

DOCTORAL THESIS

Market strategies of the furniture and garment industries in the Pearl River Delta, China

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Market Strategies of the Furniture and Garment Industries
in the Pearl River Delta, China

FU Tianlan

A thesis submitted in partial fulfilment of the requirements

for the degree of

Doctor of Philosophy

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June 2017

DECLARATION

I hereby declare that this thesis represents my own work which has been done after registration for the degree of PhD at Hong Kong Baptist University, and has not been previously included in a thesis or dissertation submitted to this or any other institution for a degree, diploma or other qualifications.

I have read the University's current research ethics guidelines, and accept responsibility for the conduct of the procedures in accordance with the University's Committee on the Use of Human & Animal Subjects in Teaching and Research (HASC). I have attempted to identify all the risks related to this research that may arise in conducting this research, obtained the relevant ethical and/or safety approval (where applicable), and acknowledged my obligations and the rights of the participants.

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ABSTRACT

Conventional theories and empirical studies on global production networks (GPNs) and global value chains (GVCs) have dealt with the dynamic organization of production on global, regional, national, and local scales but have given limited attention to market dynamics. In recent years, particularly in the aftermath of the 2008 global financial crisis, a paradigmatic shift was observed in GPNs and GVCs that directed interests in market dynamics of developing country suppliers in the changing market dynamics in the Global North and the South. However, this phenomenon has not received adequate attention in the existing literature. This thesis aims to examine the firm-level market strategies of labor-intensive supplier firms in developing countries and the effects on the organization of production networks.

Since the opening and reform in the late 1970s, the development of labor-intensive industries in China and the Pearl River Delta (PRD) in particular, the well-known “world factory”, have been significantly driven by export to advanced Western markets, such as the United States and European Union. However, in recent years, manufacturing suppliers in the PRD have changed their market orientations, leading to the considerable industrial transformation. Taking the furniture and garment industries in the PRD as a case, this thesis attempts to systematically explore the market strategies of manufacturing suppliers in different sectors and regions/sub-regions and the subsequent effects on the transformation of manufacturing industries and reorganization of production networks through three empirical case studies. First, the study examines the market strategies of export-oriented furniture supplier firms in the eastern PRD (Dongguan and Shenzhen City) and its effects on industrial transformation and reorganization of production networks. Second, to compare the market strategies of different kinds of suppliers in different sub-regions, the study explores the domestic market-oriented furniture suppliers in the western PRD (Shunde District, Foshan City). Third, for the understanding of the interaction between spatial cross-border production relocation and market strategies, this study investigates the market strategies of relocated garment supplier firms when they relocated manufacturing operations from China to Southeast Asia and explores the subsequent reorganization of production networks.

Based on the field investigation and particularly in-depth interviews with furniture and garment manufacturing firms in the PRD, this study identifies three types of market strategies of suppliers in the PRD and different effects on the organization of production networks. First, in the export-oriented furniture industry

in the eastern PRD, most of furniture suppliers engaged in market reorientation from exporting to Western markets (e.g., the US and EU) to selling in the domestic markets of China through in-term firm partnerships with domestic chain retailers. Strategic recoupling with domestic markets of China stimulated the emergence of domestic market-oriented production networks in which supplier firms gained functional upgrading and experienced downgrading simultaneously. Second, in the domestic market-oriented furniture industry in the western PRD, domestic market-oriented suppliers who previously served for low-end segment of domestic markets of China have turned to engage in the market diversification to target different market niches. The diversified market strategies including low-end, middle-end, and high-end market strategies made furniture production networks evolve from merely relying on the domestic markets of China to co-dependence on emerging markets of China and other developing economies. In the reorganized production networks, furniture suppliers gained functional upgrading as they integrated into higher-end segments of domestic markets. Third, different from furniture suppliers, garment supplier firms engaged in the cross-border production relocation from China to the lower-cost Southeast Asia, particularly Vietnam, which is driven by different market strategies. Garment firms relocated from China to Southeast Asia for maintaining their strategic coupling with global brand names from advanced Western markets. Whilst, textile firms conducted production relocation to meet the requirements and strategic needs of buyers from home markets of China and host markets in Southeast Asia. There has witnessed the emergence of Western market-oriented triangular production networks coordinated by the relocated foreign-invested and Chinese garment firms, in which relocated garment firms have gained limited upgrading prospects.

This thesis argues that market strategies adopted by local suppliers to change their power relations with other actors, such as global brand names and domestic retailers, have emerged as one of the most remarkable driving forces behind the transformation of manufacturing industries in China and particularly the PRD in the changing global economy. Emerging market-driven production networks have been emerged in manufacturing industries in China, with the rise of emerging markets in developing countries. In particular, China played an important role in reshaping the spatial and structural organization of global production networks and value chains. This research contributes to the literature by exploring the changing market dynamics with focus on the firm-level strategies. It also adds the literature by exploring the implications of emerging markets in the Global South for the reorganization of global production networks and value chains. In contrast to the previous industrial development pattern in developing countries that resulted from integration into Western market-led production networks, market strategies of local suppliers in the PRD has demonstrated a bias toward emerging market-driven

industrial development.

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1 Introduction

1.1 Research background

The past decades have witnessed globalization that is driven by the demands of Western economies (e.g., the US and EU) and global sourcing of large global buyers or branded retailers from developed economies (Dicken, 2015). Western market-led production networks or value chains have remarkably emerged and developed across developed economies and developing countries (Coe et al., 2004; Coe et al., 2008; Dicken et al., 2001; Gereffi et al., 2005; Henderson et al., 2002). However, in recent years, especially after the 2008 global financial crisis, global production networks (GPNs) and global value chains (GVCs) have changed in fundamental ways, such as the market orientation, driving forces, and structural and spatial organization of production system (Cattaneo et al., 2010; Gereffi, 2014; Gereffi & Frederick, 2010; Kaplinsky & Farooki, 2011; Staritz et al., 2011). In particular, domestic markets in developing countries, such as China and India, have been becoming increasingly important, while Western markets, such as the US and EU, have been facing sluggish consumption and economic recession (Gereffi, 2014). The preferential production environment in large developing countries, such as China, has been changing, with the upsurge of production cost and shortage of workforce.

In this context, phenomenal changes of Western market-oriented and labor-intensive industries have been occurring in developing countries in the aftermath of the 2008 global financial crisis. First, developing countries have been changing their attitude toward the development model of export-oriented industrialization. Governments have been adopting policies for changing economic model from export-oriented toward domestic market-driven development. In China, the central government has initiated the “four-trillion” policy to boost domestic consumption after the global financial crisis (Yang, 2014). This policy has brought significant changes because it paid increasing attention to domestic market-oriented industries, which were initially viewed as

the alternative economic engines for regional growth. Second, suppliers of developing countries have been modifying their strategies. Export-oriented suppliers found that expanding their market orientation from advanced Western economies to new markets is necessary to preserve or advance their competitiveness in GPNs. Domestic market-oriented suppliers also pursued means to diversify their market orientation. In addition, export-oriented suppliers and transnational corporations (TNCs) searched for alternative low-wage locations to lower production cost and thus retain business with cost-sensitive global buyers. Different market strategies have been adopted to meet these goals. In this study, market strategies mean the strategies adopted by manufacturing suppliers to change their market orientations on different geographical scales, in different market niches or different kinds of markets, or their sales methods or products and services for some specific consumer demand and requirements in the changing market dynamics in the global economy. Market dynamics in this study refer to changes of market factors including demand, supply, and pricing. Market dynamics determine the response of suppliers to the changes in demand of consumers and reaction of consumers to changing prices. In the changing market dynamics in the Global North and South, both export- and domestic market-oriented suppliers in developing countries have tended to pay much attention to achieving the market balance between advanced Western economies and emerging economies, such as China and India. Some export-oriented suppliers also attempted to move manufacturing operations away from China, particularly the Pearl River Delta (PRD), the well-known “world factory”, and initiated cross-border production relocation.

In light of this new phenomenon, a paradigmatic shift is recently observed in studies on GPNs and GVCs and regional development in developing countries (Gereffi, 2014). The growing consensus emerging among theorists is that changing market dynamics in the Global North and South are essential to understand the reconfiguration of GPNs or GVCs (Cattaneo et al., 2010; Staritz et al., 2011). The changing global market dynamics in this study mean the shrinking demand of consumers from Western markets (e.g. the US and EU) in the Global North and the rise of consumer demand from emerging markets in the Global

South, such as China and India (Gereffi, 2014). In most studies, regional development in developing countries, particularly the export-oriented industries, has been conceptualized as the outcomes of strategic coupling between global buyers or leading firms from advanced Western economies with local assets and suppliers in developing countries (Coe et al., 2004; Yeung, 2009). In the changing global economy, studies have been recognized for being confined in a Western market-centric perspective. The significance of emerging markets in developing countries has not received adequate attention. The traditional Western-centered theories of GPNs or GVCs are insufficient to explain the patterns and processes of transforming manufacturing industries in developing countries and reconfiguring GPNs or GVCs. Therefore, the growing literature has directed attention to market strategies that have been adopted by supplier firms in developing countries, such as China (Yang, 2014; Zhou, 2015). Market strategies have been essential to understand the organization of production networks (Coe & Yeung, 2015; Yeung & Coe, 2015). Nevertheless, previous empirical studies seldom emphasized the firm-level market strategies in analyzing GPNs or GVCs and its effects on the structural and spatial reorganization of production networks. Therefore, recent studies of GPNs or GVCs have extended their conceptual framework to fully understand the market strategies and its effects on the reorganization of production networks (Coe & Yeung, 2015; Horner, 2014; Kaplinsky et al., 2011; MacKinnon, 2012). Thus far, empirical studies have mainly focused on the market shifts of export-oriented industries in developing countries from developed economies to large developing countries, such as China. Despite the paradigmatic shift in the studies, firm-level market strategies that how suppliers shift their final markets from Western economies to their host or domestic markets in developing countries has not been given adequate attention. In addition, studies have not dealt with the market strategies of domestic market-oriented suppliers in developing countries. Minimal research has been conducted to explore market strategies in connection with spatial production relocation.

In the existing literature, limited knowledge is available about the extent and mechanisms of changing market dynamics in the Global North and the South. In particular, the significance of the rise of emerging markets in reshaping the

structural and spatial organization of GPNs or GVCs has been understudied. Gereffi (2014) claims that globalization has entered a new era, as the global final markets shifted from the Global North to the South. The final market shift has redefined the geographies of global production networks or value chains (Cattaneo et al., 2010). Despite this argument, until recently, most studies on GPNs and GVCs have focused on the production networks or value chains driven by Western economies, such as the US and EU (Coe et al., 2008; Coe et al., 2004; Gereffi, 1999, 2005; Gereffi et al., 2005). To date, studies on market strategies and rise of emerging markets in the Global South are sparse. In particular, very few systematic studies on the literature of GPNs or GVCs are relevant to explain the patterns and mechanisms of firm-level market strategies and its effects on the structural and spatial reorganization of the manufacturing industries in developing countries, such as China.

