The Vietnamese Chinese-owned private sector in HCMC[14] is mostly located in and around Cholon. Except for one elderly man, who had been born in China, the business owners in the sample were all born in the HCMC area. Vietnamese Chinese respondents commonly stressed their “Chinese-ness”, but also often underlined that they were “Vietnamese citizens like anybody else”. Vietnamese Chinese companies were relatively small. Though the average Vietnamese Chinese company had about 240 employees, the number falls to less than 145 if one outlying company with 2500 employees (Respondent 54, 2001) is not included (see Appendix IV). Interestingly, this was the only Vietnamese Chinese-owned company in which the state now owned stock, as a consequence of the company being embroiled in a scandal involving (among others) Vietnamese Chinese companies in 1996.

Primary means of owner control

Without exception, Vietnamese Chinese business owners were closely involved in management. They were generally not university educated, but their experience in running garment companies was usually solid. About one third of them had been trained to manufacture garments in traditional “tutor systems”[15], after which some opened companies almost immediately, while others took jobs – usually as quality controllers in foreign-owned garment companies – before opening companies of their own. Others had owned household businesses for years and regarded themselves as self-taught.

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[14] The Vietnamese Chinese first came to Vietnam from China, especially Guangdong Province, between the eighteenth and twentieth centuries. Four of the existing five Chinese speech groups in HCMC are represented in this study in degrees that more or less reflect their actual presence in the city’s garment industry: the majority are Guangdong and Teo chew, while a few are Fukien and Hainan. The last group in HCMC, with only a few representatives in the garment industry in general and none in this study, is Hokkien (Informant 20, 2001).

[15] In Cholon, this system involved training youngsters on-the-job. Usually training was not conducted in the family company, but as part of an ”exchange of children” over time with friends or relatives in similar businesses (see Lindahl and Thomsen, 2003).

It is significant that only one Vietnamese Chinese respondent had ever occupied a position in the state sector, in which he had managed a SOE. Even more strikingly, this was not a case of an SOE recruiting a Vietnamese Chinese manager. In fact, the enterprise was initially private, having been registered as a cooperative during the planned economy, and was owned and managed by a group of Vietnamese Chinese. When the economy was gradually liberalised, it was one of the first businesses to register as an Ltd. Soon afterwards, and despite the fact that this was by now the early 1990s, the business was nationalised, since when the Vietnamese Chinese staff had been gradually replaced. Subsequently the respondent left voluntarily to open his own company, and he stressed that he cut off all cooperation with the SOE and "never touches the state sector anymore" (Respondent 53, 2001). On the one hand, Vietnamese Chinese respondents often mentioned their lack of relations with the state as problematic, again in terms of obtaining access to certain resources and as a "protection" against corruption. On the other hand, they also often mentioned that these problems helped strengthen networks within the Vietnamese Chinese community. The usefulness of this type of relationship, however, is limited in contemporary Vietnam. First, it is important to note that even such ethnic networks are often highly exclusive. Secondly, they do not necessarily compensate for the restrictions in the political economy in the areas where businesses need it the most.

As is also often the case with overseas Chinese-owned companies elsewhere, Vietnamese Chinese companies were generally family-owned. Given Vietnam's quite recent transition to market economy, which generally meant that most private enterprises were established after 1990, they were relatively old, and not one of them was a former SOE. A few were former cooperatives, which had already been dissolved into independent (usually household) units in the mid-1980s and later registered. Others were originally households, some of which existed during, or even before, the planned economy. As in Hanoi the majority were Ltds, but about a quarter were registered in single ownership forms, usually as Ptes, which have either started operating within the last ten years or were former households. In addition, one company was the only Ltd included in the study with just one officially registered owner.

Vietnamese Chinese business owners generally retained a high degree of control over their businesses. They often explained that they found it important to be able to own and control the companies themselves, among other things to hasten decision-making. One example was a Pte that had been part of a cooperative during the planned economy:

> "In the co-op there were lots of people and just as many ideas involved. We had meetings and a lot of debates, which was exhausting. So later everybody decided to become households, and now my company is a Pte. Now I can make my own decisions and respond

> to customers quickly. When I need other peoples' opinions, it's up to me to ask" (Respondent 46, 2001).

Therefore ownership and management tended to overlap so that a single owner and his/her family usually owned and managed the company to the maximum extent possible. Registration in the form of Ptes[16] was obviously the easiest way of securing this, but it is also significant that although other enterprises were mainly registered as Ltds with two or more owners, the very notion of this ownership form differed from that common in the north, where ownership was understood less exclusively. Ltds owned by Vietnamese Chinese commonly only had family members, relatives or close friends, who did not necessarily work or contribute capital to the companies, but were registered as co-owners. Ltd registration was basically a practical formality made in accordance with the policy framework at the time of registration; for instance, it was aimed at obtaining licenses that required Ltd registration, while ownership and control were still highly concentrated.

Delegation to, and trust in, employees

Vietnamese Chinese business owners usually took all the ultimate decisions in the companies, even though management was often partly delegated to family or relatives occupying key positions. It generally seemed easier for the Vietnamese Chinese than for the Vietnamese in Hanoi to maintain authority over family members who worked in the company, perhaps exactly because of the clear mutual agreement that the head of the company was ultimately in charge, even of departments run by family members.

A relatively large number of Vietnamese Chinese business owners also employed managers who did not belong to their families. The most commonly stated reason for this was that they often had only a few family members left in the country after the "Vietnam War" and the country's reunification[17]. Hence, this large degree of employment of "outsiders", larger than commonly stressed in the literature on the Overseas Chinese (see e.g. Redding, 1990; 1998), seems to relate at least to some extent to the Vietnamese context. However, Vietnamese Chinese generally adapted to this situation, and they seldom stressed it as particularly problematic. Rather, they picked managers who were trusted for reasons other than family bonds. One female Ltd owner explained how she promoted a Vietnamese woman to be vice-director:

> "For me it's not important whether people are Vietnamese or Chinese as long as they are trustworthy. All kinds of people can be good and bad (…) I work with them for a while to

[16] Ltds with one owner were relatively newly allowed at the time of fieldwork, which may explain that only few enterprises were registered as such.
[17] It has been estimated that up to 80% of the refugees from Vietnam at that time were ethnic Chinese (Pan, 1998).

> check their *xin yong* (trustworthiness), and sometimes that leads to *guanxi* (long-term relations). My vice-director used to be a worker here, but since I was very satisfied with her performance, I decided to promote her" (Respondent 64, 2001).

Thus, while employed managers in Vietnamese Chinese businesses were sometimes "outsiders" in the sense that they did not belong to the family, nor necessarily to the ethnic group either, they were still "insiders" in company terms: they were picked from the company and trusted because they had been employed by it over a long period of time.

The interdependence of employers and employees

Four main features characterised the relationships of Vietnamese Chinese business owners with their workers. First, smaller family enterprises especially often employed core workers over relatively long periods, often five to ten years. Secondly, unlike all Vietnamese business owners, they rarely advertised for workers or recruited them from vocational schools, which, they usually stressed, would decrease the degree of trust between them and their employees. Rather, they hired via "word-of-mouth" methods to get somebody they were already familiar with. Thirdly, they tended to train and supervise workers themselves, which may explain why it was important to keep them employed for a long period of time. They often emphasized that they simply did not trust anybody else to train their workers, but preferred to be sure that the training was in accordance with the specific requirements of precisely their company. Likewise, the state-owned training centres were considered to be of very low quality, which was also generally confirmed in interviews with foreign agents and buyers (Informants 15; 16; 18, 2001). Fourthly, Vietnamese Chinese business owners complained about labour law-related difficulties much more frequently than other business owners.

The latter may on the one hand be due to the fact that HCMC's relatively large number of labour-intensive enterprises (competing over foreign orders and sometimes having to stop producing for a while when orders were lacking) made it difficult to retain workers. Private enterprises could generally not often offer the same incentives as the subsidised state companies and were not always able to pay the same salaries as foreign ones. This problem seemed particularly difficult to resolve for smaller private enterprises, as Vietnamese Chinese-owned ones generally were. On the other hand, the concern with labour regulations also seemed to be due to a greater degree of scepticism concerning the political-economical system, which clearly related back to the time of reunification, the consequences of which had been particularly hard for the Vietnamese Chinese, as described above. During interviews, Vietnamese Chinese business owners mentioned local authorities' arbitrary interpretations and implementations of labour regulations fairly often. Given that there is a clear tendency among both the Vietnamese authorities and business owners still to distrust Vietnamese Chinese in quite general terms and consider them disloyal to the country, it is also very likely that as business owners, the latter had quite a lot of experiences of that kind. While some factory inspections, for instance, were undertaken properly, others were clearly corruption-related; business owners were asked to "pay money in a white envelope", but not to correct the "errors" that had led to the "fines". Similarly, it was often stressed that complaints from workers did not necessarily lead to an investigation of the problem, but simply to immediate fines on the business owners (again in an envelope without receipts being issued). Enterprise owners often observed that the system solved very few real problems, including those they pointed out themselves:

> "When officials receive complaints from the workers, they come here to meet them. Sometimes it is difficult to say what the purpose of the meetings is, but usually I have to give the officials some money (…). If I complain about a worker, on the other hand, the officials just ask me to send a letter to another office. I tried to do that, but that office just told me the same thing. So I got tired and stopped" (Respondent 57, 2001).

Vietnamese of southern origin in HCMC

HCMC enterprises owned by Vietnamese, who also originated in southern Vietnam, were the smallest Vietnamese-owned ones in the sample. Though their average number of employees was 336, this falls to as little as around 150 if two enterprises with 1000 and 1700 employees respectively are not included (see Appendix IV). This makes the remainder about the same average size as Vietnamese Chinese-owned enterprises.

Primary means of owner control

HCMC Vietnamese of southern origin usually possessed some knowledge of the clothing industry. A few had had garment household businesses for around twenty years or came from, and were trained by, families with businesses in related fields, for instance dying or garment trading. A few other Vietnamese of southern origin had a university education, but seldom any subsequent relevant experience. Likewise, fewer Vietnamese of southern origin had had positions in the state sector previously compared to the other Vietnamese-owned segments[18].

It is also significant that, as with the Vietnamese Chinese, some Vietnamese of southern origin owned (single-owner) Ptes, which was not the case for any of the Vietnamese in Hanoi nor for any HCMC Vietnamese who had originated in the north. It therefore seems that the preferences for owning enterprises individually were more of a southern

[18] Appold and Nguyen (2004) find a similar difference in the degrees of former state-sector employment between HCMC and Hanoi. In their sample of private enterprises in general, one fifth of owners had previously worked in SOEs, while 40% of those located in Hanoi had SOE experience.

phenomenon than necessarily an ethnic one. In addition, enterprises owned by Vietnamese of southern origin were often registered as Ltds with two or more owners, but - as was the case for Vietnamese Chinese-owned enterprises - this was mostly a necessity as a consequence of the policy framework at the time of registration; hence relatives were listed as co-owners on paper only. An Ltd in which the male owner had previously worked as an accountant in another private (not garment) enterprise is an example of this. He was asked by his uncle to join the company and be registered as a co-owner:

> "This company was established in 1993. It's a family company – my brothers and sister work here as well. This is also our house. The company is an Ltd with two owners, who both belong to my family – my uncle and myself" (Respondent 22, 2001).

Hence, control over businesses was maintained in the owners' hands, as was also the case for most Vietnamese Chinese.

Delegation to, and trust in, employees

The majority of Vietnamese Ltd owners of southern origin ran their businesses more or less on their own, so that ownership and management largely overlapped. They generally stressed that, although certain management tasks were delegated to different departments, they still "controlled everything personally", even in cases where enterprises were larger than average: a woman who owns an enterprise together with her husband that, at the time of fieldwork, had 300 employees is an example:

> "I manage the entire company – the different departments take care of certain things, but I control them. My husband does the planning, and I manage the company" (Respondent 25, 2001).

It is also notable that although this family were in the middle of expanding the enterprise, they had no plans to change the management structure accordingly.

The different departments were usually handled by family members, and even in these cases, the enterprise owner re-checked their work as much as possible. As in the case of the Vietnamese Chinese, it seemed easier for the Vietnamese of southern origin in HCMC to sanction family members with whom they disagreed. Again this may be seen to relate to the relatively low degree of responsibility that was actually delegated to family members, while business owners remain ultimately in charge of the company.

Vietnamese of southern origin also usually emphasized that they tried to avoid employing managers who did not belong to their families on the grounds that "outsiders" are not trustworthy. Unlike the Chinese, they seldom systematically turned "outsiders" into "insiders" by extending their perception of who belonged to or were trusted by the "family" by building up trust through long-term relations. Rather, they generally remained more sceptical of delegating responsibilities to non-family members in the company. It is also of interest that none of the Vietnamese of southern origin employed ethnic Chinese or Vietnamese of northern origin as managers.

The interdependence of employers and employees

As with the Vietnamese Chinese, Vietnamese business owners in HCMC often stressed that they had problems in retaining workers, not least in periods when orders were scarce. For the Vietnamese of southern origin, this can again be party explained by the fact that their enterprises were relatively small and not always able to attract orders continuously.

The relations of Vietnamese of southern origin to workers differed from those of the Vietnamese Chinese in how they often recruited workers through advertising or vocational schools and seldom trained them. Exceptions were very small companies, which often recruited the friends and relatives of their current workers and provided them with (more or less thorough) training on-the-job.

The Vietnamese of northern origin in HCMC

The vast majority of the Vietnamese of northern origin who now lived in HCMC in this sample[19] had been sent to the south by the Hanoi government after the country's reunification. Typically they were members of the Communist Party, who had been placed in the south in SOEs or in the administration. The Vietnamese of northern origin owned by far the largest enterprises, with an average of 520 employees (see Appendix IV).

Primary means of owner control

As with the Vietnamese in Hanoi, those who originated there but lived in HCMC generally preferred forms of shared ownership, and hence all enterprises were registered as either JSCs or Ltds with two or more owners. In these Ltds ownership is also shared in reality, and generally owners had no plans to change this, though Ltds can now have one owner. An example is an Ltd whose owner comes from Hanoi and had a position in an SOE in HCMC prior to opening his present private enterprise:

> "My company was an Ltd with two real owners – and as we see it therefore also two managers – from the beginning. The other man is going to retire soon, but his son will take

[19] As explained in the methodology section of Paper 1, a few of the former northerners who were interviewed had come for completely different reasons before reunification and are not included in the analysis.

> over when he finishes university maybe in a few years time (…). Today, it is also OK to open a company with only one owner, or to change it so that I would be the only owner in the future. But I don't want to do that because when there are two owners we can exchange ideas" (Respondent 34, 2001).

These Vietnamese of northern origin were the least experienced of all in garment production, though they were all university educated, invariably in rather irrelevant fields. In cases where former northerners' enterprises were registered as Ltds, ownership was commonly divided between two or more individuals both on paper *and* in practice. Likewise, it is of interest that almost all JSCs in the HCMC sample were nearly 100% owned and controlled by Vietnamese of northern origin, who were formerly the managers of these now equitized (or other) SOEs. The Vietnamese of northern origin were those in the sample who had most relationships with and former positions in the state sector. In addition, unlike all other enterprise owners in Hanoi and HCMC, they still had relatively easy access to resources and "protection".

Delegation to, and trust in, employees

In Ltds owned by Vietnamese of northern origin, management was commonly shared with or delegated to others, so that the directors delegated full responsibility for the different departments to the managers or supervisors in charge of them, regardless of whether these were family members or not.

In some cases, Vietnamese of northern origin even relied entirely on "professional" managers. While many factors might help explain this phenomenon, including the fact that they had little experience in running garment enterprises, a key reason seems to be that these well-connected business owners tended to act as "silent partners" in a range of businesses. They appeared to be among the wealthiest actors in the current southern garment sector, and it seemed that their wealth had generally not been created within the industry itself. Rather, they picked the garment industry as one of many places to invest capital that was accumulated elsewhere.

The interdependence of employers and employees

As was usually also the case for other Vietnamese business owners in HCMC and Hanoi, former northerners practically always recruited workers through training centres or advertising. In addition, they were among the few in the privately owned garment industry who tended to locate their businesses in industrial parks, among other things to obtain access to pre-trained workers. One respondent, whose Ltd is located in an industrial park just outside HCMC, explained how – contrary to the Vietnamese Chinese, who tended to think that quality was achieved through personal training and who had little confidence in the state-run training centres – this gave him confidence in terms of the quality of the work and thus that of his products:

> "The park has a unit that trains and introduces workers. I go through them when I employ somebody. This is also because 100% of my products are for Japan, which is a market that is hard to please" (Respondent 36, 2001).

Summing up

For the four overall categories of enterprise, the main similarities and differences concerning internal business organisation can be summarized as follows (see Table 2.1):

Enterprise owners' involvement in management ranged from low (or even absent) in the case of the former northerners in HCMC at the one extreme to HCMC Vietnamese Chinese-owned enterprises in which ownership and management coincided at the other. In between, Vietnamese in Hanoi were generally involved in management to some extent, while Vietnamese of southern origin in HCMC showed more similarities with the Vietnamese Chinese, so that here too management and ownership often overlapped. Generally speaking, in terms of owners' involvement in management, it seemed that what distinguished enterprise owners the most was whether or not they had had positions in former SOEs, and hence their origin in Hanoi or HCMC was essential. Enterprise owners with such positions had to some extent transferred management styles from the state sector to the private sector. The Vietnamese Chinese and the Vietnamese of southern origin had few experiences of employment in SOEs and were therefore far more used to managing private enterprises individually, as well as being generally more self-confident in doing so.

Table 2.1: Internal business organisation elements

	Vietnamese in Hanoi	**Vietnamese Chinese in HCMC**	**Vietnamese of northern origin in HCMC**	**Vietnamese of southern origin in HCMC**
Primary means of owner control:				
Owners' or controllers' involvement in management	Owners generally involved in management	Management and ownership coincide	Low involvement or absence	Management and ownership mostly coincide
Concentration of control over assets	Low due to multi-ownership	High	Low due to multi-ownership	High
Exclusivity of ownership boundaries	Large amount of enterprises subject to multi-ownership	All single owners	Most enterprises subject to multi-ownership	Large amount of single owners
Delegation to, and trust in, employees	Delegation common in multi-owner firms, not in family firms	Some delegation to trusted (kin and non-kin) employees	Delegation common. Hiring of professional managers	Some delegation, mainly to family members
Employer-employee interdependence	Testing (firing or hiring) of pre-trained workers recruited through schools or advertisement	Word-of-mouth recruitment, in-house training and employment on longer terms	Recruitment of pre-trained workers through schools, e.g. related to location in industrial zones	Recruitment through advertising or schools

Source: Interviews 2000/2001

A similar "rank order" appears in terms of the exclusivity of ownership boundaries and the concentration of control over assets: Vietnamese of northern origin in HCMC and the Vietnamese Chinese again represented polar positions. Several individuals and/or organisations usually owned the enterprises in the case of the former, while concentration of control over assets was extremely high in the case of the Vietnamese Chinese. Enterprises owned by Vietnamese in Hanoi were seldom under individual ownership, while those owned by southern Vietnamese normally were. Again, in the case of business owners from the north, there was a tendency for them not to register in individual ownership forms regardless of whether they still lived in Hanoi or had moved to the south. An origin in southern Vietnam tended to lead to a general preference for individual ownership and a relatively high concentration of control over assets. This was not least the case for the Vietnamese Chinese, whose scepticism about giving up control may have been strengthened by the country's history, since their ancestors had had businesses confiscated on a large scale, and by the fact that similar (wholly or partly) nationalisations of Vietnamese Chinese-owned businesses had occurred in recent cases.

In respect of delegation to, and trust in, employees, the pattern described above still holds to some extent, so that Hanoi enterprise owners and also former northerners in HCMC had similarities in the way that they commonly delegated full responsibility for certain tasks to managers, while HCMC Vietnamese of southern origin and also Vietnamese Chinese delegated responsibility less, and when they did, it was mainly to family members. Also, they generally re-checked the work of these managers and supervisors. Vietnamese of northern origin still stood out, since they were the only ones who hired "professional managers" to run their companies entirely. Nonetheless, in terms of the delegation of responsibility, it was not the Vietnamese Chinese but Vietnamese of southern origin in HCMC who differed most from them, since they were least likely to delegate responsibilities beyond the family. In some cases, Vietnamese Chinese even delegated responsibility beyond ethnic lines to trusted Vietnamese managers. The latter practice is particularly interesting, since overseas Chinese in South East Asia are otherwise commonly seen to limit trust – and therefore delegation of responsibility – to their families. One possible explanation for this difference is that the Vietnamese Chinese have been forced into broadening their employment of managers beyond their family, since many members of their family fled the country during and after the Vietnam War.

As regards methods of hiring and training workers, the Vietnamese Chinese preferred recruiting workers through trusted "intermediaries" such as long-term employees. They usually trained the workers themselves to ensure that the training met their own specific requirements, which, with their generally high degree of experience in producing garments and low confidence in the capabilities of the state-controlled vocational schools, they preferred doing themselves. By contrast, Vietnamese business owners of all kinds tended to hire sometimes pre-trained workers through advertising or vocational schools.

Concluding remarks

This paper has examined internal business organization in the private garment industry in Vietnam, and has shown that the country's private sector is much more heterogeneous than is often suggested. Four segments of enterprises distinguished by their locations in northern or southern Vietnam, the business owner's origin in either, and also whether they are of Vietnamese or Chinese ethnicity, have been included in this analysis. The paper has used the business systems approach to highlight systematic disparities in internal business organisation between these four segments.

While ethnicity clearly had a bearing on internal business organisation, this was not for the reasons that one might have expected. Vietnam may have two ethnically based business systems as suggested in the theoretical section above but, at least in terms of internal business organisation, the differences between them do not really appear to depend on culture. In this respect, it makes most sense to see how ethnicity and culture influence management and ownership by comparing the two segments that live and originate in HCMC, since the other conditions created by historical and present-day key social institutions for these segments have been the same. Using the business system method of systematic comparison and contrast has brought us to the important conclusion that ways of dealing with firm-level organisation differ very little between these two segments of enterprise owners. This is perhaps not so surprising, since Vietnamese as well as Chinese culture is basically Confucian, and therefore characterised by similar family-based and patriarchal authority relations. Still, this result is in itself interesting given the serious lack of knowledge about Vietnamese business culture compared to, for instance, the overseas Chinese family business. Also, systematic comparisons of the two groups' ways of running private enterprises in Vietnam today otherwise barely exist. It is also clear from the analysis that while the Hanoi and HCMC segments differed, enterprise location in one of these two places was not a satisfactory explanation for this, since there were also differences between the two types of Vietnamese-owned enterprises in HCMC.

Thus, the business systems approach has helped us reveal a picture, a snapshot, of similarities and divergences in terms of internal business organisation in contemporary Vietnam, but it has not really offered causal explanations for them. Further reflections on the reasons why there are still differences between the four segments of enterprise owners are needed. These reflections are mainly based on factors that do not derive from the business systems approach but mainly have to do with the personal "state" histories of enterprise owners. The most plausible explanations for the differences between private-sector enterprise owners in Vietnam therefore seem to relate mostly to their *origin* in two very different political economic systems, rather than where they are located today. Hence, Hanoi enterprise owners and Vietnamese of northern origin in HCMC are much more influenced by the former planned economy than their Vietnamese and Vietnamese Chinese counterparts who come from HCMC.

Moreover, differences are constructed through the relationship between the Vietnamese state and private enterprises in general and the Chinese minority, historically and at the present day, in particular, which creates a Vietnamese Chinese segment that is much more "consciously private" and much less influenced by any version of state relationships than any other segments. Finally, these differences relate to the transitional nature of Vietnam's economy today, which means that the private sector contains a variety of former SOEs, former state-sector employees and small-scale family businesses, in which factors like the diverse educational backgrounds and former employment influence the present management strategies of enterprise owners.

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Paper 3: Divisions within the private clothing industry in Vietnam: business–state relations and access to finance and land

Introduction

Economic reform in Vietnam has lead to a boom in private enterprise. The registered private sector is highly heterogeneous, for example, in that it consists not only of newly registered enterprises, but also of "equitized" state-owned ones. Moreover, other intra-sectoral differentiations exist that have been subject to virtually no research. It is argued here that these derive mainly from Vietnam's political history and current political economy, both of which profoundly influence the relations of owners of private enterprises with the state today. Two interrelated aspects of the effect of such relations are the focus here: first, business owners' access to those resources that are associated with establishing and expanding businesses, most importantly capital and land; and secondly their access to and support from business associations in terms of obtaining these resources. This paper suggests that both types of access and support depend less on regulation – and in the case of access to business associations, less on attributes like size of enterprise or specialisation, as would commonly be the case in the West – and much more on personalised relations (*quan he*) between the owners of private enterprises and different levels of state officials. Business–state relations exist between the owners of private enterprises and individuals at different levels of the state, including state-owned enterprises (SOEs), intermediary associations, the police, customs, ministries, and various peoples' committees (city, district, ward). They generally relate, for instance, to private enterprise owners' former employment in the state sector or their party membership[20]. The paper further argues that, in the Vietnamese clothing industry, enterprise owners' possession or lack of such relationships is closely connected to their ethnicity, as well as their present location and/or origin in either northern or southern Vietnam. Hence the paper deals with four segments of private-sector enterprise owners against this background, namely Vietnamese Chinese in Ho Chi Minh City (HCMC), Vietnamese in Hanoi, Vietnamese of southern origin in HCMC and Vietnamese of northern origin in HCMC.

The close association between a business's relations with the state and its ability to access resources is also an issue in some of the literature on other transition economies, as well as on South East Asian economies. In South East Asia, business–state relations are often

[20] More recently and/or strategically established relations also exist. They seem less "effective" and more randomly used than personalised relations. Here, however, it is the connection between the personal background of enterprise owners and their present possibilities that is the main focus.

considered a "grey" zone and are seen not least to relate to networks of large-scale enterprise owners in general and of ethnic Chinese-owned enterprises in particular, although this point cannot be confirmed in the empirical case of Vietnam, as discussed below. Of the private enterprise owners described in this study, the Vietnamese Chinese engage least in relations with state officials, while ethnic Vietnamese of northern origin and with historical relationships to the communist government in Hanoi are much more "connected". It is very clear that those business people who had close connections with the North Vietnamese state before the country's reunification are also those with the most effective networks today.

In transition economies, as a result of privatization specific resources are no longer state property, but the question then becomes to what extent access to them has ceased being a matter of state control. In Vietnam, difficulties in accessing capital and land[21] are commonly regarded as symptomatic of the private sector in general as opposed to the state sector (see Appendix I for details of the land market and the financial market). SOEs are allowed to borrow from the state-owned commercial banks, which account for three quarters of total credit in Vietnam. Therefore, credits are mainly distributed to SOEs (Vietnam Development Report, 2005). As a consequence, it has been estimated that only about 55% of Vietnam's private enterprises have access to bank loans, mainly in the form of short-term credit that is used for working capital rather than for fixed capital investment. Thus, private enterprises generally rely on family savings, retained earnings or informal credit markets at high interest rates (MPDF, 2004; Cortés and Berggren, 2001). Likewise, the existing distribution of land also favours SOEs, which receive an initial land allocation free of charge, along with long-term land-use rights (see e.g. Vietnam Development Report, 2005). For private enterprises, obtaining land-use rights by leasing land from the government is a very lengthy and costly process, and in any case these cannot be transferred without state permission. As a consequence, an estimated 70% of all transactions in land-use rights take place in the vibrant unofficial market in which private businesses lease areas of land from SOEs or farmers (IFC, 2003).

However, it is argued here that this notion of a private–state dichotomy is far too simplistic in the sense that, while SOEs may be generally favoured, not all private enterprises work under equally adverse conditions. This is not least because state and private ownership is not easily distinguished in contemporary Vietnam, where a large proportion of enterprises are neither really private nor truly state-owned (Gainsborough, 2003). For example, some former SOEs have been "equitized" and registered as private but still contain state stock, while other private enterprise owners are former state employees who have been able to transfer particular assets to their private enterprises. Based on extensive fieldwork, this paper suggests that in Vietnam access to resources for businesses does not so much relate

[21] Land is not regarded as a commodity in Vietnam, and trading in land is not allowed by law. Only land-use rights are regarded as a commodity, and hence a market for these rather than for land itself (Dinh, 2003) (see Appendix I for details).

to their size, as the literature on small and medium-size enterprise (SME) performance commonly suggests (see e.g. Harvie and Lee, 2002; Steel and Webster, 1992), nor does it depend entirely on ownership form, as is commonly suggested by scholars of Vietnam (see e.g. Van Arkadie and Mallon, 2003; Diehl, 1998). More significantly, it is determined by the owners' historical – and thus present – relations with the state, and is therefore mediated primarily by Vietnam's political history. In demonstration of this argument, the paper examines the different possibilities for accessing finance and land for the four segments of private enterprises in the clothing industry. As already mentioned, these segments are based on the owners' ethnicities and also on their origin and/or location in southern or northern Vietnam, all of which, it is argued, have an impact on their relations with the state, both historically and today.

Business associations are often regarded as important mediators between the private sector and those bodies in the state system that regulates it. Doner and Schneider (2000) remark that, from a New Institutional Economics point of view, business associations are usually seen as non-state institutions that may or may not, for instance, reduce transaction costs and rent-seeking. Likewise, potentially they have the ability to support their members in accessing specific resources, either by providing them with various kinds of business service, or more indirectly in terms of contributing to the construction of a business climate or a regulatory system that can offer better opportunities for enterprises. Bearing in mind that the private and state sectors are not easily distinguished in Vietnam, as suggested above, the question here is to what extent Vietnamese business associations offer support that matches the needs of private enterprise owners in Vietnam in general, or whether they contribute only to widening the gap between state-connected and state-unconnected enterprises, and thus to further segmentation of the industry.

The paper falls into three parts. First, it will examine the discussion of business–state relations in other South East Asian economies and other transition economies. Secondly, some background on the role of business associations in Vietnam is provided. Thirdly, the different segments of enterprise owners' access to land and capital, including their gains in this respect from different business associations, are examined sequentially. Finally, the findings are summarized and discussed.

Business–state relations in South East Asian economies and transition economies

Central discussions in the literature on transition economies deal with crony capitalism and business–state relations (e.g. Walder, 2003; Benácek, 1997). A parallel discussion exists in the literature on South East Asia, in which the ethnic Chinese and "indigenous" populations are often distinguished (Johnson and Mitton, 2002; Gomez and Jomo, 1999; Gomez, 2000). Since the issue in the present article is partly also about ethnicity – about comparing and contrasting access to resources for ethnic Vietnamese and ethnic Chinese enterprise owners respectively in the South East Asian transition economy of Vietnam – both bodies of literature will be briefly outlined here.

In the case of transition economies, the discussion is often linked with debates over the emergence of and conditions for "rational" market institutions in these economies. While neoclassical approaches to transition economies simply call for the destruction of socialist institutions in order to "unleash" markets, institutionalist approaches link the possibility of success to the "rationalization of institutions", creating an "enabling environment" for private enterprises. According to Garnaut, Song, Tenev and Yao (2005), the Asian transition economies have been among the slowest to privatise their SOE sectors and to introduce reform directed at creating and supporting new private enterprises.

Privatisation has also been accompanied sometimes by the erosion of state assets and enrichment by private individuals. In cases where states have achieved private sector development mainly through privatisation, for instance, it has been said that SOEs simply "privatise themselves". In addition, attention is paid to shady benefits obtained by state representatives from privatisation and relations between bureaucrats and private entrepreneurs, the latter themselves often being former bureaucrats too (Benácek, 1997; Walder, 2003).

Garnaut et al. (2005) stress that debates on ownership change and the emerging economic structure in transition economies often treat private and state ownership as two easily distinguishable and homogeneous concepts. In reality both types of enterprise take numerous and mixed forms so that it is difficult to tell the difference between them. Likewise, it is often difficult to know how closely related to the state these enterprises really are. In China, for example, shareholders in a private corporation may be individuals, conglomerates or institutional investors, while SOEs can belong to central, local or provincial governments, to another SOE etc. (see e.g. Backman, 2001; see Gainsborough, 2003 for a similar discussion on Vietnam).

As will become clear from the empirical analysis below, it is questionable whether those enterprises that are former SOEs and those that are owned by (former) state employees and registered as private in Vietnam are subject in reality to market mechanisms to the same extent as other private enterprises, since personal relations between these new private-sector owners of enterprises and their former colleagues are critical success factors. As, for example, Fforde and Seneque stress (1995), resources such as state credits and aid funds are generally used for an interlocking combination of party, state and private interests in Vietnam. Likewise, in analysing the changing role of the HCMC local government, Gainsborough (2003) notes that although HCMC, including its leadership, has often been seen as reformist compared to Hanoi, the reality of the city's economic policies "has more in common with accounts that downplay the state's developmental proclivities in favour of greater emphasis on rent-seeking" (Gainsborough, 2003: 1). Hence, corruption in Vietnam's state sector is highlighted, where low salaries and downsizing have clear and profound consequences for employees' survival strategies at all levels, as well as indirect distributional consequences in terms of the personalised allocation of state resources.

In the literature on crony capitalism and business–state relations in South East Asia, two overall issues can be identified. First, this literature sometimes points to firms that are politically connected through their official status, mainly owned by "indigenous" populations, as in Malaysia and Indonesia. Secondly, it focuses on more informal relationships between enterprise owners and the authorities. This latter type exists, in the case of Malaysia, between both Malay business owners and the state and Chinese business owners and the state, though the focus has overwhelmingly been on the latter type (see e.g. Johnson and Mitton, 2002; Gomez and Jomo, 1999).

In addition, it has been stressed that some South East Asian countries have applied different regulatory systems and different allocations of resources to their majority populations and ethnic Chinese minorities respectively. This body of literature also focuses mainly on Indonesia and Malaysia, but discriminatory policies have also been present elsewhere in the region. For example, Shaolian (2000) shows that the presence of the Chinese minority in the Philippine commercial sector was the result of its exclusion from other sectors until at least the 1970s. Discriminatory policies and the absence of institutional support are often seen as leading Chinese business people to establish political connections and to create community-based business associations, whose leaders engage with the political elite. A search for political patronage has thus often been seen as a way of coping with South East Asian political and economic environments. Likewise, the success of such strategies has been used to explain the business success of Chinese enterprises in the region. An important point in Gomez's extensive work on the subject (e.g. 2000), however, is that, when such relationships are created by prominent Chinese tycoons in Malaysia, they are increasingly only helping the tycoons' own firms to overcome problems related to the rather discriminatory policy framework: small-scale Chinese businesses do not benefit much from these relationships. Such relationships occur rather in the upper layers of the community, since Chinese tycoons increasingly tend to relate more to Malay patrons than leading or even participating in the Chinese community.

Yet, some “trickle-down” effect in terms of, for instance, the tycoons subcontracting downwards does occur.

