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**TRIANGULAR MANUFACTURING AND
UPGRADING STRATEGY OF VIETNAM'S CLOTHING INDUSTRY
IN THE POST-MULTI FIBRE ARRANGEMENT**

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COMMENT WELCOME

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Abstract

Four months after the phase-out of Multi Fibre Arrangement, the world has observed the spreading of China and India garments over the leading markets. For garment developing country exporter like Vietnam, its market share squeezed is undoubted. This paper uses a global value-chain framework to explore the nature of ties and dynamic change in triangular manufacturing resulted by the post Multi Fibre Arrangement. The paper argues that moving forwards to FOB is a strategic trajectory for Vietnam's clothing industry; and the free-quota regime may restructure the sourcing pattern of final foreign retailers, which creates new upgrading opportunities for Vietnamese clothing producers.

1. Introduction

The garment and textiles industry is one of the oldest and largest export industries in the world. The industry has typical characteristics of starter industry for countries engaged in export-oriented industrialisation. These characteristics are relatively low investment requirement, high export earning, large-scale unskilled labour absorption and technological upgrading contribution. Historically, the industry played the leading role in East Asia's early export growth. It now is a vital industry for economic development in many less developed countries including Vietnam.

The development of Vietnam's textiles and garment industry has directly contributed to the welfare of Vietnamese society. In 2003, the textiles and garment industry itself generated 25 percent of total industrial employment- at about 2 million unskilled job-most of them are women from rural areas, contributed 10.5 percent of the country's manufacturing output and 14.5 percent of the country's exports¹. The industry is one of the major sectors offering the possibility to further alleviate poverty in Vietnam. The national strategy has set up ambitious objectives to reach at US\$ 8 billion of export earning and to create 4 million jobs in the year 2010 (Decision No 55/2001/QD-TTG).

However, the Vietnamese industry faces a great challenge with the phase-out of Multi Fibre Arrangement (MFA). The free quota system applicable for WTO members under the WTO Agreement on Textiles and Clothing has changed the driving factor of garment exports from quota access to competitiveness. The change creates prospects for giant competitive exporters such as China and India but threatens all developed and developing countries, especially less developed countries depending overly on quota driven garment exports. As Vietnam is not a member of WTO, it is still subject to be restricted by quotas. All research on the Vietnam industry has predicted that Vietnam will lose out.

The impact of the MFA on Vietnam's clothing industry is severe, undoubtedly. However, the free-quota regime may provide new opportunity for Vietnamese producer as well. This indeed happened to a Vietnamese firm in my survey. *Just after the abolition of the quota regime, this company received an FOB² contract from an EU superstore. The EU superstore has bypassed a Korean trader and ordered directly to the company.* This case is really meaningful in the Vietnamese industry as

¹ http://www.dei.gov.vn/contents/c_vietnam/d_nlhn/b_C/200407290345/view and General Statistics Office (2004) Statistical Yearbook 2003

² FOB and CMT types are explained in the following section.

firstly CMT² type is dominant and secondly upgrading to FOB is determined as the national strategy for long term development of Vietnam's textiles and garment industry (Decision No 55/2001/QD-TTG).

The purpose of this paper is to analyse strategic upgrading paths of Vietnam's garment industry and theoretically possible impacts of the post-MFA on Vietnam's clothing producers in the context of industrial upgrading. As the clothing industry is extremely heterogeneous in terms of the players involved so the paper narrows the focus to Vietnamese owned – medium size garment manufacturers including state owned and privately owned firms. It is worth noting that Vietnam's clothing industry upgrading to FOB is controversial among economists and policy-makers. Hence, the paper expects to contribute to knowledge in making policies on Vietnam's clothing and textiles industry.

The paper is organised as follows. The following section introduces the global value chain approach on upgrading of developing country producers in clothing. Section three draws main features of Vietnam's textiles and clothing industry in relation to industrial upgrading context. Section four contributes to a debate on upgrading trajectory in the Vietnam industry. Section five discusses upgrading opportunity of Vietnamese clothing producers in the free-quota regime. The paper concludes with implications for strategies and policies on the Vietnamese clothing industry. A case-study and Alliance Policy are included in the Appendix A and B respectively.