Export-oriented suppliers in developing countries have recently changed their market orientation from advanced Western economies to developing countries (Morris et al., 2016; Pickles et al., 2016). The negative effects of integration into Western market-oriented production networks and the shrinking demand and economic recession in Western economies have resulted in the strategic decoupling with Western markets and recoupling with emerging markets among these suppliers (Horner, 2014; MacKinnon, 2012). The trend of integration into emerging markets has drastically changed the previous pattern of Western market-oriented development as the mainstream for developing countries. After integration into emerging markets, the upgrading or downgrading of suppliers led to the transformation of export-oriented industries in developing countries (Kaplinsky & Farooki, 2011; Kaplinsky et al., 2011; Morris & Staritz, 2014; Ponte & Ewert, 2009).

These significant market shifts in developing countries have challenged Western-centered production networks or value chains and induced a search for new paradigms to interpret the transformation of export-oriented industries in developing countries. The problem is that the existing literature tends to focus on market shift from developed economies to emerging markets in developing countries, with minimal attention on the market reorientation of export-oriented

suppliers toward their domestic or host markets. The theoretical and empirical studies on the effect and mechanism of market strategies adopted by export-oriented suppliers in terms of market reorientation remain lacking. Horner (2014) claims strategic recoupling with domestic markets may provide functional upgrading prospects to developing country suppliers. However, existing studies on market reorientation have not explored the firm-level strategies to couple with new markets for domestic sales. Scholars argue that a firm should not be viewed as an entity (Coe et al., 2008). The heterogeneity of the inside of firms should be explored, as different firms with distinct characteristics adopt varying strategies to advance or develop their competition (Coe et al., 2008). Gereffi (2014) estimates that the rise of host markets in the Global South will stimulate additional internal development strategies focusing on domestic markets in the post-Washington Census era. A thorough empirical investigation of specific cases is imperative to test and theorize the market strategies of export-oriented industries in the changing global economy.

Although governments of developing countries, such as China, are aware of the need for balancing export- and domestic market-driven developments (Yang, 2012b), domestic market-oriented suppliers are minimally investigated in the changing global economy. Murphy and Schindler (2011) emphasize the need to explore the domestic market-oriented industries in the Global South to enhance the understanding of how different market orientations of local suppliers affect regional development. A recent study shows that local suppliers can gain more upgrading opportunities from integration into domestic market-oriented production networks than integration into export-oriented production networks (Brandt & Thun, 2016). Despite such finding, recent studies have explored the market reorientation of export-oriented suppliers in China (Yang, 2014; Zhou, 2015), with minimal attention to the market dynamics and firm-level strategies of domestic market-oriented suppliers in developing countries and the subsequent effects (Ding, 2012; Liu & Yang, 2014).

In the face of fast-growing production cost and workforce shortage, export-oriented industries in large developing countries, such as China, have relocated production operations to low-wage regions, such as inland China and

Southeast Asia (Zhu & Pickles, 2014). Spatial relocation manifests the other type of transformation of export-oriented industries. Recent studies have explored the internal spatial production relocation within country territories (Yang & He, 2016; Zhu & Pickles, 2014), but the cross-border production relocation, which has induced the spatial reorganization of global production networks, has been less investigated. A recent study has indicated that cross-border production relocation from China to Southeast Asia helps developing countries in Southeast Asia integrate into GPNs (Yang, 2016). However, the role of relocated firms from China and its changing market strategies are seldom addressed in empirical and theoretical studies on production relocation in the context of the changing market dynamics in the Global North and the South. Few empirical studies have been carried out to connect market strategies and spatial production relocation.

1.2 Research scope

We seek to clarify different patterns of the firm-level market strategies of labor-intensive manufacturing suppliers in developing countries in various sectors and supra-national regions/sub-regions as well as the effects on the structural and spatial organization of production networks. We use the PRD of South China as a case.

The research scope addresses the aforementioned research issues in three parts.

First, the thesis sheds light on the transformation of export-oriented industries in the PRD. It analyzes the patterns and processes of market reorientation of export-oriented suppliers in developing countries from Western economies to their host or domestic markets, thereby exploring the implications of the rise of domestic markets in the Global South for transforming export-oriented industries in developing countries. Specifically, the study explores the market strategies on the firm level. The interaction of export-oriented suppliers with domestic firm actors and non-firm agents, such as local governments and industrial associations will be investigated. Based on the market strategies, the reorganization of production

networks in export-oriented industries will be examined. The study takes the export-oriented furniture industry in the PRD as a case and particularly sheds light on furniture supplier firms in the eastern PRD, such as Dongguan and Shenzhen.

Second, to compare the market strategies between export-oriented and domestic market-oriented industries, the thesis also examines the market strategies of domestic market-oriented suppliers. The study investigates the market strategies of domestic market-oriented suppliers and the subsequent influence on the upgrading prospects that local suppliers gained in the changing market dynamics in the Global North and the South. This study takes the case of furniture industry in Shunde District, one of the well-known domestic market-oriented districts in the western PRD. Through the case studies of export- and domestic market-oriented industries in the eastern and western PRD, the thesis examines the influence of regional assets in different regions and previous market orientation on the subsequent market strategies.

Third, to explore the interaction between market strategies and spatial cross-border production relocation, this study investigates the market strategies of relocated suppliers from China to Southeast Asia and the organization of production networks for the target markets. The study takes the garment industry in China and the PRD in particular as the case. It elucidates the market dynamics on the national level through the trade data analysis and uses specific firm cases to provide a whole picture of the different market strategies of relocated firms and their ways of reorganizing of production networks.

1.3 Significance of the study

This study contributes to the literature from the following aspects.

First, the study fills the theoretical gap in which firm-level market strategies have been neglected in studies on GPNs or GVCs, which have predominantly focused on production activities. By examining the market strategies of different suppliers in various sectors and regions/sub-regions, this study systematically demonstrates the market dynamics in GPNs and GVCs. The study moves beyond

the national, region, and district levels and pays attention to the firm-specific strategies.

Second, the study presents a paradigm of GPNs or GVCs under the changing market dynamics in the Global North and South, particularly the rise of domestic markets in developing countries. The research goes beyond studies based on Western-centric perspective and explores the implications of emerging markets-driven production networks for transforming labor-intensive industries in developing countries and reconfiguring GPNs. The study examines the power of emerging markets in the Global South, such as China, and the role of local agents, including domestic firms and local governments in driving the transformation of manufacturing industries in developing countries.

Third, the study advances the literature by exploring the local actors in the Global South, namely, domestic market-oriented suppliers in developing countries. By shedding light on the domestic market-oriented industries in developing countries, this study examines the applicability of using Western-based theory in the case in developing countries.

Fourth, the thesis enriches the literature on GPNs or GVCs by connecting spatial production relocation and market strategies of suppliers. The study goes beyond studies on production relocation that focused on internal relocation within country territories. The work not only explores the market dynamics on country level, but also demonstrates the market strategies on the firm level.

The study offers five practical implications.

First, policy suggestions are offered in relation to market strategies in transformation of industry strategies. The thesis highlights the importance of market orientation of manufacturing industries and industrial upgrading associated with production, such as process upgrading, product upgrading, and functional upgrading together rather than merely focusing on upgrading in terms of production. Market strategies have effects on the restructuring of manufacturing industries.

Second, the thesis intends to identify the significance of understanding the

nature of export-oriented industries and the difficulties and historical background of the export-oriented manufacturing suppliers when policy makers attempt to steer the development model shift from export-oriented to domestic market-oriented growth.

Third, the study provides suggestions regarding facilitating a domestic market-oriented development model as well as transformation strategies. The study identifies the difference between export- and domestic market-oriented industries and explores the ways of transformation of domestic market-oriented industries. It provides evidences to show variegated pathways for facilitating transformation of export- and domestic market-oriented manufacturing industries in the complicated changing economy environment in China.

Fourth, the study gives policy suggestions with respect to the cross-border production relocation under the “One Belt One Road” initiative introduced by Chinese central government for facilitating regional integration in Asia. The study examines the importance of cross-border spatial relocation in changing market dynamics. It also investigates the importance of emerging markets in developing countries in Asia, including China and other developing countries along the “belt and road”. The study explores how these emerging markets and the cooperation between China and Southeast Asian countries influence the industrial transformation of manufacturing industries in China.

Lastly, practical suggestions are recommended to policy makers in terms of the transformation strategy of manufacturing industries. The study highlights that it is essential to consider the role of firms, institutions (e.g. local governments and industrial associations), and global trade policies in shaping the landscape and structural organization of manufacturing industries.

1.4 Organization of the thesis

The thesis combines case exploration and trade data analysis to explore different patterns of market strategies in the furniture and garment industries in the PRD in recent years, particularly after the 2008 global financial crisis. Based

on the elaboration of theoretical background, the thesis conducts three empirical case studies on market strategies. Specially, the study conducts an examination of market strategies of furniture industries in different sub-regions, namely the eastern PRD which concentrated export-oriented industries and the western PRD which gathered the domestic market-oriented industries. Through these case studies, the study examines and compares the different patterns of market strategies in export- and domestic market-oriented regions, thereby exploring the influence of local assets and previous market orientations on the subsequent market strategy patterns. These two empirical studies investigate the market strategies on meso-level of the region. The third empirical study extends from the meso-level of the region to the macro-level international analyses by exploring the market strategies in the cross-border garment production relocation from China to Southeast Asia. Moreover, different from the two empirical studies focusing on the furniture industry, the third case study explores the market strategies in garment industry. This thesis examines the different market strategies in different sectors, thereby exploring the influence of industrial characteristics on the market strategies.

The thesis is organized into seven chapters. The present chapter defines the study problems, introduces the scope of the study, and illustrates the importance and significance of this research.

The second chapter starts with a review on theories regarding the changing theoretical and market dynamics in GPNs or GVCs with the rise of emerging markets in the Global South. This chapter reviews previous empirical studies on market strategies of manufacturing industries in developing countries, involving the market strategies of export-oriented suppliers to emerging markets in the Global South and the effects on the organization of production networks in developing countries; market strategies of domestic market-oriented suppliers and effects; and market strategies in cross-border production relocation. The chapter overviews the transformation of manufacturing industries in China and puts a particular emphasis on market strategies of manufacturing suppliers in the PRD. The chapter subsequently deliberates an analytical framework to analyze the market strategies of developing country suppliers and its effects on structural and

spatial organization of production networks. The framework is built on the theory of GPN and the conceptualization of “strategic coupling”.