The Vietnamese case has important similarities with but also important differences from the South East Asian situation described here. The Vietnamese Chinese were also a powerful economic group historically in Vietnam, but in recent times they have not been marked out for institutionalised discrimination. Nevertheless, the minority has suffered intolerance on the basis of negative official and also public perceptions, being associated with “capitalist activities” (see e.g. Dolinski, 2001; Pan, 1998).

The next section examines a question that arises from the discussions of business–state relations in South East Asian economies and transition economies, namely to what extent business associations promote the private sector’s influence over government in Vietnam, including access to resources for the private sector in general and for different types of private enterprise in particular.

Business associations in Vietnam

When examining the changing patterns of state–society relations in Vietnam, Stromseth (1998) argues that, here as in China, these are moving from a Leninist “mobilization model” towards so-called communist corporatism[22], since mass organisations and other officially sponsored organisations, including business associations, have increased their influence on policy- and law-making. This change is mainly seen to imply that organisations no longer serve only as instruments of mobilization for the ruling party by transmitting laws and regulations, but that they have also started to articulate the interests – mostly in terms of formulating laws – of those groups they represent. However, the Communist Party still controls public organisations in Vietnam and senior party officials continue to be appointed as their leaders, against a background where “the party has pursued these reforms out of self-interest: not only do they help to pre-empt the formation of autonomous organisations that could pose challenges to one-party rule, but they allow the party to monitor and control the interest representation that does occur” (Stromseth, 1998: 6; see also Van Arkadie and Mallon, 2003).

A large number of mostly state-controlled business associations exist in Vietnam. According to MPDF (2002), they are regarded as “social-professional organizations” that the government permits to be established, and which have businesses, other organizations

[22] Stromseth (1998) applies the term “corporatist” to stress, for instance, that the official purpose of mass organizations has changed during periods of economic reform to help the party to achieve rapid economic growth. He uses the term “communist” rather than “socialist”, which, he argues, describes neither the economic system nor the legacies of the communist political system in Vietnam.

and individuals as their members. The roles of official business associations in Vietnam include maintaining a dialogue with the government on business policies, especially on improving the business environment for private enterprises so that their access to finance, land and other scarce resources will supposedly be more comparable to that of SOEs. In addition, associations generally provide non-financial business-support services such as training courses, technical consultancy, organising trade fairs and promoting business contacts (Informants 17; 19, 2001; MPDF, 2002). But, as will also become clear from the analysis below, professional capacity in business associations in Vietnam is generally weak. Likewise, MPDF (2002) stress that only the largest business associations, in which SOEs are over-represented, are included in dialogue with the government in reality. Examples are the Vietnam Chamber of Commerce and Industry in Hanoi, the Union of Associations of Industry and Commerce of HCMC, and the Hanoi Union of Associations of Industry and Commerce. The Vietnam Chamber of Commerce and Industry dates back to 1960, when it was established by official decree. It is supposedly an "independent non-governmental organization", but "with the support and under the supervision of the Vietnamese state" (MPDF, 2002). Likewise, the Union of Associations of Industry and Commerce of HCMC and Hanoi Union of Associations of Industry and Commerce belong respectively to HCMC and the Hanoi People's Committees. Hence, it is important to note that private-sector interests are not necessarily strongly represented by these associations.

It is argued here that this tendency is also reflected in the garment associations in Vietnam, though those ones in HCMC and Hanoi have very different backgrounds. The Vietnam Textiles Association (VITAS) in Hanoi falls under the supervision of the Ministry of Industry and is a national-level association. VITAS was from the outset established around the national state-owned general garment corporation (VINATEX; see Appendix I). Hence, the chairman of VITAS is also the chairman of VINATEX's managing board, and the fact that the two organisations have recently moved to the same building emphasises that they do appear more as one player (or two interrelated players) than two players representing different segments of the sector. Though private enterprises may now join VITAS, MPDF (2002) estimate the proportion of SOEs with membership to be between 50% and 70%. In HCMC, the history and to some extent also the present organisational structure of the Association of Garments, Textiles, Embroidery and Knitting (AGTEK) differs from that of VITAS, though it is presently defined as a member of the national association. AGTEK was originally established soon after the introduction of economic reform by private entrepreneurs, most of whom were Vietnamese Chinese (Respondents 46; 49; 61, 2001; informants 17; 19; 20; 23, 2001). One exception among these founders was a Vietnamese of southern origin who managed an SOE during the planned economy and is a member of the Communist Party. He was asked by the other participants to join the association's board due to "his relations and also his qualifications – he was the only one of us who was a party member" (Informant 23, 2001). Interestingly, this Vietnamese enterprise owner also seems to be the only one of the founders who is still on the association's board. A great scandal involving among others Vietnamese Chinese-owned companies[23] in the late 1990s led to a decrease in banking and other activities in the Chinese community in HCMC (see Lindahl and Thomsen, 2003). Hence, AGTEK, in the form it took at the time, and also a number of other Vietnamese Chinese associations were affected:

> "Of course the collapse of the Viet Hoa Bank had some influence on other Vietnamese Chinese activities, but mostly it influenced the garment association because the people behind the Viet Hoa Bank had contributed lots of money to it before. Now the garment association does not have them as leaders anymore" (Respondent 61, 2001).

As a consequence, AGTEK has become increasingly state-driven and -controlled; more precisely, it is now one of the sectoral associations under the umbrella of the Union of Associations of Industry and Commerce of HCMC. In addition, the city authorities have encouraged SOEs to join the association. AGTEK does still have private business owners on the board, but as in Hanoi there is a tendency for board members otherwise to be VINATEX managers and for members increasingly to be the managers of SOEs and ethnic Vietnamese, a large proportion of whom come from northern Vietnam and are closely connected to the Vietnamese state, while the Vietnamese Chinese are decreasing in both numbers and influence (Informants 17; 19; 23, 2001).

Private clothing enterprise owners in Vietnam

Being successful in the garment industry involves being able to access a diverse range of basic resources simply to establish and maintain production and be in the market. These resources include land and capital. Our attention is here focused on these for two reasons: first, along with export quota[24], they were most usually mentioned as problematic to access by the private enterprise owners who were interviewed. Secondly, they both exemplify basic factors of production to which private enterprises in general are supposed to have gained easier access after Vietnam's economic reforms. In reality however, bank loans and land are still generally out of the reach of most private enterprises, as mentioned above. It is important to note that access to land is now even more important for private enterprise owners since they were principally allowed to use land-use rights as collateral for bank loans by the 2000 enterprise law, which was therefore still being implemented at the time of fieldwork (MPDF, 2001). As we shall see in the following empirical analysis, there was confusion over whether or not land-use rights could be used as collateral before the passing

[23] Human Rights Watch (1997) has stressed that the arrests in connection with this, the largest corruption trial in Vietnam's history, were mainly show-cases.
[24] The question of access to export quotas is dealt with in Paper 4.

of this law, not least due to unclear regulation of the subject, given its uneven implementation by local authorities. The extent to which this has improved by now so that private enterprise owners who possess land-use rights are allowed by the state-owned commercial banks to use them as collateral is still unclear and requires further empirical research. However, it is safe to say that, since few private enterprise owners actually possess land-use rights, the number who can even try to obtain loans on that basis is still limited.

Access to a third basic factor of production, namely labour, was also sometimes mentioned during interviews. However, difficulties in this regard were commonly seen as a result of the problem of obtaining access to land and thus of finding suitable locations with sufficient supplies of labour (rather than as a directly state-controlled resource). This issue will therefore not be dealt with separately here (see Appendix I for details of the labour market).

In what follows, access by enterprise owners to land and capital will be examined, together with the direct or indirect support they are given by official business associations in obtaining them. In addition, the use of alternative strategies in the form of more informal and horizontal inter-firm cooperation is briefly considered. It will become clear from the analysis that access to land and capital by enterprise owners depends greatly on their historical and current relationships with the state, and that these in turn derive generally from their ethnicity, their origin in northern or southern Vietnam respectively, and also the present location of their enterprise. Respondents are thus divided and analysed into four categories: Vietnamese in Hanoi, Vietnamese Chinese in HCMC, and Vietnamese of southern and northern origin respectively in HCMC.

Vietnamese in Hanoi: access to land and capital

Though the communist government abolished private property, it had become possible to acquire land-use rights (so-called "Red Books") by the time of fieldwork. Still, most of the land allocated for commercial use is in the hands of SOEs (Vietnam Development Report, 2005). In general, obtaining land-use rights was seen as involving lower expenses than renting in the long run by private enterprise owners. Renting land was also generally considered insecure in the sense that leases last for a limited period (usually only a few years) and as constraining when it came to the physical expansion of production sites. Thus, the relatively large number of Hanoi enterprises that rented land and also buildings from SOEs[25] either inside or outside the city boundaries often hoped to relocate to areas where they could obtain Red Books for the land. This was generally considered difficult,

[25] Though SOEs are principally only allowed to use their land for the purpose for which it was allocated, they often sub-lease it or transfer it to others (Vietnam Development Report, 2005) (see Appendix I for details).

not least because it required a relatively large amount of starting capital. Of those who had already relocated and "bought" land, the majority were former state employees.

Relocation brought with it new problems, mainly in retaining workers. Some of these enterprise owners tried to retain the workers they employed in their former location by transporting them to and from work in buses, but they often stressed that workers usually got tired of spending time travelling twice a day and soon started looking for other vacancies. Others attempted to hire new workers from rural areas and provided housing for those who lived far from the factories. However, in these cases more or less all the workers needed to be given relatively long periods off simultaneously during holidays to visit their families, with comparatively long production delays as a result.

Joint stock companies, which were usually former SOEs, had a clear advantage in terms of access to land since they generally kept the land that the SOE had formerly occupied, for which they were usually able to obtain the requisite Red Books.

Small enterprises that either did not need any more space than they had already or did not possess the resources to expand often used part of their own homes as production sites. This commonly created difficulties in terms of producing efficiently and obtaining larger orders. Also, location inside densely populated areas hindered the efficient transportation of inputs and finished goods, which often had to be carried to and from trucks rather than loaded on site. Finally, local authorities in these areas, especially those associated with the ward committees, were often considered to harass private companies by asking for bribes for "protection" and/or inventing fines for violations of regulations without issuing receipts.

As explained above, the government had made it possible for businesses to obtain land-use rights, which were still in the process of being widely accepted as collateral for bank loans at the time of fieldwork. And since the banks usually did not accept equipment and inventory as assets either, in general private enterprises had few opportunities to borrow from the state-owned commercial banks, which in addition tended to be more comfortable lending to SOEs with whom they often had long-established relations (MPDF, 2004; Gainsborough, 2003; MPDF, 2001). However, four out of the five joint stock companies in Hanoi (Respondents 7, 8, 13 and 20), plus at least one (Respondent 16) Ltd owner, who were all formerly managing SOEs, had borrowed capital in the state banks for such purposes as investment in new buildings or improving existing ones:

> "I have taken out bank loans to improve the buildings and facilities. This was not difficult, maybe because of good relations and thanks to the good reputation of the SOE I worked for earlier. [Name

> of bank] has a good relationship with my SOE, so the chairman of the Board of Directors of the SOE has introduced my new project to the bank" (Respondent 7, 2000).

While none of the enterprises in the Hanoi or HCMC samples were listed on Vietnam's recently established stock market, joint stock company managers and owners in Hanoi often pointed out their capacity for "trading stock to get capital". In these cases, some of the stock that had been sold after the SOE equitisation was thereafter traded on the informal market. This is commonly known as the over-the-counter (OTC) market, which is thought to have a market value six times that of the official exchange (Ha, 2003; see also MPDF, 2004).

Most enterprise owners who had no former state employment or other type of relationship to the state had never obtained official loans and sometimes borrowed instead from "friends and family". However, the extent to which finance could be received in this way was commonly seen as limited. Terms were generally strict and interest rates high, and these enterprise owners stressed almost without exception that they would have preferred to borrow from the banks. In some cases it was also not clear what exactly the term "friend" meant, since respondents were not willing or able to clarify their relationships with them, suggesting that these were sometimes most likely to be "loan sharks" on the informal market. This finding is in line with those of MPDF (2001), who observed a number of enterprise owners incurring loans with "higher interest, but simpler procedures" than bank loans from informal market sources, and also describing this process as "borrowing from friends". Even in cases in which the loans were obtained from "real" family members like, for instance, a biological brother, interest rates were applied. It seemed that, just as they preferred to employ members of the family in their companies but had no informal mechanisms to maintain authority over them (see Paper 2), Vietnamese in Hanoi also lacked even unwritten and trust-based rules on how to borrow from family or close friends. Popularly speaking, they lacked informal "networking rules" or mechanisms even within the family, and hence they had to apply more formalised ones for this type of relationship, as well as for relations with "outsiders".

Much more often than any of the other types of respondent, Hanoi respondents indicated international donors as possible sources of credit, either directly or indirectly (in the sense of providing assistance to obtain loans). About a quarter of the enterprise owners in Hanoi had had some support in obtaining loans for investment in technology or buildings from multilateral or bilateral private-sector development programmes, reflecting the fact that donor communities have a much greater presence in the capital than in HCMC.

Participation in business associations and horizontal inter-firm networks

In Hanoi, only a quarter of enterprise owners interviewed (five out of twenty) took part in any kind of business association. Of those who did, most were members and attended the activities (such as seminars) of VITAS, while a few mentioned Vietnam Chamber of Commerce and Industry, the Vietnam Cooperative Alliance – though their companies were now registered as private – and the Women's Business Club[26.] These associations were without exception official and operating under the Vietnamese state. Two of these enterprise owners were relatively large in terms of number of employees and also closely connected with people in the state system: one came partly under an international private-sector development scheme, while the last two were relatively small.

Enterprise owners in Hanoi generally did not feel that they could make much use of the associations (whether they were members or not) in terms of the daily running of their companies or access to those resources related to it. A few even accused the associations there of being highly biased towards helping those companies that were willing and able to give "something in return":

> "The associations are impossible to reach. They only send information to companies when they know that they will get something from you; if not, they just forget you. For example, when they visit big businesses they will get presents – they know that's not the case with small enterprises" (Respondent. 11, 2000).

When asked why they bothered attending meetings if the associations were not effective, respondents who were members generally answered that the meetings provided an opportunity to "network" with other enterprise owners. However, the concrete outcomes were limited. Only one enterprise owner in Hanoi stated that she cooperated horizontally with other private enterprises:

> "I have sometimes cooperated with non-state enterprises. Sometimes we share designs, machinery and equipment, and we also discuss the different subjects and samples of products" (Respondent 2, 2000).

Cooperation otherwise only took the form of subcontracting. Owners of smaller enterprises sometimes did participate in VITAS meetings with the aim of meeting owners of larger enterprises, both private and state, from whom they sometimes won sub-contracts.

[26] The Women's Business Club belongs to the Women's Union, a so-called mass organisation. The NGO Oxfam Quebec supported its establishment and it is a member of Vietnam Chamber of Commerce and Industry. Vietnam Cooperative Alliance comes under the umbrella of the influential mass organisation, the Vietnam Fatherland Front, which alone has the power to nominate candidates to the National Assembly and People's Councils) (Informants 9; 14, 2000; MPDF, 2002).

Likewise, there were cases where, for instance, former colleagues or classmates gave each other sub-contracts. Even in these cases, however, cooperation was usually highly formalised in the form of written contracts stating payment procedures, volumes, length of production runs etc.

Vietnamese Chinese in HCMC: access to land and capital

Most Vietnamese Chinese-owned enterprises were relatively small and located in the "China Town" of HCMC, Cholon, or in the surrounding districts. As was also sometimes the case in Hanoi, production sites were commonly placed in the same houses as the owners' private residence, though a tendency to relocate at least part of production, depending on the availability of new sites, was also present. On the one hand, this meant that such businesses acquired more space and were able to accept larger orders. On the other hand, the enterprises were never located in industrial zones, but either at larger sites in the city or in isolated areas relatively far from it due to their not being able to afford more expensive alternatives. Therefore transportation, and with it lead times, were not necessarily improved by any of these solutions due to the generally inefficient infrastructure, nor were expenses reduced since only very few Vietnamese Chinese possessed Red Books for their land.

The general labour shortage in HCMC affected most acutely those Vietnamese Chinese respondents who had moved to more isolated and less densely populated areas. In general, workers often preferred employment in SOEs and foreign-owned enterprises, where incentives were clearly better: SOEs offered different state-subsidised benefits such as health insurance, while foreign-owned firms paid higher salaries than most private ones, mainly because minimum wages were highest by law in the foreign invested sector (see also Friedman, 2004).

None of the Vietnamese Chinese who were interviewed had ever taken loans from the state-owned commercial banks for long-term investment in setting up businesses. A few had obtained smaller amounts of capital from these banks, for example, for purchasing technology, but on terms shorter than six months and at high rates of interest. There are two main reasons for this: first, some Vietnamese Chinese respondents stated that they had tried to take out official loans, but had failed; and secondly, almost half of them, regardless of company size, end-markets etc., said that they had in fact never tried to obtain official loans because they expected it to be impossible. This was not nearly as often the case for the other categories of enterprise owner. Several explanations were given for this, including that they already heard that other Vietnamese Chinese (including some that owned larger enterprises) had not been able to obtain loans, and that it therefore seemed unlikely that they would be able to do so themselves. In other cases they found the loans generally expensive, or else they expressed a desire to "work in accordance with my own ability even if my ability is low" (Respondent 49, 2001). The latter type of explanation often referred back to lessons learned during the planned economy, when these business owners had been classified as capitalists. As a result, they often avoided dealing with the state system:

> "I do not want to talk about anything relating to the state. I just want to do business and not take care of anything relating to the state. I do not really have a difficult relationship with the state, but I try to avoid dealing too much with it" (Respondent 47, 2001).

Vietnamese Chinese business owners sometimes obtained capital from other such owners or associations in the Chinese community, but this was only associated with long-term investment in a few cases. Usually, this took the form of other Vietnamese Chinese business owners, usually from the same dialect group or surname group – investing in their enterprises for an agreed period on the basis of a division of the profits. When compared with a study based on fieldwork conducted in 1996 (Lindahl and Thomsen 2003), it is clear that the possibilities of obtaining informal credit had decreased for the Vietnamese Chinese by 2001. The earlier study had identified different types of low-interest informal credit systems in the Vietnamese Chinese community in HCMC, where associations acted more or less illegally as credit and investment institutions, as well as mediators between Vietnamese Chinese-owned companies and Vietnamese Chinese banks. Rather than relating to company size, access to credit was seen to depend on having good social relationships and trust. While some of these arrangements very likely still exist, clampdowns on, among others, Vietnamese Chinese-owned businesses and banks in HCMC in the late 1990s have clearly made enterprise owners more cautious. Therefore, lending through semi-official credit systems (for instance, through Chinese-owned banks) had decreased by 2001, when the fieldwork for the present study was conducted in HCMC. Still, it is also clear from this study that Chinese business owners are still much more likely than other private business owners to obtain capital through the informal system and least likely to borrow from the state banks.

Participation in business associations and horizontal inter-firm networks

Vietnamese Chinese respondents seldom made much use of official business associations. Only three had attended one or two AGTEK meetings in the last five years. All three enterprises were relatively small. One of their owners, a former leader and founder of the association, attended more regularly "to see what happens to the association" (Respondent 61, 2001). These three (and others who had taken part in the association earlier, when it functioned on a more private basis) were generally very critical. They criticised the seminars for being “out of date”, and they often compared the way things worked in the association today with conditions under the planned economy:

> "There is a tendency for the leaders and some of the Vietnamese members today to try to come together to receive resources and distribute them to each other. And I think that only those members who are acquainted with the important people in the association can get anything. It has become just like in the past, and history starts all over again" (Respondent 46, 2001).

Vietnamese Chinese respondents also sometimes stressed that they considered themselves very practical persons, and that they felt the meetings were too “theoretical”:

> "They just tell us “ABC things” about the industry. We should study the actual organisation of our companies and make field trips to visit each others’ companies to learn from each other. We pay 600.000 to a million VND for a course and we get a certificate, but after getting it I don’t know what to do with it” (Respondent 50, 2001).

With differing degrees of “system fatigue”, this also implied that these business owners preferred “working and minding my own business” over attending “meetings with no outcome”. Likewise, it was commonly mentioned that being Vietnamese Chinese implied getting no support through the official system, including AGTEK. Instead, the Vietnamese Chinese who were interviewed were more likely to stress that informal associations within their own community provided more significant support for their businesses. Same-surname and same-locality associations as well as larger dialect group associations were mentioned as places to meet, arrange cooperation and discuss matters with other business people. By contrast, none of the Vietnamese in HCMC or Hanoi mentioned any kind of participation in similar associations.

As it is often the case with overseas Chinese (see e.g. Yeung and Olds, 2000), horizontal cooperation between Vietnamese Chinese enterprise owners can be characterised as trust-based, in the sense that it is not based on written contracts, but regulated by more culturally dependent factors, such as the importance of keeping up face, reputation and trustworthiness within the community (see also Lindahl and Thomsen 2003). Its importance was increased by the fact that the community was often the only supporting institution for these enterprise owners, who were clearly the ones to rely least of all on the Vietnamese state and international donor institutions. For the Vietnamese Chinese as well as other enterprise owners who were interviewed, inter-firm cooperation was virtually always along ethnic lines.

However, several Vietnamese Chinese also stressed that they did not cooperate as much with other private enterprise owners as they had done five or ten years ago, not least because many of their former Vietnamese Chinese partners had moved out of the clothing industry and into other industrial sectors. This was generally not seen to be due to accumulation or associated with upgrading to more technologically sophisticated sectors. Rather, the owners in question had moved into such sectors as plastics production as a consequence of increasing competition, combined with a lack of access to export quotas in the highly regulated garment industry.

Vietnamese of northern origin in HCMC: access to land and capital

As described in Paper 2, enterprises owned by Vietnamese of northern origin in HCMC were relatively recent in origin, and their owners were generally highly "state-connected", since they had generally been sent to HCMC to take up positions in the state sector after the country's re-unification. In contrast to the majority of enterprise owners in the other segments, the former northerners had commonly "bought" the land (i.e. held Red Books) at the time the enterprise was established, often because it had been "transferred" to them from the SOEs that they were formerly managing or they had acquired an opportunity to buy because of other former state sector positions. One respondent, formerly a prominent government official, explained this as follows:

"We have had the Red Book for the land – just like we have had a license to export directly - for such a long time that I never really thought about it as something that could have been difficult to get, but I guess we have been lucky. Things have been easy for us" (Respondent 39, 2001).

Similarly, in cases where their enterprises were former SOEs, the land had been automatically transferred to the present private enterprise after its equitisation.

The enterprises owned by Vietnamese of northern origin were the only ones that were generally located in industrial zones outside the city. Several reasons could be indicated for this, not least the fact that these enterprises were relatively large and therefore needed more space. In addition, HCMC enterprise owners of northern origin were much more likely than others to have the capital required to locate themselves in industrial zones, which resulted in easier access to trained workers and good transport facilities due to the infrastructural development in and around such zones.

This group of respondents had also most commonly taken loans from state banks for capital investments such as establishing enterprises and building factories, as well as for working capital, for example for paying salaries. They generally emphasised that it was easy to obtain these loans as long as the banks were presented with investment plans etc., though they also often considered the procedures of applying for bank loans quite bureaucratic. It is also striking that they more often claimed to have taken out bank loans at relatively low interest rates and on relatively longer terms than other enterprise owners. This is clearly related to the fact that they themselves were typically former state-sector employees or their enterprises former SOEs, meaning that they tended to have connections in the state-owned commercial banks.

In addition, owners of joint stock companies (which were generally former SOEs) had usually traded stock in the OTC market, as was also the case for equitized SOEs in Hanoi. As a consequence, of all the enterprises it was theirs that had the easiest access to capital, and by far had most sources through which they were able to acquire it. The former northerners rarely mentioned family and friends as sources of investment capital, conceivably because of the size of their investments and the fact that public resources were available to them.

Participation in business associations and horizontal inter-firm networks

Without exception, this group of respondents only participated in business associations that were state-driven, and they did so much more often than the other types of enterprise owner. Almost half, five out of eleven, frequently participated in AGTEK meetings and seminars, and it is important to note that these heavily connected former northerners had usually been personally asked by the leaders of the association to join it. They were generally satisfied with their gains from the association, which on the one hand derived from the fact that they had easier access to resources through it than any of the other groups. On the other hand, their experience of garment production was relatively limited, implying that they were likely to benefit more from the information provided at seminars, even if this was basic. They often stressed their ability to acquire important information on markets, technology and production at these meetings and that their contact with other enterprise owners in these associations was also significant, mainly in terms of discussing daily production and management issues. None of them had entered into any more concrete horizontal inter-firm cooperation with other private enterprises.

Vietnamese of southern origin in HCMC: Access to land and capital

For this category of enterprise owner, there was a clear division with respect to enterprise location between those with and without state relations (of whom the latter comprise the largest group). It is also an important point (as described in Paper 2) that this segment of Vietnamese enterprises is not as heavily dominated by former SOEs as the other two Vietnamese segments. As with the Vietnamese Chinese, the majority of the southern Vietnamese who were not related to the state had mainly located their enterprises within their own residences in the city, as exemplified by this female enterprise owner:

> "This is also our house, and the location is not convenient especially because the containers cannot get close to the door. We have to carry the finished clothes to the trucks outside. However, the advantage is that we have no difficulties concerning land-use rights etc., because the company is just in my house" (Respondent 22, 2001).

Three out of the five enterprise owners who had some type of relationships with the state had already moved their factories to new and more spacious locations, while another had concrete plans for doing so. The advantages of the relocation were seen in terms of being able to produce on a larger scale. But, as with other enterprise owners in HCMC, they often pointed to labour shortages as one of their main difficulties and to the fact that relocation tended to increase rather than solve this problem. They all had Red Books for their newly acquired land, which was considered an advantage compared to renting land, especially when it came to long-term planning. However, they also often referred to unforeseen problems. When they had "bought" the land, it was not only to acquire more space, but also with the hope of using the Red Book as collateral in the banks. The fact that they had still not been given the right to do so in 2001 when fieldwork was conducted in HCMC may derive from two factors. The first is a rather gradual implementation of the law, as mentioned above. Secondly, HCMC bank officials may have been particularly cautious in implementing the law due to earlier disorders connected with it. As Gainsborough (2003) notes, local authorities in HCMC especially had had a "belief that companies had private property rights in all but name" already in the 1990s, though the formal position of the Hanoi government was that all land was owned by the state. Therefore, banks had accepted land (and not only houses, as they were supposed to by law) as collateral for lending in HCMC. In 1995, Decree 18 supposedly put a stop to the lending of capital on this basis, but it is clear from the present study that the practice of doing so – or at least of enterprise owners buying land believing that it could be used as an asset – had not been totally eliminated between 1995 and 2001. Gainsborough also points to the fact that during this period the ability to borrow capital on the basis of land-use rights in HCMC had otherwise mainly been reserved for SOEs, who had benefited disproportionately from allocation of the land that had been confiscated and redistributed after 1979 and again in the early 1990s.

The present study suggests that some of the state-related private enterprise owners of southern origin in HCMC especially, had thought that by obtaining Red Books they had acquired the same ability to use Red Books as collateral as the SOEs. Hence, those enterprise owners who had recently "bought" land expecting to be able to use it as an asset were all surprised that they could not, so that land-use rights merely gave them more space and enhanced the possibilities open to them in terms of planning production in the longer run. One enterprise owner, who had “bought” land as late as in 2000, explained how this had failed to solve his problems either to borrow capital or to maintain his workforce:

> “We are going to move in July; we already own a new factory. Many of the workers have quit now because of this, but some of them will come with us. Here we rent the land; in the new place we own it. Some of the government articles are not so clear. For instance, I bought land and started building a factory, and when I had to do all the paperwork about the land, it turned out that I could not use it as an asset, even though I had bought it from some farmers. The land could be a big asset for me, but since it does not say this on the paper, it is just as if I do not own anything in reality. The authorities started referring to the Vietnamese constitution, which says that you cannot own land, which is very confusing since there is the system of Red Books anyway. I am not satisfied with this because I paid money to buy it” (Respondent 30, 2001).

What is striking is that similar problems in using Red Books as collateral were not mentioned by those former state-sector employees in HCMC who had come from Hanoi, and who had often obtained bank loans, as noted above. One plausible reason for this difference between otherwise state-connected enterprise owners seems to relate to differences in their degrees and types of connectedness. These southerners, who used to obtain positions in the state sector, apparently had enjoyed sufficient relationships with banking officials and local authorities in HCMC to obtain loans on the basis of their Red Books before this option was enshrined in law. However, unlike the former northern state employees, they were not sufficiently connected at a higher (Hanoi?) level to be able to use their connections to obtain loans on this or any other similarly personalised basis at the time that this opportunity temporarily ceased. Similarly, it may have been easier for owners of enterprises with former SOE status (of which there were relatively few in this sample) than for enterprise owners with former state-sector positions to borrow from the banks without collateral, since this practice had been legal before equitisation. For the southerners in this sample, there were therefore only a few cases of former SOE employees who had obtained a bank loan without collateral at the time of fieldwork. In these cases, they considered it relatively easy to obtain bank loans on a long-term basis, usually for seven years, and to use them to set up an enterprise. One respondent, who is among other things a party member, explained how he was going to finance new buildings located next to the present ones in order to expand his capacity:

> “It has not been so difficult to get capital for the new buildings (…): we can borrow from the bank (…) because I know a lot of people. I started in the garment business many years ago. If the bank knows you, they trust you” (Respondent 25, 2001).

All in all, the Vietnamese of southern origin were therefore generally not able to borrow on a long term basis from state banks. Those without relationships with the state seldom borrowed capital from state banks, though a few had taken smaller short-term loans, for instance to cover expenses for salaries and sewing machines. To set up a business, friends and family were most commonly mentioned as sources of capital, and as with the Vietnamese in Hanoi, "friends" were broadly defined so that they included black-market money-lenders. In this case, as well as when loans were obtained from actual friends or family members, agreements were almost always recorded in contracts and subject to interest rates, sometimes heavy. It was commonly stated that interest was "not really required", but something that enterprise owners themselves chose to pay to "show that we are able to keep up good relations" (Respondent 23, 2001).

The finding that joint stock companies owned by Vietnamese in Hanoi or by former northerners in HCMC sometimes traded stock in the informal OTC market was not repeated for this category, not least because the proportion of joint stock companies was much smaller (only one of the thirteen enterprises). In this company, stock had only been traded to managers and employees when it was equitized, and it had not changed hands since.

Participation in business associations and horizontal inter-firm networks

Virtually no Vietnamese of southern origin in HCMC took part in any other business associations than AGTEK, and even in this association, only three of the thirteen respondents had participated in any kind of activity. Of these three enterprises, two were relatively small Ltds with no clear relationships with the state, while the third was large and owned by a former SOE manager.

Three out of the eight Vietnamese of southern origin who had no relationship with the state sometimes cooperated horizontally with other private enterprise owners, but none of those who were connected with the state did so. Those who did stressed that this type of cooperation, which had the aim of supporting each other in terms of fabric-sourcing and borrowing specialised equipment, was more important for them than taking part in official associations.

Summing up

This paper has examined the opportunities for accessing land and capital and obtaining the support of business associations for four segments of private sector enterprise owners distinguished by their own ethnicities and origins and the location of the enterprises in Vietnam. These are respectively Vietnamese in Hanoi, Vietnamese Chinese in HCMC, Vietnamese of northern origin in HCMC and Vietnamese of southern origin in HCMC. The major differences and similarities with regard to access to land and capital as well as use of business associations between them are summarized in Table 3.1.

Table 3.1: Access to resources and business association participation

Source: Interviews 2000/2001	**Vietnamese in Hanoi**	**Vietnamese Chinese in HCMC**	**Vietnamese of northern origin in HCMC**	**Vietnamese of southern origin in HCMC**
Access to land	High degree of enterprise location in owners' homes or buildings rented from SOEs	High degree of enterprise location in owners' homes	High degree of enterprise location in industrial zones	High degree of location in owners' homes
	Some land-use rights	Virtually no land-use rights	High degree of ownership over buildings and land-use rights	Some land-use rights
Access to capital	Some degree of bank loans and stock trading at the informal market	Virtually no bank loans or other types of long-term investment capital	High degree of bank loans and informal market stock trading	Some degree of bank loans
	Loans from friends and family (incl. professional moneylenders)	Some credit from other enterprise owners or associa-tions in the Chinese commun-ity, but seldom for enterprise investment		Loans from friends and family (incl. professional moneylenders)
	Some donor support			
Participation in business associations	Low degree of participation in (only official) associations	Low degree of participation in (only official) associations High degree of participation in informal associations	High degree of participation in (only official) associations	Low degree of participation in (only official) associations

Due to the governments' abolition of private property rights, land can either be rented or "owned" in Vietnam in the sense that land-use rights ("Red Books") can be obtained for a period of time. The first form especially is seen as inconvenient by business owners, not least in terms of insecure rental periods and high costs, while the latter is generally considered to be out of the reach of most private enterprises. However, those business owners who have relationships with the state clearly have an advantage in terms of having obtained land-use rights. This is most obviously the case for those enterprises that are former SOEs – mainly represented in the Hanoi sample and in the sample of former northerners in HCMC – since they have often been registered as private while remaining in the same location and keeping the Red Books formerly belonging to the SOE.

For businesses that are not former SOEs, other personalised types of relationships with the state clearly also affect access to land. The group of business owners who are worst off in this respect is undoubtedly the Vietnamese Chinese, who have virtually no former state employments or other relationships with the state, and practically none of whom obtained land-use rights. At this point, the former northerners in HCMC differ from the Vietnamese Chinese the most due to their being generally well-connected. They usually possess the Red Books on their land and also locate themselves in industrial zones much more frequently than other enterprise owners, a privilege out of the reach of most other private enterprises due to the high costs involved. The other Vietnamese respondents in Hanoi and HCMC sometimes have land-use rights, again mostly in cases where they are related to the state in one way or another. As with the Vietnamese Chinese, those who are not state-connected generally have no other options than to locate in their own residence or relocate to remote areas. In addition, and mainly in the case of Hanoi, they sometimes rent expensive production space from SOEs. All of these solutions bring with them problems in terms of capacity, transport, maintenance and retention of work force, as well as the corruption of local authorities.