2. Global Value Chain, Upgrading Trajectory of Developing Country Clothing Producers in Triangular Manufacturing

One important focus of the global value chain theory is on dynamic governance ties among firms within a global chain. In value chains, there are some firms so called lead firms who set up and enforce parameters to coordinate participating firms along the chain so as to ensure the quality, cost and time delivery of products. Lead firms also influence the income distribution among participating firms. In general, upgrading of participating producers is seen as their endogenous efforts but is influenced by other actors such as lead firms as well. In clothing value chains, lead firms often are foreign buyers and global clothing value chains is typical of buyer-driven chain (Gereffi, 1994, 1999).

i) Upgrading of Developing Country Firms in the Supplying Relationship with Foreign Buyers.

The relationship between developing country firms' upgrading and supplying for foreign buyers can be seen in various perspectives. Becoming suppliers for foreign firms on the one hand forces local firms to improve their product quality, price and time delivery and other aspects required by their buyers; on the other hand it provide opportunities for producers to obtain buyers' support to upgrade. Gereffi (1999)'s study on clothing industrial upgrading experience in East Asia concludes optimistically that local producers who gain access to the chain will have upgrading prospects within production and subsequently move into design, marketing and branding. The producers on the one hand can improve their capacity through learning

by exporting to foreign buyers. On the other hand, they can move upward to new value added activities following the successful upgrading of global buyers, which is termed as “organisational succession” (Gereffi et al.).

However, it can be expected that insertion into the chain does not ensure upgrading of local producers. Humphrey and Schmitz (2004) assume that foreign lead firms will not provide support for local firms as long as they do not get benefits from that. In a study on unsuccessful upgrading experience of Mauritius’ clothing industry, Gibbon (2000) points out that foreign buyers did not always provide support for upgrading of local producers. Even, African furniture firms were trapped in low-value added processing activities and were forced to lower unit prices (Kaplinsky, Morris and Readman, 2001). To sum up, upgrading of local producers are depends to a certain extent on foreign lead firms.

This conclusion then can be inferred that different objectives and characteristics of foreign lead firms can influence differently on upgrading of developing country manufacturers. But most empirical research on industrial upgrading of developing country enterprises only take into account final foreign sellers and overlook the role of first tier suppliers though Gereffi (1999) has identified the presence of the first-tier suppliers in a “triangular manufacturing”. First-tier suppliers from Hong Kong, Taiwan and Korea so-called Asia traders receive orders from final foreign retailers and then undertake several tasks in sourcing, coordinating, organising garment manufacturing in low-cost countries and shipping to final retailers. In other words, they act as middlemen between final developed country sellers and developing country assemblers in the value chain. How these middlemen involved in upgrading of developing producers is discussed right after reviewing upgrading trajectory of garment producers and Vietnam’s garment industry.

ii) *Upgrading of Developing Country Producers in Clothing Value Chain- Global Value Chain Approach*

The global value chain theory suggests four possible upgrading strategies based on the successful East Asia experience 1) *Process upgrading*: firms transform inputs into outputs more efficiently by enhancing production process, investing in new machinery and technology and improving special technical skills. 2) *Product upgrading*: firms shift from simple products to more sophisticated products, from mass products to standard/niche products, from cheap to expensive products. 3) *Functional upgrading*: firms acquire new and higher value-added activities and/or outsource low value-added activities. 4) *Inter-sectoral / Inter-chain upgrading*: firms applying the competence acquired in a particular function to move to new products/sector which require more comprehensive production skills and functions (Humphrey and Schmitz, 2000).

In application for clothing industry, a starting and simplest mode in upgrading ladder of developing country producers is cut-make-trim (CMT) type. In short, CMT is a production contract that developing country producers mainly undertake cut, make and trim. The production process and quality control are often monitored by foreign buyers’ expatriates. All front-end (designed materials, components) and back-end (distribution, marketing) activities are provided by buyers.