The third chapter introduces the research methodology. It begins with a discussion of the major research questions and objectives. The study primarily deploys qualitative analyses to explore the market strategies of labor-intensive suppliers in China. In this chapter, the study area and period are identified in detail. The methods for data collection and analysis are also introduced.

The fourth chapter investigates the market reorientation of export-oriented suppliers in the PRD, with emphasis on firm-level market strategies, by taking furniture industry as the case. The transformation of export-oriented industries in terms of the upgrading trajectories of furniture firms is examined, and the emergence of domestic market-oriented production networks is analyzed.

The fifth chapter explores the firm-level market strategies in the market diversification of domestic market-oriented firms in the PRD, by taking the furniture industry in Shunde District, Foshan City as the case. The subsequent effects are examined.

The sixth chapter investigates the firm-level market strategies of relocated garment and textile firms amid cross-border production relocation from China and Southeast Asia. It takes the garment industry as the case. Then, the chapter analyzes the market strategies of relocated garment and textile firms from China to Southeast Asia and the effects on their organization of production networks in Southeast Asia for target markets. The study also examines the interaction between market strategies and cross-border production relocation. The reorganization of production networks based on the market strategies is also examined.

The last chapter concludes the study with a summary of the major findings. It also reconsiders and discusses the theoretical contributions and practical policy implications. Finally, it points out the limitations of this research and suggests research directions in the future.

2 Literature Review

This chapter reviews the literature on the new paradigms of GPNs and GVCs with emphasis on firm-level market strategies. Different from GVC approach, GPN theory systematically incorporates firm and non-firm actors into its framework. Hence, this thesis and the following analyses pay more attention to GPN than GVC and primarily apply GPN theory to guide empirical studies. This chapter begins with literature review on the theoretical dynamics of GPNs associated with strategic coupling. It then tackles the market dynamics in GPNs, followed by a review of the three types of market dynamics in manufacturing industries in developing countries. The first type is the market dynamics of export-oriented industries toward domestic or host markets. The second is the research on market dynamics of domestic market-oriented industries in developing countries. The third type is the literature on market dynamics in relation to spatial production relocation. Based on the different market dynamics, this chapter points out the research gap in relation to the firm-level market strategies. The chapter then provides an overview of transformation of labor-intensive industries in China for scrutinizing the market strategies in manufacturing industries of China. An analytical framework based on a GPN perspective is developed to guide the empirical studies in the following chapters.

2.1 Theoretical dynamics of global production networks

Theories of GPNs and GVCs have been widely used to explain the structural and geographical organizations of global production, distribution, and consumption in the interconnected world (Coe et al., 2008; Gereffi & Korzeniewicz, 1994; Hess & Yeung, 2006; Neilson et al., 2014; Parrilli et al., 2013). Over the past two decades, both camps have yielded applicable conceptual frameworks. On one hand, GVC studies have highlighted the governance structures and relations of global value chains and industrial upgrading opportunities of developing country suppliers (Gereffi, 1999; Gereffi et al., 2005; Gereffi & Korzeniewicz, 1994; Humphrey & Schmitz, 2002). On the other hand,

GPN framework incorporates a wide range of non-firm actors and institutions (e.g., governments, industrial associations, and trade unions) into its framework, moving beyond the interfirm relations highlighted in GVC theory (Coe, 2012; Coe et al., 2004; Dicken et al., 2001; Henderson et al., 2002). GPN approach also views the vertical and horizontal connections in production systems as recursive meshes, which differs from the chain notion in GVC theory that shows the deterministic linear upgrading paths along value chains (for detailed comparison, see Coe & Yeung, 2015). Recently, to understand why and how the configuration of GPNs varies within and across different sectors and economies, scholars have updated the original GPN framework and constructed the so-called “GPN 2.0” (Coe & Yeung, 2015; Yeung & Coe, 2015). According to “GPN 2.0,” economic actors in GPNs are primarily driven by competitive dynamics, such as enhancing cost-capability ratios, seeking market access and financialization, and minimizing risks.

With the recent development of GVC theory, the overlaps between the two camps have become increasingly apparent. GVC analysis has tended to incorporate the institutional and territorial assets in its framework (Bair, 2009; Ponte & Gibbon, 2005; Nadvi, 2008; Sturgeon, 2009). Recently, a multipolar governance framework is developed, which proposes that a wide range of coordination and multiple foci of power (e.g., NGOs, standard makers, and social movements) may influence governance structure (Ponte & Sturgeon, 2014; Ponte, 2014). Compared with the unipolar governance, which focuses on governance relations between actors along the value chain on interfirm level, multipolar governance extends the governance studies from mere interfirm power to one involving local contextual factors. Thus, instead of viewing GVC theory and GPN approach as contending theories, this thesis uses GPN theory to guide the research and supplements advantages of GVC theory into the analytical framework.

Under the GPN framework, regional development is the outcome of “strategic coupling” between global counterparts (e.g., global buyers or leading firms) and local suppliers in developing countries (Coe et al., 2004), reflecting the idea of relational economic geography (Hess & Yeung, 2006). Strategic coupling means the articulation and collaboration of agents in two specific regions and

GPNs for their strategic needs (Coe et al., 2004). Yeung (2009a) argues that strategic coupling has been viewed as intentional and time–space contingent; it transcends territorial actions and processes. Yeung (2015) suggests that through the exploration of both global and regional dynamics, the concept of strategic coupling could help to better understand the regional development. According to Yeung (2015), global dynamics encompass firm agents, such as global leading firms, large strategic suppliers, specialized manufacturing firms, and intermediate and final consumers. Regional dynamics refer to regional productive resources, institutional environments, social and cultural assets which induced unique characters and composition of regional economy.

A large body of empirical literature has examined the patterns and mechanisms of strategic coupling (Yeung, 2009a, 2009b, 2015). In studying an electronic industry in East Asia, Yeung (2009a) points out three main types of strategic coupling. The first type of strategic coupling is international cooperation between leading firms and local firms that facilitate regional growth, such as in Taiwan and Singapore, by integrating into GPNs (Yeung, 2014). This strategic coupling is considered a functional model of coupling, which is suggested as “strategic” coupling by MacKinnon (2012).

The second is indigenous innovation which is initiated by “national champions” (South Korean chaebol) supported by state industrial policy. This coupling is thought of as an “organic” type of strategic coupling in GPNs (MacKinnon, 2012). Scholar recently reconsiders state-led development in the changing political context in South Korea, Taiwan, and Singapore (Yeung, 2016, 2017). It is argued that the state can no longer wield autonomous power in governing market and directing growth trajectories of national firms. Instead, GPNs have become increasingly important in reshaping the trajectories of national firms in these three economies (Yeung, 2016, 2017).

The third is production platforms in which regions participate in GPNs coordinated by leading firms and their strategic partners in Asia, particularly coastal China. This kind of strategic coupling, which is considered a “structural” coupling (MacKinnon, 2012), features a long history in labor-intensive global

industries. In a comparative investigation of the notebook industry in Suzhou in the Yangtze River Delta (YRD) and Dongguan in the Pearl River Delta (PRD) in China, Yang (2009) identifies two forms of strategic coupling. The first one is implicit coupling between Taiwanese firms with desktop cluster in Dongguan, which is developed based on the bottom-up efforts of Taiwanese firms. The second is explicit coupling between global leading firms and original equipment manufacturing (OEM)/original design manufacturing (ODM) suppliers in the notebook computer cluster in Suzhou, which is driven by local governments. From the evidence of an electronic industry in Taiwan, Yang et al. (2009) suggest that strategic coupling varies geographically. Yang and Coe (2009) argue that the various strategic coupling means of regional actors with GPNs are influenced by the different functions of regional production bases as well as local institutional and economic conditions.

Overall, these empirical studies indicate that strategic coupling with global leading firms have, to a large extent, facilitated the regional development in developing countries (e.g., China). The literature has emphasized the driving forces of global buyers and global leading firms in the formation of strategic coupling between developing country suppliers and GPNs.

In recent years, the changing theoretical dynamics of GPN associated with dynamics of strategic coupling have been witnessed. Despite the empirical and conceptual efforts by scholars (Coe et al., 2008; Coe et al., 2004; Yeung, 2009a), the concept of strategic coupling is nascent in its theoretical development and policy and practical implications in regional science (Yeung, 2015). Sunley (2008) argues that the concept of strategic coupling is insufficient to account for the different dynamics of strategic coupling, such as the recent decoupling and recoupling that identified among the developing country suppliers (Bair & Werner, 2011; Horner, 2014; MacKinnon, 2012). A recent study contends that due to the negative effects of strategic coupling with GPNs (Coe & Hess, 2011), the strategic coupling between local suppliers with GPNs will break down. The negative effects of strategic coupling, the so-called “dark sides”, are associated with ruptures (e.g., disinvestment and loss of foreign markets) and frictions (e.g., labor exploitation and social conflict) (MacKinnon, 2012; Coe & Hess, 2011). The

negative effects are evident in the production mode of strategic coupling, which is manifested in studies on African furniture and wood industries (Murphy & Schindler, 2011; Murphy, 2007; Kaplinsky & Readman, 2005; Kaplinsky et al., 2002).

To mitigate these negative effects, local suppliers with growing strength and aspirations tend to undertake strategic decoupling with existing GPNs (Bair et al., 2013; Wei, 2010). Strategic decoupling refers to firm actors breaking out of previous connections with a particular GPN(s), which may be resulted from decision of firms and policies introduced by various institutions, such as governments (Horner, 2014). Recent studies have explored the GPN disarticulations in the garment industry in Mexico (Bair & Werner, 2011) and the agricultural industry in Colombia (Hough, 2011).

After decoupling, local suppliers initiate strategic recoupling with emerging domestic markets of home countries, such as China (Yang, 2009, 2014; Zhu & Pickles, 2015). Strategic recoupling refers to the reintegration between regional actors/assets with actors in other or existing GPNs (Bair et al., 2013; MacKinnon, 2012; Yeung, 2015). Compared with the former coupling with GPNs, strategic recoupling with emerging markets in the Global South reflects a more symmetric degree of power among involved actors and spurs functional upgrading opportunities for local suppliers (Horner, 2014). This finding is evident in the case of footwear and furniture firms in Brazil (Navas-Alemán, 2011).

Moreover, institutional layering and recombination have been initiated by regional actors in China, such as in Wenzhou and Suzhou, to reduce the negative effects of strategic coupling (Wei et al., 2007, 2009). For example, the central and regional governments have encouraged industrial upgrading through indigenous innovation (Lin et al., 2011; Wang & Lin, 2013; Wang et al., 2010).

Overall, the existing literature on strategic de/recoupling has focused on the driving forces, such as firm strategies, upgrading prospects as well as attempts of state and local institutions (Havice & Campling, 2013; Horner, 2014). The literature has emphasized the efforts of local suppliers and institutions in the Global South in initiating strategic decoupling with developed countries and

recoupling with developing countries, which differ from the driving forces of global leading firms or buyers in previous strategic coupling of local suppliers with GPNs.