A similar segmentation of the categories of enterprise owners is evident in terms of their access to investment capital. Once more, there is a strong correspondence between enterprise owners' relationships with the state and their access to bank loans from the state-owned commercial banks, so that equitized SOEs and enterprises owned by former SOE employees have a clear advantage here. This is often seen to be a consequence of "being known" in the bank from the time that they managed SOEs. The correspondingly different opportunities in terms of accessing capital of the different categories of business owners examined are striking: almost none of the Vietnamese Chinese have acquired long-term bank loans to be used for investment in setting up or maintaining businesses, while the former northerners in HCMC have both usually obtained bank loans and – especially for those who own former SOEs that are now joint stock companies – have had the opportunity to trade stock on the informal stock market. Vietnamese of northern origin in HCMC seldom make use of other informal sources of capital such as borrowing from family and friends, most likely because they do not have to. All types of unconnected business owners, on the other hand, use this possibility as an alternative to bank loans. In the case of the Vietnamese in Hanoi and those of southern origin in HCMC, informal loans are usually subject to high rates of interests and included expensive black-market loans, while the Vietnamese Chinese community provides low-interest loans to its members to a greater extent, though these are usually for limited amounts of capital. A striking difference between Hanoi and HCMC is that almost no enterprises of any kind in HCMC reported having obtained credits from international donors either directly or indirectly (i.e. from the state on the basis of donor support), while this is more frequently the case for business owners in Hanoi. It is suggested here that this is due on the one hand to geography in the sense that donor communities are mostly located in Hanoi and therefore distant from HCMC, leading to logistic problems if they are to operate there. On the other hand, this is also symptomatic of the state authorities' control over public resources, including aid funds. As Fforde and Seneque (1995) point out, these often seem to be reserved by the central government as far as possible for regions of highest developmental priority, that is, northern Vietnam.

As shown in Table 3.1, only Vietnamese of northern origin in HCMC state that they frequently participate in business associations. As we shall see in the conclusion below, they are also the ones who benefit most from doing so. For all three other types of enterprise owner, their reasons for participating less generally included their belief that the associations functioned badly and that no real benefits could be obtained through them. Only the Vietnamese Chinese participated more often in informal, community-based associations.

Concluding remarks

This paper builds on the idea that, in spite of economic reform, access by private clothing enterprises to two important resources in Vietnam, land and capital, depends not just on regulation or on the overall ability of business associations to support their members. Rather, the paper suggests that having personalised relationships with officials at different levels of the state system is perhaps the most important factor in obtaining such resources. The paper therefore questions the notion, frequently maintained in the literature on the country's transition from a planned to a market economy, of a somewhat generalised private–state dichotomy as the key to understanding the constraints facing private business owners in Vietnam today.

Although it is clear that private and state-owned enterprises are still subject to different opportunities and regulations in Vietnam, other features than ownership are just as important. The allocation of resources to private firms is still excessively state-driven and personalised in Vietnam, so that lacking relationships with the state may have profound consequences for unconnected private enterprises, which are accordingly subject to uneven competition from connected ones. Resources are not allocated on a market basis: state-connected enterprises access them through their connections, while those without connections have no market to turn to. Therefore, their "private" status is not necessarily a problem for all of them equally: instead, they tend to experience different opportunities as a consequence of the general history of the country and the role they have played in it in such respects as having had former state-sector employment, party membership, the "side" they were on before and during the Vietnam War etc. In this, factors such as ethnicity, origin and present location in either northern or southern Vietnam play an important part.

This paper has examined literature on the importance of business–state relations in South East Asia and in transition economies in order to determine the significance of these relations in Vietnam in a broader perspective. As regards transition economies, the conclusions of this paper suggest that the existing literature on the transition economy tends to focus too narrowly on the type of crony capitalism that benefited privatised SOEs in the emerging private sector. While this point is also important in Vietnam, other types of state relations than simply ownership forms, such as the former state-sector employment of owners of enterprises that are established as private from the outset, are also important. In the case of South East Asian economies, this paper differs from the existing literature in especially one respect. While it is often stressed in the literature on South East Asia that ethnic Chinese business people engage in political business – sometimes even more than is the case for the "indigenous" populations – this finding is definitely not confirmed here. Almost without exception, the Vietnamese Chinese in the clothing sector lack any type of relationship with the present state system. This difference may derive from Vietnam's status as a transition economy and the relative importance of enterprise owners' former state employment, their party membership etc. in establishing such relations.

When compared with an earlier paper (Lindahl and Thomsen, 2003) based on fieldwork in Cholon in 1996, it is clear that the degree of state connectedness of Vietnamese Chinese business owners and community leaders has decreased since then. During the first decade of economic reform, the Vietnamese Chinese experienced increased political acceptance since they were considered "good for economic development". Perhaps because of this, community leaders at that time tended to have more relationships with the state, which to some extent benefited the entire community economically. For reasons that are not entirely clear, this positive official view of the community seems to have changed within the last decade, most notably with the clampdown on large-scale Chinese-owned businesses, banks etc. in the late 1990s. In these cases, political patronage was apparently not enough to avoid penalties, or else the value of the political connections of these Chinese tycoons decreased for one reason or another. This not only affected the tycoons themselves but also the community as a whole, whose benefits in terms of easy access to capital from Chinese-owned banks were eliminated. Hence, Vietnamese Chinese entrepreneurs have gone from being among the most successful and fastest rising after economic reform to being some of the most vulnerable in Vietnam, due to their having little or no access to state-controlled resources, as well as decreased access to benefits from their own community.

It is also significant that it is not only the Vietnamese Chinese minority that lacks relationships with the state and hence access to resources; so too do a large number of ethnic Vietnamese, not least those who also come from southern Vietnam. Hence other explanatory factors than ethnicity alone are required, and since the factors determining access to resources for private business owners today are mainly their connections with officials in the state system, having come from northern Vietnam becomes extremely important.

As for the role of official business associations in supporting private enterprises in improving their access to the resources in question, it is clear that at least those described here are more likely to contribute to the further segmentation or polarization of different types of private enterprise along the lines described above than to improve the general business environment. The role of business associations in Vietnam includes dialogue with government, especially on improving the business environment for private businesses so that their access to such resources as land and finance is improved. MPDF (2002) noted that SOEs are over-represented in those associations that are involved in this type of dialogue, and these tendencies are likely to be increased by recent developments, as in the case of the garment association in HCMC presented here. In this association, not only SOEs but also former northern state employees who now own private enterprises have been increasing in numbers and also in influence. At the same time, other members of the private sector, including those Vietnamese Chinese who originally founded this association, have apparently stopped using it and have little influence in it today. In other words, those private enterprise owners who are already able to obtain state support due to their having different types of relationships with the state are also the most strongly represented in the association and unlikely to be "good representatives" for the entire sector. In the equivalent association in Hanoi this is perhaps even more evident, since this association does not and never has represented a majority of private (and unconnected) enterprises. As a consequence, unconnected private business owners in both cities either do not make use of associations or merely use them as a forum to meet other business owners.

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Paper 4: Accessing global value chains? The role of business–state relations in the private garment industry in Vietnam

Introduction

There is a vast amount of literature discussing the structures and dynamics of what have become known as global value chains (GVCs) (Gereffi and Korzenivicz, 1994). Access by developing country producers to global markets is increasingly seen to depend on their entering into these GVCs or production networks of lead firms in developed countries (see e.g. Humphrey and Schmitz 2001). Using the case of Vietnam's locally-owned private clothing industry, this paper attempts to add certain new dimensions to the discussion. First, it focuses on entry barriers rather than on industrial upgrading or governance in chains. Secondly, it focuses on how entry barriers are constructed *within* Vietnam rather than on processes at the global level affecting Vietnamese producers' access to the global market. The heavy focus of GVC analysis on the upgrading and governance of producers *in* chains has largely missed the more primary question of how developing country firms actually *become* subcontractors in chains driven by global buyers; in particular, the impact of institutional contexts, including political, social and ethnic relations in supplying countries, has received very little attention.

The garment industry is highly competitive for developing country suppliers, not least because it contains a growing number of competing developing countries and producers (Schmitz and Knorringa, 2000). There is, of course, no doubt that, when entering so-called buyer-driven clothing GVCs (Gereffi, 1994), Vietnamese suppliers, like suppliers anywhere, are selected by global buyers on grounds such as physical capacity and product quality. Nonetheless it is suggested here that the underlying mechanisms determining garment producers' opportunities for participation in GVCs are much more diverse. Before the buyer-driven selection process even starts, other, even less transparent processes *within* Vietnam reduce tremendously the number of producers that most buyers will even be able to consider. Based on interviews with privately owned clothing enterprises in Vietnam, it is suggested here that these processes mainly have to do with the enormous importance of business–state relations in the former planned economy, where the private sector is still in a formative stage (see e.g. Gainsborough, 2003; Appold and Phong, 2001). Enterprise owners' relationships with the Vietnamese state affect their performance at all levels, including their access to global chains, not least because these relationships mediate access to information regarding markets and market regulations, export quotas, capital, orders, technology, skilled labour, licenses and contacts with foreign buyers. This problem is commonly seen as dividing the state from the private sector in the existing literature on Vietnam (see e.g. Nadvi and Thorburn et al, 2004; MPDF, 1999; Knutsen, 2004), so that in general private clothing enterprises are seen as meeting higher entry barriers than state-owned ones. While this is certainly a crucial point, this paper suggests that the polarisation between Vietnamese clothing enterprises in terms of their potential market access do not entirely depend on whether they are privately or state owned. For private business owners, this is also closely linked to their “state connectedness”, which in turn relates to a number of ethnic and historical factors, which have otherwise received very little attention in the literature on Vietnam.

Against this background, the paper reflects on the differential ability of four segments of private garment enterprise to access foreign markets. These segments are distinguished by the enterprises’ location in HCMC or Hanoi, the enterprise owners’ origins in southern or northern Vietnam, and whether they are of Vietnamese or Vietnamese Chinese ethnicity. The paper highlights the developmental consequences of Vietnam’s rather personalised political economic system, and particularly the fact that those who have the resources required to access regulated markets directly are not necessarily those who are most suited to exploiting these benefits. This obviously affects not only themselves, but also those producers who are actually more capable. Similarly, it affects Vietnam’s general economic development and also buyers’ perceptions in a negative way, thus making the country less attractive and competitive as a production base. This latter point is of particular relevance for a number of reasons, not least that global buyers and contractors often and increasingly express dissatisfaction with the investment climate in Vietnam (Informants 2; 4; 8, 2000; 15; 16, 2001), but also the fact that the abolition of the Agreement on Textiles and Clothing (ATC) has increased global competition in the industry.

The paper is divided into the following sections. First, it provides a brief presentation of GVC theory, the main aim being to discuss the issue of entry barriers. Secondly, it describes the Vietnamese clothing export sector both historically and at the present day[27]. Thirdly, the paper presents an empirically based analysis of participation in the export sector. This analysis falls in two parts, so that issues related to the main market channels (direct export and export via intermediaries) used by Vietnam’s exporters at a general level are outlined first. Then, differences in access to export markets and market channels in relation to the personal backgrounds of business owners are analysed. Finally, the findings are summarised and discussed.

[27] This descriptive section briefly describes the export sector from the introduction of economic reform to 2006. The subsequent empirical analysis does not cover post-2001 developments, when the basic fieldwork for this study was completed. However, based on a few supplementary interviews with informants in 2005 and secondary sources, some newer trends – mainly the opening up of the US market and the changes that occurred with the ending of the ATC – are dealt with, especially in the final discussion.

Global value chains and entry barriers

Gereffi (1994) defined garment value chains as being buyer- rather than producer-driven, meaning that global clothing buyers – who are usually located in developed rather than developing countries – coordinate the production and distribution systems in which different nodes are combined to create (and sell) a finished commodity. In buyer-driven GVCs, such as those for clothing and fresh food, buyers generally import finished clothes and carry out the trademark licensing and global subcontracting of assembly manufacturing. They do not *produce* clothes, being instead "manufacturers without factories" (Gereffi, 1994; 2001). They are generally seen to be the ones who are "driving" and governing the entire chain.

As mentioned in the introduction, this paper deals with Vietnamese producers' *entry* into chains and markets rather than the other upgrading or overall chain governance processes around which discussion has mainly taken place (e.g. Humphrey and Schmitz, 2001; Bair and Gereffi, 2002; Gereffi, Humphrey and Sturgeon, 2005), although some implications for upgrading associated with firms' participation in the different chains are pointed out. Entry barriers are closely related to the resources or qualifications that producers need to enter chains and thus new markets. They can be discussed at different levels of generality, which are defined here as follows:

Industry entry barriers are those a company meets in the process of establishing itself in a particular industrial sector; they differ from one industry to another. In garments, they are commonly considered relatively low due to the high labour intensity and correspondingly modest investment requirements of the industry. However, there are still significant industry entry barriers in terms of understanding and applying different technologies, forms of labour organisation etc., and also in recruiting management and intermediate staff with the necessary qualifications.

Market entry barriers vary between different national end-markets, not least because some are more regulated than others. An obvious example is regulation by non-tariff barriers in the form of quotas and rules of origin, which have contributed to making the garment sector one of the most regulated in world trade. Because of quotas, Vietnam's present access to the US market is much more restricted than its access to the Malaysian one, which is quota-free. Furthermore, barriers for suppliers of a specific nationality to any one market may change over time due to changing trade regulations, as has been the case with Vietnam's access to the US market. This issue, as well as market entry barriers more generally for producers in Vietnam both historically and at the present day, will be discussed further in the section on the country's clothing export sector.

Chain entry barriers relate to the specific qualifications that single producers need in order to be 'accepted' by buyers in a given chain. Papers 5 and 6 show that in the clothing industry these may include the ability to perform and finance a number of service functions specified by different buyers, such as fabric sourcing, design and holding stock on behalf of the buyer. These papers also show that chain entry barriers to (especially some parts of) the EU market are generally lower than those into the US market, but are rising.

It has been suggested that until recently GVC analysis has largely disregarded the role of regulation, including the workings of international trade and normative aspects of governance in GVCs in relation to different corporate cultures (Gibbon and Ponte, 2005). Along these lines, it is suggested here that chain entry barriers for suppliers may vary in accordance with the policy frameworks of supplying countries, so that there is no single GVC for clothing. In Vietnam, "supplier country-constructed entry barriers" take a form that relates closely to the transitional status of the economy.

Nadvi, Thoburn et al. (2004) stress that access to global markets for producers in Vietnam differs according to their (state, private or foreign) ownership form, mainly because this affects their size. Hence, these authors see the advantages that SOE's enjoy as including the capacity to "manufacture a relatively diverse product range, and to relatively easily meet demands of compliance with global standards, especially labour codes" (Nadvi, Thoburn et al. 2004). It is also argued in the present paper that size indeed matters, and that it relates strongly to ownership form in Vietnam. But it matters less in some markets than in others, as do some of the advantages that size brings with it, and not only for the reasons that these authors point out. EU buyers typically consider the ability to produce a range of products as important as size. Hence, size is probably mainly important for some major (especially US) buyers, who will use number of employees as a rule of thumb in placing orders, perhaps not, for instance, considering suppliers with less than a thousand workers (see Gibbon, 2000). An official from Vietnam's state-owned general garment corporation (VINATEX) confirmed this when interviewed in 2005, and stressed that US buyers sourcing from Vietnam are mostly larger than EU ones and that they source in larger and less differentiated volumes (Informant 25, 2005). Furthermore, it is questionable to what extent labour standards play a major role for the average European and perhaps also Japanese buyer, who between them bought the majority of Vietnamese clothing products up until 2001. The significance of labour standards as a sourcing criterion would, among other things, presuppose a stronger concern over such issues among consumers in these countries than seems to be the case at the moment (see Papers 5 and 6). Therefore, labour standards are not among the main factors either qualifying or disqualifying Vietnamese clothing producers from participating in these chains, except perhaps in the case of production on licence or contract for major brand names[28]. There is, however, no doubt that ownership form is of importance. To some extent this is because SOEs are generally larger than private enterprises, as Nadvi, Thoburn et al. (2004) suggest, and therefore may be able to attract those mainly US buyers who consider size important. In addition, Vietnam scholars often regard SOEs as “better off” than private enterprises in terms of access to resources (see e.g. Fforde 2003), including most of those required to enter chains and markets, as mentioned above. It is suggested here that this derives from their subjection to different sets of regulations, from differences in the interpretation and implementation of regulations at different levels of the state, and from differences in access to key individuals in the state system and assistance from official business organisations. Access to key individuals in the state system translates into more or less personalised business–state relations. It is further argued here that these factors not only create differential entry barriers between the private, foreign and state sectors in Vietnam, but also to differentiation within the private sector itself.

The issues just described challenge important aspects of “traditional” GVC analysis. They imply that the entry of Vietnamese suppliers into GVCs is less buyer- and more state-driven than it is normally recognized in the literature on GVCs, increasing the significance of the political economic context within the producer countries. Given how essential this is for understanding chain entry barriers for Vietnamese producers, it will contribute to GVC analysis by helping to explain why some chains (or chain filaments) turn out to be more competitive than others.

The Vietnamese clothing export sector: past, present and future

After the introduction of Doi Moi economic reform in Vietnam in 1986, international markets opened up only slowly for Vietnamese exports, not least due to the continuous American embargo on the country. Therefore, main market destinations of the country’s garment exporters have evolved gradually over time (see Appendix I for details of national trade reforms and international trade agreements). Former Eastern Europe and the Soviet Union had been major markets until they collapsed in the late 1980s. Immediately afterwards, the quota-free Asian markets were among the first that Vietnam’s producers targeted, and the country became a member of the Association of South East Asian Nations (ASEAN) in 1995. By 2006, Vietnam was fully integrated into the ASEAN Free Trade Area (AFTA), which aims at reducing trade barriers between ASEAN countries. Hence, all tariffs on textile and garments between Vietnam and ASEAN countries were gradually reduced to 0-5% in 2006 (Nguyen Tien, 2003). The country is still a leading supplier to

[28] The producers interviewed in Vietnam in this present study very rarely mentioned conformity with labour codes as an important qualifying factor for potential buyers.

ASEAN markets. Japan is also among Vietnam's most important markets, accounting for 42.2% of the country's exports in the late 1990s. By 2004, this share had however fallen to 12%, mostly due to the opening of the US market at that time (VinaTradeUSA, 2005).

In 1992, the EU–Vietnam Textile and Clothing Agreement was signed, and by the late 1990s 43.3% of Vietnam's clothing exports were going to the EU market (Hill 2000). In 2001, the value of textile and clothing exports (of which the vast majority were garments) into the EU amounted to 806 million Euros, or 1.1% of the EU's total textile and clothing imports (European Commission, 2003). A later version of the EU–Vietnam Textile and Clothing Agreement was ratified in 2003, increasing Vietnam's textile and clothing quota by between 50% and 75% (depending on the sensitivity of the product concerned) (European Commission, 2003). Since 2005, World Trade Organisation (WTO) members have been unable to place quotas on imports of textiles and garments from other members. Vietnam is not yet a WTO member[29], but the country was allowed to export without quotas to the EU from January 2005 under a further revision of the bilateral trade agreement. Still, exports to the EU had fallen to 775 million Euros by 2005 (European Commission, 2006), most likely because Vietnam faced harsh competition from Chinese goods, and also because global buyers had no guarantee of Vietnam's quota-freedom when they were planning their orders at the time of the ATC phase-out (Nguyen and Diep, 2005). Thus, the fall in exports to the EU may have been merely temporary.

The first attempt to normalise trade relations between the US and Vietnam was made in 1993, when the US embargo on Vietnam was lifted. However, market entry barriers in the form of extremely high tariffs (full tariffs in accordance with the Tariff Act of 1930) were imposed on Vietnamese products entering the US in the years that followed, including when fieldwork was conducted for this study. These tariffs were implemented because Vietnam was denied Normal Trade Relations (NTR) on the basis that the country was a "non-market economy" (USITC, 2002). In these years, official exports to the US were clearly lower than the actual volume of Vietnamese garments that ended up on the US market, since these were sometimes shipped through countries like Cambodia and therefore not counted as Vietnamese exports, as one Hong Kong trader explained:

> "Though Vietnam has no agreement with the US, US buyers sometimes come to Vietnam to arrange production with a subcontractor. The finished goods are shipped to Cambodia, where

[29] Though achieving WTO membership was expected by the Vietnamese themselves by 2005, the goal had long been considered overly optimistic or even unacceptable by other parties, including the WTO working party on the accession (WTO, 2006; *Financial Times*, 22 July 2004). By 1 October 2006, WTO membership negotiations had still not been completed, although the Chairman of the Working Committee stated that they are now "well into their final stages"(WTO, 2006). As mentioned in Appendix I, Vietnam will most likely have full membership from the beginning of 2007 after which quota cannot be placed on clothing exports from Vietnam to other WTO members.

> the papers are rearranged so that it looks like the products were made in Cambodia (Informant 2, 2000).

Using this procedure, the exceptionally high tariffs in the US market were avoided. A SOE manager in HCMC confirmed this by observing that:

> "Some Vietnamese and East Asian companies set up representative offices in Cambodia to export products produced in Vietnam through that company to the US. When products are sent from the producer in Vietnam, they are put in a regular bag, not a box, and transported to Cambodia. My company does that sometimes. In Cambodia, they are ironed and put in carton boxes. I always know when the products go to the US after I have sent it to Cambodia, because I am asked not to stick on the label very well" (Informant 22, 2001).

A US–Vietnam Bilateral Trade Agreement (USBTA) finally took effect in December 2001, to be followed by a textile agreement in 2003. Under this, Vietnam was given NTR, thus granting the country's producers similar tariffs to WTO members in this market. Subsequently, garment imports from Vietnam to the US went from an official US$42 million worth of textile and clothing in 2001, of which more than 90% were garments, to as much as US$2.74bn in 2005 (USITC, 2006; Informants 25; 26, 2005). Although official figures before the trade agreement might have been too low, this was a very rapid rise, due not least to the fact that quotas were initially not imposed on Vietnamese products for the US market. In addition, the Vietnamese government granted a 7% subsidy for garment and textile exports to the US market in an attempt to kick-start it. However, according to the USBTA, the NTR obligations do not apply to quantitative restrictions (i.e. quotas) or licenses, meaning that either party was allowed to impose quotas on the other, but not to raise tariffs. Quotas on Vietnamese garment exports to the US were introduced by mid-2003, after which the pace of growth in exports slowed for a while, due to quota scarcity and costs (see e.g. Sayres, 2002; USITC, 2006) (Vietnamese quotas are traded, as we shall see below). The quota price for, for example, a T-shirt can add as much as one dollar to its price, which is roughly equivalent to its production cost (Financial Times, 22 July 2004). For the so-called "hard quota" categories that are particularly scarce the price may be even higher, and hence Vietnamese producers face extreme competition from those supplier countries that are not subjected to quota restrictions, not least from neighbouring China. The US International Trade Commission (USITC) considers it likely that US buyers will increasingly use China as their most important source, since China can compete "on almost any type of product at any quality level" (Financial Times, 22 July 2004). Still, garment exports from Vietnam to the US are continually growing, though not at the same pace as is the case for China. From January 2004 to January 2005, China experienced a 41.3% increase in its exports to the US market, while the increase was 22.9% for Vietnam

(OTEXA, 2006). This is very likely because, given its close proximity to China, Vietnam is considered the "second supplier country of choice" to China and India for US importers, who attempt to reduce the risks (e.g. in terms of political stability) associated with sourcing from only one country (Informant 25, 2005). Vietnam shipped abroad nearly US$4.81 billion worth of garments and textiles in 2005, thus becoming the world's 16th biggest garment and textile exporter and 10th biggest garment exporter (Business-in-Asia, 2005).

The following analysis of private business owners' export market participation is based on fieldwork conducted mainly in 2000 and 2001. It should therefore be noted that the major changes that have occurred since this time (the opening of the US market and the ATC phase-out) are not reflected in this analysis. However, some consideration is given to how these matters affect the empirical results in the discussion and concluding remarks.

Opportunities and constraints for exports by private enterprise owners

This section deals with the overall opportunities open to private enterprise owners in Vietnam in exporting, and especially their access to different market channels in relation to the national policy framework. Above all, exporting directly to demanding markets is subject to a range of entry barriers constructed in Vietnam itself, including access to capital and export quotas, and the opportunity to meet buyers. These are among the obstacles often pointed out in the literature on Vietnam as being particularly difficult to overcome for private enterprises as opposed to SOEs (see e.g. Cortés and Berggren, 2001; MPDF, 1999). Yet, as we shall see in the next section, some private enterprises do have better opportunities to overcome these barriers than others.

Because of these barriers, the majority of EU exports from Vietnam's private garment sector passes through different types of intermediary, namely Vietnamese SOEs and East Asian contractors, rather than going directly to EU buyers. Vietnamese business owners often make a distinction between direct export and subcontracting, since these represent two export channels, of which the former is commonly seen as their goal. Distinctions are also sometimes made between "free-on-board" (f.o.b.) and cut-make-and-trim (CMT) production,[30] but since f.o.b. production was subject to very great (not least financial) obstacles, direct export as well as subcontracting was usually CMT. Very few private enterprise owners in the sample were able to produce f.o.b. at all, and especially not for quality demanding markets.

[30] With f.o.b. production, the producer finances the production and sources the materials. For CMT production, the buyer or contractor supplies all materials, and the producer merely produces (see Appendix I for details).

Direct export

Respondents generally considered exporting directly to retailers, importers or wholesalers *the* best way to export, regardless of market destination, first of all because it eliminated the costs of using intermediaries. Other advantages mentioned included better feed-back from some buyers, and thus better learning opportunities, and (at least the feeling of) greater security of contract. However, direct orders were considered difficult to obtain and subject to strong competition. The number of direct orders placed in Vietnam was small due to the unavailability of quality fabrics on the local market,[31] combined with Vietnamese enterprise owners' general lack of financial and managerial ability to source fabrics abroad. As a consequence, direct export orders were more common for non-quota and lower quality- and volume-demanding Asian and Eastern European end-markets than, for instance, the EU market. For Eastern Europe, enterprise owners also sometimes had one of their otherwise rare opportunities of selling f.o.b. and sourcing fabrics on their own rather than merely performing CMT functions. This was possible mainly because Eastern European buyers were generally satisfied with products made of Vietnamese fabrics. However, margins were generally still low due to the low sales prices in such markets.

Difficulties in exporting directly also partly derived from the limited experience of private companies in this regard, since they were only allowed export licenses on their own account in 1998. Prior to this they were obliged to export through state enterprises or state agents. When fieldwork for this study was conducted about three years later, some barriers for export still existed even for those private enterprises with greater financial and managerial capacity that had export licences. This often had to do with officials at different levels of the state system creating or inventing obstacles which businesses had to circumvent, including obstacles to the physical transportation and customs clearance of finished garments. One respondent explained how customs kept containers waiting in the ports until they were paid to release them:

> "Money for customs is basically paid to speed things up, but not only for this, because without paying the goods will never get through. I don't have a choice. When I import and export directly (…) they pretend to find a mistake in the papers, and we have to pay (Respondent 66, 2001).

In competing for direct orders (at the time of fieldwork, especially from the EU), the main obstacles mentioned during interviews were a combination of capacity-related factors and bureaucratic obstacles, namely:

[31] A Taiwanese company, Formosa, is currently building a textile mill in Vietnam, which may improve this to some extent in the future (Financial Times 22 July 2004).

Access to capital

Scholars of Vietnam widely believe that loans at low interest rates from the mainly state-owned banks are extremely difficult for private enterprises to obtain. Credits are largely allocated to SOEs, and the official credit system lacks transparency and information (see Appendix I for details) (e.g. Cortés and Berggren, 2001). In relation to exporting, this is particularly an obstacle in terms of being able to produce on a f.o.b. basis, in which case the necessary capital would be mainly working capital, first, to order and pay for stock, fabric and components, and secondly, to produce on the basis on what are usually ninety-day payment terms, since buyers are increasingly reluctant to finance production on the basis of Letters of Credit. Likewise, working capital was required for wages and salaries in between orders. As shown in Paper 3, since private enterprise owners generally lacked ownership rights (Red Books) over land and buildings, they had few possibilities to offer collateral against loans from the official banking system.

Access to export quotas

Officially, clothing export quotas are mainly allocated on grounds such as the amount of quota received by businesses in the preceding year, and also their production and export capacity, while a smaller proportion is distributed on the basis of open bidding among businesses across the whole country. According to the law, businesses with allocated quotas may commission other enterprises to export for them, but the goods must be produced where the quota has been allocated. Quotas that are not used by a quota-owning company must be given back to the ministry/Peoples' Committee in order to be re-allocated to other companies (Ministry of Trade, Ministry of Planning and Ministry of Industry, 2000).

However, it has often been pointed out that this system is not transparent (see e.g. Mallon, 1999), and quotas are commonly traded on the black market, so that private companies that do not receive enough quotas in the official allocation sometimes also buy on the black market either from other (state and private) enterprises or from the authorities. At the time of fieldwork, quota restrictions for Vietnamese garments were mainly important for the EU and also Canadian markets, while at present they apply to the US market only, as explained above.

Contact with buyers

Respondents often described entering into contact with foreign (especially EU and US) buyers as being impeded by several factors, including the fact that business owners often did not possess market knowledge or the capital to travel. More importantly, state institutions commonly mediated contacts between buyers and Vietnamese producers. Producers that obtain orders through the state system are more likely to be state-owned or at least state-connected than private ones, as we shall see below. The reasons for this include the fact that, for buyers coming to Vietnam, finding suppliers on their own was often seen as difficult due to, for instance, language and infrastructure barriers. Also, "red tape" and bureaucracy were mentioned as being difficult to overcome, especially in cases in which buyers had tried to find other suppliers than those suggested by officials. Therefore, these buyers found it easier to go through the official system, through which they were also provided with interpreters and other types of assistance. Foreigners in the industry were also sometimes convinced that, when the official system appointed their suppliers, these were also more likely to have access to the necessary resources, such as quotas and capital (Informant 8, 2000; 16, 2001).

Subcontracting

It has been estimated that 60% of clothing from Vietnam reaches the outside world via Hong Kong, Taiwanese or South Korean contractors (see Appendix I for details) (MPDF, 1999). Most producers interviewed for the present study also worked on subcontracts. These were the only sources of business for those who did not have the resources necessary to export directly themselves, and they were an important secondary source for others as a complement to direct orders. These subcontracting arrangements took different forms. First, subcontracts were often obtained from East Asian contractors who exported to the EU or the US. In this so-called triangular manufacturing (Gereffi, 1994), the East Asian contractors usually supplied materials (which were from East Asia anyway), while the producers undertook CMT. Secondly, some producers subcontracted for Vietnamese SOEs that exported directly – usually to the EU – because foreign investment in Vietnam is first and foremost channelled to SOEs (see e.g. Freeman, 2002; MPDF, 1999). A third group of suppliers had subcontracts which combined the first and second variants, that is, subcontracting for SOEs, which were themselves subcontracting for East Asian contractors exporting mainly to the EU. The reasons subcontracting enterprises gave for specialising in this market channel included the fact that "the East Asians have a lot of relations in the EU, while we cannot meet the buyers' demands" (Respondent 7, 2000). While market knowledge may be generally difficult for developing country producers to obtain, the transitional nature of the Vietnamese context may have further increased this difficulty, since knowledge about foreign markets, and even knowledge about how to obtain information, is hard to find and politically problematic (see also Knutsen, 2004).

Respondents usually subcontracted for East Asians without knowing the end-markets or the types of buyers the products were destined for. Conversely, in such subcontracting arrangements, products were not always even traceable back to Vietnamese producers, who often stated that they were not allowed to label their products "made in Vietnam":[32]

> **"I am not allowed to label the products "made in Vietnam". It happens a lot like that. The contractors just export the products, which are then considered foreign, for instance, products made in Korea (Respondent18, 2000).**

Subcontracting was apparently not always subject to an agreement between the European buyer and the East Asian contractor, or else it was concealed for other (for instance, quota-related) reasons:

> "For example, a German buyer has a big order and prefers it to be produced by one single company. So he gives the order to a large SOE, since he thinks big companies are able to fulfil his demands. After that we can get a share of it as subcontractors for the SOE" (Respondent 9, 2000).

Subcontracting for Vietnamese SOEs that were exporting to the EU either directly or via East Asian contractors was common for enterprises in the sample, but usually for relatively small orders. In general, respondents did not perceive as important the difference between obtaining orders from an SOE that had a direct order from an EU buyer and obtaining them from an SOE that was only a subcontractor; they usually stressed that their piece rates were not affected by the margin earned by the SOE.

Enterprise segments and access to chains

Following this outline of the general problems of access to market channels for private enterprise owners, this section analyses the relative chain entry barriers confronting the four segments of private enterprise owners and their strategies for overcoming them. The personal backgrounds of the enterprise owners included in the analysis (distinguished by their ethnicity, origin and location of their businesses) and their relationships with the Vietnamese state are outlined in Paper 2 and will not be repeated here.

The section shows that entry barriers are higher for certain types of private enterprise than others, and that different categories of enterprise owner deal with these barriers differently. In general, entry barriers mean that firms in these segments serve different end-markets

[32] In cases where labels were loosely placed (and probably later replaced) in the clothes, products were usually considered to be for the US market, since country of origin labelling is a condition for this market. Replacement in secondary countries is only allowed under specific circumstances not applying to the cases being discussed here. In the EU market, full customs documentation is presently mandatory, but only a few countries have a tradition of requiring country of origin labelling, though it will probably be imposed in the near future (tdcTrade.com, 2005; US Customs and Border Protection, 2004).

and use different market channels. It should be noted that markets are defined here as primary export destinations rather than necessarily as end-markets, not least because subcontractors often had only indistinct knowledge of their own end-markets. In addition, it is much more interesting for present purposes to know if and why a respondent sells his or her products to, for instance, a Taiwanese contractor who re-exports them to the EU, rather than to determine merely that their products finally end up in the EU.

Vietnamese in Hanoi: direct export and (sub-) subcontracts.

In Hanoi, three overall export patterns were identified. First, as many as half of enterprise owners exported some of their (mainly CMT) products directly to markets that required quotas at the time of fieldwork, with two exceptions[33] to the EU. This reflected the fact that most enterprise owners in Hanoi had some connection with the state, mostly through former state-sector employment or party membership, and thus often had relatively easy access to EU export quotas. For example, one business applied formally for and received all the quotas it asked for from a ministry, in which the owner used to work:

> "When it became possible to export directly, some officials from my ministry, who were also my former classmates, came to my company to ask me to get an export license (…). Already when I was employed there, they encouraged me to try to get some of the export quotas for my company. I did not think it was right when I still worked there, but my friends encouraged me to do it. My friends told some of *their* friends in another division to make a report about the quality of my company so that I could get quota. I asked them to make a report; I did not like just going through friends" (Respondent 2, 2000).

Though some state-connected enterprises in Hanoi were relatively small, they often obtained quite large EU orders, which they then either were not able to deliver on time or had to subcontract.

These former state-sector employees also had a clear advantage in terms of entering into contact with, for instance, EU buyers, since they often still used formerly established contacts with buyers. In particular, those relative few former state employees who were managing joint stock companies which were former *garment* SOEs were able to draw on long-established contacts with buyers. In these cases, the choice to open private garment businesses was obviously related to the opportunities this brought about, both in terms of obtaining subcontracts from (or arranged through) the SOE, and in the form of contacts with foreign buyers. One female business owner, who used to manage a garment SOE, explained:

[33] One exception was a producer of traditional Ao Dai that had opened a store in Canada (Respondent 10). Another was exporting directly to the US (Respondent 17, 2000).