The next upgrading step is FOB. FOB contract increases producers' responsibility in production process and material purchase. Foreign buyers provide designs while producers source all materials and components, organising production and examining quality of final products. Therefore, FOB contract requires CMT garment producers' significant upgrading in process, product as well as functional upgrading. In reality, there are various types of FOB contract depending on buyer-producer negotiation for instance foreign buyers may require producers to purchase inputs from specific suppliers in order to ensure the quality or buyers can be in charge of packing and labelling. Compared with CMT, FOB producers can attain higher profit but face higher risk.

Full package arrangement is a higher upgrading step, in which firms provide clients a full package of services from buying raw materials to planning production and monitoring manufacturing packing and shipping. Sometimes, full package arrangement firms also contribute in design. In that case foreign buyers conduct market research, making a sketch and collaborate with these firms in designing. Full package arrangement is a typical type of Asia traders acting as first tier suppliers for final developed country sellers.

The highest degree of upgrading ladder is own brand manufacturing contract. A typical characteristic of this contract is that firms sell products under their own brand-name. These firms therefore are in charge in conducting market research, design, organising production, distributing to foreign outlets, and marketing. These firms often focus on their core- competencies and outsource low –value added activities- such as assembling to low cost producers.

3. Main Features of Vietnam's Textiles and Clothing Industry in Industrial Upgrading Context

Vietnam's textiles and garment industry is the most incredible export growth among the country's export-oriented industries. The industry's export earning has grown dramatically from US\$ 1.9 billion in 2000 up to US\$ 4.3 billion in 2004³. The industry has employed about 2 million workers. There are over 1100 companies operating in the industry, in which state owned enterprises accounted for 21 percent, foreign-invested companies and private/joint-stock/ limited liability companies contributed 33 percent and 46 percent respectively (EU, 2004). The private sector plays an important role in the industry as it has contributed for about 40 percent of the country's total textile production and about 75 percent of garment products (EU et al.) but this is considered as the most vulnerable sector in the post MFA.

The dramatic export growth of Vietnam's textiles and garment industry has been a result of a set of macro policies: Renovation Reforms remarked by openness in trade regimes (Nadvi and Thoburn et al., 2004a), several industry-specific policies (Institute of Economics, 2001), and significant domestic and foreign investment on the industry (VINATEX, 2000; Nadvi and Thoburn et al., 2004a). Also, the textiles and garment industry has benefited from the bilateral trade agreement between US and Vietnam signed in 2001. The value of garment exports to US market has increased dramatically from US\$ 48 million in 2001- before the agreement- up to US\$ 2,380 million in 2003 and it is the most successful industry exporting to the US (CIEM- STAR Vietnam, 2004).

³ Source: Vietnam Textile and Apparel Association's report of the year 2004

However, the Vietnam industry has several features that directly and indirectly hinder the industrial upgrading. Firstly, the textiles sector is not able to serve garment exporters' requirements in terms of quality, variety of products and costs. This is the main concern of clothing firms on upgrade trajectory into FOB since materials and accessories required are not available in the domestic market or even prices are higher than importing from Chinese producers. It is a major reason for low local value added in final clothing products. Secondly, the garment sector has biased for exporting (Nadvi and Thoburn et al., 2004a: 253), and neglected the domestic market which its value is estimated at US\$ 1 billion for Chinese garment. The domestic market can be a laboratory for Vietnamese exporters to learn by practicing high value-added activities such as market researching, designing, marketing, branding and distributing that are unattainable through working with foreign buyers. Learning by doing in the domestic market is fundamental for indigenous producers moving forwards in global value chains.

In terms of market structure, the industry's exports have concentrated highly in US market, which accounts for over two thirds of the industry's total export value. In 2004, clothing exports under free-quotas reached US\$ 1.38 billion⁴ reflecting to some extent of the industry competitiveness (Nadvi and Thoburn et al.,: 255) . However, in terms of upgrading trajectory the clothing industry stands in the lowest upgrading level, which can be seen by the majority of assembling or CMT contract in the industry. Goto's study (2002) estimates the proportion of CMT contract value in total export earning was 95 percent. Moreover, the industry is dominated by Asian traders as the export value through Asia buyers accounted for up to 80 percent of the industry export value (Institute of Economics, 2001).