To sum up, two research gaps remain in studies on GPNs or GVCs and strategic coupling. First, studies on strategic coupling based on the theory of GPNs have highlighted the dominant power of leading firms in production and market definition in GPNs, but the dynamics and role of the local suppliers in developing countries have been overlooked. Second, most research on GPNs or GVCs and strategic coupling have been confined in a Western market-centric perspective. The role of other markets, particularly the emerging markets in the Global South, has not received adequate attention.

2.2 Market dynamics in global production networks

Most studies on GPNs or GVCs have explored production arrangements, overlooking market dynamics (Coe et al., 2008). In the early studies of global commodity chains (GCCs), Gereffi (1994) clarifies two kinds of GCCs: buyer-driven and producer-driven GCCs. Buyer-driven GCCs have mostly emerged in labor-intensive manufacturing industries, such as garment and furniture (Gereffi, 1994; Gereffi & Korzeniewicz, 1994; Scott, 2006). In the typology of buyer-driven commodity chains, market forces of large buyers such as retailers and merchandisers from advanced capitalist economies are conceptualized as vehicles that drive the globalized and fragmented production and oversea supplier chains and networks (Gereffi & Korzeniewicz, 1994). However, Yeung and Coe (2015) criticize that market imperative and forces have been understudied in the subsequent studies of GVCs and GCCs that predominantly focused on the fragmentation of global production. Moreover, in terms of GPN approach, Hughes (2000) points out that network analysis considers the relations between retailers and consumers in developed economies and producers in developing economies are the complex outcomes of these related actors that integrated into the networks. However, the preference of consumers are not well integrated into the existing framework, and consumers only play a

marginal role in the present analysis of GCCs (Pelupessy & Van Kempen, 2005). Hughes et al. (2008) emphasize the need to examine the effect of market dynamics associated with retail and consumption in analyzing GPNs.

In the literature, market is “not an externally imposed structure in which producers and customers react and behave passively (Coe and Yeung, 2015, p. 96), whilst, market imperative is a negotiation between customers and producers in the process of creating markets (Yeung & Coe, 2015). Moreover, the emergence and changing configuration of global production networks represents an organizational outcome of this iterative process of market making. In this sense, understanding the process of market making is imperative for studies of (re)configuration of global production networks.

Market imperative does not only concern with buyers or manufacturing producers who bring durable products or services to final consumers in the final markets. Meanwhile, economic agents such as consumers and producers in the intermediate markets also create and shape market structure (Petrovic & Hamilton, 2011). By categorizing different kinds of markets into final and intermediate markets, we found that two kinds of customers exist in GPNs. The first is the corporate customers, such as global leading firms, who usually hold more knowledge on specialized knowhow and have the demand of finished products or services. The second is the final consumers who have various demand and preferences of consumer goods, thus leading to the fierce competition in the end markets. In GPNs, the market makers probably are lead firms with high-cost capability that could refine their market positions and reorganize their production networks according to their strategies. The diverse consumer behavior in the end markets are provided by corporate and non-corporate clients to producers. Thus, these corporate and non-corporate clients, namely, retailers selling products directly to final consumers, are linkages between producers and consumers. Therefore, retail activities and retailers connecting producers and customers should deserve substantial attention when studying GPNs (Hughes et al., 2008; Jackson, 2002).

In the traditional studies on GPNs, global buyers and brand names from

advanced Western markets are the major market drivers. These lead firms with high-cost capability could refine their market positions and reorganize their production networks according to their strategies. By contrast, the low-capability firms tend to develop new markets. By cooperating with the leading firms, suppliers engaging in the production of intermediate or finished products can gain large orders and upgrading prospects and capture increased value. However, with the increasing number of suppliers and global sourcing of leading firms, suppliers are subject to the severe competition of competing more orders from global leading firms (Yeung & Coe, 2015). Overall, most studies have showed that branded retailers (e.g., Carrefour and Gap) from developed economies are the major market forces (Coe & Wrigley, 2007; Tokatli, 2007; Wrigley et al., 2005). Branded manufacturers, such as Dell, are the market makers in the global personal computer industry (Dedrick & Kraemer, 2011). Nevertheless, the market forces from other markets of particularly developing countries have remained understudied. Moreover, recent studies have paid attention to the shift of final markets on different geographical scales, particularly from the Global North to the South. In recent years, GPNs have entered a new era in the changing global market dynamics (Bamber et al., 2014; Cattaneo et al., 2010; Elms & Low, 2013; OECD, 2011). Since the 2008 global financial crisis, the rise of emerging markets in developing economies (e.g., China and India) and final market shift from the Global North to the South have been witnessed (Gereffi & Lee, 2012; Kaplinsky & Farooki, 2011; Staritz et al., 2011; Mahutga, 2012). Reports state that the volume of exports from the developing countries to the other developing countries in the Global South first exceeded those destined for the Global North in 2012 (*The Economist*, 2013). Different from the previous markets of advanced Western economies (e.g., the US and EU), these emerging markets are the host or domestic markets of export-oriented suppliers in developing countries in the Global South (Coe & Yeung, 2015). Coe and Yeung argue that: “What is missing in this consideration of sustaining market development, however, is the possibility of new markets and emerging consumers beyond the traditional home markets of global lead firms” (Coe & Yeung, 2015, p.101).

Scholars also found that different market niches remain understudied.

Markets could be categorized into low and high-end market segments according to the demand and requirements of consumers. Yeung and Coe (2015) claimed that the emerging markets in the Global South have a significant new market imperative in relation to the large domestic demand for finished goods and services from domestic consumers. These demands are characterized by a low demand in terms of quality and standard of product and are thus different from those in advanced Western markets such as EU and the US (Kaplinsky & Farooki, 2011). To “capitalize on this new market imperative, global leading firms and their network partners and suppliers have recognized that the nature of this demand imperative is substantially different from that in advanced economies” (Yeung & Coe, 2015, p. 39). However, getting succeed in exploiting this vast market not only needs to provide the global products or services at low costs but also to understand the distinct demand and preferences of the consumers in these emerging markets.

The rise of emerging markets particularly the domestic markets of suppliers in the Global South is predicted to bring out other internal development plans with emphasis on the domestic and internal markets in the Global South in the post-Washington Census era (Gereffi, 2014). However, the exiting development policies in developing countries still aim to attract foreign investment from global leading firms in the Global North (Reiter & Steensma, 2010). Thus, to unravel the ongoing strategic recoupling between export-oriented suppliers and their host markets in the Global South, Horner (2014) states, “further research might explore how the potential of, and limits to, strategic decoupling, as well as coupling, processes are manifest, including in smaller countries who might be able to exploit growing niche opportunities in supra-national regional markets within the Global South” (p. 1,136).

In sum, emerging markets and the distinct market imperative have been relatively missed in the literature on GPNs and GVCs (Yeung & Coe, 2015). The strategies of developing country suppliers in response to the shrinking demand of Western markets and the rise of emerging markets in the Global South have been relatively understudied in the existing literature.

2.3 Market dynamics and strategies of manufacturing industries in developing countries

2.3.1 Market dynamics of export-oriented industries

In the rise of domestic markets in the Global South, global final markets have shifted to emerging markets in export-oriented industries in developing countries (Cattaneo et al., 2010; Staritz et al., 2011). The market shift reflects the changing market dynamics on different geographical scales. The studies on market shifts primarily focus on the emerging markets in Asia (Ferrarini & Hummels, 2014), especially India (Horner, 2014) and China (Kaplinsky & Farooki, 2011; Kaplinsky et al., 2011; Yang, 2014). Kaplinsky and Farooki (2011) suggest that in the face of the shrinking demand of the US and EU, export-oriented suppliers in cassava value chains in Thailand and tropical timber value chains in Gabon, respectively, have turned to couple with emerging markets in China.

Emerging markets in the Global South that exhibit different consumer demands from previous Western economies (e.g., the US and EU) entail different upgrading prospects for developing country suppliers (Barrientos et al., 2016; Kaplinsky & Farooki, 2011; Morris et al., 2011). Kaplinsky and Farooki (2011) point out that much less entry barriers as well as stringent standards in low-income markets might diminish the importance of standards, decrease the degree of value added in export products, and cause slim margins. The low requirements of consumers in developing countries, such as China, have been detrimental to the upgrading prospects of export-oriented suppliers that shifted their final markets from advanced Western economies to China. Barrientos et al. (2016) argue that regional retailers in South and East Africa have experienced economic downgrading as they disarticulate with stringent high-price global markets and then couple with low-priced regional markets in Africa.

However, scholars argue that integration into production networks led by emerging markets could provide functional upgrading prospects to local suppliers in developing countries (Staritz et al., 2011). Avdasheva (2007) argues that

export-oriented furniture suppliers in Russia could achieve upgrading in their market reorientation to domestic or host markets as they shift from furniture production to retailing in the domestic market. Gadiesh and Leung (2007) indicate that as a result of their clear understanding of emerging markets, developing country suppliers have the advantage of designing and making products for other emerging markets (low-income economies) in which consumers prefer to buy “good enough” products at a rational price. For instance, buyers from Western markets (e.g., the US and EU) and regional markets (e.g., South Africa) have different requirements with different implications on upgrading prospects (Morris et al., 2011). Gibbon (2008) shows that US buyers prefer high volumes of products with basic style, while showing less interests in the design provided by suppliers. Instead, they emphasize the ability to produce basic products that could meet buyer specifications. By contrast, South African buyers generally use their manufacturing plants in Lesotho and Swaziland for producing finished goods with high fashion content; in such plants, local suppliers need to meet the requirements in terms of short lead times and high volume flexibilities and price sensitivities (Morris et al., 2011). This study also indicates that upgrading or downgrading possibilities are determined by various factors, such as firm ownership and market diversification strategies.

In summary, most studies on the market dynamics of export-oriented industries in developing countries have focused on market shifts to emerging markets in developing countries. However, market reorientation of export-oriented suppliers from exporting products to Western markets to selling products in host or domestic markets, such as China, have received inadequate attention. Horner (2014) points out that export-oriented pharmaceutical suppliers in India have recently turned to their host markets in India. Similarly, in the rise of domestic market in China, large export-oriented electronic suppliers in China, such as Foxconn, have expanded their market reach to the host markets of China (Yang, 2012, 2014). From a case study of a large garment supplier in Zhejiang, China, Zhu and Pickles (2015) argue that the large export-oriented garment suppliers have paid close attention to the domestic market of China while cooperating with global branded retailers. Taking Apple’s value chain as a case,

Grimes and Sun (2016) suggest that the proximity of companies to a huge domestic market grant them the opportunity to gain significant market dominance in China despite the lack of key technology. Nevertheless, these studies have not detailed the patterns and mechanisms of market reorientation in relation to the firm-level strategies.