> "I would like to tell you confidentially that at the SOE I felt I could not use my knowledge fully. I was employed by the SOE and I met a lot of customers. And I thought that this company was not good enough to meet customers, so I started my own company. If I hadn't have done that, it would have been a waste of customers (…) a lot of customers did not want to buy from SOEs" (Respondent 1, 2000).

Former SOE managers more usually emphasized that their contacts abroad were further eased by the fact that they had been able (by obtaining funds, foreign exchange and permission) to travel abroad and search for markets earlier than other actors in the current private sector due to their positions in the planned economy. They also often stressed that their close connections (personalised and/or in the form of stock holdings) with the authorities, which they established before they entered the private sector, remained an advantage. Generally they personally knew authorities who would arrange for foreign delegations to visit their factories or arrange for them to be invited to (often fully sponsored) fairs[34]. The only Hanoi respondent (Respondent 7, 2000) who mentioned the US as a current market for his products at the time of fieldwork presented an example of how state organisations mediated contact with buyers: the joint stock company he co-owned and managed, a former SOE in which the state retained stock, was selected by Hanoi Peoples' Committee to join a fair in the US before the trade negotiations between the two countries had been concluded. The respondent received relatively large orders from US buyers, but was unable to fulfil them due to a lack of capacity. Therefore, he carried out a provisional import (around 65% of the total amount of products) of garments from China, labelled them "made in Vietnam" and re-exported them to the US. This example of how lucrative orders were not necessarily obtained by qualified producers, but distributed according to totally different and much more personalised "principles", illustrates the limitations on broader developmental impacts[35].

Secondly, most Hanoi respondents exported all or part of their products to East Asian countries, including Japan, Korea, Singapore, Hong Kong and Taiwan. Korea and Japan were most commonly mentioned, and production for these two markets took the form of CMT, either for East Asian importers/contractors or for Vietnamese SOEs. Especially in the latter case, respondents did not possess much knowledge of the buyers, nor of the end-

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[34] Contacts with buyers were not made as often through the Hanoi garment association (VITAS), as was the case in HCMC, since the association was quite newly established and, it was often pointed out, did not work well.

[35] This was clearly not the only case of a lack of fit between the capacity of an enterprise and the orders it received. The US decided to decrease the amount of quotas given to Vietnam by 2.5% for 2004 because of such illegal trans-shipments. Several Vietnamese exporters had been forging customs documents, particularly certificates of origin. It was estimated that approximately one million dozen garments supposedly produced in Vietnam and exported to the US in 2003 were in fact produced elsewhere (International Reports.net, 2004).

markets. However, it seems that exports to Japan were usually sourced by Japanese trading houses with buying offices in Vietnam and consumed in Japan, while those that went to Korea as well as other East Asian countries tended to be re-exported. Hanoi enterprises whose production was largely or wholly in the form of SOE subcontracts were generally not closely related to the state; rather they were owned by, for instance, former workers, former soldiers or people who had previously owned small household businesses. In addition, there were cases where these respondents and/or their families had been classified as "capitalists" years before, with a continued impact on their present opportunities. They all stressed that bank loans and export quotas, and thus access to other and more lucrative markets and contracts, were out of their reach. They also generally pointed out that it was extremely difficult to meet new buyers, not least those from the EU and Japan.

Thirdly, about a quarter of the Hanoi respondents exported (usually f.o.b. with Vietnamese fabrics) to former eastern European countries or Russia. In some cases, respondents had established contacts with their present buyer when they were studying in, living in or trading with eastern Europe during the planned economy period. Other buyers in eastern Europe and Russia were overseas Vietnamese with whom the respondents had long-established relations. Those who saw these markets as secondary to their other export destinations sometimes mentioned that they could produce for these markets in between other orders, since buyers were often relatively flexible in terms of delivery times. In this way, production stops in low seasons, which were otherwise common, were avoided. However, it was very clear that most respondents selling to eastern Europe and Russia mainly did so because they had no real alternatives. In general, these markets were a default option for those lacking "deep" relationships with the state. The markets were often characterised as having insecure terms of payment, and, while fabrics for larger orders were often bought from Vietnamese SOEs, this was on price grounds and brought with it delays (and sometimes also mistakes) rather than shorter lead times. As mentioned above, it was also a problem that f.o.b. prices in these markets were generally low, since products were typically inexpensive and for low-market segments. Examples included baby clothes for sale in local street markets and brand copies. In the latter cases, buyers were mainly Overseas Vietnamese, who came to the factories at times when other "legitimate" orders were being produced and ordered some volume of similar products, but usually cheaper materials, to be sold in their countries of residence.

Vietnamese Chinese in HCMC: exporting to and through Overseas Chinese in Asia and beyond

Almost without exception, Vietnamese Chinese enterprise owners related to export markets by producing, often on subcontract, for overseas Chinese[36]. Significantly, from their own statements this was normally not because they had a preference for "ethnic networking", as often suggested in the literature on overseas Chinese in Southeast Asia, but rather reflected the fact that they were the least state-connected of all respondents, and hence this was their main option. Some of them had obtained direct orders for the EU market immediately after the introduction of economic reform, since Vietnamese Chinese entrepreneurs were among the first to (re-)open private enterprises (see Lindahl and Thomsen, 2003). However, they had lost these orders again, mainly because they were not able to obtain the required export quota. Others emphasized that they had never had an opportunity to enter into contact with Western buyers for instance because they were not invited to international fairs in Vietnam or abroad. Again this was seen to derive from the fact that state associations and organisations were generally those that mediated international contacts, and invariably because the Vietnamese Chinese were perceived as being opposed to the established (state) system:

> "When ethnic Vietnamese enterprise owners are invited to fairs, they have a chance to meet other enterprise owners. I don't have the opportunity to go there, not even to the fairs in Vietnam. Also, when foreigners come to Vietnam, only other companies than the Chinese ones get help. If someone offers to help companies here, the Vietnamese get the help first. That's a kind of discrimination. I don't think foreigners deliberately choose a Vietnamese company. They don't know who are Vietnamese or Vietnamese Chinese, but the state makes sure that the Vietnamese get the help first. For instance, when foreigners come here to do business, the state will provide the contact with the Vietnamese first. We now live in a peaceful and friendly relationship, but the Vietnamese Chinese get second in line rather than first" (Respondent 45, 2001).

Though the Vietnamese Chinese were in general by far the most experienced in garment production, they often lacked financial capacity. Orders for overseas Chinese were CMT, using fabrics supplied by the buyers, who were mainly Taiwanese or Hong Kong contractors. These contracts were often originally won through informal business associations in the Vietnamese Chinese community, where Overseas Chinese contractors sometimes placed subcontracts (see also Lindahl and Thomsen 2003). The ability to speak

[36] A few Vietnamese Chinese respondents also produced simultaneously on subcontracts for SOEs. These were without exception cases where companies started producing and exporting in this way before it became legal for private enterprises to export directly. In addition, a few exported less than 15% of their products directly to the EU by buying quotas on the black market, while only one exported directly to this market on a large scale. This latter company was recently partly nationalized, which explains its access to export quotas (Respondent 54, 2001).

Chinese languages, as well as more culturally influenced behaviour such as a shared regard for "reputation", were generally seen as a stepping stone to winning contracts with overseas Chinese, but respondents often stressed that once cooperation had been established it was not based on "sentiment" – it was "just work" and not at all seen to imply especially good conditions.

Once more, the amount of re-export involved was hard to estimate, but judging from the products in question and respondents' own ideas, this seemed to be the rule rather than the exception. Both the US and EU were commonly identified as the expected end-markets. Products were often "commodity" knitwear items such as T-shirts and baby-wear, but there were also several cases of enterprises that had been producing major sports brands on subcontracts for East Asians destined for the European end-market for the past ten years or so. Such subcontracting arrangements were associated with low and even falling CMT prices. Respondents compared these adversely to the product price in the end-markets and assumed that East Asians would always be making unfair levels of profit in this process.

In other cases, buyers were overseas Chinese wholesalers or retailers located mainly in quota-free end-markets – usually Australia and New Zealand – but also in the US, despite the extremely high tariffs at the time of fieldwork. In the latter case, Vietnamese Chinese enterprise owners often stated that they and their buyers in the US were initially hoping for lower tariffs as well as no quotas therein the long term. These buyers were without exception former Vietnamese Chinese who had fled Vietnam during or after the Vietnam War (as did many other Vietnamese Chinese). Contacts with these buyers either went back to the time they lived in Vietnam, or were established when they went back to Vietnam to search for business opportunities. Orders were usually f.o.b., producing from low-quality Vietnamese fabrics for a rather low-market segment. Hence, f.o.b. prices were also usually low, but buyers were generally perceived as being much less demanding than the East Asian contractors. The capital required for this relatively low-cost type of f.o.b. production was sometimes obtained informally from different types of credit systems related to banks, associations or business cooperation in the Vietnamese Chinese community (see Lindahl and Thomsen, 2003 for details of these credit systems).

Vietnamese of northern origin in HCMC: exporting to Japan and less demanding markets

Well-connected Vietnamese of northern origin in HCMC often mentioned Japan as their largest single market. In general, these orders were destined for the Japanese end-market rather than re-exported. They consisted, for instance, of work wear for the Japanese automobile industry. The respondents selling to Japan were often former SOE managers or (family members of) former or current prominent government officials, who sold relatively large volumes to well-known Japanese trading houses or branded marketers. It is not altogether surprising that it was this group of respondents who most commonly exported to Japanese buyers, who also mainly subcontracted orders to Vietnamese SOEs (Nadvi, Thoburn et al. 2004), since it represented the segment closest to the state system. It was often pointed out by these respondents, who were usually rather inexperienced in garment production, that Japan was a “hard-to-please market” and that they were not always able to fulfil buyers’ demands. As a consequence, several respondents were considering forming joint ventures with the buyers, hoping to upgrade in the process. Informants (15; 16, 2001) working for Japanese trading houses in HCMC also pointed to joint ventures as a possibility. But rather than highlighting plans to transfer know-how to the Vietnamese side, they emphasized that this was mainly for two reasons. First, they wanted to gain more direct influence and control over daily production, and secondly, by teaming up with Vietnamese citizens with good connections to the state system, they could avoid some of the corruption and bureaucracy-related problems typically connected with investing in Vietnam.

Former northerners in HCMC generally stressed that they had no difficulties in obtaining quotas, capital etc. Yet, they seldom used quotas to export directly to, for instance, the EU. Those who had a quota for the EU market more usually made a living by re-selling it on the black market rather than producing for quota markets themselves. Due to their connections in the ministries and/or Peoples’ Committee they may have had opportunities to meet European buyers, but they did not necessarily receive orders from them, since they generally had little experience of garment production. In other words, they tended to have the possibility, but not the ability, to export directly to the EU market. Instead, they confined their production to smaller volumes for a variety of “less demanding buyers”.

Regardless of markets, contacts between this group of respondents and buyers were almost always established through the official system. In some cases, AGTEK, the garment association in HCMC (of which most of these former northerners were members and regularly attended meetings, seminars and fairs as explained in Paper 3) established the contact. Several respondents in this group pointed out that all the orders the association was offered were funnelled through the association board, and that those closest to the board had the best chance of receiving them. Several respondents, including two with respectively current and former managing positions in the association (Respondents 61; 25), estimated the proportion of former northerners in it (of whom in turn a large number can be assumed to be former state employees) to be as high as 80%, private and state sectors included. This estimate was based on their inspection of the membership and meeting attendance lists of the association[37]. It should be kept in mind that the number of

[37] AGTEK was originally established by a group of private business owners, mainly Vietnamese Chinese. Their role in the association has changed tremendously in recent years, and the association has become more state-driven (see Paper 3).

northerners in the state sector was without doubt larger than in the private sector. Nevertheless, the number in the latter was large and tells us something about the importance of northerners in the southern branch of the industry. In other cases, buyers had formerly sourced from SOEs that were then equitized, with the resulting private (joint stock) companies inheriting the orders, or from other SOEs that respondents had been managing before entering the private sector, before re-directing the orders to their current enterprises.

Vietnamese of southern origin in HCMC: exporting to East Asia and the EU

In contrast to the Vietnamese of northern origin in HCMC, those of southern origin were often single owners, and few of their enterprises contained state stock. In addition, less than forty percent of the Vietnamese of southern origin had close personal relationships with the state, meaning that they are the least state-connected ethnic Vietnamese respondents in the sample. Accordingly they mainly exported to Asia, to Korean, Taiwanese and Hong Kong contractors that apparently re-exported the products[38]. Producers who based their sales mainly on selling to East Asian contractors were usually relatively small family companies that had often produced small-scale orders for a single contractor for some five to seven years. This was seen as a double-edged benefit in the sense that while orders were relatively secure, the customers in question often demanded exclusive contracts without being able to guarantee continuity of orders. Hence, respondents often complained about a lack of orders and therefore a loss of income in low seasons, along with problems of paying and thus retaining workers.

Those Vietnamese of southern origin who did have a relationship with the state of some sort were the only southerners (Vietnamese or Vietnamese Chinese) who exported directly to quota markets and to Japan. These business owners were both well-connected *and* had experience of garment production. They generally owned relatively large factories and stressed their relationships with the state as their key to accessing these markets:

> "The most important thing is the buyer, but relations with officials are important as well. These are a supporting factor. I see contacts and good relations as two separate, but interacting things: you must try to get contacts with the buyers, but to do that you need to have good relations. So you can say that relations are the oil that makes the machine run" (Respondent 24, 2001).

Significantly, however, the amount of quota southern Vietnamese producing for the EU were able to obtain through the official channels was often insufficient and needed to be supplemented by buying quotas from other enterprises in the state and private sectors

[38] Respondents estimated that 60-90% of the products they exported to East Asia were re-exported.

and/or by producing on subcontract for East Asians. The only Vietnamese of southern origin (Respondent 24, 2001) who was allocated the quota he required was managing a former SOE. In contrast to some of the northerners, who also had easy access to quotas, this company produced large volumes to relatively high-quality specifications. It benefited directly from some of the quotas it received and used the re-sale of quotas to increase its income rather than as a sole source of income.

Buying quotas on the black market was mostly an option for those who lacked smaller amounts of quota rather than those who had none at all, since it was not only costly, but also inadequate. It was often stressed that the amounts one could obtain in this way were usually small. Also, it was said that potential European buyers usually expected enterprises to be holding larger amounts of quota (as well as security for future access) than could be obtained through the black market. Therefore, quota markets were seldom very important for non-connected enterprise owners. If they exported to these markets at all, it was usually just samples, through which they hoped to get into the market and solve the related quota problems one way or the other at a later stage.

One southern Vietnamese woman, who had never been closely related to the state– on the contrary, her father was a considered counter-revolutionary – emphasised that obtaining quotas privately on a large scale entailed planning:

> "I know which companies I can easily buy quotas from, because I have a very personal relationship with someone there. The first time I needed to buy, I looked at the official list of quota allocations and then went to the companies that seemed to have got the most. I did some things to establish a relationship with somebody there, and sometimes I succeeded" (Respondent 27, 2001).

Contacts with EU and Japanese buyers were usually either established through the garment association of HCMC or had already been created when joint stock companies were formerly SOEs. In a few cases contacts were established directly between the two parties, for example at fairs, but even in these cases it was common for Vietnamese state organisations to select the participant producers.

Summing up

This paper has examined market entry barriers, market channels and market orientation in general according to the policy framework, as well as differentiated chain and market access for four segments of private sector enterprise owners in Vietnam. These segments are distinguished by the ethnicities and origins of the enterprise owners and also the

	Vietnamese in Hanoi	Vietnamese Chinese in HCMC	Southern Vietnamese in HCMC	Northern Vietnamese in HCMC
Regular access to export-related resources through business-state relations	Common	Rare	Less common	Very common
Primary export destination	EU Japan South Korea (incl. re-export) Former Eastern Europe	Hong Kong (incl. re-export) Taiwan (incl. re-export)	Korea (incl. re-export) Taiwan (incl. re-export) Hong Kong (incl. re-export) Japan EU	Japan "Less demanding markets"

Source: Interviews, 2000/2001 locations of their enterprises in Vietnam: these are respectively Vietnamese in Hanoi,
Vietnamese Chinese in HCMC, Vietnamese of northern origin in HCMC and Vietnamese of southern origin in HCMC. Table 4.1 summarises access to export-related resources and primary export destinations (rather than necessarily end-markets) for these segments of enterprises.

Table 4.1: Access to export-related resources and export destinations

Exporting on a large scale directly to quota-regulated markets is mainly possible for private enterprise owners with good connections with the authorities that allocate quotas in Vietnam. Since such relationships mainly depend on enterprise owners' and/or their enterprises' former positions in the state sector, only ethnic Vietnamese business owners (including most Vietnamese of northern origin in HCMC, some Vietnamese in Hanoi and to a lesser extent Vietnamese of southern origin in HCMC) ever have an opportunity to participate in these markets. However, only the two latter groups actually grasp the opportunity, since the highly state-connected Vietnamese of northern origin in HCMC tend to re-sell their quotas and produce for less demanding markets instead. While Table 4.1 summarizes access to export-related resources and primary export destinations for the different segments of private sector enterprise owners in Vietnam, it therefore does not show any direct correlation between having relationships with the state and exporting to demanding markets for these former northerners in HCMC. They had the *opportunities* to export to demanding markets, but did not do so in practice. Those without any connections with the state, on the other hand, have virtually no opportunity to export to quota markets. Resorting to the black market for quotas was also not really a possibility for the unconnected enterprise owners, since the amounts of quota that is was possible to obtain in this way alone were insufficient to convince potential buyers. Hence, even the black market for quotas mainly served those connected enterprise owners that needed to supplement their quota rather than those without access through the official system. This unconnected group of enterprise owners included virtually *all* the Vietnamese Chinese respondents, none of whom exported directly to quota markets (see Table 4.1).

Likewise, a clear connection can be identified between being connected with individuals with positions in state-driven professional associations and being able to access quota markets. The associations, and especially the city garment associations and Peoples Committees, are often used to host foreign trade missions, and the leaders of the associations are those who mediate orders between enterprises abroad and in Vietnam. The pattern with regard to Vietnam's other major export market at the time of fieldwork, Japan, was very similar to that for the quota-regulated markets: the Japanese market may not require quotas, and thus business owners do not need a relationship with the state to obtain them. But since Japanese buyers do tend to go through the official channels to enter into contact with Vietnamese producers, establishing contacts with Japanese buyers required similar connections to those needed to obtain quotas.

Discussion and concluding remarks

While most of the literature on GVCs deals with chain-internal processes, this paper focuses on entry barriers for suppliers. It draws on GVC analysis, but develops it further by suggesting three types of entry barrier, namely industry, market and chain entry barriers. In terms of the latter, it is emphasised that these are not only constructed by buyers, as is usually claimed, but also by the institutional context in supplier countries. Thus, the inclusion of institutional contexts in the analysis contributes to our understanding of why some chains, or chain filaments, are more competitive than others. This also implies that there is no single GVC for clothing.

Against this background, the impact of the national institutional context for access to chains by private garment manufacturers in Vietnam has been examined. The paper demonstrates that Vietnam's political economic context – not least the complex and differentiated nature of business–state relations – greatly influences the process of differentiation by those producers who have an opportunity to export directly to key markets. As a result, the GVC concept of buyer-drivenness – or at least its ability to capture GVCs in their entirety – is to some extent questioned. Producer selection is, of course, on the one hand still buyer-driven, since buyers may choose between specific suppliers on grounds they themselves have defined. On the other hand, the suppliers they choose between are (at least in Vietnam) very likely already separated out in a process which is extremely state-driven.

The basic opportunities and entry barriers facing private enterprise owners in Vietnam relate, for instance, to their ethnicity, so that Vietnamese Chinese enterprise owners commonly subcontract for overseas Chinese in East Asia in so-called triangular manufacturing, with the EU as the end-market. It is significant that this is mainly not because they prefer working with other ethnic Chinese, since this is not seen as generally improving their ability to access the EU relative to other suppliers, as has often been suggested in the literature on overseas Chinese. Rather, this type of cooperation (which is characterised by falling CMT prices) is actually seen as a default option rather than as a real benefit by Vietnamese Chinese suppliers. Using ethnic relations is merely an opportunity that people resort to because they do not have the relationships with the state that are necessary to export directly to the EU. Opportunities also relate to some extent to location in either northern or southern Vietnam, not least because the state and also donor agencies tend to channel export orders to northern rather than southern Vietnam. However, these factors of ethnicity and location matter mostly because they generally impact on enterprise owners' "state histories" and thus their relations with the state system today.

All in all, Vietnam's transition to a market economy is creating a new economic structure that includes not only state-owned but also private enterprises. However, what is emerging tends to be a new system that to some extent resembles the old one in the sense that not only state ownership, but also "state-connectedness" determine the opportunities open to businesses. This system seems to embrace many state institutions as well as those associations that are supposed to mediate between the private and state sectors. As a consequence, some of the most dynamic enterprises are cut off from resources, including access to the most attractive parts of the world market. At the same time, it is clear that other, less competitive and sometimes barely operational enterprises are provided with a number of opportunities that they fail to use. This scenario clearly has consequences not only for the entry of individual suppliers' into the world market, but also for Vietnam's future position in the global market. Vietnamese enterprises are not able to perform high-quality f.o.b. for demanding markets at the moment, which already makes the country a lot less attractive than its neighbour and main competitor, China. This is underlined by the fact that global buyers and contractors tend to be increasingly dissatisfied with the conditions they meet in Vietnam. Vietnam's competitiveness in the clothing industry in the longer run should also be seen in the light of the recent phase-out of the ATC, which basically means that buyers can now choose more freely from among supplier countries (see also Appelbaum, Bonacich and Quan, 2005).

The empirically based trends described in this paper date back to the time immediately before the opening up of the US market to Vietnamese suppliers, and therefore this market clearly has greater importance for Vietnamese clothing producers in general today. This raises new and interesting questions, answers to which are not directly within the scope of this paper, for instance, concerning the extent to which private clothing enterprises are actually present in this market (and in this case, which segments of private enterprises are involved), as opposed to state-owned ones. Impressionistically, it seems that the trend towards segmentation within the Vietnamese garment industry described in this paper is more rather than less marked in the US market. Among other things, this is because this is presently a quota market, and there is no evidence suggesting that quota allocations for enterprises in Vietnam for the US market are any different than it was for the EU market. In addition, US buyers are likely to be very unfamiliar with the Vietnamese context and will most probably choose to go through safe and official channels when looking for suppliers in Vietnam. Basically, this means that, like most other buyers, they will usually seek contact with those business owners who are connected to the state system by ownership or otherwise, which will drastically reduce the number of suppliers that are likely to enter the US market. For example, the general garment corporation, VINATEX, and the national garment association have recently listed the businesses they are presently promoting to US buyers (Informants 25; 26, 2005). These two lists are almost identical in terms of the names of the businesses that appear in them. In addition, these businesses are defined as being private by the organisations, though many of them are actually SOEs that are only planning equitization in the future. Most of the others are former SOEs or owned by individuals with other types of connection with the state.

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Paper 5: Scandinavian clothing retailers' global sourcing patterns and practices[39]

Introduction

This paper examines how global sourcing for clothing operates in two of the three Scandinavian end-markets, Denmark and Sweden.[40] It does so on two main bases. The first is unpublished Danish and Swedish import data for the period 1990-2001. The second is a series of interviews conducted with ten leading Scandinavian retailers and wholesalers in mid-2002. An additional important source has been company annual reports, both the published ones of publicly listed companies and the unpublished ones of private companies, accessible through payment of a fee to national company registers.

The paper covers, in turn:

- the specific features of the Danish and Swedish clothing retail markets,
- the sourcing geographies of the Scandinavian market generally and of the companies interviewed in particular, as well as the reasons for these geographies
- the main types of supplier into the Scandinavian market
- the size and structures of Scandinavian retailers' supply bases
- Scandinavian retailers' expectations of suppliers and supplier management policies and instruments, and
- How retailers chose new suppliers.

The paper concludes with a discussion of the implications of the evidence presented here for suppliers in developing countries.

There are two appendixes specifically connected to this paper. The first, which has for different reasons not been included in this dissertation[41], provides a full, highly detailed version of national import statistics for Denmark and Sweden to complement the short summaries found in the main text.

The second (Appendix VII) covers importers' views of the strengths and weaknesses of producers in three countries where producer surveys have been conducted by those

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[39] Previously published as a CDR/DIIS Working Paper (Working Paper No. 2.14). Co-author Peter Gibbon has kindly given permission to reprint the paper here.
[40] Norway was not considered in this study, as it is not an EU member.
[41] This voluminous appendix mainly provides details of information already contained in the paper. It can be viewed in its published form at www.diis.dk/graphics/CDR_Publications/cdr_publications/working_papers.

researchers involved in the research reflected in this present paper and Paper 6, as described in the methodology section of Paper 1, namely Mauritius, Vietnam and South Africa (although in practice none of these countries proved to have significant levels of exports into Scandinavia).

The Scandinavian clothing retail market

In 2000 the size of the Danish clothing market was 16.9 bn. DKK (Eu. 2.26 bn.), while Sweden's was worth 44.6 bn. SEK (Eu. 5.28 bn.). Annual per capita expenditure on clothing is considerably higher in Sweden than in Denmark (Eu. 595.5 as against Eu. 425.3 in 2000). This difference increased significantly during the second half of the 1990s as the markets grew at different rates. The Danish market grew by only 0.32%/year from 1995/96 to 1999/2000, implying a contraction in real terms. By contrast the Swedish market, which had contracted severely in the early 1990s as the country experienced a serious recession, grew at a rate of 4.5% a year over the same period (all data from Consumer Europe (Euromonitor 2001)).[42]

Denmark

The Danish clothing retail sector has several distinguishing features. First, it is extremely export oriented – a factor which makes it somewhat meaningless to discuss market shares on the basis of domestic markets alone. Total exports are almost as high as domestic market sales (see below), and a large majority of the sales of all the four largest clothing retail groups in Denmark are exports. The Danish market is simply too small for the realisation of the economies of scale that are so important in the mid-market clothing retail business. Exports are very largely in wholesale form, reflecting the background of some important players in manufacture or in operation as trading houses/converters (see below). Of the leading ten players, only IC Companys and Sand operate stores in foreign markets.

Second, the market is very highly concentrated, even when Danish exports and domestic sales are considered jointly. The top five groups account for 43.7% of total sales measured in this way, while the top ten almost certainly account for more than 60%. The comparable figures for the UK are 39% and 52% respectively.[43] Apart from the work wear supplier Kansas, the four leading Danish retailers have a large number of brands or branded chains targeted across the range of market segments.

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[42] The Danish and Swedish national statistical services, Danmarks Statistik and Statistika Centralbyrå, give different data. That for Sweden is almost identical to Consumer Europe's, but that for Denmark gives a market size of around 24-25 bn. DKK. It is not clear how the latter difference arises. Consumer Europe's data has been used here since they are presumably calculated in the same way for both countries.

[43] In the UK case excluding exports, which in this case are mainly accounted for by trading houses and manufacturers rather than retailers.

Third, despite the strong tendency towards concentration, independents still play an important role in the Danish market. Many chains predominantly comprise franchises, while a number of others are constituted entirely on a "voluntary" basis. That is, stores are individually owned but share a common chain name, buying and marketing function. There are also a large number of "stand alone" individually owned stores that buy in a range of labels from different leading players.

Fourth, apart from the Swedish chain Hennes & Mauritz, no major foreign-owned chain has gained a significant foothold in the Danish market. Gap withdrew from the market entirely after a brief foray in the 1990s, while Esprit, Zara and Mango have only token presences. Moreover, a great majority of Danish-owned players, including the leading ones, are privately owned. Only two clothing wholesalers or retailers, IC Companys and Magasin's parent company Wessel & Vett, are listed on the Copenhagen Stock Exchange.

Table 5.1: Clothing sales (including exports) of top ten Denmark-based retailers by rank order, ca. 2001

Company	**Date**	**Sales** (bn. DKK)	**Notes**
Bestseller	2001	3.43	Own branded mid and lower-mid chains (mostly franchised) include Bestseller, Vero Moda, Only, Jack & Jones, Exit, TDK, Selected; around 50% of sales are wholesale. These include exports to independents
IC Companys	2001	3.15	Formed in 2001 as a result of fusion of mid-market firms InWear and Carly Gry. Own brands include Jackpot, InWear, Part Two, Matinique, Peak Performance and Cottonfield; around 60% of the business is wholesale, including exports (including to independents)
Kansas	2001	2.70	Workwear; includes exports
Brandtex	2000	2.48	Own mid- and lower-mid chains and brands include 4-You, B-Young, Blend, Fransa, Signature, Cero, Etage, Jensen Women, Silbor, Wiki, Atmosphere and Kabooki; brands are sold wholesale also, and up to 75% of sales of some brands are exports. Re-branding of group under name Share planned for 2002/03
Hennes & Mauritz	2001	1.82	

Din Tøjmand	1999	1.80 (estimate)	Voluntary chain. No turnover figures published
Magasin	2001	1.48	Department store group. Calculated as 50.2% of turnover
Tøjexperten	1999	1.30 (estimate)	Voluntary chain. No turnover figures published
Sand	2001	1.00 (estimate)	Upper-mid-market brand. No official turnover figures given. Large majority of sales exported
Dansk Supermarked (DS)	2000	?	Clothing represents an unknown share of total group turnover of 19.27bn DKK. DS comprises three major super/hypermarket groups, Netto, Føtex and Bilka (of which Føtex and Bilka sell clothes) plus a discount clothing chain, Tøj & Sko

Source: Company annual accounts; interviews; business press. 1999 data on Din Tøjmand and Tøjexperten from ECRH (2001).

Fifth, recent levels of profitability appear to be rather low and in a number of cases negative. One major player (IC Companys) recorded a loss in 2001, while another (Magasin[44]) forecast losses for 2002. Three other important players outside the top ten (Bruuns Bazaar, Jørgen & Jørgine, and RedGreen) also recorded losses in their last accounts.

Sweden

Unlike in Denmark, Swedish clothing retailers tend to be retail specialists without wholesaling operations overseas. Four of the leading ten (notably Hennes & Mauritz) have large overseas sales, but these are through their own stores rather than on a wholesale basis. This pattern is in the process of being repeated by a fifth, Stadium.

Table 5.2: Clothing sales (excluding exports) of top ten Swedish-based clothing retailers in rank order

Company	**Year**	**Sales** (bn. SEK)	**Notes**
Hennes & Mauritz	2001	5.43	Sales in other markets worth a further 41.1 bn. SEK in 2001
Lindex	2001	2.68	Mid-market chain. Sales in other markets worth further 2.3 bn. SEK in 2001
KappAhl	2000	1.98	Mid-market chain. Sales in other markets worth 1.94 bn. SEK in 2000
Stadium	2001	1.8 (estimate)	Swedish-owned sportswear chain. Clothing sales

[44] Magasin's business is wider than clothing, however. See Table 1.

			estimated at 70% of total sales worth 2.6 bn.
Densam Fashion Group	2000	1.49	Voluntary chain
JC	2000	1.29	Until recently a voluntary chain. Still only 20% of Swedish sales through own stores. Sales in other markets worth further 0.37 bn. SEK in 2000
Åhlens	2001	1.24 (estimate)	Department store chain. Calculated as 33% of total sales of 3.72 bn. SEK
Ge-Kås	2001	1.0	Stand-alone discount hypermarket. Clothing accounted for 55% of total sales of 1.8 bn. SEK
Dressman	2000	0.87	Rapidly expanding Norwegian-owned discount group
MQ	2000	0.80	Voluntary chain

Source: Company annual reports and accounts; interviews.

The Swedish market is significantly less concentrated than the Danish and the UK ones. The top five retailers account for 31% of all sales, while the top ten account for around 42%. As in Denmark, independents retain a substantial market share, many of them being supplied by Danish wholesalers (see below). Again as in Denmark, voluntary chains retain a substantial market share, although what had been the second largest of these (JC) converted itself into a publicly listed company in 2000.

While the most prominent example of Swedish clothing retailer expansion overseas has been organic, most other Swedish companies with significant overseas sales have acquired stores outside the country through mergers and acquisitions. Lindex expanded into Germany on this basis, as did KappAhl into Denmark (buying the MacCoy chain) and Norway. The largest single number of mergers and acquisitions undertaken was by a company lying just outside the top ten, the workwear supplier New Wave, which made five overseas acquisitions in 2001 alone. Mergers and acquisitions are also a feature of the internal Swedish scene, with Lindex's recent takeover of Twilfit and the merger of Polarn O. Pyret and Portwear into the Retail and Brands (RNB) group. Relatively, stock market membership is a much more pronounced trend in Sweden than in Denmark, with six clothing suppliers or retailers listed on the Stockholm Stock Exchange (Lindex, Hennes & Mauritz, Fenix Outdoor (Fjällraven), JC, New Wave and RNB).

As in Denmark – where, apart from Hennes & Mauritiz, only KappAhl (also Swedish) has a significant market presence – the presence of foreign players in Sweden is generally marginal. The only foreign group with a significant market share in Sweden is the Norwegian Dressman Group. The main factor constraining foreign presence in both markets is high employee costs – the sectors are unionised in both countries.

Swedish clothing retailers appear to be generally more profitable than their Danish counterparts. None of the leading fifteen or so has posted losses in the last two years.

Clothing imports[45]

Overall import values, penetration and geography

In Denmark clothing import values for 2000 (Eu 2.25 bn.) virtually equalled the value of domestic market sales (Eu. 2.26 bn). Despite domestic production worth Eu. 0.79 (Eurostat 2002b), import penetration[46] was technically well in excess of 100%. This is explicable in terms of very high levels of re-exports (total Danish clothing exports in 2000 were worth Eu. 1.80 bn). In Sweden, clothing import values in 2000 were, at Eu. 2.12 bn., actually lower than in Denmark, despite the much larger Swedish market. But since Swedish domestic production is negligible (op. cit.),[47] import penetration was also technically well in excess of 100%.

Very high or total import penetration for clothing is a long-established trend in Sweden, but one dating only from the 1990s in Denmark. While Swedish imports grew very unevenly and slowly during the 1990s, Danish ones almost tripled between 1990 and 2000 (cf. Table 5.3). The Danish clothing industry's decline occurred much later and was associated with at least some manufacturers moving into importing/re-exporting functions in Denmark, and/or re-establishing their factories in eastern Europe (for example, first Poland, later the Baltic countries, and most recently Ukraine), rather than simply withdrawing from the sector.