In policy perspectives, the Government has issued various policies to promote the industry development. The Development Strategy of Vietnam's Garment and Textile Industry up to 2010 proved by the Prime Minister in Decision No 55/2001/QĐ-TTĐ dated 23 April 2001 provides the long-term development plan for the industry, which identifies shifting to FOB type as the industrial upgrading strategy. The national strategy targets the proportion of FOB export value in total garment exports will reach 50 percent by 2005 and 75 percent in 2010.

In order to cope with the challenges of the post MFA, Vietnam has successful negotiations with Canada and EU to abolish quota restriction on Vietnam's garment and textiles exports. Moreover Vietnam accelerated negotiations for being a WTO member by the end of 2005. For US market – the biggest export earnings but still imposing quota on Vietnam's exports, the Government has reduced and abolished quota fee on "hot" categories (Decision No: 79/2004/QĐ-BTC of the Ministry of Finance dated 11 October 2004), allocated quota automatically on orders purchased by US giant buyers (Several announcement of the Ministry of Trade to automatically issuance for US giant clients, for instance Announcement No: 0213/TM-DM, February 4th, 2005); and especially promoted alliance formation among firms.

The Alliance Policy regulated by Inter-Ministry Decision No: 04/2004/TTLT/BTM/BCN of the Ministry of Trade and the Ministry of Industry

⁴ Exports to Japan reached US\$ 530 million, non-quota exports to US market valued US\$ 800 million and to EU market US\$50 million (Source: calculated from Ministry of Trade's report and VITAS report)

dated 28 July 2004 and Detailed Guideline Decision No: 0319/TM-DM of the Ministry of Trade dated 11 March 2005 promotes alliance formation among clothing firms. The policy is seen as a breakthrough for developing Vietnam's garment and textiles industry but face some challenges that are discussed in the conclusion. Major points of the Decision No: 0319/TM-DM are reprinted in Appendix B.

4. Upgrading from CMT to FOB and Dynamic Roles of Asia Traders in the Vietnamese Clothing Industry

Moving forwards to FOB is planned as the strategic upgrading of Vietnam's garment industry. However, some economists disagreed with the upgrading strategy. Ohta and Goto (GRIPS) argue that "More FOB should not be the policy objective..." as FOB does not reflect "the content ratio of domestic input materials" and shifting from CMT to FOB "does not necessarily guarantee increased value-added and competitiveness". In addition, Goto (2002) assumes that CMT is more suitable for the Vietnamese industry as it provides stable revenue and low risk for indigenous producers. Le et al.'s study (2003) and Institute of Economics (2001) support for the notion of the CMT suitability in the Vietnamese industry. Basing on cost analysis of Vietnam's garment and textiles firms they argue that "there is no evidence that CMT firms are systematically less profitable than firms that export on FOB basis" (Institute of Economics, 2001:32).

Their arguments nevertheless have an important shortcoming as they have not taken Asia traders into consideration. Firstly, Asia traders specialise in global and regional coordination in production, in logistics and in sourcing management. Under the quota regime, they organise a geographically dispersed manufacturing network to obtain quotas availability, low production costs and short lead time. The network is often structured as a hierarchy. Taking Hong Kong' network for an example, a hierarchical network comprises home-factories, auxiliary factories, reliable sub-contractor factories and low cost country producers (Weller, 2003). In which, low cost country producers obtain the least priority of allocating orders for full capacity operation as well as for high technical and fashion oriented orders. Consequently, low cost country producers will be the most vulnerable if any changes impact on Asia traders.

Secondly, it is no double that low cost country producers will be stick to CMT contract when working with Asia traders. Nadvi and Thoburn et al. (2004b) identify that sourcing of fabrics is a profitable function in garment value chain. Likewise, Knappe (2005) considering clothing cost composition points out that material sourcing is the most profitable activities in cost of finished production⁵. Cost of finished production includes cost of production (CMT contract), cost of sourcing textiles and accessories, overhead cost and profit. Asia traders by no mean provide any chance for CMT producers to move to FOB to threaten their profitable activity.