2.3.2 Market dynamics of domestic market-oriented industries

Most studies of GPNs and GVCs have focused on export-oriented industrial industries in developing sectors, which are driven by advanced Western markets (e.g., the EU and US) (Bair & Gereffi, 2001; Gereffi, 1999). However, little attention has been given to the domestic market-oriented industries in developing countries and the market dynamics of domestic market-oriented suppliers in the changing market dynamics in the Global North and South. This section pays attention to the market dynamics of domestic market-oriented industries.

Over the past decades, Western market-oriented industries and production networks have been on the rise in developing countries. For example, since the opening and reform in China in the late 1970s, a large number of labor-intensive industries have emerged in the coastal regions of China, particularly the PRD, and this change has led to marked export-oriented industrialization (Eng, 1997; Lin, 1997; Sit & Yang, 1997). Yang (2007) indicates that driven by the manufacturing migration from Hong Kong and Taiwan, electronic industries have emerged in Dongguan, which serves global leading firms, such as Apple. Export-oriented industries are the important engines of economic growth in regions across developing countries (Eng, 1997; Lin, 1997; Sit & Yang, 1997). By integrating into Western market-oriented production networks, local suppliers not only absorb large flows of investment and export orders but also acquire production skills and management experience from their global counterparts, e.g., global leading firms (Bair & Gereffi, 2001; Kaplinsky et al., 2002).

However, recent studies demonstrate the negative effects of Western market-oriented production networks in developing countries. Bazan and

Navas-Alemán (2004) argue that Western market-oriented production networks provide limited functional upgrading opportunities for local suppliers to extend to high-value activities, such as design, retail, and marketing (Humphrey & Schmitz, 2002; Kaplinsky et al., 2002).

Recent studies also show that plugging into Western market-oriented production networks might cause friction between local and non-local firms (Coe & Hess, 2011) and undermine prospects of new industry development (Amsden, 2009). Gathering evidence from East and Central Europe and sub-Saharan Africa, studies indicate that local suppliers have experienced the downsizing and closure of factories after the phasing out of quantitative quotas in major markets (Kaplinsky & Morris, 2008). In China, export-oriented suppliers in coastal regions such as the PRD face unprecedented challenges, particularly the rapid decline of export orders from Western markets after the 2008 financial crisis (Yang, 2012b; Zhu & Pickles, 2014).

Export-oriented suppliers have adopted various strategies to mitigate the negative effects of plugging into Western markets, such as the relocation of manufacturing production and industrial upgrading (Zhu & Pickles, 2016). Some garment firms in the Slovak Republic have increased production flexibility for supplying fast fashion products within short lead time (Smith et al., 2014).

Several studies have recently shifted their analytical attention from the traditional paradigm of Western market-oriented production networks to domestic market-oriented industries and production networks in developing countries (Navas-Alemán, 2011). They found that different market orientations exert different effects on local suppliers. Scholars argue that domestic market-oriented suppliers in Latin America could gain functional upgrading prospects through their integration into domestic and regional market-oriented production networks in comparison with Western market-oriented production networks (Bazan & Navas-Alemán, 2004; Navas-Alemán, 2011). Tewari (2006) adds that previous integration into domestic markets in India has helped local textile suppliers facilitate their internationalization process. Given the positive effects of the integration of domestic and regional markets in developing countries, Murphy and

Schindler (2011) call for “a conceptualization that is able to account for alternative or more diffuse production networks and the entrepreneurial strategies used by Southern suppliers who lack the power to link into GPN such as those associated with leading retailers (e.g., Wal-Mart) or manufacturers (e.g., Toyota)” (p. 67). Notably, domestic market-oriented suppliers have tended to integrate into global production networks. Avdasheva (2007) argues that export-oriented furniture suppliers in Russia could achieve upgrading in their market reorientation to domestic or host markets as they shift from furniture production to retailing in the domestic market. Liu and Yang (2014) add that obtaining subcontract orders from global leading firms could facilitate the globalization of domestic market-oriented appliance suppliers in Shunde, China. Moreover, recent studies have pointed out that domestic market-oriented suppliers could diversify their market orientations via local specialized markets. Bellandi and Lombardi (2012) indicate that specialized markets provide a means not only for the coordination of fragmented productions in China but also for expanded sales abroad. However, different from the well-known model of foreign investment and linkages with global leading firms, the internationalization of local specialized markets in Yiwu, China, is driven by the cooperation between small, homegrown trading companies or private firms and the local government (Li et al., 2016). Bellandi and Lombardi (2012) emphasize the need to conduct further in-depth investigation into the overseas market expansion of local suppliers through specialized markets and the structural organization of globalized production networks. In its study of China, Wei et al. (2007) argue that integration into global markets is important to the restructuring of the local suppliers in Wenzhou. However, referring to the evidence of apparel industries in Ningbo, China, Zhu and Pickles (2016) argue that trans-local dynamics in export-oriented industries do not influence the improvement or innovation of local suppliers. These studies explore the integration of domestic market-oriented suppliers into advanced Western markets through collaborations with global leading firms.

The aforementioned studies show a research gap in the existing literature on the market dynamics of domestic market-oriented suppliers. Existing studies explore export- and domestic market-oriented suppliers in developing countries

and their market expansion to Western markets and their domestic or host markets. However, little research has been conducted on the domestic market-oriented supplier and their market expansion to other emerging markets in the Global South. Given the rise of emerging markets in the Global South, it is called for that the reconfiguration of global demand might create a powerful market imperative for the firms including existing lead firms from developed economies and their strategic capable suppliers and emerging domestic firms in developing countries. To capture more opportunities in the emerging markets, these firms have been actively reorganizing their inter-firm production networks (Coe & Yeung, 2015). Considering the rise of emerging markets in the Global South in the aftermath of the 2008 global financial crisis (Gereffi, 2014), this thesis argues that we should pay attention to the emerging markets in the Global South and its implications for changing market dynamics in domestic market-oriented industries in developing countries.

2.3.3 Market dynamics of cross-border production relocation

Despite the increasing attention to market dynamics, little has been done to establish a connection between market dynamics and spatial production relocation in recent years. To fulfill this research gap, this section reviews the spatial production relocation and discusses the importance of market dynamics in the process of production relocation.

Production relocation has attracted increasing attention in the exiting literature on GPNs or GVCs (Gereffi, 1999; Liao & Chan, 2009; Wei et al. 2007; Zhu & Pickles, 2014). Recent studies focus on internal production relocation within country territories (Liao & Chan, 2009; Yang & He, 2016; Zhu & Pickles, 2014). In the study of China, Yang (2009) indicates that Taiwanese personal computer firms have relocated their operation activities from the PRD to the YRD in China. Zhu and Pickles (2014) note that in response to the increasing cost of labor and materials in the coastal regions of China, apparel firms have moved from coastal regions to the Central and Western regions of China. For example, Foxconn, the largest supplier of Apple, has relocated some of their operation

activities from Shenzhen to inland China, such as Zhengzhou, leading to the emergence of the world's largest iPhone factory in inland China (Barboze, 2016). These studies explore the inter-region production relocation within country territories. Studies also explore the spatial relocation within provinces. Liao and Chan (2009) argue that in response to the policies introduced by local governments and Guangdong provincial government, Hong Kong-based firms have relocated their manufacturing facilities from the PRD to the outside of the PRD but within Guangdong Province. However, in the existing literature, spatial cross-border production relocation from China to other countries is rarely discussed.

Previous studies on cross-border production relocation have focused on production relocation from developed economies to developing countries. In North America, leading firms tended to outsource export orders in their regional production networks across the US, Mexico, and Caribbean Basin region to cope with the competition from lower-cost Asian countries (Bair & Gereffi, 2003).

In Asia, Dunning (1996) elucidates that Taiwanese firms shifted labor-intensive activities across the strait into mainland China to leverage advantageous assets in China, such as cheap and abundant labor. A previous study on cross-border production relocation from Taiwan to China has explored its effects on productivities, investment incentives, and network linkages with local production networks (Lo et al., 2010). Chen (2003) notes that maintaining relationships with buyers and competing for export orders is another incentive for the production relocation of Taiwanese firms to China. Overall, these studies explored the cross-border production relocation from newly industrial economies (NIEs) to developing countries, such as China.

Similar to cross-border production relocation from China to Taiwan, a previous study also explored that from Hong Kong to the PRD, China over the past three decades (Zhang, 2005). For example, Hong Kong firms relocated manufacturing operations from Hong Kong to the PRD in China with three types of production relocation forms, including total relocation, stratified relocation, and "pseudo relocation," which means collaboration with domestic manufacturing

suppliers in China (Liao & Chan, 2009), to take advantage of sufficient lower-cost of labor and land resource in the PRD. After production relocation, Hong Kong firms organized their production networks in the form of “front shop, back factory” at the early stage. However, in recent years, several high value-added activities, such as research and development and financial management, have moved to the PRD, whereas Hong Kong plays as the headquarters focusing on design, branding, and marketing. From this point of view, the function of the PRD was enhanced.

Overall, the aforementioned studies have explored the cross-border production relocation from developed economies, such as NIEs, to developing countries, such as China. However, production relocation from developing countries to developing countries is rarely investigated in the existing literature. Until recently, scholars have directed increasing interests on cross-border production relocation from developing countries, particularly China, to other developing economies (e.g., Southeast Asian countries) (Azmeah & Nadvi, 2013; Zhu & Pickles, 2014). Cross-border production relocation will lead to reorganization of the production networks of relocated firms. For example, instead of establishing local linkages with local raw material suppliers, Chinese garment firms preferred to source raw material inputs from Asia, leading to the triangular production networks across Jordan, Asia, and Western markets (Azmeah & Nadvi, 2013). In this process, the Greater China firms (suppliers) from Hong Kong and Taiwan are viewed as strategic coordinators of new production networks. Other studies reported that trade companies, such as Li & Fung Co. in Hong Kong, played a key role in coordinating triangular production networks across NIEs or Hong Kong, China, and Western markets (e.g., the US) (Gereffi, 1999). Azmeah and Nadvi (2013) argue that the emergence of Asia-centered GPNs driven by Greater China firms will bring out new spatial and structural organizations of manufacturing industries at a global scale (Azmeah & Nadvi, 2013). The success of Asian firms in branding and retail in Asia will enhance their positions in the hierarchy of global value chains and in the manner in which they engage with different locations.