Table 5.3 summarises the changing patterns of the main sources of imports to the Danish and Swedish markets since 1990. A number of conclusions are suggested:

- Western and southern Europe remain the largest single region of origin for imports in both cases, although their share has declined considerably (very considerably in the Swedish case). However, a considerable proportion of these imports are almost certainly re-exports. For example, the Netherlands, Belgium, Sweden and Austria, none

[45] Except where indicated, all data in this section are drawn from the Eurostat (2002a) data base.
[46] Calculated as imports as a share of (domestic production – exports) + imports.
[47] In 2000 the value of Swedish domestic production was only Eu. 0.17 bn. Swedish exports totalled Eu. 0.55 bn.

of which have significant clothing industries, together contributed 12.0% of Danish imports in 2001. Netherlands and Belgium together contributed 4.6% of Swedish imports the same year, while Denmark alone contributed no less than 13.2%.[48]

- Central and eastern Europe grew steadily in importance for both countries
- Turkey and Tunisia also grew steadily in importance for both countries
- India and Bangladesh grew in importance rapidly until 1995, but since then their import share has stabilised
- by 2000, import shares from leading Far Eastern destinations were roughly similar for Denmark and Sweden, but Sweden had a much higher proportion passing through Hong Kong and Macau.[49]
- the import patterns of the two countries have tended to converge over time

[48] Denmark's share of Swedish imports in 2001 exceeded 18% for four categories of clothing: women's trousers (18.4%), dresses (18.4%), skirts (21.3%) and blouses (24.2%). These categories were exactly the same as those for which the joint share of *Danish* imports from Poland and Lithuania were highest (at 17.2%, 19.2%, 19.9% and 35.2% respectively). This suggests that re-exports of goods originating in Poland and Lithuania accounts for a high proportion of Danish re-exports to Sweden.

[49] Swedish imports from China rose from 4.9% of all imports in 1990 to 18.3% in 1995, before falling to 14.8% in 2000 and 15.1% in 2001. This fall is widely attributed to Sweden's accession to the EU in 1995 and thus also to the EU's quota system.

Table 5.3: Value and origin of clothing imports by share (%) of total import value, Sweden and Denmark, 1990-2001

	1990		1995		2000		2001	
	Denmark	Sweden	Denmark	Sweden	Denmark	Sweden	Denmark	Sweden
Total value (Eu. bn.)	0.87	1.79	1.44	1.50	2.25	2.12	2.31	1.97
Western and southern Europe (%)	46.6	62.4	44.0	44.9	36.0	39.4	36.0	38.6
Central and eastern Europe (%)	4.7	1.0	10.8	6.2	14.8	9.3	15.5	10.8
Turkey and Mediterranean(%)	5.5	1.4	3.3	1.8	4.9	5.0	6.6	5.5
Indian subcontinent (%)	3.6	2.8	6.0	5.8	5.9	5.8	6.1	7.7
China, Thailand, Indonesia, Malaysia (%)	21.0	7.6	16.0	20.6	22.4	16.5	21.4	16.8
Hong Kong, Macau, South Korea (%)	9.9	11.2	8.4	10.5	6.5	10.2	5.3	8.0
Other (%)	8.7	13.6	11.5	10.2	9.5	12.2	9.1	12.6

Source: Eurostat (2002a).

Relative to UK imports in 2000 (reported in Gibbon, 2001), both Denmark and Sweden imported much larger proportions of total intake from or through other EU countries (36-39% of all imports, as opposed to 28%), as well as from central and eastern Europe (9-15%, as opposed to less than 5%). Shares of imports coming from China, Thailand, Indonesia and Malaysia, as well as from Hong Kong, Macau and South Korea, were roughly comparable to the UK case. On the other hand, Turkey and the southern Mediterranean countries and the Indian subcontinent were far more important import sources for the UK than for Scandinavia: each accounted for roughly double the proportions of intake into the UK market, relative to the Danish and Swedish ones.

Product categories

In Denmark the leading product categories of clothing imports by value in 2000 were (in rank order) pullovers, women's trousers, men's trousers, t-shirts and women's blouses. In Sweden they were pullovers, men's trousers, women's trousers, t-shirts and women's underwear. These lists closely resemble leading UK import categories, except that men's shirts are the third leading UK import category, and neither women's underwear nor blouses feature in the UK top five. Table 5.4 compares the main import sources for common Danish, Swedish and UK leading import categories in 1990 and 2000.

Table 5.4: Value (Eu. mn.) and leading origins (% share of total) of main clothing import categories, Denmark, Sweden and UK, 1990 and 2000

	Denmark		**Sweden**		**UK**	
	1990	**2000**	**1990**	**2000**	**1990**	**2000**
Pullovers value	79	317	215	254	602	1679
Lead origins	Portugal 29.4	China 8.8	Denmark 19.4	Denmark 16.2	H Kong 17.3	H Kong 11.2
	Italy 10.8	Italy 8.7	Portugal 13.9	China 8.9	Italy 15.8	China 6.9
	H Kong 8.6	Poland 8.4	Italy 13.5	Turkey 6.8	S Korea 8.0	S Lanka 5.8
	Germany 8.3	Turkey 8.3	H Kong 12.2	H Kong 6.4	Portugal 6.2	Italy 5.3
Women's Trousers Value	89	266	221	229	343	1343
Lead origins	Italy 16.0	Italy 13.0	UK 24.2	Denmark 18.3	H Kong 18.2	Turkey 11.8
	H Kong 10.2	China 10.9	Denmark 11.9	Turkey 9.2	China 10.4	H Kong 10.0
	UK 9.4	Poland 10.8	Portugal 11.0	H Kong 9.2	Germany 6.8	China 9.9
	Portugal 9.4	Turkey 8.5	Italy 10.4	China 8.2	Italy 6.0	Morocco 7.3
Men's Trousers Value	80	182	151	240	476	1155
Lead origins	UK 18.2	Italy 17.3	Portugal 31.1	Portugal 13.7	H Kong 24.1	Morocco 10.8
	Italy 16.2	Portugal 9.6	Italy 12.1	Italy 11.2	Belgium 9.3	H Kong 8.1
	Portugal 14.5	Germany 9.1	H Kong 9.9	Belgium 8.5	Portugal 8.9	Belgium 7.5
	H Kong 13.4	Sweden 8.7	Finland 5.7	Denmark 7.6	Ireland 8.3	China 5.2
T-Shirts Value	52	214	110	228	330	1024

Lead origins	Portugal 26.5	B'desh 14.4	Greece 19.8	Denmark 16.2	Greece 11.3	Turkey 17.5
	Greece 8.7	Turkey 10.9	Portugal 19.7	Turkey 13.5	Portugal 11.1	B'desh 9.3
	B'desh 8.6	China 9.4	Denmark 8.9	B'desh 12.3	Ireland 10.2	H Kong 8.6
	Germany 8.3	Portugal 7.8	Turkey 6.4	Greece 11.1	Turkey 9.1	China 6.8

Source: Eurostat (2002a).

In the case of most items, all three countries demonstrate a shift away from western and southern European origins and toward the Far East (and Bangladesh in the case of t-shirts) on the one hand and Mediterranean countries (chiefly Turkey) on the other. For Denmark there is also a shift in some cases to central and eastern Europe. Sweden's heavy and apparently increasing use of Denmark as an import source almost certainly refers to re-exports, probably mainly from Poland and Lithuania (see footnote 8 above). Imports of men's trousers represent a special case. While sourcing of this category has undergone the same geographical shift as for clothing generally in the UK, Italy and Portugal represent the main origins in Scandinavia. This applies especially to jeanswear.

Interview data on sourcing geography

Sample and research technique

Between May and August 2002, a series of discussions were conducted with Scandinavian clothing retailers/wholesalers. A sample of around twenty companies was constructed in which Danish and Swedish chain stores of different sizes, as well as department stores, super/hypermarkets and work wear distributors were represented. Interviews were conducted with the first ten of those that agreed to be interviewed. Of these ten, seven were chains or groups of chains of various sizes, a number of which were also wholesalers; two were super/hypermarkets, and one was a department store. The ten comprised six Danish and four Swedish companies. The great majority of the companies interviewed were large or very large by Scandinavian standards. At the same time, it should be underlined that there is no correspondence between the lists of companies appearing in Tables 5.1 and 5.2 and those interviewed.

Interviews, all but one of which was held in Danish or Swedish, covered the background to the enterprise concerned and the topics that will be described below. In all cases they were conducted with the individuals within the company concerned who were ultimately responsible for sourcing issues. These individuals, and the companies they represented, were guaranteed anonymity. Hence, the companies are listed in Appendix VI, but references are not made to them where they are quoted or otherwise included in the analysis

Respondents' sourcing geographies

Table 5.5 describes respondent' answers to a question concerning the geography of their total intakes in 2001. Besides the answers from the ten respondents, it includes details about an eleventh company that was not interviewed, whose current sourcing geography is reported in its 2001 Annual Report.

Table 5.5: Respondents' sourcing geographies (n respondents=10; usable information for one other retailer)

	0-9%	10-19%	20-29%	30-39%	40-49%	50-59%	60-69%	70-79%	80%+	Not stated
% from Far East and Indian sub-continent					**3**	**2**	**2**	**2**	**2**	**0**
% from Far East				2	3					6
% from Indian sub-continent	1	2		1	1					6
% from "Greater Europe"		**1**	**2**	**2**	**2**	**4**				**0**
% from EU and Turkey		1	1		1					8
% from central and eastern Europe	1	1		1						8

Source: own interviews; Annual Report for one company not interviewed.

In relation to the import data reported in Table5.3, respondents were on average sourcing more clothing from the Far East and less from "Greater Europe"[50] than Danish and Swedish enterprises as a whole. Whereas the latter were sourcing 55-58% of their intake from "Greater Europe", less than half the sample sourced more than 50% from this origin. Four of the five sampled companies who provided a breakdown of origins within the Far East and Indian subcontinent were sourcing more than 10% of their intake from the latter, while for Danish and Swedish imports generally the figure was 6-8%. Similarly, a majority of those who provided data on sourcing from the Far East alone were sourcing over 40% from this origin, as against 32-33% for Danish and Swedish imports generally. Considerably higher levels of sourcing from the Far East than would be suggested by

[50] Normally EU retailers use the term "Greater Europe" to refer to the EU plus central and eastern Europe, Turkey and the southern Mediterranean. In the Scandinavian case, however, imports from the southern Mediterranean were very low, and the expression did not embrace these countries.

national statistics were also reported by UK firms interviewed in an earlier, parallel study (Gibbon op. cit.). In both this case and the one currently being examined, it is probable that company size was a determining factor. The large companies making up a big majority of firms sampled in both surveys were presumably more likely to possess the resources, financial and otherwise, necessary for successful sourcing (particularly direct sourcing) in Asia.[51]

Recent changes in sourcing geography and its determinants

Nine of the ten companies interviewed described at least one significant change in their sourcing geography within the previous five years. These are summarised in Table 5.6.

Table 5.6: Direction of movement in sourcing geography 1996-2001 (n respondents=9)

"Further out" ("Greater Europe" to Asia, within Asia, or within "Greater Europe")	3
"Closer to home" (Asia to "Greater Europe")	2
"Further out" *and* "Closer to home"	4

Source: own interviews.

As in the case of the UK (Gibbon op. cit.), there was no unambiguous trend toward sourcing "closer to home", as might be suggested by arguments referring to the increasing importance of shorter lead times and making the assumption that this entails using a more localised supplier base. First, factors other than lead times, especially price, were also of importance. Interviewees acknowledging that price was becoming more important for them generally linked this to sourcing more from cheaper Asian origins, notably China, India and Bangladesh, and less from ones in "Greater Europe", or even more expensive Asian origins like Hong Kong.[52] Within "Greater Europe" itself, price was also pushing sourcing towards Lithuania, Romania and Bulgaria. Secondly, where sourcing *was* coming nearer to home, not only lead times, but also supply security, the high cost of the dollar, greater levels of volume-related flexibility in Europe and buyers' own increasing ability to understand minute time calculations[53] were all mentioned as factors alongside lead times in influencing the shift. Nonetheless, a majority of respondents were shifting at least some production "closer to home" and giving a need for shorter lead times as one of the reasons for this.

[51] Smaller companies everywhere tend to make more use of importers because of a lack of internal resources for direct sourcing, and imports via importers from Asia are more likely to be recorded as coming through third countries. In addition, minimum run lengths are typically longer in Asia than, for example "Greater Europe".

[52] Garments produced in Hong Kong are relatively costly. Of course, most of those exported from Hong Kong do not originate there but are re-exports.

[53] A better understanding of the quantity of labour necessary to manufacture a garment meant that buyers could partly offset higher European labour costs by concentrating their European orders on garments where raw materials made up a very large part of total production costs.

Lead time changes

Respondents were questioned about their changing lead time requirements. In order to throw greater light on this issue, Danish and Swedish companies will be discussed separately, since they were typically operating with different business models.

For all except one of the Danish companies interviewed, their wholesale business was either their main one or was of equal importance to their retail one. These companies designed their own (seasonal) collections, which were then shown to independent retailers in order to obtain advance orders. Advance orders typically made up 80%+ of their sales to independents, and garments from the same collections typically make up anything between 30-70% of the intake of their own stores. Lead times for collections could be as long as six months. The remainder of their sourcing (their so-called “open to buy” account) was closer to or within given seasons. Four Danish companies with a combination of wholesale and their own retail businesses had developed programmes they called “Express” to try to minimise lead times for their “open to buy” accounts, as well as to increase the share of the latter in their total intake. Lead times cited for “Express” programmes were in the range of between three and six weeks. “Express” did not necessarily correspond to fashion wear in the sense of garments that were highly differentiated in styling; more frequently it corresponded to ‘basics’ or differentiated basics subject to (often temporary) surges in demand.

Most of the companies interviewed that were “driving the Express” had shifted sourcing “closer to home” when they started to do so. However, at least two of these had later managed to develop fabric-stockholding suppliers in the Indian subcontinent that could deliver on these lead times. One of the Danish retailers that was still placing a majority of its “Express” orders in Europe itself stated that this was not on lead time grounds but because of the relatively short run lengths associated with this form of sourcing (see footnote 11).

The Swedish companies that were most interested in reducing lead times were exclusively retail chains. One was working and the other about to start working with three distinct groups of lead times, namely less than 26 weeks, less than thirteen weeks and less than four weeks. In both cases the shortest lead time applied also to basics that were subject to demand surges. The middle one – wholly or partly – appeared to relate to more or much more differentiated products. One of the companies concerned, for which 30% of intake was already on lead times of less than thirteen weeks, was in the process of shifting more sourcing "close to home". The other, which was aiming to source 60% of its intake within thirteen weeks, was in the process of moving its sourcing "further out".[54]

Two tendencies are much less ambiguous. The first is that production defined as both basic and not subject to possible demand surges, i.e., for which lead times could be unambiguously long – for example, children's leggings - was almost without exception sourced from cheapest possible origins. The second is that virtually all interviewees had abandoned, or certainly downgraded, thinking in terms of regionally-based production specialisations. "These days it's possible to do the same things everywhere" was a common observation.

New supplier countries

Only one of the companies interviewed, the largest, was actively considering entering new supplier countries. This company was already purchasing in more markets than any other and, moreover, had sufficient resources to expand its geographical base at the same time as expanding its number of direct suppliers. The new countries/regions it was considering entering were identified on the basis of a mixture of changes in trade regulations (new concessions in relation to current end-markets) and the possibility of realising short(er) lead-times in relation to planned new end-markets.

As in the UK case (Gibbon op. cit.), the great majority of companies interviewed had no policy of prospecting for new supply markets, and if and when they entered them, this was likely to be the result of relocation by an existing supplier. In the words of one respondent,

"We're not much into prospecting. We've experimented a bit in Tunisia recently, we've thought about it. But our business is built on partnerships, so we stick to where we are already. Fifteen years ago we did a lot of business in Ikast (Jutland). Those suppliers moved to Poland, and we moved with them. Later, we moved with them again when they moved further out. It's never been necessary to look systematically for new places. Our price level has gone down, but we've done this mainly by negotiations with existing suppliers. We haven't been looking for especially cheap new places."

If anything, movement into new supplier markets by Scandinavian importers appears to be considerably less common than movement by UK ones. An indicator of this is that, while import concentration (measured as the share of total imports of the leading twenty suppliers) fell by more than 10% in the UK between 1985 and 2000, over the admittedly shorter period between 1990 and 2001 it fell by only 3.4% in Sweden and actually increased by 1.7% in Denmark.

[54] The second company also had more ambitious plans concerning the percentage of its intake that could be sourced in less than four weeks (30%, as opposed to the 10% achieved by the company that had already implemented this change).

Interview data on suppliers and supplier management

Types of supplier

Respondents were asked which types of supplier they used, and to identify which type contributed the largest share of their intake. The major categories of supplier mentioned were overseas full manufacturers supplying directly to the respondent on a so-called free-on-board (f.o.b.) basis;[55] (non-Scandinavian) agents based in producing countries; Scandinavian (in practice, Danish) trading houses or converters; Scandinavian importers; and licensees (either Scandinavian-based or international). The term "trading house" is used here to designate a company with offices in Scandinavia but with its own production overseas. Trading houses also often act as, or themselves become, "converters", i.e. companies (with offices in Scandinavia *and* overseas) who finance production, including cloth and fabric procurement overseas, on their own account. " Importer" is used here to designate companies based in Scandinavia without their own production overseas, importing (but not engaged in advance financing of production) on their own account or against orders from customers. "Licensee" is used to designate companies, wherever based, that have obtained an official monopoly in selling on the product of specific international brands.

Table 5.7: Main supply channels (n respondents=10)

	Frequency mentioned	Frequency mentioned as main source
Direct from overseas manufacturers	8	7
Via Scandinavian trading houses and converters	7	1
Via overseas-based agents	8	1
Via Scandinavian importers	2	1
Via licensees	1	0

Sources: own interviews.

As many as seven of the firms interviewed stated that their main source of supply was direct purchases from overseas manufacturers; one each mentioned trading houses/converters, overseas-based agents and importers. However, since most firms used three different supply channels, being a main source of supply could account for anything between 35 and 95 percent of intake. Two respondents stated that direct purchases from

55 In the international clothing trade, a distinction is typically made between f.o.b. and CMT production. F.o.b. signifies that the manufacturer him- or herself has financed production, while CMT signifies production using cloth, fabric and components supplied by the client.

overseas manufacturers represented 85%+ of intake. Both of these were chain stores, but in each case the pattern of sourcing concerned was linked with firm-specific peculiarities. In one case the firm was a very large internationalised retailer that had sought to develop direct sourcing as a competitive advantage (see below); the other had an extremely concentrated supply base, with only fifteen suppliers accounting for virtually all of its directly sourced intake.

A number of the companies using direct purchases from overseas manufacturers as their main source of supply had invested considerably in order to do so. The very large internationalised company already mentioned had no fewer than twenty overseas offices employing 500 staff. Their offices monitored supplying country markets, identified and negotiated with suppliers and monitored suppliers' production (plus, more recently, their working conditions). Another three respondents each had four or more overseas offices, and each employed 60-100 overseas staff, while a further company had two such offices employing 30 staff in all. In most of these cases however, negotiation was still being undertaken largely by company head offices.

Both overall levels of direct sourcing from manufacturers and corresponding investments in infrastructures that supported this seem to exceed considerably those evident in the UK (Gibbon op. cit.). When this point was put to some of the Scandinavian companies concerned, the explanations offered fell into two groups. The largest respondent, who was a specialised retailer, stated that, at least in the last few years, investment in direct sourcing plus overseas offices had been driven by its definition of lead times as its major or potentially major competitive advantage. The decentralisation of negotiations (which in turn rested on an already existing close knowledge of local markets) allowed major lead time gains, both in the placing of orders as such and in the combination of follow-up with negotiation. However, most of the other companies for which direct buying was the main source of supply, particularly the Danish ones, explained this in terms of their status being as wholesalers as well as retailers, and to their historical roots in trading houses/converters:

"We've got the advantage of having always been buyers. The UK people are more retail-oriented. It's a different mentality. The retail people in our own operation are nervous about it"

While it was stated repeatedly that direct buying from overseas manufacturers was to be preferred, there was no corresponding trend toward the elimination of agents. A typically case was a department store that used Italian and Hong Kong agents for most of its men's wear, buying most of its women's wear directly from manufacturers, and worked closely with three other (non-competing) European retailers to place joint orders for both men's and women's wear with the same Hong Kong agent.

Seven of the ten respondents also sourced parts of their intake through companies that had once manufactured in Denmark but were now acting as trading houses and/or converters, usually in the former Soviet Union and eastern Europe. Danish trading houses/converters were used both by Danish and Swedish retailers, although they tended to be used most by Danish retailers with large wholesale businesses.

The two companies relying for their main sources of supply on Danish trading houses/converters or Scandinavian importers were both super/hypermarkets. In one case intake was almost equally sourced from trading houses/converters and from overseas agents; in the other, 98% of intake was said to be being sourced through importers. Although both were major players in the Scandinavian clothing retail business, neither of these companies had invested in more than a small group of specialised clothing buyers.

Alongside the proposition advanced by one respondent that increasing direct sourcing could be used to reduce lead times significantly, the advantages of this channel that were normally mentioned were lower prices and better communication resulting from the elimination of intermediaries. Except where negotiations had been decentralised to them, the main advantage of the use of overseas offices in this channel was to

"(…) improve control and impose our own systems more effectively. The offices have specialists on site, and they've allowed our colour matching and our QC to be upgraded"

The companies that most emphasised the usefulness of using agents were those that were seeking to save most on direct overheads, while at the same time minimising their levels of risk. Other commonly mentioned advantages of using agents included more effective communication where the markets concerned were new and/or were characterised by poor infrastructure, easier identification of new suppliers, assurance of suppliers' track record, the presence of good contacts with local textile sectors and the possibility of piggy-backing on the leverage of larger clients. Where larger companies were using agents, they tended to demand additional services from them, such as fabric development.[56] The unit costs of using agents depended on the size of the business handled and on the services required. Unit commission costs equivalent to 25% over the standard f.o.b. supply price were mentioned in the case of intake from China.

Use of Danish trading houses/converters seemed to be considered a *sine qua non* of effective utilisation of the eastern European and former Soviet Union markets, not

[56] At the same time, some of the largest overseas-based agencies are themselves offering increased service levels. Li & Fung is planning the opening of a distribution centre in western Europe, for example.

necessarily because of language/communication difficulties, but because of the still parlous financial state of locally owned plants in these regions. This usually meant that orders either had to be placed with foreign investors in these regions, or else organised on a foreign converter plus local CMT basis (or some combination of these two). Over and above this, especially in the case of Danish retailers, relations with this category of supplier were often of long standing, personally based and embedded with mutual trust.

For one responding company, a significant minority of all intake (not just that from eastern Europe) was still being carried on a CMT basis, in this case mainly through non-Danish intermediaries. The retailer stressed that the choice between the two within her own organisation reflected divisions that were "almost religious":

"CMT means that you can't shift responsibility and that you carry more risk. But it allows us more flexibility in who we can use to do the manufacturing. We can get more low-volume orders when we go CMT. And it's becoming easier to do it. (A lot of European CMTers can now do) their own component ordering (but on the basis of our nominations, of course)"

Size and structure of supplier base

As in the UK, reduction was the dominant tendency for changes in supply-base size over the decade prior to 2002. However, except in one case, there was no evidence that it had been consciously followed as a strategy for more effective "supply-chain management", i.e., on the basis of "trying to be more important to fewer people". Rather, reduction was normally seen as reflecting cyclical trends or as arising involuntarily as a result of the adoption of other strategies. So too, for this matter, were increases in supply-base size.

Table 5.8: Changes in size of supply base 1992-2002 (N respondents= 10)

Direction of change	Frequency
Reduced	5
Increased	3
No clear change	2

Sources: own interviews.

Increases in supply-base size had come about from mergers and acquisitions, increasing volumes in aggregate or for specific product types, initiation of new in-house brands or product types, or from efforts to find suppliers with other newly prioritised characteristics, such as short lead times. Reductions came about through the sale or closure of in-house brands, applying more exacting quality or Code of Conduct standards, and again changes in volume requirements.

Only about half of respondents were able to give clear answers to a question about supply-base concentration levels. A median score from those that did suggested somewhat higher levels of concentration than those reported in the UK (where it was 60% of intake from the twenty leading suppliers; see Gibbon op. cit.) However, this was probably due to the relatively smaller overall size of Scandinavian as opposed to UK respondents' businesses. The category of "core supplier", common in the UK, was hardly used at all by respondents. Where suppliers were categorised by Scandinavian respondents, this tended to be in terms of a composite impression of their capabilities rather than on the basis of their intake share.

Expectations concerning suppliers

Respondents were asked about their expectations concerning suppliers' specific capabilities, in particular regarding design, fabric-sourcing, stockholding and capacity. Similar questions had been asked of UK retailers, but in this case only with regard to "core suppliers" on the one hand and "new" ones on the other (Gibbon op. cit.). Since Scandinavian retailers hardly used the category of "core supplier" (see above), this question was taken as being about existing suppliers generally.

Scandinavian respondents were also asked directly whether their sourcing operations entailed multi-sourcing and/or replenishment programmes. The emergence of such programmes had been a finding of the UK study (repeated to a limited extent in a study of South African retailers (Gibbon 2002a)). Finally, they were asked whether or not they saw their relations with certain more important suppliers in terms of "partnerships".

Table 5.9: Services expected from existing suppliers (n respondents= 10)

Service	Frequency
Full cloth/fabric sourcing	9
(Contribution to) design	5
Stockholding/Supplier-managed inventory	2
Capacity minimums	2

Source: own interviews.

Cloth/fabric sourcing

Respondents commonly stressed that they required suppliers to buy and finance fabric and cloth themselves, though they also typically specified what cloth or fabric should be ordered. In addition, other related services, such as knowledge of new fabric developments and "good contacts with the textile sector in case there's a strike", were commonly expected.

Design

Three companies expected a full design service from suppliers, and a further two expected a "contribution" to design. The five remaining companies, who stated that all their design requirements were provided in-house, were all private label chains or offering private label product.

Capacity

Although two respondents expressed demands for minimum capacity levels among their suppliers,[57] a majority of Scandinavian respondents interpreted this question to be about the share of suppliers' capacity that they expected to take up. These all fell within the 30-70% range, figures that are surprisingly high. In a discussion of Mauritian producers' perceptions of the differences between US and EU retailers, Gibbon (2002c) reports that demands for capacity shares at these levels were considered more characteristic of US than EU end-markets. Many locally (as opposed to overseas Chinese-)owned companies were reluctant to cede such high shares, since they believed that doing so gave customers too much control over their businesses. In this connection, the general lack of acknowledgement of "partnerships" by Scandinavian retailers (see below) is also surprising.

Stockholding/Supplier-managed inventory

Only two companies, one a department store and the other a super/hypermarket, expected suppliers to hold stock for them as a matter of course. These were companies buying all or large shares of intake through importers or agents rather than directly from manufacturers. A second super/hypermarket expected stockholding from "a few suppliers [presumably licensees or agents, LT & PG] whose intake consists of brands and who are supplying other customers on this basis too". Another company, whose main business was wholesale, provided this service to its customers, but did not receive it from its own suppliers.

Multi-sourcing/replenishment

Multi-sourcing is used here to refer to the practice of using suppliers from more than one region to produce different versions (e.g., different colours) of the same style more or less near to or within a given season, or to top up a version initially produced "further out" on the basis of a radically shorter lead time. "Replenishment" programmes refer to the practice of reserving capacity with manufacturing suppliers over a period of six months or longer to produce a single style on the basis of guaranteed initial minimums and sometimes guaranteed repeat minimums, but without a definite ceiling. Under such programmes,

[57] One respondent stated that he looked for producers with the capacity to do runs of 70-80,000 pieces. The other simply indicated that suppliers with less than fifty sewing machines were simply not considered.

variable volumes are re-specified and expected to be delivered in-season on a weekly or daily basis.

Both these terms appeared to be linguistically unknown to respondents, although when they were explained they were readily understood. Such programmes are as yet marginal in Scandinavian retailing, however. One Danish company had arrangements with some stockholding suppliers that included daily delivery targets, while another stated that it was currently planning to introduce a replenishment programme, but

"(…) we can't do it now, and we don't do multi-sourcing either. It hasn't been necessary, and we consider it dangerous…. None of our suppliers are powerful enough for us to deal with them via electronic data interchange, and we aren't yet developed enough to do it ourselves"

Most Swedish companies were aware of the possibilities offered by these sourcing methods. The largest was already using some six-month replenishment programmes but only had one-year ones with just a few suppliers. A second Swedish chain was using multi-sourcing programmes (combining the Far East and Turkey) for some styles and planned a six-month replenishment-type programme for "predictable basics" involving 20-25 suppliers.

"*Partnerships"*

Respondents did not see their relationships with their suppliers as "partnerships", in the sense in which this term is used by the "relational marketing" school. While most respondents thought that their relationships with certain suppliers in terms of cooperation and mutually acknowledged obligations (e.g. production/delivery priority in exchange for continuity of business) was deeper than with most, there was a general reluctance to use the term "partner". Furthermore, some indicated that, if they were to develop partnerships in the future, these would more likely be with agents rather than with manufacturers because the services that could be expected from the great majority of the latter were limited.

The reluctance to use the term "partner" reflected a general emphasis on the importance of not making long-term or binding commitments, except in circumscribed ways:

"We never wanted to be bound to specific suppliers (…) we have to be able to shift from someone who does linen to someone that's able to do denim"

"We don't use this term. We don't think that we can or want to run factories in the way this implies, like Levi's do and M&S did. With that kind of arrangement, you are under pressure to produce and sell everything they have the capacity to produce. I see this as one of the main problems that M&S faced. One needs to avoid this kind of problem (…) When I worked in China, some of the Germans there had partnerships with local suppliers. They ended up spending more time working out how to use their suppliers' capacity than they did on planning where to allocate their orders."

Monitoring of suppliers

Respondents were asked how their suppliers were monitored. About half stated that they did some monitoring of suppliers, but it was not always clear what this meant in practice. none of the companies had set up a bureaucratic system with explicit guidelines for monitoring and with recording of the results part from one Swedish respondent, which had only done so a year earlier. Another conducted a less systematic annual review, while a third undertook regular inspections of suppliers' factories. Otherwise monitoring, where it occurred at all, seemed mainly to take the form of joint meetings or discussions with suppliers. Loose and informal monitoring was said to be generally preferred on the grounds that:

"categorising suppliers by looking e.g. at delivery records and customer returns would be impersonal and unnecessary. The decision to keep a supplier or not is actually quite simple".

The company that was undertaking a bureaucratic review of supplier performance put most emphasis on ensuring that factories had correct systems (including Codes of Conduct) in place. On the other hand, even in this company there were doubts over what to do with the results of most monitoring, other than to drop a few suppliers altogether:

"A lot of them just want to survive. They're not that interested in improving. The only thing we can really offer them in exchange for improving is more volume. And for some companies, like state-owned enterprises in China, this isn't even an incentive"

Factory visits were generally left to agents, except in the couple of the cases already mentioned or when buyers otherwise happened to "be in the neighbourhood".

Choice of new suppliers (in developing countries)

Finally, companies were asked what principles they applied in selecting new suppliers. The criteria referred to were generally less demanding than those reported by UK retailers (Gibbon 2001).

Table 5.10: Selection principles for new suppliers in developing countries (N respond-ents= 9)

Principle	Frequency

Price conformity	7
“Chemistry”/signs of potential responsiveness	4
Service capacity	4
Lead times	3
Code of conduct conformity	3
Production capacity	2
Technical/fabric sourcing capacity	2
Financial strength	2
Presence of other reputable clients	2
Quota (where applicable)	2

NB: Most respondents gave more than one response.

Source: own interviews.

Full fabric/cloth sourcing and dedicated account management were insisted on in all cases by UK retailers, whereas they were mentioned in only around half of all cases by Scandinavian respondents. As regards other criteria, these tended to be applied in quite different ways. Whereas UK retailers essentially demanded that new suppliers “bring something new to the table” that existing ones were not providing, Scandinavian ones looked for the same things in new suppliers as they found in existing ones. For example, rather than looking for “radically reduced prices” (as in some UK cases), they looked for conformity with existing price levels. Similar contrasts were evident in respect of design (rather than “new design ideas” or “design services”), cloth and fabric (rather than “vertical integration” or “fabric sourcing capability”) and production capabilities (rather than “special manufacturing skills” or “technical capacity”). There was also a tendency among Scandinavian respondents for their answers to questions (e.g., “chemistry”) to be vaguer than those of their UK counterparts.

One criterion mentioned by exactly the same number of respondents in both studies, however, was supplier conformity to retailers’ Codes of Conduct. It is worth noting that three of the four Swedish respondents spontaneously mentioned this as a selection criterion, while none of the six Danish respondents did so.

When asked *how* they identified new suppliers, respondents often repeated the observation that they rarely engaged in prospecting activity. Suppliers were usually the ones to contact buyers rather than vice versa. In such cases, the first contact often took the form of cold calls, although some respondents also mentioned meeting potential suppliers in other ways, such as at trade fairs. Still, only four respondents stated that they took cold calls (or similar contacts initiated by suppliers) seriously or kept records of them for potential future use. Four other respondents stated that, if they wished to identify new suppliers, they would go through third parties such as other retailers or European, Hong Kong-owned or local agents. Agents were generally seen to serve as guarantors. Only in one or two cases did overseas offices have the identification of new suppliers as a core activity, and even for these, new suppliers were expected to be working with other European buyers. None of the respondents made much use of embassies or their respective foreign ministries to enter into contact with suppliers, since they "don't know the industry, and there's always a mass of other sources of information you can use".

Conclusion

The broader significance of the findings presented here is probably best illuminated by a longer and more systematic comparison between them and those presented for the UK in Gibbon (op. cit.).[58] The comparison begins with a summary of the main ways in which sourcing geographies differ before differences in types of suppliers and supplier management strategies used and the reasons for these differences are considered.

Relative to the UK, Scandinavian retailers' clothing import geographies were considerably more EU- and eastern European-centred, with lower import shares from the Mediterranean and the Newly Industrialised Countries of the Far East (Hong Kong, Korea, Taiwan). Sourcing from the rest of the world (in both cases, the largest single region of origin) was somewhat lower than for the UK, but was increasing more rapidly. The most obvious reasons for these differences in geography are likely to be the greater importance of re-exports in Scandinavian markets (especially the Swedish market) and retailers' smaller average sizes, which translates into shorter run lengths and thus a greater use of suppliers with low minimums (more likely to be found in the EU). Among the Scandinavian firms sampled, which were all much larger than average for Sweden and Denmark, there were similar levels of import dependence on Far Eastern origins to the UK firms that were sampled, but much greater levels of dependence on "Greater Europe", excluding the EU. The delocalisation of a large part of Scandinavian (essentially Danish) clothing manufacture to eastern Europe from 1985 onwards seems to be key factor in this.

In terms of what can be described as guiding "sourcing philosophies", the study did not find anything like the same degree of emphasis on "supply chain management" (SCM) doctrines in Scandinavia as in the UK. That is, discourses advocating the overhaul or "ungluing" of supply chains by eliminating intermediaries, concentrating on fewer but more capable suppliers, demanding more services from them and using bureaucratic procedures to monitor their performance, etc. were hardly encountered. Nor was related

[58] A more elaborate discussion of the UK findings is found in Gibbon (2002b), and the latter version of this paper is drawn upon more heavily in the comparison that follows.

terminology such as “core suppliers”, “partnerships” and “supplier managed inventory”. This is not to say that “core suppliers”, “partners” and “supplier managed inventory” were completely absent: they were sometimes present, but not as the result of the application of a single coherent (in reality, only semi-coherent) strategy.