Thirdly, the major competitive factor of CMT producers is low production cost including low labour and administration cost and tiny profit. CMT producers

⁵ Knappe et al. provides an example of the sourcing profitability based on real cost figures of a Bangladeshi company producing a dress shirt exporting to the US market: a 10 percent reduction in the supply cost of materials and components will generate 60 percent increase in gross profits without increasing sales.

contribute low value added on final products, even their production process and quality control are monitored by foreign buyers' specialists. Hence, it is no surprise that indigenous producers are as "passive" in production as they do not know where their products will be sold (Nadvi and Thoburn et al.,2004b: 116). Moreover, there is relatively low barrier of entry for local CMT suppliers to enter production networks but on the other hand foreign buyers are easily to shift to a lower cost producer despite of specific-relationship they may invest in. The entry of lower-cost producers will provide opportunity for buyers to put pressure on existing producers for further reduction in production cost and profit. This trajectory is so called "race to bottom" and it is a "low road" growth of developing countries (Kaplinsky and Readman, 2001).

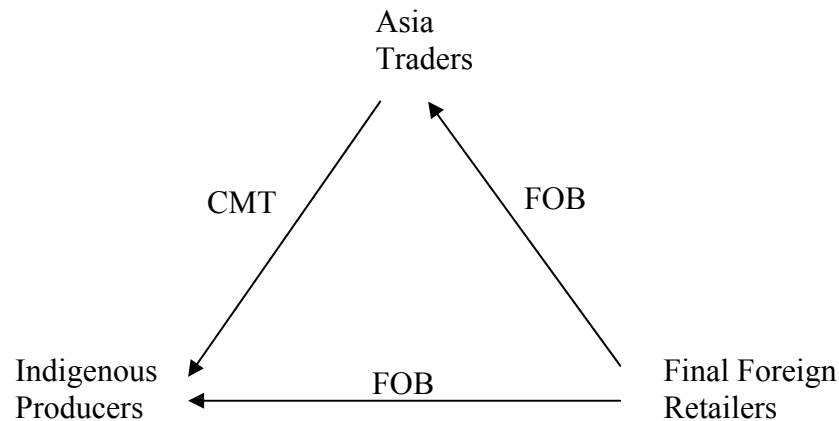


Figure 1: Triangular Manufacturing and Production Types

The last argument is on the relationship between contract type and domestic textile industry development. FOB producers have more of a tendency to source locally than CMT producers do. Firstly, FOB producers have the right to purchase inputs while CMT producers do not. Secondly, with FOB contract, indigenous producers tend to source local rather than purchase from abroad if materials needed are available in the domestic. Purchasing from domestic suppliers is more efficient than from foreign firms as domestic service links are cheaper than international ones and close proximity helps both producers and suppliers coordination and response faster and more efficiency (Jones and Kierzkowski, 2001; Deardorff , 2001).

To sum up, there is no doubt that Asia traders have played important role in linking Vietnamese producers to global retailers, which is the way to help the producers inserting into regional and global production networks. With CMT tasks, garment firms are relatively easy to enter the production network and face minimum risks. They also improve to a certain extent their design and production capacities through cooperating with foreign buyers in making counter-sample and technical assembling. Technical specialists from traders are direct channels to transfer management skills, quality controls and technology advices for local partners. These benefits are only gained through working with Asia traders. However, being tied up with a CMT contract is a potential threat for Vietnamese producers.

5. Possible Impacts of the Post MFA on Upgrading of Vietnam Clothing Industry

A successful upgrading case-study in the free-quota regime may not provide any empirical argument, but this can provide a theoretical reasoning on the possibility of the post-MFA impact on upgrading of Vietnamese producers.

It is definitely true that the new rule has influenced all actors in the game. The free-quota regime has changed the business relationship between final foreign retailers and Asia trader, for instance foreign retailers no longer needs the Asia trader's *expertise in quota-related management and production*. Under the quota regime, undertaking a large volume order and short lean time requires substantial tasks such as dividing large order to several small ones, then outsourcing to low cost country factories that meet requirements particularly in quota availability, low production cost, quality and quick delivery. Apart from these, purchasing materials and accessories and shipping to each subcontractor, controlling quality, packaging and finally delivering to foreign buyers are some sketching tasks. Implementing these requires resources and expertise that neither foreign retailers nor producers can carry out. This is a reason that traders participate in the value chains and take profits for doing that. The free quota regime eliminating quota-related tasks makes garment production less complicated and undermines the role of traders.