Recent studies have directed increasing interests in cross-border production relocation from China to Southeast Asia (Zhu & Pickles, 2014). Yang (2016)

argues that the ongoing production relocation helped Southeast Asia integrate into the GPNs, leading to the emergence of labor-intensive production networks in Southeast Asian countries, such as Vietnam and Cambodia (Goto & Endo, 2013; Goto et al., 2011; Natsuda et al., 2010). The rise of labor-intensive industries also stimulated the growth of China–Association of Southeast Asian Nations (ASEAN) trade in supportive trade regimes, such as the launch of the Central America Free Trade Agreement (Sheng et al., 2012). However, the organization of production networks in the process of production relocation from China to Southeast Asia and the key coordinators of the production networks have been understudied.

Overall, most of the cross-border production relocations have been encouraged by the cost of labor and institutional factors, such as government policies, whereas the market dynamics have been understudied in studies on cross-border production relocation. Brouwer et al. (2004) argue that location factors, such as market size and location of destinations play an important role in the firms' decision of relocation. For example, compared to the firms that served for South Europe, firms that located in North Europe are more likely to relocate.

Previous studies have indicated that preferential market access to Western markets is an important force that attracts production relocation (Azmeah & Nadvi, 2013, 2014). Buckley et al. (2007) argue that the search of strategic resources, access to technology, political support, and network connections for globalization is major driving forces behind production relocation between developing countries. Trade preferences are also considered as the important driving forces. Gereffi (1999) argues that “the internationalization of production was sparked first by quotas, but the process was greatly accelerated as supply-side factors became adverse. Quotas determined when the outward shift of production began, while preferential market access to overseas markets and social networks determined where the firms from the East Asian NIEs went” (p. 57). For example, Asian garment suppliers, such as Hong Kong and Taiwan firms, relocated their operating activities into African countries to gain preferential access to market benefits from the US's African Growth and Opportunities Act (Gibbon, 2003). Given the preferential market access of Jordan to the US, Chinese garment firms have relocated production to Jordan in recent years (Azmeah & Nadvi, 2013, 2014).

These studies showed the pull factors in relation to the preferential market access of relocation destinations. Recent studies also explored the push factors of shifting trade regimes. Production activities have been increasingly migrating from Western Europe to the Central and Eastern Europe, leading to the regionalization of production networks, because of the upsurge of production cost after the integration of the European Union (Pickles & Smith, 2011).

Previous studies also showed that the rise of large emerging markets, such as China, might be considered as the driving force that influenced intra-national and cross-border production relocation (Zhang, 2005). Yang and He (2016) elucidate that electronic firms in China have relocated from coastal regions to inland regions of China, to some extent, to target the domestic market of China. From this point of view, the domestic markets in the relocation destinations are also essential to attract production relocation. Study also shows that cross-border production relocation also benefits from the rise of domestic consumption in China. Zhang (2005) argues that cross-border production relocation from the US and EU to China is driven by the rise of domestic markets in China, which has become more open to foreign investors.

In recent years, there has witnessed the increasing cross-border production relocation from China to Southeast Asia (Yang, 2016; Zhu & Pickles, 2014). However, whether the relocated manufacturing firms will target the emerging markets in Southeast Asia or China remain understudied. According to the McKinsey report, with the growing population and increasing per capita spending, Southeast Asia has a large consumption potential, which should not be ignored in the changing global economy (Potia & Remes, 2016). Given the changing market dynamics in the Global North and South, market strategies of the relocated firms from China to Southeast Asia are imperative in the studies on GPNs/GVCs.

The issue on how the market strategies influence the organization of production networks in the process of cross-border production relocation is unclear. Tham et al. (2016) argue that by targeting China's market, the electronic component suppliers in ASEAN have gained limited product upgrading prospects. By contrast, local suppliers in Malaysia achieved product upgrading and moving

up of the value chains by exporting component products to the domestic market of China (Devadason, 2009). Given the complex effects of integration into different kinds of markets, more studies are needed to explore the market orientation of production networks of emerging markets in developing countries and its implications for the reconfiguration of GPNs.

2.3.4 Firm-level strategies of suppliers in developing countries and upgrading

In the literature on the changing market dynamics of export-oriented, domestic markets-oriented and relocated suppliers in developing countries, firm-level strategies for changing market dynamics remain understudied. Less investigation has been conducted by exploring the market strategies of suppliers on firm-level.

Coe et al. (2008) argue that firms have been viewed as entities and that their internal operations and functions have been largely ignored. Henderson et al. (2002) suggest that different firms with different attributes (e.g., nationalities and managerial capabilities) adopt different strategies. Taking China's apparel industry as a case, Zhu and Pickles (2016) argue that in response to external shocks, different firms adopt different strategies. Thus, firms should be studied in depth, and their different characteristics should be identified.

To fulfill this gap, the recent work on "GPN 2.0" has conceptualized four kinds of firm-level strategies to understand the different organizations of production networks in different sectors and regions, including intra-firm coordination, inter-firm control, inter-firm partnership, and extra-firm bargaining (Coe & Yeung, 2015). First, intra-firm coordination means that to enhance firm efficiencies (e.g., cost control and great market responsiveness), leading firms, strategic partners, or local suppliers internalize or consolidate all value activities within firms (Yeung & Coe, 2015). This strategy is mostly applied by large transnational retailers (e.g., Wal-Mart) as they explore new markets. Second, inter-firm control refers to the outsourcing of a large proportion of value activities

from leading firms to their supply partners or contractors (Yeung & Coe, 2015). In this process, leading firms exert great control over the production process to ensure product/service quality, and thus, collective competitiveness is imposed onto the GPNs of global leading firms. Third, inter-firm partnership is defined as the collaboration of leading firms with their strategic partners or suppliers within the same GPNs (Yeung & Coe, 2015). In their cooperation, lead firms retain their control over marketing and production definition but require cost-effective production provision from their partners, namely, specialized suppliers engaging in component and module production. Fourth, extra-firm bargaining is regarded as negotiation between firms and non-firm actors for value creation and capture in GPNs on both sides.

Overall, the firm-level strategy framework systematically illustrates the possible structural relations between suppliers and their partners, thereby allowing for the analysis of strategic decoupling and recoupling engaged by different firms and the resolution of the shortage of simplistic inter-firm governance relations in the GVC approach. However, giving the changing market dynamics of local suppliers in developing countries, the firm-level market strategies have been rarely conducted.

Recent studies have explored the effects of firm-strategies of suppliers in relation to strategic recoupling with emerging markets. Most emphasis has been placed on upgrading prospects, ultimately disregarding the variegated trajectories of upgrading. The upgrading process refers to how firms and localities in developing countries improve their positions within GPNs or GVCs, including process upgrading (production becomes increasingly efficient), product upgrading (highly sophisticated products are produced by firms), functional upgrading (new function activities are engaged in by firms for added value), and chain upgrading (firms move into new chains or sectors) (Humphrey & Schmitz, 2002).

However, Coe and Yeung (2015) criticize that existing literature on upgrading obscures a various array of value capture outcomes. The literature primarily suggests one possible outcome of many in the plugging-in of firms into newly production systems and overwhelmingly simplifies the paths of upgrading,

in which firms always pursue the enhancement of their functional positions in a value chain or production network (Coe & Yeung, 2015). Tokatli (2013) adds advising all suppliers to upgrade by engaging in high-value activities (e.g., marketing, branding, and retailing) is not realistic. Facilitating upgrading in some places is much more complicated than simply providing financial support for suppliers to enhance their innovation capability or gain access to new markets (Selwyn, 2012).

Echoing the changing market dynamics of GPNs and subsequent strategic decoupling and recoupling, Blažek (2015) suggests that the dynamics of de/recoupling open a broad scope for the analysis of upgrading. Thus, the analysis of upgrading should consider the changing dynamics of strategic coupling, decoupling, or recoupling that would be adopted by developing country suppliers to reduce the detrimental effects of integration into GPNs (Horner, 2014; MacKinnon, 2012).

Ponte and Ewert (2009) argue that analytical attention should move beyond normal upgrading and account for functional upgrading as well as downgrading, which might entail significant meaning for firms in developing countries. Downgrading refers to the attempts of firms to lower the quality of products or expand to low value added activities for some specific purposes. Compared with upgrading, downgrading has received inadequate attention in the existing literature, with some exceptions (Barrientos et al., 2011; Smith et al., 2014). Different from upgrading that is widely viewed as a positive strategy, downgrading exerts considerably different effects.

According to Blažek (2015), functional downgrading comes in three types: 1) passive downgrading, which refers to producers turning to produce simple commodities according to the decision of their buyers (Kaplinsky et al., 2011); 2) adaptive downgrading, which means that firms are forced to target the low or small markets or focus on producing intermediate products rather than final products (Plank & Staritz, 2015); and 3) strategic downgrading, which shows that firms are intent on focusing on a specific market segment to maximize their core competence for increasing their market share (Herrigel, 2004).

Considering the emerging strategic recoupling with emerging markets in the Global South and the changing market dynamics of local suppliers in developing countries, this thesis argues that we should not only pay attention to upgrading as suppliers expand to high value-added activities, such as retail, branding, and sales (Horner, 2014). More important, downgrading might occur as a result of firms' efforts to maintain a great deal of low-risk sales and reduce new capital investment in their recoupling with emerging markets.

2.4 Transformation of labor-intensive industries in China: an overview

2.4.1 Manufacturing industries in transition

Manufacturing industries in China particularly the PRD have developed remarkably since the opening and reform in the late 1970s. The growth of manufacturing industries in the PRD, particularly the labor-intensive industries (e.g., furniture and garment) have been significantly driven by the production relocation from NIEs (e.g. Hong Kong and Taiwan), since the 1980s (Yang, 2007). The foreign investors was intent to take advantage of the sufficient lower-cost labor and cheap land resource in the PRD under the preferential political supports from central government and local government. Based on the large flows of foreign investment, export-oriented manufacturing industries have been emerged and developed dramatically in the PRD (Yang & Liao, 2009; Zhao et al., 2012). The export-oriented suppliers primarily served for overseas markets, particularly the Western advanced economies, such as the US and EU. Over the past three decades, PRD has become the well-known “global factory” and integrated into the global production networks as the subcontractors. Along with the Wenzhou and Sunan model in the Yangtze River Delta (Wei et al., 2007, 2009), the foreign investment-led and export-oriented development model of the PRD has attracted huge attention in the existing literature (Eng, 1997; Lin, 1997; Sit & Yang, 1997). In addition to the export-oriented industries, the economic reform of China also produced rapid growth of manufacturing industries that served for the domestic markets of China, which is significantly in the western PRD, such as Shunde (Liu & Yang, 2014) but have been underdeveloped in the existing literature.