If there was a red thread running through the innovations that Scandinavian retailers were undertaking in practice, it was that they were giving a much greater importance to reducing lead times. This was being privileged for a similar practical reason as in the UK (to increase the availability of fast-selling styles within season) and being pursued in not dissimilar ways. For example, similar efforts were in train to avoid reductions in lead times having to mean *only* a shift of sourcing “closer to home” and therefore to more expensive production locations. Some of these efforts were quite innovative, for example in one case promoting field-based negotiations and a combination of field-based follow-up and negotiations via opening multiple and multi-functional overseas offices.

The lead time issue shows that Scandinavian retailers were not making significantly looser demands on existing suppliers than UK ones on specific indicators. This applies to price, fabric sourcing, quality and (at least as far as Swedish retailers were concerned) code of conduct conformity. But the range of service capabilities that they demanded from existing suppliers was usually narrower, while in the case of new suppliers, what was demanded was conformity with the capabilities of existing suppliers rather than something radically new (the UK approach).

These differences go back partly to the differences in degrees of prevalence of SCM doctrines. But they also reflect another, possibly related difference: the nature of main supply channels in the two locations. In the UK, despite all the talk of the elimination of intermediaries, only for a minority of respondents was direct sourcing from manufacturers a main source. In Scandinavia it was the main channel for a clear majority.

The reasons why trading houses, converters and importers were together more significant than manufacturers as supply channels for UK retailers are complex. They relate to contradictions within the group of precepts flowing from Anglo-Saxon doctrines of “shareholder value”, which seem to be particularly acute in the case of its application to retail. Some of these precepts prescribe the achievement of market leadership by increasing store numbers and sizes, sales volumes and numbers of styles. Others prescribe increasing margins by evacuating all “back-of-house” functions, and others again prescribe “ungluing supply chains”. Gibbon (2002b) argues that, since in the UK the sourcing function continues in practice to be controlled by retail specialists rather than accountants, sales expansions and ensuring the correct timing of the appearance of fast-selling product have taken precedence, while “back-of-house” functions have been transferred to intermediaries who charge very high commissions in exchange for guaranteeing delivery and quality reliability.

In Scandinavia, despite the fact that many Swedish retailers are also listed companies, “shareholder value” doctrines are less evident. This is mainly reflected in a lower degree of pressure to externalise “back-of-house” functions. Sales maximisation strategies, by contrast, are as rampant as in the UK and are just as heavily focussed on “getting lead times right”. But since there is less pressure to externalise both functions, modification of direct purchasing methods are seen as the appropriate way to attain them.

At the same time, most of the leading players in Denmark are themselves mainly wholesalers. Within these companies, the sourcing function is often located in former production departments, that is, departments where production was once itself a function or where there remains a concentration of expertise on (sub-)contracting with other manufacturers. This reinforces the bias toward direct sourcing.

On the basis of this comparison, a few common elements of a “Scandinavian” as opposed to a UK sourcing model can be suggested: the importance of wholesaling and exports; partial supply dependence on eastern Europe (and former Danish manufacturers operating there); the prioritisation of lead times; and reliance on direct sourcing. Behind this model seem to lay a series of absences of trends notable elsewhere, rather than the presence of clear alternative underlying trends. In particular, large domestic markets, long-established de-industrialisation and (perhaps related to this) the “shareholder value” doctrine are all relatively absent. Most historical discussions of “Scandinavian models” of other kinds have focused heavily on their distributive attributes.

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Paper 6: New challenges for developing country suppliers in global clothing chains: A comparative European perspective[59]

Introduction

The clothing industry has had a critical part in the industrialization process of a wide range of countries, over a period covering two centuries. This was the case with Britain and the United States during the early nineteenth-century, with Japan in the first half of the twentieth century, and with Hong Kong, South Korea and Taiwan in the 1950s. The sector played at least four important roles in these countries' economic development. Firstly, it absorbed large magnitudes of unskilled labour. Secondly, it produced goods that satisfied elementary needs for large segments of the domestic population. Thirdly, despite low investment requirements, it served to build capital for more technologically demanding production in other sectors; and fourthly, it financed imports of more advanced technologies by generating export earnings. Many developing countries, especially low-income ones, believe that the industry can play a similar "bootstrapping" role for them today, and on this basis they promote its development and its links to the global market. The extent to which the hopes such policies express are realistic depends, of course, upon whether the assumptions lying behind the successful experiences of Japan and the NICs remain valid.

There are both macro-economic and some more micro-economic and sociological reasons why this may no longer be the case. On the macro-economic side, the relevant issues concern the global supply-demand balance and – since clothing is (after agriculture) the most trade-regulated of all sectors - developments within the field of trade restrictions and preferences. On the more micro- and socio-economic side, the relevant issues concern the evolution of relations between developed country buyers and developing country suppliers, with respect to sourcing principles, supplier selection policies and supply base management. Some hard data relevant to the macro-economic aspect of the question is publicly available. As far as the micro- and socio-economic side of the question is concerned, an arguably relevant literature has also emerged, but mainly in relation to clothing buyers in the US. Some material exists on the nature of global sourcing by European retail, but practically without exception this covers sectors other than clothing.

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As will be seen in a moment, both some of the hard economic data, and the wider literature referred to, suggest that the assumptions upon which the Japanese and NIC experiences rested upon are indeed no longer valid. This paper reports research aimed at testing part of the argument behind this suggestion, on the basis of interviews with “global buyers” of clothing in three distinct European markets (United Kingdom (UK), France and Scandinavia). In the process, it also explores the issue of the extent to which “Anglo-Saxon” business models, at least with reference to global sourcing, have spread to mainland Europe and with what implications for developing country suppliers. Its main findings are that entry barriers have substantially increased in the UK, while for those developing country suppliers already “in the game” upgrading opportunities are essentially confined to mainland European markets. Differences between European markets in opportunities available for suppliers relate partly to the uneven diffusion of “Anglo-Saxon” business models, and to closely-related differences observable across countries in the size of buyers’ enterprises.

The paper falls into five main subsequent sections. In the second section, existing direct and indirect evidence is reviewed for and against the proposition that developmental effects still can be expected from clothing sector growth, and the degree of convergence between national or regional patterns of buyer-producer relations in the global clothing industry is discussed. In the third section, recent clothing import data from the UK, France and Scandinavia is presented, followed by a discussion of the changing geographical patterns of sourcing that these reveal. The fourth section presents the results of interviews on sourcing strategies with leading clothing retailers and importers in these countries. The fifth section discusses explanations for some of the national differences revealed by these interviews, while the sixth section 6 identifies implications for developing countries, in regard to entry barriers on the one hand and opportunities for upgrading on the other.

Value-chain restructuring and opportunities for suppliers

Recent changes in the global clothing industry will first be reviewed from the perspective of suppliers’ opportunities for successful entry and industrial upgrading within this industry (a), before addressing the issue of inter-country differences in buyer-supplier relations and factors that potentially explain them (b).

Questioning the opportunities available to developing country clothing industries

Four main assumptions lying behind the successful developmental clothing experiences of Japan and the NICs can be identified: three concerning entry barriers, and one concerning upgrading. The first was that of low or very low initial financial requirements - especially important in Taiwan, where the development of the clothing industry involved hundreds of

SMEs (Shieh, 1992). A second was low labour costs as *the* key global competitiveness factor. First Japan, then the NICs and subsequently new entrants like Indonesia, Thailand and later China established positions in the world market largely by paying their workforces much less than did competing countries.

A third assumption, concerning trade regulation, should be mentioned in relation to post-NICs entrants to the global market. The main importing countries, anxious to protect their own domestic industries, imposed a succession of physical restrictions on exports from supplying countries through the Multifibre Arrangement. For new entrants, such restrict-ions served to dampen competition from established producers such as the NICs, and later China. Because importing from these countries entailed buying quota, it meant also that imports from new entrants were cheaper in relative terms, thus providing a competitive advantage to late comers.

A fourth assumption was the availability of opportunities to use the clothing sector as a basis for industrial upgrading, either within the clothing and textile sector itself, or cross-sectorally but on the basis of capital and know-how built up in clothing. Although clothing has never been a high margin business, until recently profits and learning opportunities proved adequate to allow a significant minority of entrepreneurs to move up and/or off its value-added ladder. These assumptions can be challenged in view of recent developments in the global clothing industry.

Entry barriers

In questioning whether the assumptions about low entry barriers still hold, an appropriate point of departure is the literature on global commodity or value chains (henceforth GVCs). GVCs are the internationalized structures of production, trade and consumption pertaining to specific products. Gereffi (1994; 1995) identified four dimensions of GVCs: (i) input-output structures; (ii) geography; (iii) chain governance structures and (iv) institutional frameworks through which national and international conditions and policies shape the globalization process. "Governance structure" has a double meaning. On the one hand, it refers to organizational processes of chain coordination while, on the other it refers to means of influencing the distribution between agents of total income generated along the chain. Gereffi distinguished two basic varieties of these structures. "Producer-driven" chains are led by manufacturers who tend to retain control of capital-intensive operations and organize more labour-intensive ones in tightly integrated – often "captive" – networks[60]. By contrast, "buyer-driven" chains are found in more labour-intensive sectors

[60] Following Palpacuer and Parisotto (2003), we use the term "chains" with reference to broad patterns of industrial organisation, and "networks" when describing micro-level inter-firm relations. The two terms might be alternatively used when referring to general inter-firm dynamics in global value chains.

(garments, footwear, toys), where retailers and branded marketers entirely outsource production to less integrated – and internally competing - networks.

Gereffi's contributions imply important insights concerning entry barriers for suppliers within GVCs. Buyers, he argues, capture higher shares of income by re-engineering the division of labour along value-chains. They oblige suppliers to take on a succession of generally low-profit functions that they no longer wish to perform. By implication therefore, entry barriers to supplier roles (or at least some of them) increasingly include the capacity to perform a range of service functions, as well as production ones. Gereffi does not elaborate this insight or qualify it in relation to different national or even (product-specific) sectoral contexts. But the observation is certainly resonated in much of the recent literature on the food retail sectors of the US and, particularly, the UK (Dolan and Humphrey 2001; Fearne and Hughes 1999). Here researchers have pointed out that, against the background of the rise of managerial doctrines such as "Efficient Consumer Response" and "Category Management", large-scale retailers are systematically re-engineering their supply bases. This involves identifying "core" suppliers for each product category, and transferring to them functions such as analysis of sales data, prediction of demand, holding stock and new product development. It further involves an expectation of delivery of products on ever shortening lead times. Correspondingly, suppliers who lack the financial and human resources to perform these functions are relegated in importance or eliminated completely.

Some of the contributors to this literature (Fearne and Hughes, op.cit.) go on to argue that, since the role "core" suppliers are now expected to play includes a wide variety of functions over and above production, buyers will incur increased transaction costs if and when they change suppliers. Against the background of the rise of another set of managerial doctrines, this time concerning the advantages of buyer-supplier "partnerships", this factor implies that buyers will behave in a less "footloose" way in relation to suppliers, thereby reducing the extent to which new suppliers are prospected and recruited.

These arguments are echoed by Abernethy, Dunlop, Hammond and Weil (1999) in their analysis of changes in the clothing sector. These authors focus less on escalating demands on suppliers' financial and human resources, and more on the issue of supplier location. Because, in their view, just-in-time delivery is attributed highest priority amongst new functions cascaded to suppliers, locational advantage shifts from far-flung low-cost countries to (often higher-cost) closer-to-home ones, in order to allow for very short lead times. Adoption of new technologies and production planning techniques in these locations can thus significantly narrow the strictly wage-based advantage of developing countries.

While these reported developments might lead to diminished competitiveness for developing country suppliers offering only basic manufacturing services from a far-flung location, changes in the field of trade regulation point in the direction of their greater exposure to competition from China. In 2005 the Agreement on Textiles and Clothing (the successor to the Multifibre Arrangement) will conclude, and quota restrictions will be removed from WTO member countries. Most projections converge towards a strong increase in China's global market share, on the grounds of its ability to make almost any type of clothing at any quality at a competitive price. This is predicted as occurring particularly at the expense of those low-cost countries that cannot offer trade preferences on high duty items, and whose suppliers cannot offer add-on services or short lead times (cf. US International Trade Commission, 2004).

To sum up, the rising expectations of retailers in terms of suppliers' service capabilities and locational proximity, and changes in the international regulatory context of the clothing sector, are likely to increase barriers to new developing country suppliers' entry into clothing GVCs.

Upgrading opportunities

Several dimensions of industrial upgrading have been distinguished in the GVC literature, mainly inspired by the successful Japanese and NICs experience[61]:

- service-based upgrading, or the provision of a broader range of services beyond simple assembly, including product design, fabric sourcing, inventory management and management of production sourcing,
- volume-based upgrading, or the ability to reduce unit production costs on the basis of scale economies,
- a related form of process-based upgrading, involving reduced inventories and waste through the adoption of "lean" production systems, and
- product-based upgrading, defined as suppliers' ability to manufacture higher quality products for higher price market segments.

However, there are reasons for questioning the opportunities that the clothing sector currently presents for suppliers' industrial upgrading. First, the recent literature on GVCs and supply chain management suggests highly ambiguous implications for suppliers' service-based upgrading in developing countries. If supply bases are becoming dominated by "core" suppliers providing multiple services, then theoretically those able to attain this status will have enjoyed extended opportunities for learning and upgrading. As noted, however, those lacking the initial resources (or location-related cost advantages) to be con-

[61] See, for instance, Gereffi and Tam (1998), Gereffi, Humphrey, Kaplinsky and Sturgeon (2001), Humphrey and Schmitz (2000) and Gibbon (2003).

sidered for this role will see their opportunities correspondingly diminish. New suppliers will also be facing the competition of established suppliers offering fully-developed service capabilities, such as the Hong Kong-based "core" suppliers now serving the US market (Gereffi, 1994; 1995), making it more difficult for them to build a niche. Second, as analyzed below, the current demand situation is putting pressure on suppliers to focus on achieving greater economies of scale in order to compensate for falling unit prices and to stay in the game. Since this implies greater specialization, it may very well further narrow the range of opportunities for learning that were open in earlier periods, in terms of service-based and product-based upgrading.

Third, from a macro-economic perspective, the second half of the twentieth century was characterized by rising demand in the clothing sector, although this trend slackened from the end of the 1970s. At the same time, it was characterized by an *accelerating* replacement of developed country production by imports from developing countries, so that demand for developing country imports was increasing. This provided the basis for fairly buoyant margins for developing country producers. Over the last half decade, however, demand in the major end markets has stagnated, while import penetration levels have reached 80-100% (see below). This has been reflected, especially in the EU, in a stagnation in clothing imports (in value terms) from 1999 onwards.[62] Since EU data on import volumes is not available, the inference that unit prices have dropped in consequence is not open to verification. But in the US, where the period 2001-2003 has seen an increase of only 3% in import values, volumes have increased by 16.8%[63]. In 2002, they did so by 7.2%, while values increased by 0.5%, suggesting a decline of corresponding extent in unit prices. Falling unit prices probably also reflect increases in buyer bargaining power arising from factors other than stagnant demand, namely the emergence of very large clothing retailers as a result of industrial concentration in developed countries.

Accordingly, competition from established "core" suppliers in GVCs, together with enhanced price pressures in stagnant clothing markets, might be creating an increasingly difficult context for new suppliers to upgrade their activities and improve margins through participation in clothing GVCs.

Questioning the diffusion of a new "supply chain rationalization" model

While the "supply chain rationalization" model discussed above emerges out of a variety of literatures, including the GVC and management approaches, consideration of a different

[62] EU clothing imports were worth US$86.8 bn. in 1999 and US$84.9 bn. in 2002 (WTO, 2000-2003).
[63] US import values were US$59.4 bn. in 2001 and US$61.2 bn. in 2003. Volumes were 16.1 bn. sq. metres and 18.8 bn. sq. metres respectively.

range of sources suggests that this business model (and thereby its implications) may not be as widely generalizable as has been supposed.

One consideration relates to differences in national regulative systems. Such differences exist not only between the US, where this model is probably most widely adopted, and Europe, but also within Europe itself. In a number of mainland European countries, for example, the state has used the law to restrain the power of retailers in various ways, ostensibly by promoting so-called "equitable" relations between them and product suppliers. While these regulative frameworks have not generally worked to reduce market concentration in the retail sector, they have sometimes worked to reduce the extent to which retailers can use high market share to demand more from (and pay less to) their suppliers. For example, in France and Spain, the state has promoted the existence of large, physically concentrated wholesale markets in certain sectors. The scale of these markets has made it more attractive for large retailers to source through them rather than dealing direct with producers, where bargaining power disparities would be greater and where they might be able to use a higher level of leverage.[64] Likewise, in some European countries including Germany and France, regulations exist to prevent retailers from selling below cost price, and/or to prevent suppliers from offering different conditions to different buyers.[65]

In this case, the non-rationalization of certain mainland European supply chains relates to differences between countries in possibilities and/or incentives for realizing rationalization strategies. Differences in supply chain management patterns might also arise, this time between groups of firms, in relation to variations in corporate ownership. For example, a number of relatively large mainland European retail chains are federative in ownership and only a few of their management functions are centralized, implying that a single coherent supply chain strategy of any kind is improbable.[66] As will now be discussed, a related and perhaps more important obstacle to the generalization of supply chain rationalization strategies can be found in differences between countries in levels of corporate exposure to financial markets.

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[64] In France, under a law passed in 1953, a national network of "Marchés d'Intérêt National" was created for fresh produce, and protected from competition by 20 km. radius zones in which other wholesalers were not allowed to trade. The result has been to create a national network of 17 very large markets. Consequently, while UK supermarkets buy no produce through wholesale markets, French supermarkets buy in the region of 40% of their intake from this source (Gibbon, 2003).
[65] The French version of this law, *loi Galland*, is commonly believed to be circumvented in practice, but it is still regularly attacked by large French retailers (on the grounds that it leads to price inflation). The German version of this law is widely credited with responsibility for Wal-Mart's failure to make the same impact in this country as in its other main markets.
[66] e.g., Leclerc and Intermarché amongst French supermarkets, Din Tøjmand, Tøjexperten and (until very recently) JC amongst Scandinavian clothing retailers.

In this context, a substantial literature suggests that, over the last decade, significant differences have emerged in corporate strategies between the UK (and the US) on the one hand, and mainland Europe on the other, as a result of divergences in the role of financial markets in national economic life. Financial markets are said to play a more or less dominant role depending on national differences in the proportion of the general population owning shares, in the role of institutional investors (particularly so-called "delegate funds"[67]) in listed companies, and in the role of share price in rewarding executives and in securing companies' access to finance on favourable terms. All of these variables are said to have a notably greater presence in the US and UK than in other market economies[68]. Correspondingly, a great transformation in Anglo-Saxon corporate strategy is said to have occurred from the mid-1980s, through the shift from "managerial" to so-called "stock market" or "shareholder" capitalism in which corporations are to be run, first and foremost, in the interest of shareholders – implying a focus on delivering increased returns on invested capital (ROCE). While legitimized by a growing stream of research on agency theory, this evolution has also been criticized for generating a transfer of resources from firms towards shareholders, and a converse transfer of risk from shareholders to the firm, cascaded down to its employees and suppliers (Lazonick and O'Sullivan, 2000). As shown in the US, corporate strategies to "retain and reinvest" cash flow, that predominated through the postwar period, have been replaced by strategies to "downsize and distribute" through cutting jobs, externalizing "non-core" competencies, and redistributing a growing share of cash flow to stock owners (Lazonick and O'Sullivan, op. cit.). New financial market pressures and the diffusion of the "shareholder value" doctrine predominantly apply to large public firms, who are typically also the "drivers" of GVCs, and can be expected to influence their relationship to suppliers in several ways[69].

First, shareholder pressures combine with competitive pressures to focus the firm's activity on high-ROCE "core competencies", while stripping out or selling off low-ROCE activeities. In mature sectors such as automobile, food and clothing, higher-ROCE*s* are typically sought in product definition, marketing, and consumer lending, all activities traditionally controlled by big "drivers" in GVCs. Accordingly, incentives increase for these large firms to externalize manufacturing and manufacturing-related service functions to suppliers (Batsch, 1998). Second, incentives can be expected to increase for large firms to focus on core suppliers in order to build up ROCE through scale economies, and to exert greater control over suppliers' production through the implementation of continuous cost cutting programs. Third, incentives can be expected to increase for the adoption of formal

[67] Delegate funds are exclusively dedicated to investment activity, in contrast to, e.g., insurance companies.
[68] For a broader analysis of the determinants and macro-level dynamics of shareholder capitalism, see for instance Williams (2000), Froud, Haslam, Johal and Williams (2000), and Grahl (2001).
[69] See (Gibbon, 2002) for a more detailed discussion of financialization and global sourcing strategies in the UK clothing retail sector.

monitoring systems based on new information technologies, aimed at facilitating the rapid transmission of information to financial markets (monthly reporting of results) and the achievement of short-term financial performance objectives. Because tight monitoring systems cannot efficiently operate inside the firm without being simultaneously applied in inter-firm relations, the management of supplier relations is likely to be more formalized in firms committed to increasing shareholder value.

While it is clear that this model originates in the US and the UK, and while it is generally observed to be less entrenched on mainland Europe, considerable speculation has emerged over its current and future extent and contours of influence (Dore et al., op. cit.; Dore, 2002; Jackson, 2002; Jürgens et al., 2000; Schmidt, 2003). These authors observe movements away from past types of capitalism not only in the US and UK but also in Japan and mainland Europe, but deny any wholesale convergence on the Anglo-Saxon model. Although the set of managerial doctrines associated with the term "shareholder value" are present in mainland Europe, they are not part of the everyday discourse of most public companies in the way that they are in the US and UK (Morin, 2000; Kädtler and Sperling, 2002). Inferences along similar lines can be drawn from a brief review of a set of basic variables concerning the financial and corporate sectors in the end-markets considered in this paper (UK, France, Denmark and Sweden).

Table 6.1: "Shareholder capitalism" ratios (%) in the UK, France, Denmark and Sweden

	UK	France	Denmark	Sweden
1. Stock market capitalization/GDP (2002)	108	62	56	76
2. Household financial assets/GDP (1999)	227	125	98	138
3. Financial assets of Institutional Investors/GDP (2001)	191	132	103	154
4. Proportion of listed companies controlled by three largest shareholders (1995)	19	34	45	28
5. Proportion of family-controlled firms in largest 20 listed companies (1995)	5	20	35	55
6. Share of equity in total portfolio of Institutional Investors (1999)	68	42	46	73

Sources (by row):

1: for UK and France, OECD Economic Outlook 2003/1; for Denmark and Sweden GDP data, IMF Financial Statistics, 2003; for Danish stock market capitalization: www.cse.dk/kf; for Swedish stock market capitalization: www.stockholmsborsen.se

2, 3 and 6: OECD Institutional Investors Statistics at www.oecd.org/statsportal

4 and 5: Tylecote, A (1999).

Most of the variables listed in Table 6.1 indicate strikingly higher levels of "financialization" in the UK than in other countries. The UK exhibits larger magnitudes of stock market capitalization, and of household and institutional financial assets, including stocks and shares, than do France and Scandinavian countries. It is also characterized by more dispersed forms of corporate ownership, a finding consistent with the strong presence of institutional investors as these typically hold minority shareholder positions, as a result of risk management strategies based on the diversification of their investment portfolios (Useem, 1996; Lowenstein, 1991). By contrast, traditional family-based and management-based forms of corporate ownership typically involve greater direct control over corporations' ownership structure. This translates into higher proportions of listed companies controlled by three major shareholders in France and Scandinavian countries than in the UK. Relatedly, the proportion of family-based ownership is remarkably weaker in the UK than in these other markets. Nevertheless, one variable - the share of equity in the portfolio of institutional investors - stands at comparable levels in Sweden and the UK, while other variables generally indicate higher levels of financialization in Sweden than in France and Denmark. This finding should be analyzed against the background of the existence of distinct types of national institutional investors operating in various countries, meaning that Swedish investors might not follow "shareholder value" strategies to the extent observed in Anglo-Saxon markets.[70] The persistence in Sweden of family control of large companies against the background of relatively high "financialization" indicators is explicable in terms of financial market regulations that allow the issue of non-preference (so-called "B shares") with highly restricted voting rights Here, as well as in Denmark, and to a lesser extent in France, family corporate control may be retained with relatively small fractions of total equity – a practice generally considered to be an obstacle to the diffusion of "shareholder-value" doctrines (cf. Demirag and Tylecote, 1996).

Insofar as these considerations throw doubt on the notion that sourcing strategies and supplier management practices within buyer-driven GVCs follow a single logic or pattern, a case exists for comparative research conducted with clothing buyers in a number of different countries, aimed at eliciting the extent of common versus national patterns, and explaining the origin(s) of difference(s) between them, where the latter are evident. Only on this basis can firm predictions be made concerning entry barriers and upgrading opportunities for developing country suppliers.

Sourcing geographies

Prior to describing similarities and differences in the import geography of the UK, France, and Scandinavia, a few words will be said about the nature of these end markets. Within Scandinavia the focus is upon the two EU member countries, Denmark and Sweden. The

[70] As Henrekson and Jakobsson (2003) point out, the institutional investment in Sweden is dominated by state- and trade union-owned pension funds. These funds, who controlled over half of Swedish stock exchange market capitalization in 2002, generally promote corporatist rather than "shareholder value"-based strategies.

size of these markets at the end of the 1990s was 30-33 bn. euros (UK), 26-30 bn. euros (France), 2-2.5 bn. euros (Denmark), and 5-5.5 bn. euros (Sweden) (Euromonitor, 2002). These differences reflect contrasting population levels as well as differences in per capita expenditure on clothing. Per capita expenditure in the UK and Sweden tends to be significantly higher than in France and Denmark, despite France's reputation for fashion. All four markets have been characterized by long periods of flat real sales and rising levels of import penetration[71]. By 2000, imports accounted for 85% of all UK sales by value, 82% of those in France and levels technically over 100% of sales in Denmark and Sweden[72] (Eurostat 2001a; 2001 b).

Table 6.2: Geographical distribution of UK, French, Danish and Swedish clothing imports by groups of countries of origin (by value)

	France			UK			Denmark			Sweden		
	1988	1995	2000	1988	1995	2000	1990	1995	2000	1990	1995	2000
Import penetration level			82%			85%			100%+			100%+
European Union (%)	58	46	45	42	30	26	47	44	36	62	45	39
of which :												
Belgium-Luxembourg*	*6*	*9*	*12*	*2*	*2*	*4*	*<1*	*<1*	*2*	*<1*	*<1*	*3*
Denmark	*<1*	*<1*	*<1*	*<1*	*<1*	*<1*	-	-	-	*9*	*11*	*13*
Asia (%)	17	19	21	44	47	44	35	30	35	21	37	33
of which :												
NICs	*5*	*3*	*3*	*28*	*14*	*11*	*10*	*8*	*7*	*11*	*11*	*10*
China	*2*	*4*	*7*	*3*	*9*	*12*	*15*	*12*	*19*	*5*	*18*	*15*
Mediterranean countries (%)	16	24	21	7	11	15	6	3	5	1	2	5
Central and Eastern Europe (%)	3	5	7	2	4	6	5	11	15	1	6	9
Other countries (%)	6	6	7	4	8	8	9	12	10	14	10	12
Total import value (Euro bn.)	4.7	7.7	11.4	4.3	5.7	12.9	0,87	1.44	2.25	1.79	1.50	2.12

Source: Eurostat (2001a; b)

* Excluding Luxembourg in the case of Denmark and Sweden.

Besides current import penetration levels, Table 6.2 shows quantitative and geographical developments in clothing imports in the countries studied between 1988 (1990 in the case of Sweden and Denmark) and 2000. However, the data reported almost certainly overestimates intra-EU trade, since some of the major national sources of imports within this category turn out to be countries without significant clothing industries (Netherlands, Belgium, Denmark), but which are important sources of re-exports from third countries. Nevertheless, the share of intra-EU imports has declined in all countries studied, to the benefit of imports from Mediterranean, Eastern European, and Asian countries, although the share of Newly-Industrialized Asian Countries declined in UK imports in recent years -

[71] Measured in terms of imports as a share of (domestic production – exports) + imports.
[72] Levels above 100% are explicable in terms of high levels of re-exports.

a trend similar to that observed for American sourcing (see for instance Bair and Gereffi, 2002).

Table 6.3 highlights major directions of change in import origins for our importing countries as a group, based on a reallocation of re-exports to their probable origins. The term “greater Europe” is used here – following common practice in the industry itself – to refer to the countries of Central and Eastern Europe (CEE) and the Mediterranean, including Turkey. At the end of the 1980s, the leading regional source for all countries was Southern Europe, particularly the respectively lower- and upper-end specialists Portugal and Italy. Low-cost producers in Asia and medium-cost but shorter lead time producers in “greater Europe” were a long way behind in second and third place, respectively. By 2000, this picture changed so that Asian and “greater European” producers were of roughly equal significance, ahead of their Southern European counterparts. Accordingly, we observe a higher priority for price factors – and correspondingly a higher focus on a group of Asian countries where operator costs are US$1/hour or below (Table 6.4)[73]. This type of buying accounts for around one-third of total intake in each country. At the same time, there is almost an equal balance (in terms of intake share) between sourcing based on lead time (from Greater Europe) *and* sourcing based on price factors (from Asia).

Table 6.3: Ranges of shares of imports of different origins in UK, France, Denmark and Sweden as a group

	Low cost (i.e., non-NIC) Asian producers	Medium cost/short lead time producers in ‘greater Europe’	Portugal + Italy
1988*	13-18%	9-19%	16-33%
2000	27-33%	21-34%	10-23%

Source: Eurostat (2001a; b). *1990 in the case of Denmark and Sweden

Table 6.4: Total Textile Industry Operator Cost in US$/hour, Summer-Autumn 2000

Developed	Mediterranean	C. and E. Europe	Asia	Africa
Portugal 4.31 Germany 18.10 Italy 14.71 US 14.24 UK 12.72	Israel 7.43 Turkey 2.69 Morocco 1.87 Tunisia 1.65	Hungary 2.63 Poland 2.35 Lithuania 2.23 Estonia 1.53	Taiwan 7.23 Hong Kong 6.10 South Korea 5.32 Thailand 1.18 Malaysia 1.13 China 0.69 India 0.58 Sri Lanka 0.46 Pakistan 0.37 Indonesia 0.32	Mauritius 1.87 RSA (urban) 1.82 Madagascar 0.37

Note: exchange rates as of 25 July 2000

[73] Table 6.3 refers to comparative textile, rather than clothing, worker costs. The latter will be significantly lower than the former (due to lower capital intensiveness, automation and workers’ skills in the clothing sector), although the intervals between countries should be of the same magnitude.

Source: Werner International, 2001

Importing countries' increasing dependence on a combination of "low price" and "medium price/short lead time" producing countries lends support to the idea that there are now commonly acknowledged "global production centers", compared to a couple of decades ago when buyers' choices seem to have been more subjective. On the other hand, some subjective elements remain. Factors to do with history, language and proximity play a role in determining the weight enjoyed by specific supplying countries and regions in specific end-markets. Differences in choice of national suppliers are most striking in relation to the composition of the "medium price/short lead time" category, with France and to a lesser extent the UK favouring the Mediterranean region while the Scandinavian countries favour the Baltic region. Within the Mediterranean region itself, French imports are heavily from the Maghreb, while the UK's are from Turkey. As for Asia, both the UK and the Scandinavian countries appear to have a preference for former British colonies where knowledge of English is widespread (English is the favoured foreign language in Scandinavia). "Cultural" and related factors thus have the status of a preference (positive or negative) for supplying countries - and therefore individual suppliers within them.

The sourcing geography of companies interviewed (see below) tends to differ from the official data – among other things probably due to the relatively large average size of enterprises interviewed: UK and Scandinavian retailers interviewed on average show greater reliance on Asia than reflected in import data. Likewise, French respondents seem to rely more heavily on the EU and Mediterranean countries than French enterprises as a whole. However, respondents from all country groups emphasized searching for complementarity between major import zones in balancing their lead time, cost, quality and product type requirements, a finding consistent with the macro-economic pattern derived from import data analysis in Table 6.3.

Sourcing policies and practices

Research method

Three fieldwork studies were conducted during 2001-02 in the UK, France and Scandinavia, with groups of firms selected according to identical principles. In each case, a sample of twenty companies was constructed, representing in roughly equal numbers leading retailers drawn from the main market segments (mid-market chains, discount chains, mail-order houses, and super/hypermarkets), as well as a sprinkling of other segments depending on their local importance (branded marketers in the UK, work wear suppliers in Scandinavia). Interviews were then obtained with between ten and twelve companies in each country or - in the case of Scandinavia - region (Denmark and Sweden combined). Care was exercised to ensure a balance between the main market segment categories in each group of respondents. Interviews were conducted personally by the authors[74], with senior managers or directors with designated responsibility for sourcing. A total of 34 interviews were conducted. Additional sources consulted included company annual reports, trade publications and industry consultants. The variables covered related to: (i) types of sourcing channels; (ii) concentration of supply bases; (iii) services expected from existing and new suppliers; and (vi) nature of relationships with suppliers.[75] Each of these variables is studied below with the objective of identifying similarities and differences in the sourcing policies and practices of French, UK and Scandinavian retailers. The Fisher Exact test of independence is used in order to assess the significance of relationships between sourcing-related variables and the geographical origin of retailers[76].

Sourcing channels used by retailers

The variety of sourcing channels used by retailers was similar in the three countries / regions considered. Besides sourcing directly from overseas manufacturers, retailers used a variety of intermediaries ranging from agencies based in foreign countries, to importers, converters and trading houses located in their home country. "Importers" refers here to companies who buy merchandise on their own account from exporting manufacturers, who hold stock at their own expense and who re-sell products to retailers. Importers may also "pre-sell" specially ordered stock to retailers. "Converters" are also importers, but they finance fabric purchase and clothing production on behalf of retailers, on a commission basis. "Trading houses" are (former) French, UK or Scandinavian (in practice, Danish) manufacturers with overseas production capacity, who may also act as converters, importers or overseas agents[77].

Through direct sourcing, retailers aim to increase margins by cutting out intermediaries, to reduce lead times, and to better control for product quality and contract compliance. However, direct sourcing involves significant investment in overseas offices engaged in screen-

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[74] Assisted in France by Hugues Poissonnier.

[75] This section summarises larger reports on each of the national studies (Paper 5 of this dissertation; Gibbon, 2001; Palpacuer and Poissonnier, 2003).