On the foreign retailers' side, the free quota regime may change final foreign retailers' outsourcing pattern. As quota-related tasks are no longer matters, the retailers are aware that business coordination in clothing manufacturing is simpler to the extent that they and developing country producers can handle. As a result, bypassing traders is a way to optimise their profits⁶ and lead time. If this is so, then it is an important argument for upgrading strategy of developing country in the post-MFA by shaping marketing strategy towards final foreign sellers.

6. Conclusion and Implication

The paper has major limitations as the possibilities for upgrading may differ a lot among retailers, different traders and producers, and needs further research on that. However, the paper concludes that upgrading to FOB is a crucial strategy for the development of Vietnam's textiles and clothing industry. Moving towards FOB is a strategic road for producers to enhance their competitiveness and ensure their sustained growth. In the upgrading paths, Vietnamese producers should foresee opportunity of gaining benefits and possibility of being blocked from foreign buyers. Impact of the phase-out of MFA on Vietnam clothing exports is more serious because of Asia traders as well. The free-quota system influences Asia traders and their manufacturing source network will be restructured towards less proximity, fewer manufacturing sources and larger production capacity. Thus, the predominance of Asia traders in the Vietnam industry could be a factor amplifying the lose-out of the Vietnam industry.

However, impact of the phase-out of MFA on Vietnam should not be seen only as threats. As regional quota-related sourcing and management tasks is no longer needed in global clothing value chains, the entry barrier to FOB is relatively *lower* to a level

⁶ Retailers can gain more than such commission cost, they can gain a part of sourcing profit done by developing country producers as well.

that can be reached out by developing country producers. This is probably a new upgrading opportunity for Vietnam producers in the post-MFA.

In implication to Vietnamese firms in FOB upgrading context, first and foremost they have to improve production productivity (process upgrading) and to determine their dynamic products (Knappe, 2005) (product upgrading). Next, enhancing production capacity and developing international materials and accessories sourcing skills are essential strategies. Since quota accessibility is no longer a matter, larger production capacity is a condition for producers to serve final retailers' orders that are often large volume and shortening lean time. Moreover, business leaders should not let the underdeveloped domestic textiles industry hinder their upgrading. Rather, inputs sourcing should be at regional scope in order to enhance their competitiveness in production flexibility and stability. It is even more important for Vietnam's producers in the post- MFA if EU's rule of origin applying for ASEAN clothing exports will soon come true⁷.

In the government policy perspective, the Alliance Policy to promote alliance formation among garment producers is an innovation policy to enhance production capacity and improving competitiveness of Vietnam's garment industry in short time. In theory, alliance formation can enable each member to access each other resources and capabilities, and then creates resource accumulation. By collaborating in input purchasing, supplier seeking, cross and joint manufacturing, member firms can share information, risks and costs and enhance their production capacity in short time without large investment requirement (Parker 1998).

However, there are doubts on the efficiency of the alliance policy in many aspects. In considering FOB upgrading strategy, alliance formation should be promoted for exporting not only to US market but also to other leading markets. Forming alliance encouraged mainly by quota allocation (3.5% of total quota to US) seems to be not really encouraging alliance formation widely. It is simply that increase of number of firms joining alliance as well as of number of alliances will smaller quotas share they can get. Private firms, the most vulnerable private are not specifically encouraged to join the alliance. The incentive does not encourage industry-related firms such as textiles firms, forwarding, shipping, banks, designing and research institutions participating in the alliance. Last but not least, vague alliance criteria creating a chance for firms to attain quota benefits by fraudulent alliance form and costly administration to monitor alliances undermine the policy efficiency.

In theory, there are several impediments for alliance formation that is not easy to solve out in Vietnamese socio and culture characteristics and insufficient fundamental institutions. For instance, trust is essential social aspect for collaboration among members. Tension on benefits among alliance members such as profit, market share, core competencies, know-how etc. is also a potential issue for alliance existence and growth. Therefore, promoting alliance formation requires and further comprehensive study on alliance model that are relevant for Vietnam's garment firms.