With changing production environment, manufacturing industries particularly the export-oriented industries in China and the PRD as well have faced unprecedented challenges in recent years (Yang, 2012b). The fast-growing production cost with the introduction of Labor Contract Law in China, the shortage of cheap migrant labor, the industrial upgrading strategy of Chinese governments for enhancing value of production, and the appreciation of Renminbi have added burden on the manufacturing industries (Zhu & Pickles, 2014). Furthermore, the shrinking demand from developed economies after the 2008 global financial crisis and economic recession has heavily hurt the export-oriented industries in China and the PRD in particular (Yang, 2012a). In addition, the manufacturing industries in China also faced competition from the low-income countries such as Vietnam. Take the furniture industry as the case, the lower production cost in Poland and Vietnam have posed pressure on the furniture suppliers in China with the rise cost in China (Han et al., 2009).

There has witnessed the industrial restructuring in China and the PRD as well in the changing production environment and changing global economy (He & Zhu, 2007; Li et al., 2011; Wei & Liefner, 2012). For example, apparel firms in China initiated industrial upgrading by establishing brand names and thus transferring from subcontractors of global buyers to the branded manufacturers in China (Zhu & Pickles, 2015; Zhu & Pickles, 2014). Furthermore, in response to the upsurge of labor cost in the coastal regions, such as the PRD, manufacturing suppliers in apparel industry and electronic industry also relocated operations from coastal regions to inland regions in China (Liao & Chan, 2009; Yang & He, 2016; Zhu & He, 2013; Zhu & Pickles, 2014). For example, Foxconn has moved some parts of its operation from Shenzhen to Chongqing (Yang, 2012a). To cope with the diminished production environment in the PRD, electronic suppliers in the PRD moved their production from the PRD to the YRD (Yang, 2009). Some firms have also relocated manufacturing operations to the lower-cost neighboring Southeast Asia countries, such as Vietnam (Yang, 2016; Zhu & Pickles, 2014). These studies have explored structural transformation and spatial reorganization in the manufacturing industries in China and the PRD as well.

Recent work has also explored the technology innovation of manufacturers in

China. The discussion focuses on the importance of relationship with foreign firms in improving innovation capability of domestic firms. Taking three regions of China (Shenzhen-Dongguan, Shanghai-Suzhou, and Beijing) as the case, Zhou et al. (2011) highlights the significance of indigenous R&D of ICT manufacturers for domestic capital and for appealing technological foreign investment. Sun and Du (2011) argue that firm innovation benefited from the technological collaborations with foreign firms. However, the supplier-client based-relationships do not always have positive effects on developing innovation capability of domestic firms. Zhu and Pickles (2016) point out that trans-local interaction does not necessarily lead to the innovation of local suppliers. However, from the study of liquid crystal display in Shenzhen, Yang (2014b) argues that the indigenous innovation of domestic firms may unnecessarily exclude their relationships with TNCs. Ivarsson and Alvstam (2010) argue that small-scale and inexperienced furniture suppliers have gained technological upgrading as they gained significant technological support from the large retailers, such as IKEA.

Overall, the manufacturing industries in China and the PRD are in transition. Empirical studies on manufacturing industries explored the industrial restructuring with focus on the production transformation of export-oriented suppliers, while the studies of domestic market-oriented suppliers have received not enough attention. Liu and Yang (2014) argue that by mobilizing the regional assets, domestic market-oriented suppliers in home appliance industry in Shunde have strategically coupled with foreign firms for catching up. This study shows that local firms in domestic market-oriented industries played proactive role in the globalization of local industries. Domestic market-oriented suppliers could gain industrial upgrading prospects from integration into global production networks. This study shows a divergent path of globalization in Shunde, a domestic market-oriented industry in Foshan (Zhang, 2016), which different from the export-oriented industries in Dongguan.

2.4.2 Market dynamics of manufacturing industries

Recent studies also highlighted the market dynamics of manufacturing industries in China and the PRD as well, indicating the rise of domestic market of

China and growth of domestic market-oriented production networks (Yang, 2012a, 2014a). Export-oriented suppliers in China have increasingly decoupled with external markets and recoupled with the domestic markets, as they expand their function from low-end value assembly manufacturing to high value-added activities, such as design, branding, retail, and marketing (Zhu & Pickles, 2015). Butollo (2015) argues that in addition to supplying high value-added products to global buyers and partly relocating operations to lower-cost regions, garment suppliers in the PRD have integrated into domestic market in recent years. Zhu and Pickles (2015) indicate that learning from global buyers, export-oriented apparel suppliers in China have upgraded into domestic brand names and turned to target the domestic market of China. Yang et al. (2017) suggest that thanks for the positive effects of furniture exhibition, export-oriented furniture suppliers in Houjie Town, Dongguan have turned to explore the domestic markets of China.

Moreover, some firms have seeking domestic markets as they relocated from the coastal regions to inland China (Yang & He, 2016). For example, the relocation of Foxconn from Shenzhen to inland China has stimulated the emergence of domestic market-oriented production networks. The multiple market orientation could help to better mitigate the negative effects of global financial crisis on the export-oriented manufacturing suppliers (Zhou, 2015). From the study of apparel industry in Humen, home appliance in Shunde and automobile industry in Guangzhou in the PRD, Liu (2016) argues that integration into large domestic market of China provides alternative ways for local firms to accumulate profits, improve innovation capabilities, and practice marketing and branding. It also enables local firms to coordinate their production networks without violating their cooperation with their global counterparts. However, it is argued that moving from exports to domestic sales is not easy in the export-oriented industries, because they need to transform the fixity of local industrial assets and institutional structure that set for exports (Yang, 2012b; Zhou et al., 2011).

These studies has challenged the dichotomy between developed countries as final markets and the developing economies as manufacturing production bases (Zhu & Lan, 2016). Studies also indicate the significance of domestic markets of China for the transformation of manufacturing industries in China. Liao and Wei

(2013) point out that China has potential to provide opportunities of technology development to domestic firms with the huge size of domestic markets. Zhou and Wei (2011) argue that rather than merely focusing on export-oriented development model, China's economy is best to synergy the development between domestic and export markets (Zhou, 2008a, 2008b). Zhou et al. (2011) further suggest that for Dongguan and Suzhou, China, the typical labor-intensive industrial manufacturing bases need to engage in the multiple pipelines from export markets and the domestic markets.

Despite the rise and huge potential of domestic markets of China, the domestic markets of China are new arenas for the manufacturing suppliers, particularly the export-oriented suppliers. With different consumer requirements in different market segment, the domestic markets of China are complicated. The low end provides protection for indigenous firms from foreign competition, while the high-end segment offers foreign companies incentives for building capability (Brandt & Thun, 2016). Due to the multiple segments of domestic markets, integration into the domestic markets of China does not guarantee the upgrading prospects for manufacturing suppliers. Take the suppliers of mobile phone as the case. Based on the knowledge of low-end market segment in China, domestic firms could integrate into the domestic market-oriented production networks. However, the domestic firms will confront competition from the foreign firms due to the high modularity of mobile phone manufacturing and the lower-profits gained from low-end segment of domestic markets (Brandt & Thun, 2011). In this sense, better understanding the domestic market of China with various segments is imperative for manufacturing firms to adjust their market strategies.

To sum up, the empirical studies have explored the industrial transformation of manufacturing industries in China and the PRD particularly and the changing market dynamics of some manufacturing suppliers. However, research gaps still remained in the existing empirical studies. First, the existing work has not explored the firm-level market strategies in their strategic coupling with the domestic market of China. Second, the studies on market dynamics have primarily focused on the export-oriented suppliers, while little attention has been given to the domestic market-oriented suppliers in labor-intensive industries. Third, the interaction

between market dynamics and spatial relocation particularly the cross-border production relocation has received inadequate attention. Although some work has explored the internal spatial relocation within China that has been conducted, to some extent, for seeking domestic markets of China (Yang & He, 2016), little attention has been paid to the market strategies of manufacturing firms in their cross-border production relocation. Fourth, different patterns of market strategies in different sectors have been understudied in the existing literature. Last but not least, existing studies have not directed attention to the other emerging markets in the Global South, such as the Southeast Asia countries. With the significant cross-border production relocation from China to Southeast Asia, the market strategies of relocated manufacturing firms have remained unclear.

2.5 Analytical framework

After reviewing the market dynamics of GPNs and GVCs and the market strategies of manufacturing industries in developing countries and in China, an analytical framework for the empirical studies is generated (Figure 2.1). This framework incorporates the markets in the Global North and the South, manufacturing suppliers, and local institutions. The framework is centered on the firm-level market strategies of manufacturing suppliers in China in response to the changing global market dynamics.

The “market” in this study could be conceptualized into different kinds of markets. First, according to the geographical scales, markets could be categorized into advanced Western markets in the Global North and emerging markets in the Global South. Moreover, emerging markets might include the large domestic markets of China and relatively small emerging markets in other developing countries, such as Southeast Asian countries the Middle East. Specifically, the domestic markets of China are the home markets of Chinese private firms and host markets of foreign-invested firms in China. For the relocated manufacturing suppliers from China to Southeast Asia, the emerging markets in Southeast Asia are their host markets. According to the market niches, markets could cover low-end, middle-end, and high-end market segments. Regarding different kinds of markets,

markets might involve final and intermediate markets. The study on markets in this thesis also considers the drivers and major actors who initiate market strategies to (re)shape geographical and structural organization of markets. The market strategies in this study mean the strategies adopted by economic actors to change their market orientations, market niches, or target consumers. The firm actors in the market involve suppliers, retailers, consumers, and corporate customers. Non-firm actors also exist in the markets, including multi-scalar institutions such as central government, local governments, and industrial associations. Given the changing market dynamics of supplier firms in developing countries, this study focuses on the firm-level market strategies of local suppliers. The suppliers in this framework cover three kinds of suppliers, including export-oriented suppliers, domestic market-oriented suppliers, and relocated suppliers from China to Southeast Asia. By shedding light on these three kinds of suppliers, this research seeks to investigate different processes and patterns of firm-level market strategies in manufacturing industries in China.

Drawing upon the theory of GPNs and its core concept of strategic coupling, this research explores how different kinds of suppliers decouple with former markets and recouple with target markets through firm-level market strategies. The characteristics of intentional, time-space contingent, and transcends territorial action of the concept of strategic coupling help to better explain the variegated patterns of market strategies in different sectors and regions.

In this framework, the roles of institutions associated with the Chinese central government, local governments, and industrial associations are also incorporated into the analysis of market strategies. This study attempts to explore how these institutions influence the firm-level market strategies. This study also explores the effects of market strategies in terms of industrial transformation of manufacturing industries in China. The transformation concerns the following aspects: (1) structural reorganization of production networks, such as upgrading and downgrading trajectories; (2) spatial reorganization of production networks, such as production relocation. Based on this framework, this thesis will test and explore the patterns, mechanisms, and effects of market strategies of manufacturing suppliers in China in the changing global economy.