[76] The Fisher Exact test can be used to calculate an exact probability value of the relationship between two dichotomous variables, as found in a 2 by 2 (or here in a 2 by 3) crosstable. It works in the same way as the Chi-square test for independence, but can be used when the number of observations is small (less than five) in one of the cells. A P value smaller than the standard 0.05 indicates that the null hypothesis (independence between the two variables) can be rejected. The table program used here can be found at http://home.clara.net/sisa. The 2 by 3 tables were computed for testing the relationship between retailers' geographical origin (France, UK, Scandinavia) on the one hand, and sourcing characteristics on the other hand.

[77] "Agents" play a coordinating role by channelling retailers' orders and product specifications to overseas manufacturers, and supervising suppliers' production. They might be based in foreign countries or in retailers' home countries.

ing supplying country markets, identifying and negotiating with suppliers, and monitoring suppliers' production. Consequently, a resort to intermediaries may occur to reduce overhead costs and minimize the risks involved with direct sourcing. Retailers also typically use the intermediation of trading houses and/or converters when sourcing from CEE countries, where local manufacturers typically lack the financial depth needed to provide full manufacturing services. Agents are also considered useful for entry to new supply markets, via identifying potential suppliers and providing assurance of their track record.[78]

Table 6.5 reveals significant differences between countries in relation to the importance of direct versus indirect sourcing in retailers' intake. While overseas manufacturers were the main sourcing channel for 7 out of 10 Scandinavian respondents, this was the case for only 4 out of 11 UK and 2 of 11 French respondents.[79] Higher use of direct sourcing by Scandinavian retailers was associated with a lower reliance on European importers, with only 2 out of 10 respondents resorting to this type of intermediary. Although major UK and French retailers had adopted policies to increase direct sourcing, intermediaries still played a major role in their sourcing networks. While claiming to be increasing "direct sourcing", these retailers typically sought to supplement traditional types of importer with a combination of overseas agents and manufacturers. Also, UK retailers resorted systematically to UK trading houses and converters. By contrast, a number of Scandinavian retailers had a long-established tradition of direct sourcing from overseas manufacturers and some had made significant investments in overseas offices. A number employed 60-100 overseas staff, and one employed 500.

Table 6.5: Main supply channels*

	Frequency mentioned by respondents in			Fisher's Exact Test (P value)
	UK	France	Scandinavia	
Overseas manufacturers (direct sourcing)	9	7	8	0.077
Overseas-based agents	9	10	8	0.135
European importers	6	6	2	0.020
European trading-houses and converters	11	5	7	0.002
Direct sourcing as main supply channel	4	2	7	0.006
	n = 11	n = 11	n = 10	

Source: authors' interviews. * The number of responses does not add up to 34 in all tables because not all retailers answered all questions during interviews. In addition, the lack of a positive answer does not necessarily mean that a respondent did not engage in a given practice.

Concentration of supply bases

Respondents' levels of supply base concentration were assessed by two means: they were asked for the average share of intake sourced from their top 20 suppliers, and for their

[78] Use of overseas agents tended to be particularly common in sourcing from India, where average firm size tends to be lower than in most developing countries.
[79] Not all 34 respondents answered all questions.

general policies regarding the size of their supply base (Table 6.6). First, different levels of intake concentration could be observed in the three end markets. Scandinavian sourcing networks exhibited the highest levels of concentration, with respondents' leading 20 suppliers accounting on average for about 75% of intake. As shown in table 6.6, five out of 6 Scandinavian retailers able to answer this question sourced more than 60% of intake from their top 20 suppliers. At the same time, it is worth noting that the suppliers working for Scandinavian end markets were in most cases small-scale operations relative to those exporting to the UK and France.

Table 6.6: Concentration of retailers' supply base

	Frequency mentioned by respondents in			**Fisher's Exact Test (P value)**
	UK	France	Scandinavia	
More than 60% of intake sourced from top 20 suppliers *	3	1	5	0.015
Supply base reduction	8	4	5	0.006
	n = 12	n = 9	n = 10	

Source: authors' interviews. * 60% is the combined median value of intake sourced from top 20 suppliers in our three samples; the median value is calculated on a sample of n=6 in each country group, or a total sample of n=18 for the three country groups.

By contrast, buying was highly dispersed in French sourcing networks, with the leading 20 suppliers' share accounting on average for about 50% of respondents' intake, and with only 1 out of 6 French retailers able to answer this question sourcing more than 60% of intake from its top 20 suppliers. UK sourcing networks showed intermediate levels of concentration, with an average of 65% of intake sourced from top 20 suppliers, and 3 out of 6 retailers able to answer this question sourcing more than 60% of intake from these suppliers.

Second, the presence of efforts to reduce the size of supply bases was highly unequal between countries. While 8 out of 12 UK respondents had recently reduced their supply base as part of rationalization strategies, only 4 out of 9 French retailers and 5 out of 10 Scandinavian ones had done so, or were planning to do so in the near future. However, the already concentrated nature of Scandinavian sourcing networks suggests that further supply base rationalization may be less possible in this region. The predominance of supply base rationalization strategies might significantly raise entry barriers for new suppliers, a possibility underlined in the case of UK retailers by the nature of their expectations regarding service provision.

Services expected from existing and new suppliers

Respondents were asked about the type of services that they required from their existing suppliers[80], and about their criteria for selecting new suppliers. With regard to current suppliers, table 6.7 highlights three types of results.

Table 6.7: Services expected from existing suppliers

	Frequency mentioned by respondents in			Fisher's Exact Test (P value)
	UK	France	Scandinavia	
Full-fabric/cloth sourcing	10	11	9	0.322
Design services	3	6	5	0.048
Supplier-managed inventory	6	1	2	0.005
Production flexibility	4	0	0	0.007
Making regular visits to retailer	2	0	0	0.097
Permanent presence at retailer HQ	1	0	0	0.344
Product development	1	0	0	0.344
Invoicing on 90 days	1	0	0	0.344
	n = 10	n = 11	n = 10	

Source: authors' interviews.

First, a number of services were commonly expected by retailers regardless of their national origin. They included procurement of fabric on suppliers' own account (the service most commonly mentioned by UK, French and Scandinavian retailers alike[81]), as well as design contributions (the second most-frequently mentioned expectation in France and Scandinavia). The latter expectation reflected a variety of policies on design. Some retailers complemented their internal collection capabilities with external services, while others externalized the entire collection design function. French and Scandinavian retailers were slightly more likely to expect design services from suppliers than were their UK counterparts. Indeed, a number of UK retailers seem to have contracted out design services to providers other than clothing suppliers, *i.e.* to specialized design consultancies.

Second, significant differences were observed between UK and continental European retailers regarding demands for "supplier-managed inventory" and "production flexibility". Predominantly found in the UK, the expectation of "supplier-managed inventory" embraced self-financed stockholding and delivery on a call-off basis, while "production flexibility" referred to the related capacity to guarantee in-season replenishments at 4 weeks' notice, and to the ability to rapidly develop new styles. The highly exacting demand for stockholding services was only occasionally mentioned by mainland European retailers, none of whom made reference to production flexibility.

[80] In the UK, this question was restricted to retailers' expectations regarding their "core" top 20 suppliers. This might contribute to accentuate differences in the responses made by UK vs. mainland European retailers.
[81] This demand was not applied to CEE manufacturers for the reason already noted.

These findings should be analyzed against the background of a relatively low diffusion of so-called “replenishment programs” in mainland European clothing retail. This term refers to the practice of reserving capacity with manufacturing suppliers over a period of 6 months or longer, for production of a single style on the basis of guaranteed minimum initial orders, but without a definite ceiling. Only two Scandinavian retailers had established such programs, and even in these cases only with a handful of suppliers. Replenishment programs were more common in France, with 6 out of 11 respondents reporting some use of these arrangements, but still remained marginal in retailers’ total intake. Suppliers’ lack of capability to implement such programs was cited as a major obstacle to their diffusion by Scandinavian and French retailers alike[82].

In France, the limited adoption of replenishment programs and lack of requirements for stockholding services is related to the presence of the practice of “multi-sourcing”, through which 8 respondents reported placing initial orders for a specific style in far-flung, predominantly Asian, low cost locations in advance of a season, while allocating subsequent in-season re-orders of the same product to medium-cost shorter-lead time suppliers located in the “greater Europe” area. The French use of multi-sourcing arrangements can be explained with reference to the historical roots of many clothing retailers in the Sentier – the main Parisian garment center – where quick re-orders could be obtained during a season from a variety of small local suppliers, a practice called *réassort* in the local trade. The subsequent massive movement of French clothing retailers towards Asian sourcing left them with large stocks of unsold imported products during the severe market crisis of the 1990s. Through multi-sourcing, French retailers subsequently sought to reduce the risks involved with long-distance sourcing, and expanded on a global scale the *réassort* principles initially adopted at the local level.

No UK respondent reported using or planning to use multi-sourcing arrangements and only one Scandinavian respondent was planning to, revealing a significant difference between France and these two country groups[83]. However, a number of UK respondents expected a service of this type from *single* suppliers. Accordingly, suppliers serving the UK clothing market were required to possess much more sophisticated capabilities than those serving the French and Scandinavian markets, both in the geographical scope of their production / sourcing activities, and in the range of services performed.

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[82] In Scandinavia, retailers also mentioned their own lack of capabilities for managing them. The adoption rate of replenishment programmes is not statistically higher in the UK than in France, but UK retailers emphasized covering as many styles as possible through these programmes while French retailers’s use of replenishment was restricted to a few products in the "basics" category.

[83] The P value of the Fisher Exact test of independence between multisourcing and the national origin of retailers is below 0.001, indicating a strong relationship between the two variables.

Finally, Table 6.7 shows that the lists of requirements stated by some UK retailers were longer and more detailed than those of mainland European retailers, and included demands for regular visits from suppliers, product development, or a permanent presence at retailer headquarters. However, the low frequency of these demands does not make such difference significant.

Table 6.8: Selection principles for new suppliers

	Frequency mentioned by respondents in			**Exact Test (P value)**
	UK	France	Scandinavia	
UK pattern:				
Full-fabric/cloth sourcing capacity	10	2	2	< 0.001
Dedicated account management	10	0	0	< 0.001
Design contributions	4	0	0	0.008
"Seriously improved prices"	3	0	0	0.029
Mainland European pattern:				
Lead times conformity	0	7	3	0.001
Price conformity	0	7	7	< 0.001
Quality conformity, service capacity	0	7	4	0.001
"Chemistry"/signs of potential Responsiveness	0	4	4	0.007
Codes of conducts*	3	1	3 (all Sweden)	0.054
	n=10	n=11	n=9	

Source: authors' interviews. *When Sweden is distinguished from Denmark, the relationship between retailers' national origin and their use of Codes of Conduct for selecting new suppliers becomes significant with P = 0.001.

Hill (2000) proposes a distinction between order-qualifying and order-winning critical success factors, emphasizing that some factors have the status of necessary conditions for obtaining contracts without counting as critical success factors (or sufficient conditions) for winning such orders. Table 6.8 shows that UK retailers tended to emphasize "order winning" as well as "order qualifying" conditions for new entrants to their supply bases, while French and Scandinavian retailers emphasized mainly "order qualifying" ones alone, such as meeting standard quality, price and delivery requirements. For a number of UK respondents, a new supplier "had to bring something new to the table", in the form of design ideas or reduced prices for instance, on the grounds that "taking on a new supplier usually means dropping an existing one". Interestingly, Codes of Conduct were not used as a critical selection criteria for new suppliers in the countries studied, with the significant exception of Sweden. Suppliers into the Swedish market were generally expected to conform to such codes. This expectation was present only to a lesser degree in the UK and was virtually absent in France and Denmark.

Nature of relationships developed with suppliers

Most retailers interviewed in the countries covered made references to their participation in some kind to “partnership” with “core” suppliers in their sourcing networks, although variations could be observed, both within and across countries, in the ways in which retailers described such relationships (Table 6.9). Overall, the concept of partnership referred to a sense of “mutual obligation”, loyalty and trust, based on repeated interactions. Often it was expressed in efforts to maintain order volume stability over time.

However, this concept tended to be used somewhat less often, and to be elaborated in more restricted ways, in Scandinavia than in France or the UK. Typically, Scandinavian respondents saw partnerships are corresponding to high levels of exchange concentration (“we are important to each other”), although references were also made on occasion to aspects of social embeddedness.

By contrast, “partnerships” in the sense of *deliberately differentiated statuses* were more clearly identified in the somewhat less concentrated sourcing networks of French and UK retailers. They expressed retailers’ efforts to maintain volume stability over time with *chosen* suppliers. French and UK retailers also provided suppliers with business information and forecasts aimed at joint forward planning. In a few cases, they had adopted “open-book” policies allowing for an exchange of cost and price breakdowns. Beyond these shared characteristics, UK retailers exhibited higher levels of organizational integration with core suppliers, through continuous communication, joint planning of new overseas production capacity, and a sharing of business plans going beyond the production forecasts provided by French retailers. A number also claimed to share the impact of price deflation policies, in the form of absorbing part of falling retail prices in their own margins, instead of transferring this entirely to suppliers.

Table 6.9: Nature of relationships developed with suppliers

	Frequency mentioned by respondents in			**Fisher’s Exact Test (P value)**
	UK	France	Scandinavia	
Reference to some forms of “partnership”	9	10	7	0.140
Components of “partnership”:				
“Mutual obligation”, volume stability	3	6	4	0.058
Loyalty, trust, human relations	1	4	2	0.068
Exchange of business forecast	5	6	0	0.003
Information-sharing	3	4	0	0.023
Exchange of cost and price breakdowns	2	2	0	0.094
Assistance with upgrading and sales maximization	2	1	0	0.120
Joint-planning of new capacity	3	0	0	0.027
Sharing impact of price deflation	3	0	0	0.027
	n = 10	n = 12	n = 9	

Source: authors' interviews.

Most UK respondents also engaged in a comprehensive monitoring of supplier performance on a regular basis, using detailed performance indicators for delivery reliability, product quality and costs. About two thirds of French respondents had also established criteria for supplier performance appraisal, but the extent to which these tools were systematically used remained unclear. In Scandinavia, although half of respondents stated that they did some supplier monitoring only one had set up a bureaucratic procedure with explicit guidelines for doing so.

Distinct types of sourcing networks in the UK, France and Scandinavia

While the findings described above indicate some commonalties in the nature of sourcing patterns across the EU, they also allow the identification of distinct sourcing practices in the countries studied. This simultaneously reveals broad shifts in the geography of world clothing production, and the persistent embeddedness of sourcing practices in specific, local level, "clothing business systems". The combination of practices observed in each country or country group evokes a well-established ideal-type of network structure and dynamics. According to Whitley (1999) the characteristics of firms and inter-firm networks are key variables that help to distinguish varieties of capitalism. Underlying them are different economic structures and institutional frameworks (including state and financial systems), as well as national cultures. This suggests the possible relevance of a number of factors in explanation of differences uncovered, some of which have been touched on already above.

The first factor is industrial structure. It can be hypothesized that large firm size, together with high levels of market concentration, will in general create incentives for buyers to seek to exploit economies of scale in their own organization, and/or "big buy" bargaining power benefits in relation to suppliers, while such incentives will be present to a lesser degree – and be less realizable – for smaller companies operating in less concentrated markets. Hence national contexts where a small number of large firms dominate the clothing retail sector are likely to be associated with greater emphasis on supply base rationalization, greater demands on suppliers, more demanding selection principles for new suppliers as well as greater monitoring of suppliers' performance.

The second factor is ownership structure, and relations between the corporate and financial sectors. As discussed above, it may be hypothesized that in following doctrines of "shareholder value", publicly listed companies (and markets where these are the main actors) will exhibit higher levels of out-sourcing of "non-core" competencies, a more centralized command structure, as well as management styles emphasizing "strategic projects" and auditing/monitoring of multiple financial and non-financial parameters. Conversely, privately-owned companies (and markets dominated by them) should be less likely to exhibit these propensities. Again, this factor might account for greater or lesser predilections towards centralization and standardization of supply chain-related decision-making and procedures, concentration of buying on fewer, more "capable" suppliers, and transfer to suppliers of more service functions.

Table 6.10 summarizes differences between our national samples with regard to the incidence of large companies and Plcs, and in respect of their wider industrial structures (level of market concentration). "Large companies" here denotes those companies with annual sales exceeding 500 mn. euros. "Plcs" refers to companies listed on the stock market of the country concerned, or subsidiaries of such companies.[84]

Table 6.10: Composition of national samples in terms of specific characteristics

	Frequency mentioned by respondents in			Fisher's Exact Test (P value)
	UK	France	Scandinavia	
Large companies	11	4	0	1
Plcs	11	7	2	3
	n = 12	n = 12	n = 6	n = 4
Market share of top 10 retailers*	52%	36%	60%	42%

**Source: authors' data from company financial reports and interviews.*

Table 6.10 demonstrates differences in the nature of national samples, but not totally in the anticipated direction. The UK sample contains significantly greater numbers of large firms and of Plcs than the Scandinavian one, but so does the French in the second case. If, however, the presence of large companies which are also publicly traded is taken as a single variable, then a significant difference exists between the UK sample on the one hand and the French and Scandinavian ones on the other.[85]

This last finding broadly strengthens our confidence in the proposition of a link between the specific features of the UK corporate economy (including its close relation to the financial sector), and the adoption of a more or less consistent set of "supply chain rationalization" practices. These manifest themselves within a broader organizational culture characterized amongst other things by numbers-based decision-making, and in which an uncritical pursuit of continuity is seen as a weakness. Supply chain rationalization strategies were resulting in reductions in the size of supply networks, setting of highly detailed and demanding standards for core suppliers and new supplier selection, intensive

[84] Where companies headquartered in one of the countries surveyed were also important players in a second surveyed country, they were excluded from the populations sampled in the second country.
[85] There are 11 large publicly traded UK firms, four French ones and only a single Scandinavian one in the samples. P value is <0.001 and significant when P<0.05.

monitoring of supplier performance, high levels of inter-organizational integration with core suppliers, and the diffusion of replenishment and other forms of stock-holding programs. These practices reveal the predominance of "rules", or formal procedures and standardization, as coordinating mechanisms in what can be labelled a "UK model". Not surprisingly, core suppliers had developed higher-level capabilities allowing them to produce in, or source from, diverse locations, and to offer a diverse range of design and manufacturing services. Core suppliers included UK converters and trading houses, and in a few cases global Asian manufacturers that are also well-established in American sourcing networks.

In Scandinavia, most of the strategies related to shareholder value doctrines were virtually absent. The limited extent of supply base rationalization, the rare adoption of replenishment programs, the lack of distinction between core and peripheral status, the basic nature of expectations concerning supplier services and the *ad hoc* nature of supplier selection, the absence of formal procedures for supplier performance appraisal, all indicate a predominance of informal relations with suppliers. In the case of larger Scandinavian companies, increasing import volumes had been dealt with not by the adoption of new analytical and managerial instruments but by establishing large overseas offices that allowed a scaling-up of this informality. These practices appear rooted in a specific Scandinavian organizational culture, which combines a preference for a relatively high level of internal vertical integration with attachment to the idea that external relations are best managed via a form of low-intensity personal networking. Management styles are consensual rather than numbers- or rules-based and buyers appear to enjoy considerable discretion, within the constraints of a network-building approach. The "Scandinavian model" was characterized by sourcing networks whose direct buyer-manufacturer relations and high levels of concentration reflected steady build-ups of volume with a small number of long-term suppliers, supplemented by new face-to-face searches.

The "French model" had some similarities with the UK one, since the largest French firms were in a process of evolution towards a rationalization of sourcing practices – reflecting the relatively high presence of large firms and Plcs in this sample, and a corresponding gradual diffusion of the shareholder value doctrine in these enterprises (see Morin, 2000; Schmidt, 2003). Indeed, a number of leading French retailers faced mounting pressures to achieve scale economies in the context of their international expansion and/or their growing dependence on financial markets.[86] However, the model also shared some characteristics with Scandinavia: service expectations for current and new suppliers remained fairly basic, and supplier monitoring was not systematic. While replenishment

[86] Although some leading French retail firms such as Auchan and Decathlon are still privately-owned, a number of major publicly-owned companies such as Groupe Carrefour and Vivarte have increasingly relied on financial markets to support their international growth.

programs had been adopted, they were limited in scope - partly due to (lack of) choices made concerning supplier selection. Such lack of formalization and sophistication in sourcing practices highlights the limits of the reach of shareholder value-oriented restructuring strategies and the persistence of traditionally high levels of informality in French buyer-supplier relations. The French model was one of weakly concentrated, dispersed sourcing networks, where less was invested in direct sourcing than was the case in Scandinavia and less was invested in the purposeful planning of supply base construction than in the UK. Hence the French model seemed characterized by relatively "passive" market-based sourcing strategies. When comparing buyer-supplier relations in the clothing industry of France and Germany, Hetzel (2000) similarly emphasized the opportunistic, short-term orientation of French buyers, valuing flexibility and the capacity to switch partners rather than continuity, as observed in Germany, in supplier relations. If Scandinavia and Germany share some cultural attributes, such as the value placed on continuity, then differences between Northern European and Southern European cultures might be at play in explaining the market orientation of French sourcing networks in our sample.[87]

To sum up, specific sourcing patterns showed the greatest contrast between the UK and Scandinavia, with France falling in a somewhat intermediate position. These findings bring us back to the "variety of capitalism" debate, raising the question of the likelihood of future convergence towards a global Anglo-Saxon model of financialization and supply chain rationalization in continental Europe. Only the largest firms in France, and to a lesser extent in Scandinavia, that were competing intensively on global consumer markets, were evolving towards this Anglo-Saxon model, while other local firms followed traditional sourcing practices historically developed in their country. Accordingly, a process of global convergence might be at work amongst global competitors on world markets, but in continuous interaction with persisting national differences arising from structural and cultural factors.

Entry barriers and industrial upgrading opportunities for developing country suppliers

The empirical analysis presented above strongly suggests that clothing GVCs into the UK, France and Scandinavia, while resembling each other in their broad geographies, differ strongly in their management practices. This section considers the implications of such geographical similarities, and of differences in supply chain management practices, in

[87] This conclusion complements Schmidt's (2003) general observations concerning corporate life in France. She argues that while shareholder has become a driver of management strategy, it is by no means *the* driver. In fact, the most visible trend over the last decade has been the emergence of higher levels of executive autonomy, rather than the pre-eminence of financial market priorities.

relation to developing country suppliers. Going back to the discussion on opportunities available to developing country suppliers developed above, prospects for suppliers will here be assessed in terms of entry barriers and industrial upgrading opportunities.

With regard to sourcing geographies, contrary to the suggestion of Abernethy et al (1999), location *per se* appears not to constitute a major advantage or entry barrier. In all three end-markets, a balanced growth of sourcing between (mainly Asian) low-cost and (mainly "greater European") medium-cost/short lead-time locations was evident. This position may evolve in the light of regulative changes, with the elimination of quotas after 2005, though. As noted above, the existence in China of a large population of companies able to produce competitively any clothing style at any quality may offer buyers who concentrate purchases there considerable savings in transaction costs. Respondent were not asked to address explicitly whether they considered that 2005 would give location a greater significance. At the time when interviews were conducted, a debate was still in progress concerning whether the timetable of the Agreement on Textiles and Clothing would be observed by importing countries, or whether the Agreement, like the Multifibre Arrangement earlier, would be continued under another name beyond 2005. Accordingly, when the "2005 question" did rear its head, buyers generally indicated that they were reserving their judgement and had not as yet made any concrete plans in respect of post-2005 sourcing. Now that it is clear that quotas will be removed, their answers are likely to be different, and this should be borne in mind during the discussion that follows.

Returning to the differences between GVCs into the EU, the analysis of sourcing practices highlights a strong increase in entry barriers and declining upgrading opportunities for suppliers in UK-driven value chains. The "supply chain rationalization" hypothesis derived from parts of GVC analysis and the business school literature is here confirmed, and found to be linked to the combined effect of the predominance of large Plcs and a greater diffusion of "shareholder value"-based strategies in this country. On the other hand, entry remains easier and "windows of upgrading opportunity" might still exist in sourcing networks serving the French and Scandinavian markets, although persistent differences were observed between the two, underscoring the "variety of capitalism" thesis. These findings are elaborated below.

Rising entry barriers and declining prospect for industrial upgrading in UK-driven chains

A number of indicators highlight rising entry barriers and declining prospects for industrial upgrading in UK-driven chains. First, supply base rationalization policies have led to reductions in the number of suppliers used, lowering retailers' propensity to integrate additional members in their supply networks. Second, 7 out of 10 UK respondents normally preferred to “migrate” with existing suppliers rather than start working with new suppliers when entering a new supplying country[88]. Third, potential suppliers were benchmarked against established ones not only on price, but also on fabric sourcing and other higher level capabilities, significantly raising the level of resources required to enter their supply networks. Some UK respondents reported “handholding” new developing country suppliers, but expected their standards to be met after a few months as a precondition for continuing the sourcing relationship. A significant amount of upgrading had therefore to take place *before* a supplier could qualify for entry to these sourcing networks. The classical upgrading trajectory through which suppliers could enter clothing sourcing networks with limited resources and climb a ladder of value-adding activities by “learning from global buyers” no longer exists in the sourcing networks of major UK retailers. New suppliers with limited capabilities could only enter such networks through intermediaries, thereby reducing their opportunities to engage in service-based upgrading and to a lesser extent in volume-based upgrading.

Established suppliers were also reaching a ceiling in their industrial upgrading trajectory, since they were required already to provide high-risk stockholding services and to simultaneously absorb retailers’ end-market price reductions. Scale economies derived from high sourcing volumes were considered by respondents to offset the impact of price declines on suppliers’ margins, but this implied that suppliers could expect no more than to maintain margins while providing additional services, or to “do more with less” in the words of Moss Kanter (1989). According to an industry consultant: “price deflation is becoming a permanent feature in [UK] buyers’ targets…there’s a real question of whether suppliers can survive on this basis”. Retailers’ efforts to increase shareholder value in a flat market, together with the intensification of global competition in clothing production, are thus imposing new limits on suppliers’ capacity to appropriate greater value out of their participation to UK-driven clothing chains. Finally, UK retailers appear to have already outsourced design functions to specialized design consultancies, so that suppliers’ upgrading opportunities along these lines are also limited.

Opportunities for supplier entry and upgrading in French sourcing networks

French-driven chains have not reached UK’s levels of “maturity”, in the sense of a combination of retail concentration, close connection to financial markets, formalized sourcing relationships and the predominance of high-capability global suppliers. Consequently, sourcing networks should here offer greater opportunities both for new suppliers’ entry, and for suppliers’ upgrading.

[88] Only 2 out of 12 French respondents preferred to follow existing suppliers when entering a new country, while 7 out of 9 Scandinavian retailers indicated having such preference, a distribution closer to the 7 out of 10 respondents observed in the UK (the exact test of independence is here significant with P = 0.001)

First, ease of entry should be favoured by the fact that French respondents do not insist that specific services should be offered by new suppliers. French respondents were also much less likely than UK and Scandinavian ones to follow established suppliers when entering a new country[89], and their sourcing networks exhibited much lower supply base concentration levels than could be observed both in the UK and Scandinavia. Finally, the value French buyers attached to retaining the capacity to switch between suppliers should translate into greater ease of entry into French sourcing networks – even if, for the same reason, this may be only temporary.

Second, upgrading opportunities for developing country producers remained apparent in our French sample. A number of respondents had adopted design and styling inputs from suppliers, thus underlining the presence of this type of service-based upgrading opportunities. Likewise, the limited diffusion of replenishment programs implied opportunities for suppliers' volume-based upgrading, assuming that French retailers adopt more systematically these "high-speed, high-volume" sourcing arrangements. However, the more retailers are served by an evolving group of multiple service-providing suppliers, as the gradual diffusion of "shareholder-value"-based strategies seems to imply, the more this is likely to close off entry and upgrading opportunities to others.

Opportunities for supplier entry and upgrading in Scandinavian sourcing networks

Like French ones, Scandinavian sourcing networks exhibit relatively low entry barriers in terms of service expectations placed on new suppliers. This notwithstanding, Scandinavian retailers did not seem to engage significantly more than UK ones in active search for new sourcing locations, and entry to their networks seemed relatively hard for newcomers. Scandinavian sourcing networks were already the most concentrated of those examined here, and in addition, retailers tended to follow existing suppliers and/or personal networks, when entering a new country, leaving few doors open for other potential suppliers.

It could be expected that these highly concentrated supply bases, combined with the fact that Scandinavian retailers relatively often sourced directly from overseas manufacturers, might lead to industrial upgrading opportunities for existing suppliers. In fact, while these opportunities existed, they were relatively narrow in range. Because an important part of the business of leading Scandinavian retailers is wholesaling to independents throughout northern Europe, they devote considerable attention to long-term planning of collections. This entails a vertical integration of design, rather than looking for design contributions from manufacturers. On the other hand, 4 of the 10 Scandinavian companies interviewed were in the process of developing a small number of so-called "express" or "quick flow"

[89] See note 28.

suppliers in low-cost countries, and a fifth was strongly considering this. Under these programs, manufacturers from the existing supply base were identified, who could supply re-orders of fashion products on lead times as low as three weeks. Upgrading opportunities in these networks hence lay more in the direction of improving manufacturing services, rather than offering new, “pure” service functions.

More generally, it is important to note that the existence of industrial upgrading “opportunities” in French, and to a lesser extent, in Scandinavian sourcing networks, does not imply that retailers might play an active role in improving suppliers’ capabilities. Indeed, most respondents in all countries studied did not contribute to suppliers’ upgrading in the form of technical support, but rather adopted a generally hands-off approach to supplier capabilities. Where assistance was offered, it was most often in relation to improving suppliers’ delivery accuracy, rather than their manufacturing competencies or their service offerings. Consequently, developing country producers probably need to resort to external consultants, or to participate in other chains, in order to gain these higher-level competencies. By inserting themselves into so-called “triangle manufacturing” schemes (Gereffi, 1994), they might also benefit from technical support provided by intermediaries, but in such case the development potential of their learning dynamics will be restricted by the intermediates’ control over key services and capacity to appropriate related margins.

Conclusion

An analysis of clothing import patterns and sourcing practices of major clothing retailers in the UK, France, and Scandinavia uncovers salient characteristics of GVCs destined for European markets, and allows a re-assessment of the development potential that these chains might offer low-cost producing countries. Clothing GVCs emerged in the 1950s and 1960s out of developed country buyers’ initiatives to contract out production to developing countries, and expanded over the following decades to become the dominant form of industrial organization in the clothing sector. A central conclusion of this paper is that GVCs are now reaching a level of maturity that imposes new limits on the opportunities they provide for developing countries. The sourcing networks of global buyers have spread over a large range of countries and regions, clothing consumption in developed countries is almost entirely fed by imports from developing countries, but high-capability – and in some cases globalized - suppliers have reaped the benefits of service-based and volume-based upgrading to build high entry barriers into their competitive positions. In these maturing chains, growing pressures from financial markets are also skewing the distribution of value in favor of shareholders to the detriment of established suppliers, casting serious doubts on the contemporary relevance of classical “industrial upgrading” paradigms.

This stylized view of GVCs maturation best applies to the “Anglo-Saxon” business model. Both the spread of “shareholder-value”-related doctrines (Crotty 2002), and growing concentration among both retailers and their preferred “first-tier” suppliers, have been documented for the US, in the latter case in relation to US-driven clothing chains (Gereffi, op. cit.) This paper has provided evidence of comparable transformations in UK-driven chains, and made the link between “shareholder value” and sourcing strategies more explicit. Interestingly, though, different types of core suppliers can be identified in relation to the American and UK clothing markets. US buyers have developed close linkages with global Asian manufacturers, while also sourcing from global Asian intermediaries and US “trading houses”, but UK buyers predominantly used the services of domestic trading houses and global Asian intermediaries, and have only marginally plugged into the production networks of global Asian manufacturers.

Different patterns were also uncovered in French- and Scandinavian-driven chains, where upgrading opportunities might still exist in the absence of established global “first-tier” positions. Such differences can be alternatively considered to reflect the stratification of the global clothing industry into value chains of different shapes and scopes serving Anglo-Saxon and mainland European markets, or the uneven diffusion of a “global model” in various national markets. The emerging trend towards retail “financialization” and supply base rationalization in the French clothing market supports the second interpretation, although GVCs will continue to exhibit end market-specific characteristics in relation to the size of lead enterprises, their relations to financial markets, and their national business cultures. To conclude, although new developing countries might continue to enter GVCs, particularly in relation to offers of new bilateral trade preferences (Gibbon, 2003), serious questions are arising on how far this stepping-stone might take them into the industrialization process.

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Appendix I. Policy framework, industrial structures and the clothing industry in Vietnam

Introduction

This appendix provides a descriptive background to some of the issues dealt with in Papers 1-4. It focuses first on the political background, reforms and emerging political-economic structure, including the financial system, labour market, land reforms and also trade reform in Vietnam. Secondly, it provides an overview of the country's industrial structure and sectors. Finally, it describes the clothing industry in Vietnam in general terms.

Political background and the Doi Moi economic reforms

In 1975, when the Vietnam War ended, communist North Vietnam and capitalist South Vietnam, which had been divided since 1954, were reunified. The subsequent industrialization strategy for the reunified country implemented by the northern (Hanoi) government aimed at promoting heavy industry and establishing an enterprise sector consisting only of state-owned enterprises (SOEs) and cooperatives.

When the Doi Moi ("Renovation") economic reforms were introduced in 1986, the goal was to initiate a transition from a planned to a market economy, rather than to reform the political system. Today, the Socialist Republic of Vietnam is therefore still a one-party state run by the Communist Party general secretary, the prime minister and the president. The country continues to be organised politically along orthodox communist lines so that the Communist Party and the government overlap extensively. The party selects officials mainly along political lines, issues directives and plays an important part in government policy. The party is also entrenched in important state institutions such as the Fatherland Front, the Confederation of Trade Unions and the Women's Union (EIU, 2006; Gainsborough, 2003).

The financial system

The financial sector was one of the first sectors in which reform was implemented in Vietnam. As in most other transition economies, the banking sector plays a crucial role in financial intermediation. This is among other things because the financial system in Vietnam is not able to support the development of capital markets, which are therefore still young; only about forty businesses were listed on the stock market in 2006 (Cortés and Berggren, 2001; EIU, 2006). A series of banking reforms were implemented as part of Doi Moi between 1988 and 1997. During this initial period, the mono-bank system of the planned economy was changed so that the State Bank of Vietnam (the central bank), through which the state sets ceilings for interest rates and foreign exchange controls, was separated from the specialised, but still state-owned commercial banks. Also, joint stock banks and foreign-owned banks were permitted, though under restrictions (Kovsted, Rand and Tarp, 2003).

Although, as part of the country's on-going preparations for World Trade Organisation (WTO) membership, an announcement was made that these commercial banks were to be restructured, they still dominate the banking system. The four major commercial banks account for three quarters of total credit in Vietnam (Vietnam Development Report, 2005), almost all of which they direct to SOEs, a large number of which are unprofitable. As a consequence, it has been pointed out that the banks are exposed to a large volume of non-performing loans, an estimated 20% of their portfolios (Gainsborough, 2003; Cortés and Berggren, 2001). Conversely, it has been estimated that over half of SOE investment is funded by credits from state sources, including bank credits (Dapice, 2003).