⁷ <http://www.vneconomy.com.vn/eng/index.php?param=article&catid=0605&id=050512173410>

Appendix A:

1. The research

The paper is a part of my PhD work on upgrading of Vietnamese owned producers in supplying linkage with foreign buyers. The global value chain theory is used to analyse the dynamic links among producers and buyers in the context of industrial upgrading.

In clothing industry, the study narrows the scope on Vietnamese firms with the supply linkage with EU buyers

Major criteria to select candidate firms are

- i) Garment privately and state owned manufacturers
- ii) Middle or above production scale
- iii) Over 30 percent of export earning from EU market
- iv) I have good relationship for increasing opportunities to access to the most recent issues: especially on strategies, and foreign relationship with foreign buyers.

The interviews are conducted in factory visits in July and August 2004- 4 months before the phase-out of Multi Fibre Agreement

The interviews are repeated in May and June 2005 to analyse changes in the post MFA.

2. The case-study

The respondent currently holds the position of project executive. She has been working for the company since 2001 right after Bachelor graduate of Distinction Award from the National Economics University, Hanoi, Vietnam.

i) Company profile (Interviews in July 2004)

The company entered the garment industry as trader in 1991. It was in charge in collecting orders in Eastern Europe market, subcontracting in Vietnam and then shipping to the foreign market.

In 2001, the company established a factory with total capital investment of US\$ 4 million. The factory is located in a provincial industrial zone- 130 km South of Hanoi Capital.

In July 2004, 1500 workers and 70 managers and business staff were working in the factory and an office in Hanoi. Its main products are trousers, jeans, vests and jackets, t shirts, polo shirts and sport wears. In terms of market proportion, exporting to EU market accounted for 40 percent, US market 45 percent and domestic market 5 percent. Their products are branded as C&A (UK), M&S (UK), S4 (Germany) and JC Penny (US).

In terms of contract types, most orders were CMT contracts. Some orders were CMP, which the company provided packing. Some orders required thread. For the question of CMT/FOB proportion, she responded that it was difficult to evaluate the proportion of CMT and FOB in value term, but FOB contracts were very few.

The company was in applying to ISO 9001 and SA 8000. She said that it was really not important for attracting buyers because all buyers often come to factory for auditing factory capacity and standards before signing the contract. Having been producing for global brand-name customers is a more valuable certificate for the company.

iii) The Pre- MFA: Prediction the impact of post- MFA on the company business (Interview in July, 2004)

The respondent believed that the MFA would not impact significantly on the company business. Not all products exporting to EU and US were imposed by quota, for

instance 100 percent polyester products. Also she thought that apart from quota and cost efficiency, smooth and long-time business cooperation with permanent customers would be factors that customers would consider when shifting to other suppliers. Doing business in the post-MFA would be harder because the company lost quota advantages as it attracted foreign buyers. It was more serious as Vietnam's garment exports were still subject to quotas.

**iv) The Post- MFA: Impact of the post-MFA on the company
(Internet Telephone January, 2005)**

"There is nothing serious. Even, I will have a new customer. An EU supermarket retailer just visited the factory for investigating the production capacity"... "While they were in production lines, they recognised that this order is from them" "I receive this order from a Korean company".

(Internet Telephone April, 2005)

The company has produced directly to the EU retailer under FOB contract. The company is in charge in buying materials, producing and shipping FOB for the EU customer.

"The profit margin is much higher than CMT contract- for about 10 percent higher but also more risk and requiring significant capital to purchase inputs".

"The company can borrow loans from a commercial bank by back to back L/C. Also that bank has a credit limit that is enough for the company to buy all materials and accessories needed for one order".

"The most difficulty for the company to work as FOB contract is on time delivery as the production capacity is limited. For quick delivery orders, the company subcontracts to satellite small-scale factories but it is difficult to control quality from them as they are not in my house, so I prefer to produce in my factory".

The company buys major materials from foreign suppliers, fabrics from domestic producers. In terms of transport efficiency, "it is not a problem because it is rarely to order full container for maximising the cost efficiency".