So far, the clearest impact of reform in this sector is that a sale of 30% of VIETCOM Bank's shares to Vietnamese or foreign outsiders has been announced for 2006. In 2005, there were also a couple of cases where foreign banks bought up to 10% of shares – which is still the largest amount that a foreign party is allowed to own – in one of the commercial banks. Total foreign holdings are limited to 30%. When the US Bilateral Trade Agreement (USBTA; see below) was signed in 2001, Vietnam committed itself to allowing in foreign banks without restriction by 2010 at the latest and to expose the national banking sector fully to foreign competition from this time (Duong, 2005).

The labour market and the law

According to Collins and Zhu (2003), working conditions were not really placed on the agenda in Vietnam before the introduction of Doi Moi or in the immediate period afterwards. During the planned economy, workers had been considered "masters of the enterprise" and trade unions were "administrative" rather than "representative" organs. Since 1992, Vietnam has been an official member of the International Labour Organisation (ILO) and has ratified 15 ILO Conventions, including the Equal Remuneration Convention, the Discrimination Convention, the Minimum Age Convention and the Worst Forms of Child Labour Convention. ILO experts also contributed to the drafting of the 1994 Labour Code and its 2002 amendment (US-Vietnam WTO Coalition, 2006). Working conditions are generally regarded as relatively good compared to many other developing countries, although labour codes are not always fully applied in practice, often being subject to local authorities' interpretations (Qi, Taylor and Frost, 2002).

According to the Labour Code, there is a daily maximum of eight working hours, while the weekly maximum is 48 hours. Minimum wages are currently US$45 per month for unskilled workers in Hanoi and HCMC, a little less outside these centres. Overtime rates must be at least 150% of the regular wages on weekdays and 200% on holidays. Overtime should not exceed 12 hours per week. However, to finish “urgent work” or make up for lost production, overtime can be permitted beyond these limits by the local authorities, but “only with the employees’ consent”. Yet, in reality it is often difficult to avoid overtime. Workers are also entitled to 30 minutes of rest a day, 45 minutes on night shifts and eight fully paid holidays a year. There is a minimum working age of 15, and the labour code also endorses social security systems. Still, the latter especially seem to be implemented much less in private enterprises than in SOEs (Chan and Wang, 2005; Qi et al., 2002).

It has been pointed out that there is an imbalance between the demand and supply of labour in Vietnam, with supply generally surpassing demand. However, in terms of structure, most of the country’s labour force live and work in rural areas. Therefore, especially in HCMC – where the number of enterprises is relatively high – there is a lack of labour. This is aggravated by the fact that the regulation of organised labour migration does not fit the demands of the market, while spontaneous migration is relatively restricted (Dinh, 2003).

Land reforms

In Vietnam land is not considered private property, and hence enterprise owners either rent land or obtain land-use rights (so-called “Red Books”) for it. Renting is relatively expensive and also insecure, while Red Books can be obtained in two main ways: through transfer or through leasing from the government (IFC, 2003). Between 1988 and 1993, most agricultural land in Vietnam (excluding most of the land populated by ethnic minorities) was distributed to rural households, who thus obtained Red Books, while only 30% of urban industrial land and 15% of urban residential land was so allocated (Vietnam Development Report, 2005).

At the national level, the General Department for Land Administration sets the rules and procedures for obtaining Red Books and for leasing and pricing land from the government. These rules are legally the same for all domestic enterprises. In reality, however, it is often stressed that the implementation of the rules differs between provinces and that the distribution of land-use rights favours SOEs, which commonly receive an initial land allocation free of charge along with long-term land-use rights. Although in the main SOEs are only allowed to use their land for the purpose for which it was allocated, they often sub-lease or transfer it. The guidelines for equitized SOEs in terms of the treatment of the land previously granted to them are unclear. Typically, these now private enterprises apply to convert the Red Books on the land they occupy.

For other ("new") private enterprises, obtaining land-use rights by official leasing land from the government is a very lengthy and costly process. As a consequence, an estimated 70 percent of all transactions in Red Books take place in the vibrant unofficial market, through which private businesses mainly lease plots of land from SOEs or farmers (IFC, 2003; Vietnam Development Report, 2005).

Trade reform and international trade agreements

Prior to Doi Moi, Vietnam's external trade sector was characterized by a small number of trading corporations, which had a monopoly on exporting and importing. Along these lines, imports and exports were regulated in accordance with an overall production plan, in which export volumes were set according to the financial requirements for planned imports.

Reform of this external sector was one of the main tasks to be accomplished initially and among other things involved liberalizing prices, increasing the number of companies involved in trading beyond the trading corporations, and removing *de facto* quantitative restrictions, monopolies and other restrictions that might distort trade (Auffret, 2002). Table I.I provides an overview of changes in the country's trade policy and its international trade agreements. From 1994 to 2003, growth in GDP averaged 7.3% per year, making Vietnam one of Asia's fastest growing economies (Stads and Nguyen, 2006).

Table I.I: Major changes in trade policy and international trade agreements

1989	Adoption of the law on imports and exports.
1992	Trade agreement signed with the EU to establish quotas on the export of textiles and clothing to the EU and to grant tariff preferences on selected imports from the EU.
1993	Vietnam joins Customs Co-operation Council.
1994	Vietnam gains GATT observer status. US ends embargo. Vietnam is still considered a non-market economy and is denied normal trade relations.
1995	Vietnam joins ASEAN and accedes to protocols of AFTA. List of goods under the common effective preferential tariff (CEPT) for AFTA promulgated (involves no change in duties).
1996	List of commodities under CEPT of AFTA for 1997 promulgated.
1998	Informal road map of CEPT tariff reduction to 2006 issued. List of commodities under CEPT for 1998 promulgated completing coverage of inclusion list.
2000	Bilateral trade agreement (USBTA) with the US, opening up most favoured nation (MFN) status, signed. First steps for WTO access negotiations. Removes quantitative import restrictions on 8 out of remaining 19 groups.
2001	Moves 713 tariffs lines from the temporary exclusion list to the inclusion list. Permits all legal entities (companies and individuals) to export most goods without having to acquire a special license by implementing the trade law.
2002	Details list of goods and tax rates for implementing the agreement on the CEPT scheme of ASEAN countries for 2002. Decision to implement the USBTA promulgated, including guidelines for responsibilities and actions. Adopts standards for intellectual property protection that match the standards set forth in the WTO Agreement on Trade-Related Aspects of Intellectual Property Protection. A government negotiation team starts working sessions on WTO accession in Geneva.
2003	Vietnam-US textile agreement signed; issuing quotas to grow by 7% per year with a specific limit to the adjustment annually through a 6% swing. Within the framework of AFTA, Vietnam converts its 6-digit Harmonized Tariff system into an 8-digit system, the ASEAN Harmonized Tariff Nomenclature (AHTN), based on the World Customs Organization.
2004	October: EU and Vietnam conclude bilateral deal for Vietnam's accession to WTO.
2005	National Assembly of Vietnam adopts the current Trade Law in June through which domestic companies acquire full trading rights and do not need to apply for international trading business licenses: they will only have to register their import and export codes with provincial customs authorities to facilitate their customs procedures.
2006	31 May: the US and Vietnam sign a Bilateral Market Access agreement to be fully implemented when Vietnam joins the WTO. WTO members negotiating the terms of Vietnam's membership complete their task on 26 October 2006 by accepting the documents spelling out Vietnam's commitments and rights. The documents will now go to the full membership of the General Council, which will meet on 7 November for ratification, which is considered a formality. The agreement will have to be ratified by Vietnam's National Assembly, which is expected to meet on 5 December, which will then formally inform the WTO of the ratification. Full membership will start 30 days after ratification, expected in early January 2007.

Sources: Auffret, 2002; EIU, 2006; Office of the United States Trade Representative, 2006; VinaTradeUSA, 2006; WTO, 2006.

Industrial structure and sectors

State-owned enterprises

The reform program for the liberalization of trade was closely connected to reform in the SOE and cooperative enterprise sectors and to the re-emergence of a private sector. Against this background, ownership patterns in the industrial sector changed following the mid-1980s, and the economy has become more diversified. The cooperative manufacturing sector has been reduced to almost nothing, contributing less than 1% of industrial output in 1994 compared to 24% in 1987 (Van Arkadie and Mallon, 2003). In addition, a number of SOEs have been equitized, dissolved, merged or transferred to individuals, as shown in (IMF, 2006; Vietnam Development Report, 2005). The most significant component of the SOE restructuring is the equitization process, in which shares are sold, leading to a partial or complete divestment of state property, as enterprises are converted into joint stock companies under the enterprise law. The equitization process was implemented in 1992 on a trial basis and institutionalised in 1998 (See Van Arkadie and Mallon for details). By 2002, however, less than a thousand SOEs had been equitized (accounting for less than 3% of the total capital of SOEs), though a total of around 3.300 were restructured between 2001 and 2005. It is planned that only some 3000 SOEs, for which the state has 100% capital in almost half, will remain. Of the rest, the state will hold majority ("golden") shares or a decisive proportion of shares in the majority. Opposition to equitization is strong among officials, managers and workers (who fear losing their jobs), not least because SOEs retain preferential access to resources (Dinh, 2003; EIU, 2006). By mid-2006, equitization had only started in around 200 of the 1.469 SOEs scheduled for equitization in 2006-2007. Furthermore, equitization had focused mainly on smaller firms, in which the state typically retained large shares (EIU, 2006).

Table I.II: Implementation status of SOE restructuring

Indicator	2001	2002	2003	2004	2005 estimate
Enterprise privatized	205	164	532	753	600
Enterprise handed over	18	34	51	24	12
Enterprise sold	16	17	24	19	18
Enterprise merged	85	83	154	68	30
Enterprise amalgamated	34	44	48	7	10
Enterprise dissolved	22	27	50	35	25
Enterprise going bankrupt	0	2	4	12	12
Enterprise transformed to one-member limited companies	0	0	14	41	55

New establishment	0	37	18	12	12

Source: IMF, 2006

Foreign invested enterprises

Foreign invested enterprises (FIE) in Vietnam consist of both joint ventures and 100% foreign-owned enterprises, with Taiwan and Singapore being the main investors. Both types work under the Law on Foreign Investment, which was first introduced in 1987. From 1987 to 2002 there were more than 4.500 licensed FDI projects, though it is less clear how many of these “projects” have actually been realized. By 2005, there were a total of 6.030 projected investments with a value of US$51 billion according to the Vietnam Trade Information Centre, actual investments amounting to US$28 billion (ASEMconnect, 2005). In light industries, there are 1.693 projects with a total investment capital of US$8.5 billion, of which US$3 billion have been realized. The main location of foreign invested enterprises is HCMC and the neighbouring provinces of Dong Nai and Binh Doung, with a total number of 3.654 projects. In the north, Hanoi is the main location with 654 projects (ASEMconnect 2005).

The private sector in general

Registered private enterprises and household businesses (the latter also sometimes referred to as the “informal sector” or “un-registered sector”) constitute the private sector in Vietnam. The registered private sector that is in focus here consists of restructured SOEs, dissolved cooperatives and newly established firms, which are now registered as “limited liability companies”, “one-member limited-liability companies”, “private enterprises”, “joint stock companies” and “partnerships” (see Table I.III). These registered private enterprises operate under the enterprise law, which was first introduced in 1990 and extended further in 2000 and again in 2005. For private enterprises to be allowed to enter certain kinds of contracts with suppliers, customers and credit institutions they must be registered under this law, which allows “every Vietnamese citizen to engage in private economic activity” (Nghia, 2001). The 2000 enterprise law is often seen to have simplified registration procedures for private enterprises, and it resulted in the immediate setting up of a tremendous number of new enterprises, as shown in Table I.III.

Table I.III: Number of newly registered private enterprises according to ownership form

	Unit	2001	2002	2003	2004	2005 estimate

Total	Enterprise	19,773	21,523	27,751	36,795	38,144
Private companies	Enterprise	7,100	6,532	7,813	10,283	8,443
% of total	*%*	*53.9*	*30.3*	*28.2*	*27.9*	*22.1*
Limited liability companies	Companies	11,121	12,627	15,781	19,943	21,622
% of total	*%*	*56.2*	*58.7*	*56.9*	*54.2*	*56.7*
Joint stock companies	Companies	1,550	2,305	4,058	6,438	7,840
% of total	*%*	*7.8*	*10.7*	*14.6*	*17.5*	*20.6*
Partnership	Companies	2	0	1	7	9
% of total	*%*	*0.01*		*0.004*	*0.02*	*0.02*
1-member limited liability companies	Companies	0	59	98	124	230
% of total	*%*	*00*	*0.27*	*0.35*	*0.34*	*0.60*

Source: IMF 2006.

However, it has been stressed that the implementation of the enterprise law is still weak and inconsistent, while the business environment varies between provinces with different procedures in regard to licences and sub-licences. Examples are the lack of protection for registered company names and weak shareholder rights in equitized SOEs (ADB, 2006).

Industrial output

While Vietnam is to some degree still an agrarian society, with around 60% of the workforce employed in agriculture, forestry and fisheries, industrial GDP has grown by more than 10% annually over the past decade, meaning that the industrial sectors contributed around 41% of GDP in 2005. Growth rates have been particularly rapid in footwear, garments and also car and motorcycle assembly (EIU, 2006). SOEs continue to lose their share of industrial output, which decreased from 44% in 1999 to 34% in 2005. The foreign invested sector is the fastest growing and accounted for 37% of industrial output in 2005. Thus, the remaining 29% of output is from registered and unregistered private enterprises together (EIU, 2006).

The clothing industry

Textiles and garments contributed more than 20% of Vietnam’s industrial output, and 45% of the country’s total manufacturing export in 2001 (Nadvi and Thoburn et al, 2004). In 2003, there were an estimated 1.034 garment and textile enterprises, including SOEs, foreign invested enterprises and private enterprises in Vietnam (see Table I.IV). Private clothing enterprises accounted for around 45% of the total number of clothing enterprises (Vietnam-USTrade, 2006).

Table I.IV: Number of textile and garment enterprises by ownership form (2003)

	Textiles	Garments	Trade Services	Sub Total
SOE	32	139	60	231
Private	85	299	65	449
FDI & Joint ventures	114	215	25	354
Total	231	653	150	1,034

Source: Vietnam-USTrade, 2005.

The general corporation for garments and textiles, VINATEX, consists of 66 units, of which around 50 are manufacturing enterprises specialized in cotton processing, spinning, weaving, knitting, dyeing, finishing and garment manufacturing. Other units include six joint ventures, a financial institution, four mechanical manufacturing enterprises for spare parts, a technical and design research institute, three vocational training schools, import-export companies and overseas representative offices. So far, Vinatex has equitized 40 of its member manufacturing companies, but kept control of the shares of 28 of them. In addition, the corporation has transferred nine members from SOEs to one-member liability-limited companies.[90]

In 2000, VINATEX accounted for an estimated 30% of all garments produced in Vietnam and 40% of the total value of the country’s textile and garment production. Vinatex’s companies employed about 100,000 workers and produced approximately US$490 million worth of export garments and about US$300 million worth of garments for the domestic market. In 2005, its share of total textile and garment output had fallen to 32%. However, the corporation now had export sales of over US$1.035 million, which was 23.6% of the total export value of the industry (EU Economic and Commercial Counsellors 2006; Informant 7, 2000; Informant 25, 2005).

[90] The 2001 and 2005 versions of the enterprise law made it possible to transfer SOEs into Ltds. At the time of fieldwork this was not yet common, and thus former SOEs were mainly registered as joint stock companies by then.

Garments and textiles are key sources of employment, currently employing a total of around 1.6 million workers, mainly in garments (Vietnam-USTrade, 2006). As shown in Table I.V, wages are considerably higher in foreign–owned companies than in domestic ones, state and private, due to regulations, and employment in the foreign invested sector is often preferred. Likewise, SOEs offer their employees different (state-subsidised) benefits. Table I.V also shows that the higher educational level the greater the differences in wage levels between domestic and foreign enterprises.

Table I.V: Average monthly wage rates in foreign and domestic garment firms by skill level in 2000 in US$

	Foreign	Domestic	Difference
Unskilled	66.5	59	7.5
Vocationally trained	77	63	14
Technicians	123	79	44
University-educated	279	110	169

Note: VND to US$ exchange rate as of 31 December 2000. Oanda.com.

Source: Vietnam Institute of Economics, 2000.

While there is some integration of textile and garment production in SOEs (in which finished textiles are, however, of low quality), it is very limited in the private and foreign-owned sectors. While the private garment sector contributes around 20% of the garment sector's total sales, it accounted for less than 10% in the textile sector in 2000.

Table I.VI: Number of garment/textile enterprises in Vietnam by region (2001)

Region	SOE	Private	Fdi	Total	VITAS Members
The North (28 provinces/cities)	140	106	39	285	112
The Middle (7 provinces/cities)	30	19	9	58	27
The South (26 provinces/cities)	61	324	303	688	312
Total	231	449	351	1,031	451

Source: VITAS, 2002.

Table I.VI shows the geographical distribution of textile and garment enterprises in 2001, of which the vast majority were located in the south, more precisely in the HCMC area (VITAS, 2002). It should also be noted that SOEs are mainly located in the north.

Clothing exports

Vietnam has become a leading exporter of textiles and garments, the export value of the two sectors (the vast majority being garments) increasing from US$1.15 billion in 1996 to US$4.8 billion in 2005 (see Table I.VII). Thus, textiles and garments now account for 15% of the country's total exports, making it the second largest export sub-sector after crude oil. Export garments for the major markets are mainly wovens (see Table I.VII), and largely standard items such as jackets, trousers, coats and shirts (MPDF, 1999; Nadvi and Thoburn et al., 2004).

Table I.VII: Vietnam's textile and garment exports, 1997-2005 (US$ million)

Year	1997	1998	1999	2000	2001	2002	2003	2004	2005
Value	1.502	1.450	1.747	1.892	1.975	2.781	3.686	4.386	4.810
Annual growth rate (%)		-3.46	20.48	8.30	4.39	40.81	32.54	18.99	9.67

Source: VITAS, 2006; Vietnam-USTrade, 2006.

A generally underdeveloped domestic textile industry means that Vietnam's garment manufacturers only use an estimated 25% of locally produced materials for export items (Informants 25; 26, 2005). The vast majority of garments exported from Vietnam are produced on cut-make-and-trim (CMT) contracts, where the buyer provides the fabric, accessories and designs. In some cases even cutting is done overseas, leaving simpler and even lower value-adding assembly work to be done in Vietnam. According to MPDF (1999), CMT adds as little as 20% to the value of the final product. Net export earnings only amount to about 25% of the actual value of the CMT products, but although f.o.b. generates significantly higher margins, it is too risky for most private producers in Vietnam.[91] With f.o.b., the producers make the complete garment, source the fabrics and trim. In some cases they also contribute to the pattern design. According to Vinatex (Informant 25, 2005), this corporation and the Ministry of Industry are seeking to change this structure of Vietnam's production through the "Speed-up Development Strategy for 2010". This master plan has two major policy objectives, namely to increase the value-added of the Vietnamese garment industry by shifting from CMT to f.o.b. production, and to increase the domestic content of garment exports through investments in the cotton, spinning and weaving industries. This should supposedly "meet the requirements of the demanding global market" by among other things building textile complexes and upgrading technology, particularly in the weaving, dyeing and finishing sectors.

[91] Potential risks include the rejection of shipments and the cancellation of orders, due, for instance, to delays (MPDF, 1999).

Still, this plan is only in the pipeline, and currently local textile production is not capable of meeting the demands of the global industry. Hence, the Vietnamese government is encouraging imports of fabrics and garment machinery by offering low rates of duty.

In 2001, the EU and Japan were the largest importers of Vietnamese garments, accounting for around 31% and 30% of Vietnam's total garment and textile exports respectively. However, exports to the US have been increasing rapidly since the USBTA, which was followed by a textile agreement in 2003. Garment imports from Vietnam to the US went from an official US$42 million worth of textiles and clothing – of which more than 90% were garments – in 2001 to as much as US$2.74bn in 2005. The opening up of the US market to Vietnamese garments has therefore dramatically changed the relative composition of Vietnam's major export markets. Today, the US market accounts for 57% and the EU market and Japan respectively 17% and 12% of total exports (Vietnam-USTrade, 2006; USITC, 2006; Informant Interviews 25, 26, 2005). Table I.VIII shows the rise in imports of Vietnamese garments (Category 61 and 62) to both the EU and the US from 1996 to 2005. However, exports to the EU appear to be falling.

Table I.VIII: Vietnam's garment exports to the EU and US divided by product type (HTS) (distinction currency US$ million)

	EU (US$ MILLION)		**US (US$ MILLION)**	
HTS	***61***	***62***	***61***	***62***
1996	64.1	305.8	3.6	20.0
1997	80.4	432.9	5.3	21.0
1998	82.7	462.0	7.1	21.0
1999	83.5	445.0	11.1	25.0
2000	99.5	535.3	17.0	30.0
2001	99.3	500.2	21.4	26.0
2002	112.9	527.6	436.5	439.0
2003	102.3	463.0	1,098.0	1,242.0
2004	192.1	667.9	1,084.0	1,422.0
2005	198.1	609.7	1,124.0	1,542.0

Note: Category 61 articles of apparel and clothing accessories knitted or crocheted; Category 62 articles of apparel and clothing accessories not knitted or crocheted.

Note: Exchange rate as of 31 December each year except for 1996 and 1997, which use 31 December 1998, as there was no notation of the Euro before 1998.

Sources: European Commission, 2006; USITC, 2006.

The local clothing market

Vietnam's domestic clothing retail market generally consists of street market stalls and factory outlets, though HCMC and Hanoi have both experienced an increase in clothing shops and department stores recently. There is also a new trend for the few locally owned "own-label" stores to expand to become chains and open stores in the major cities (Informant 25; 26, 2005).

There are quite different opinions – and not many hard facts – about the sources of local market supplies. MPDF (1999) state that 70-75% of the local market is supplied by local (often unregistered) manufacturing enterprises, which mainly produce very basic, low-quality products; 10-15% are informal border-trade imports from China and 5% are legal imports. The reminding 5-10% of the market is supplied by second-hand clothing coming into the country through, for instance, aid projects. During interviews conducted for the present study, owners of registered private enterprises often emphasized that buying power on the domestic market was weak and that the largest part of this market is satisfied by products offered by un-registered household businesses, whereas they themselves usually exported most of their products. Still, a large amount of respondents sold some of their products domestically, mainly to supplement their export earnings with local market sales.

It is interesting to note that more Hanoi enterprise owners in the sample (around 40% in all) sold some of their products on the local market than HCMC enterprises, for which the equivalent figure is only 16-18% of enterprises. Enterprise size is not a plausible explanation for this geographical difference, since most of the sample enterprises in HCMC and Hanoi are of almost similar size. It is particularly surprising that Hanoi enterprises sell more in the local market than HCMC enterprises, since the local market is much smaller in Hanoi than in HCMC. More research into local markets (which is not the main focus of this study) is clearly needed before we can say anything more accurate on this issue, but one reason is likely to be that there is a larger number of foreign investments in the garment sector in HCMC than in Hanoi (VITAS, 2002), meaning that owners of registered private enterprises in HCMC simply depend less on the domestic market than those in Hanoi.

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Appendix II. Interviews guide – Vietnam

1. Types of garments
    - numbers of pieces/models a year
    - length of runs
    - changes within the last 5 years
    - brand names etc

2. Market destinations
    - (shares to) Vietnam, Asia, EU, eastern Europe, US, other
    - changes since the Doi Moi

3. Parts of the production process
    - design/styling, weaving/knitting, assembly, finishing, marketing
    - % of CMT/f.o.b.
    - use of technologies and origin of these in the processes

4. Buyers of the different products
    - shares to SOEs, (local or foreign) contractors, retailers etc
    - names and location of buyers
    - trade, subcontract, other forms of networking
    - involvement of other intermediaries

5. Textiles for the different products
    - % of domestic/imported textiles
    - shares from SOEs, (local or foreign) contractors, retailers etc
    - involvement of other intermediaries
    - quality, prices etc

6. Other kinds of supply
    - type of supplier
    - origin of supply
    - approximate share of the total inputs/expenses

7. Relation to the different buyers/suppliers
    - establishment/cultivation and duration
    - formalisation/personalisation
    - Preferences, plans and possibilities to sell/buy through other channels

8. Personal background
    - ethnicity; Chinese speech group
    - place and time of birth
    - education, training, autodidact
    - study or work abroad before 1991
    - previous experience in garments

9. Enterprise establishment
    - registration; later changes in non-state ownership forms

- main person responsible for the establishment
- ownership
- names and number of shareholders/owners/members
- ethnicity, family, relatives, *Viet Kieu/Hoa Kieu**
- present/former legal connections to SOEs, central, provincial or local governments, government-affiliated organisations
- other companies owned by the manager/family (industrial sectors)

10. Employees
    - core and seasonal workers, ethnicity, gender, unskilled/skilled
    - opinions on labour law, accessibility to labour, costs
    - employment/positions of kin/non-kin managers

11. Land and buildings
    - ownership of buildings; land-use-rights
    - cost/rental
    - reasons for location and relocations
    - export license, other license
    - allocated quota - MoT/Peoples Committee
    - Informal quota trade

12. Finance of enterprise establishment and other investments
    - support from state organisations, aid organisations
    - family/friends, Viet Kieu/Hoa Kieu
    - bank loans (name of bank)
    - *hui* (relation to other participants)/black market
    - pawning, interest rates and terms of loans

13. Co-operation with other non-state firms
    - purposes
    - non-kin/interethnic relations
    - north/south co-operation

14. Rules of co-operation with other non-state firms
    - duration of (interfirm and personal) relations
    - degree of formality
    - credit in transactions (rules; interest rates; numbers, kinds and size of transactions)
    - mutual obligations and possibilities for sanctioning

15. Membership of associations
    - name and kind of association (professional, informal, non-state/state)
    - purposes and gains

16. Opinions on the regulation of the non-state sector
    - particularly good/bad regulations
    - improvements during recent years; new Enterprise Law
    - implementation
    - frequency and purposes of visits by local, district and government officials

17. Establishment of personal relations/affiliation to the Vietnamese state
    - Communist Party membership
    - Former or present employment by the government
    - military service
    - participation in charity etc
    - other

18. Nature of relations
    - kinds of officials
    - duration and cultivation
    - purposes
    - mutual obligations

19. Future strategies
    - expansion/diversification
    - f.o.b.
    - relocation
    - new markets (Vn-Us trade agreement)
    - incentives and barriers

* Overseas Vietnamese/Overseas Chinese
** Rotating credit institutions

Appendix III. Interview guide - Scandinavia

1. Your general views on the main tendencies in the Scandinavian clothing market, and their significance for your company

2. What have been the main changes in your company's supply geography over the last 5 years (divided in relation to specific products)?

3. What are your criteria for selecting new supplying countries?

4. Indicate the structure of your supply intake according to the following type of supplier: manufacturers (CMT/f.o.b.), importers, other type of trading houses and local agents (the rational for this division)

5. Changes in number of suppliers

6. Expectations in relation to suppliers, and division of labour with suppliers (responsibility for design, responsibility for sourcing of cloth and fabrics, inventory management, multi sourcing, replenishment, type of relation with suppliers you would characterize as partnership)

7. Criteria for choosing between suppliers in developing countries (contact channels)

8. Advantages/disadvantages of different sourcing methods

9. Supplier monitoring procedures where applicable

Strenght and weaknesses of suppliers in South Africa, Vietnam and Mauritius

Appendix IV. Respondents (private enterprise owners) in Vietnam

1-20:	Vietnamese in Hanoi
21-33:	Vietnamese of southern origin in Ho Chi Minh City
34-44:	Vietnamese of northern origin in Ho Chi Minh City
45-68	Vietnamese Chinese in Ho Chi Minh City

No.	No. of workers	Ownership form	Former state employments / state relations
1	250	Ltd	Former SOE employee
2	200	Ltd	Respondent former position in a ministry
3	150	Ltd	None
4	50	Ltd	None
5	70	Ltd	None
6	50	Ltd	Father has position in a ministry
7	500	Joint Stock	Company former SOE Respondent former SOE position
8	200	Joint Stock	Company former SOE Respondent former SOE position
9	250	Ltd	None
10	50	Ltd	None
11	50	Ltd	None
12	200	Ltd	Company formerly under the Youth Union
13	400	Joint Stock	Respondent former SOE employee Company former cooperative
14	150	Ltd	Former position in Vinatex
15	150	Ltd	None
16	90	Ltd	Company former cooperative Respondent former SOE position

No.	No. of workers	Ownership form	Former state employments / state relations
17	400	Joint stock	Company former SOE
18	30	Ltd	None
19	500	Ltd	Respondent still holding SOE position
20	350	Joint stock	Company former SOE Respondent former SOE position
21	250	Ltd	None
22	70	Ltd	None
23	150	Ltd	None
24	300	Joint stock	Company former SOE Party member
25	300	Ltd	Party member Respondent former SOE position
26	60	Ltd	None
27	170	Ltd	None
28	1000	Ltd	Co-owner with former SOE position
29	50	Pte	None
30	200	Ltd	Former ward committee chairman, former SOE position
31	50	Ltd	None
32	70	Ltd	None
33	1700	Ltd	Company containing unknown amount of state stock
34	300	Ltd	Former SOE position
35	250	Ltd	Party member Company former cooperative
36	430	Ltd	Respondent former SOE position
37	500+	Joint stock	Respondent former SOE position
38	30	Ltd	None
39	1400	Joint stock	Former government position; party member
40	800	Ltd	Close relative of person with former government position
41	200	Ltd	Former position in Youth Union
42	600	Joint stock	Company former SOE (still containing state stock)

No.	No. of workers	Ownership form	Former state employments / state relations
43	200	Ltd	Former government position
44	60	Ltd	None
45	70	Pte	None
46	50	Ltd	Company former cooperative
47	140	Ltd	None
48	50	Ltd	None
49	80	Ltd	None
50	40	Ltd	None
51	75	Ltd	None
52	300	Ltd	None
53	350	Ltd	Former position in SOE which was a nationalised private enterprise
54	2500	Ltd (partly nationalised recently)	None
55	250	Ltd	None
56	70	Ltd	Company former cooperative
57	60	Pte	None
58	30	Pte	None
59	200	Ltd	None
60	250	Ltd one owner	None
61	20	Pte	None
62	150	Ltd	None
63	120	Ltd	None
64	150	Ltd	None
65	350	Ltd	None
66	300	Ltd	None
67	150	Ltd	None
68	117	Ltd	None

Appendix V. Key informants - Vietnam

2000-2001:	
1	Garment 10, SOE, Hanoi
2	Jensmart, HK sourcing agent, Hanoi
3	Hanoi People's Committee, Hanoi Authority for Planning and Investment (HAPI), department for SMEs
4	Mekong Programme Development Facility, Hanoi
5	Danida's PSD Programme
6	B&H investment, Hanoi
7	Phan Viet Muon, National Steering Committee for enterprise reform and development, Hanoi
8	Shortcut Partners, Danish sourcing agent, Hanoi
9	Vietnam Cooperative Alliance, Hanoi
10	Tien Bo, PE specialized in accessory sourcing, Hanoi
11	Planning and Marketing Department, Vinatex, Hanoi
12	Import-export department, Vinatex, Hanoi
13	Youth imp/exp co, SOE, Hanoi
14	Women's business club, Hanoi
15	Fashion Force Ltd, HK agent for Japanese Miteigho Group, hcmc
16	Passport Fashion, subsidiary of Japanese Marubeni group, HCMC
17	The Garment Association in HCMC
18	Terrific Garments, US Viet Kieu investor, HCMC
19	Tran Hoi Sinh, Union of associations of industry and commerce, HCMC
20	Phan Anh, researcher specialized in the Chinese community in HCMC
21	Vinh Loc Industrial Park, HCMC
22	Cholimex, SOE, HCMC
23	Mr Y, Former private garment enterprise owner; former leader of the HCMC garment association and Vietnamese Chinese informal associations
24	Conference: Cooperation to accelerate investment in and export of Vietnam's clothing sector, HCMC
2005:	
25	Ngo Quang (le Quoc An secretary) Vinatex
26	VITAS

Appendix VI. Respondents (wholesalers/retailers) in Scandinavia

1	Bilka, supermarket
2	Magasin, department store
3	IC Companys, chain
4	Bestseller, chain
5	Noa Noa, chain
6	Fransa, chain
7	H & M, chain
8	G-Kås, hypermarket
9	New Wave, workwear distributor
10	Lindex, chain

Appendix VII: Scandinavian retailers' perceptions of Mauritius, Vietnam and South Africa

Mauritius

Although five of the ten companies interviewed had sourced from Mauritius in the past, in all except one case this had ceased before the interviewee had joined the company.

The one company (a mid-market chain) still sourcing from Mauritius stated 'they've been dependent on Lomé, they're not especially cheap and the lead times are long. We think that the firms there have high overheads. The firms that we're working with there have very high proportions of foreign contract labour and it makes us nervous. There's some kind of campaign around it in the US. So now we're cautious about it, although it's a good base to explore other places from'.

Another company had undertaken a serious survey in Madagascar ('Mauritius's backyard'): 'we found it expensive, we found long lead times and most capacity was booked for the US. We needed suppliers who could come on stream in a hurry. The file is now closed.'

Vietnam

Seven of the 10 companies interviewed had sourced some garments from Vietnam and a eighth was considering doing so. A ninth had considered doing so but then rejected the idea: '(we understood that) the prices aren't any better than Bangladesh, the quality is low and that they are interested mainly in big volumes.'

Of the seven companies which had sourced there, none were greatly enthusiastic. Two had withdrawn completely and a third had decided not to follow-up a trial order. Reasons given for withdrawal were in one case that the quota system worked poorly and in the other that 'it isn't as competitive as other Far Eastern markets'. Two of the three companies for which Vietnam remained an origin were sourcing through Hong Kong companies with capacity located in Vietnam for quota reasons. They sourced from these companies ('their quality is the same wherever they do it') rather than from Vietnam as such, and one was sceptical whether the industry would remain there after the abolition of the quota system.

South Africa

Only one company had any knowledge of the South African market. Two others commented on the complete lack of enquiries received from suppliers there and another mentioned that Africa generally was uninteresting to them for reasons of political instability.

The company with knowledge of the market had done a survey and placed trial orders, both in South Africa itself and in Botswana. These countries were being considered as sources of supply for the company’s US rather than European stores, but Mexico was being considered much more seriously. Mexico had a very clear advantage in terms of lead times, while South Africa and Botswana ‘don’t offer us much at all, either on price, lead time, quality or fashionability. They are bad on all four…We’re still looking at it…We’ll follow it, we’ll give them some more small orders but we won’t open an office there, at least not yet…’