"Order from the EU retailer is a quite large volume and should be large because small order is not efficient as they just come to trading offices in their countries. That may be a reason the EU customer by-passes the Korean trader for profit of course".

"I have responsibility for all. The EU buyer does not send any quality control or else, they just send me a sample and approve my counter-sample. I produce all exactly as the counter-sample and then shipping to them. Moreover, they don't pay right away. We have agreed with payment method as a 90 days L/C, it means that after 90 days of receiving my orders I will receive payment from the bank".

(Factory visit May, 2005)

" We have been conducting this order very seriously. We think that this order is a certificate for us to enter the EU buyer's supplying network not through any middlemen. Design and materials for this order is not complicated so we are able to carry out".

"The order will be sold in their stores with our brand-name, surprisingly. I guess this is the way they keep their reputation".

"We really expect to get other orders from them. But if the buyer requires us providing design, this will be a serious problem. Some designed details we are not able to know why buyers are so keen on that. Moreover, we have to go to buyer's office for advertising our design. It is really expensive for us" .

Appendix B: Alliance Policy

Quotes from Detailed Guidelines Decision No: 0319/TM-DM of the Ministry of Trade dated 11st March, 2005.

Source: Ministry of Trade [http:// www.mot.gov.vn](http://www.mot.gov.vn)

1. Definition of chain

Chain refers to a group of from five textile and garment enterprises which have status of legal person and independent business, and voluntarily cooperate with each other under a chain agreement.

- Chain agreement refers to Agreement on chain formation in Form 04 attached.
- Chain head is one member of the chain, selected by other members to lead the chain. The chain head is responsible to the Inter-Ministry and the current laws for activities of the chain

2. Volume of quotas to be allocated to enterprises joining chains

3.5% of 2005 quotas for categories namely 334/335; 338/339; 340/360; 342/642; 347/348; 359/659-S; 638/639; and 647/648 are to be allocated to enterprises voluntarily joining chains.

3. Stipulations on chain

- Only chains with valid chain agreement in the form provided by the Inter-Ministry and certification by the Association are considered for the quota allocation.
- In a chain, there must be at least five enterprises with achievements in exporting textile and garment products of categories controlled by quantitative limit to the US market in year 2004.
- A holding company and its subsidiary companies are considered to be only one member in a chain.
- Chain members which are under ownership of only one entity with from 10% of their legal or investment capital are considered to be only one member.
- Each textile and garment enterprise is able to join only one chain.
- Chains are not allowed to merge into one.
- Enterprises which provide delivery, transport, stock, etc services can join several chains.

4. Calculation of quotas for chain

Volume of quotas to be allocated to enterprises in chain is calculated based on volume realized by chain members in year 2004 (Volume granted Visa from January 1st, 2004 to December 31st, 2004 as statistics provided by Export – Import Divisions)

Formula for calculation:

“Volume of quotas for cat. C for a chain” = (“Volume of chain quotas for cat. C” / “Volume of quotas for cat. C realized by all chains in 2004”) * “Volume of quotas for cat. C realized by the respective chain in 2004”

Each enterprises of a chain shall be allocated quotas for respective categories which it exported in year 2004.

Formula for calculation:

“Volume of quotas for cat. C for an enterprise” = (“Volume of quotas for respective chain” / “Volume of quotas realized by all enterprises in the chain in 2004”) * “Volume of quotas realized by that enterprise in 2004”

5. Principles for use of quotas

Chain quotas can only be moved between enterprises of one chain. They cannot be exchanged, credited, transferred, given to enterprises which are not member of the respective chain. Unused quotas must be returned to the Ministry of Trade in right way.

6. Other stipulations

Chains are encouraged to have varied members which are enterprises having textile and dyeing projects and producing subsidiary materials. Foreign investment in chain is welcomed. Chains are also encouraged to have big members and small, medium-scaled members to support each other.

Chains are encouraged to trust chain heads or chain representatives to negotiate for contracts for export and purchase of materials in anticipation of losses caused by importers trying to reduce processing and FOB prices as well as risks which might serve as basis for importing countries to trigger anti-dumping cases against textile and garment exports of Vietnam.

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