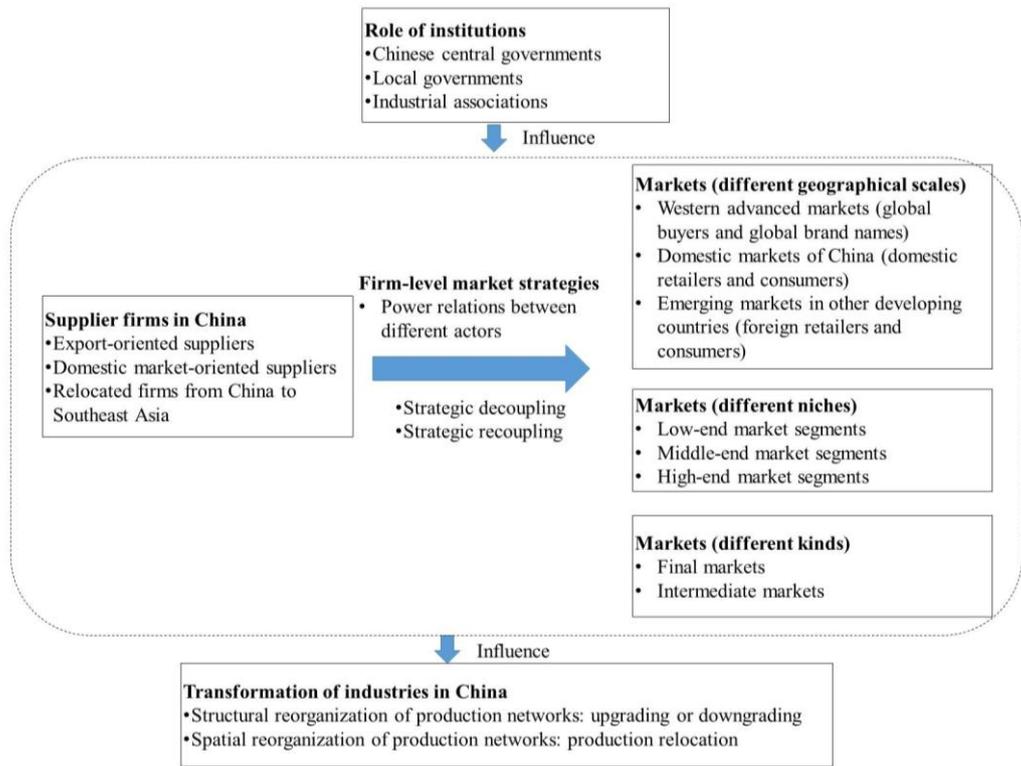


Figure 2.1 Framework for market change of suppliers in China

2.6 Summary

The previous sections reviewed the theoretical dynamics of GPNs associated with strategic coupling and the market dynamics of GPNs and GVCs. This chapter also reviewed three dimensions of relevant literature on market dynamics of manufacturing suppliers in developing countries and in China. An analytical framework is developed to guide empirical studies to fill the research gaps illustrated in the previous sections. The framework integrates the firm-level market strategies and extra-firm factors, that is, institutional factors. The subsequent effects of market strategies on the transformation of manufacturing industries will be examined. With this framework, this study contributes to the literature on market dynamics in GPNs or GVCs.

3 Research Design and Study Area

This chapter summarizes and explains the research methods. First, research objectives and questions are introduced. Subsequently, the study area, study period, and sector selection are described. Finally, the methods of data collection and analysis are presented.

3.1 Research questions, objectives, and hypotheses

This research primarily seeks to advance our understanding of the market strategies of manufacturing suppliers in China, particularly in the PRD, in response to the changing market dynamics in the Global North and South. Taking the furniture and garment industries as cases, this research explores the different market strategies and the underlying mechanisms through three empirical studies in China, particularly in the PRD. In general, this research investigates the following questions.

First, what are the implications of emerging markets in the Global South, such as China and other emerging markets in the Global South for the transformation of labor-intensive industries in China and reconfiguration of global production networks?

Second, what kinds of firm-level market strategies have been adopted by different kinds of supplier firms in the PRD to cope with the changing market dynamics in the Global North and South, such as response to the rise of domestic consumption in China and shrinking demand of export orders.

Third, what are the roles of multi-scale institutions in reshaping the trajectories of supplier firms in the PRD? How these institutions influence the market strategies of supplier firms?

Specifically, this thesis attempts to investigate the following questions regarding echoing to three empirical studies.

First, what kind of market strategies have been adopted by previous export-oriented supplier firms when they shifted final markets from advanced Western markets to the domestic markets of China? What are the effects of these strategies on the upgrading prospects of supplier firms?

Second, what kinds of market strategies have been adopted by previous domestic market-oriented supplier firms in the changing market dynamic in the Global North and South? Will they target the Western markets or other emerging markets in the Global South?

Third, what kinds of market strategies have been adopted by local suppliers when they relocated their production operation from China to Southeast Asia countries? What are the interaction between market strategies and cross-border production relocation? Which drives which? What are the difference of market strategies between final producers and intermediate product suppliers? How did they organize their production networks for their target markets? Based on these research questions, we detail the four following research objectives:

The first objective is to categorize the “market” particularly the emerging markets in the Global South, including the domestic markets of China and emerging markets in other developing countries.

The second objective is to explore the implication of emerging markets in reshaping the configuration of global production networks and industrial transformation of labor-intensive industries in developing countries, such as China.

The third objective is to unpack the market dynamics through firm-level strategies and shed light on the firm-level strategies in terms of market. In doing so, this thesis moves beyond the production issue in the framework of global production networks and pays more attention to the market. The research could also move beyond the studies on market on national level to sub-regional level and supra-national level.

To investigate the research questions and achieve the research objectives,

three hypotheses are developed.

First, because of the shrinking demand from Western markets, export-oriented suppliers in the PRD tended to tap into the domestic markets of China. In market reorientation, suppliers preferred to cooperate with domestic partners due to their lack of experience in retail and marketing. By integrating into domestic market, suppliers gained limited upgrading prospects due to the low requirements of domestic consumers.

Second, compared with the export-oriented suppliers who turned to target China's market, domestic market-oriented suppliers tended to target the emerging markets in other developing countries with similar consumer demand and requirement with Chinese consumers. Given the low requirements of these consumers from emerging markets, suppliers gained limited upgrading opportunities. Market expansion to low-end emerging markets in other developing countries led to dependence of local firms on the low-end market segment.

Third, spatial production relocation limitedly affects the market strategies of relocated suppliers. Relocated suppliers continued to target Western markets rather than exploring immature emerging markets in Southeast Asia because of the preferential market access of Southeast Asian countries to the developed economies, such as the US and EU. Given the backwardness of supply chain in the Southeast Asia, relocated suppliers primarily imported needed intermediate products from China, thus coordinating the triangular production networks across China, Southeast Asia, and the US /EU.

3.2 Study area

This study focuses on the manufacturing suppliers in the PRD to explore market strategies. The following discussion illustrates the industrial development and changing economy environment in China as well as the uniqueness of the PRD.

China has made remarkable economic development since its opening and

reform in the late 1970s. The GDP of China significantly increased from 367.9 billion yuan in 1979 to 68,550.6 billion yuan in 2015 (China Statistical Yearbook, 2016). In particular, in 2010, China surpassed Japan in terms of nominal GDP, becoming the second largest economy in the world (*The Economist*, 2010). The economic growth of China has been largely driven by FDI and exports. From 2000–2008, the growth rate of export in China reached 24.4% (Table 3.1). However, China has witnessed slow economic growth rate in recent years, particularly in the aftermath of the 2008 global financial crisis. The annual growth rate of GDP declined from 14.9% from 2000–2008 to 10.9% from 2008–2015 (Table 3.1). Influenced by the sluggish demand and economic recession in advanced Western economies, the annual growth rate of export of China also decreased from 24.4% from 2000–2008 to 6% from 2008–2015 (Table 3.1). To cope with the large reliance on exports, the Chinese central government attempted to steer economic growth mode from export-oriented to domestic consumption driven-growth for balancing exports and domestic consumption. This action has significantly initiated financial policies to boost domestic consumption, such as the “4-trillion policy” in 2008. This policy is a significant transformation about market orientation in China since its opening and reform, as it offers new opportunities to companies both in China and foreign countries.

Table 3.1 Comparison of annual growth of GDP and export of the PRD

| Region | GDP (%) | | Export (%) | |
|-----------|-----------|-----------|------------|-----------|
| | 2000-2008 | 2008-2015 | 2000-2008 | 2008-2015 |
| PRD | 17.0 | 9.7 | 20.9 | 5.8 |
| Guangdong | 16.2 | 9.3 | 20.3 | 6 |
| China | 14.9 | 10.9 | 24.4 | 6 |

Source: China Statistical Yearbook, 2009, 2016; Guangdong Statistical Yearbook, 2009, 2016

Being the experimental base for opening and reform in China, Guangdong Province has experienced dramatic economic development over the past three decades (Vogel, 1989). Guangdong has been one of most important powerhouses of China’s economic growth. It ranked first among the 31 regions (including

provinces, municipalities, and autonomous regions) in China in terms of GDP in 2015 (China Statistical Yearbook, 2016). It contributed to more than 10% of the national total GDP (Table 3.2). Its export, import, and FDI accounted for 28.3%, 22.6%, and 21.3% of the national total GDP in 2015, respectively (Table 3.2).

Table 3.2 Major indicators of China, Guangdong, and the Pearl River Delta in 2015

| Basic economic indicators | China | Guangdong | Guangdong/China (%) | PRD | PRD/Guangdong (%) |
|---|---------|-----------|------------------------|----------|----------------------|
| Population (million persons) | 1374.6 | 108.5 | 7.9 | 58.7 | 54.1 |
| Land area (10000 sp.km) | 960.0 | 18.0 | 1.9 | 5.5 | 30.5 |
| GDP (billion yuan) | 67670.8 | 7281.3 | 10.8 | 6226.8 | 79.1 |
| Per capita gross domestic product (yuan) | 49351.0 | 67503.4 | | 107011.0 | |
| Government revenue (billion yuan) | 8298.3 | 936.7 | 11.3 | 639.2 | 86.3 |
| Total retail sales of consumer goods | 30093.1 | 3151.8 | 10.5 | 2265.1 | 72.1 |
| Export (USD billion) | 2273.5 | 643.5 | 28.3 | 608.8 | 94.6 |
| Import (USD billion) | 1679.6 | 379.3 | 22.6 | 366.4 | 96.6 |
| Foreign direct investment actually utilized (US\$ billion) | 126.3 | 26.9 | 21.3 | 25.6 | 95.3 |
| Value-added of industry above designated size ¹ (billion yuan) | | 2944.621 | | 2368.0 | 80.4 |

Source: China Statistical Yearbook, 2016; Guangdong Statistical Yearbook, 2016

¹ According to China Statistical Bureau, enterprises above a designated size refer to the enterprises which have revenue that is higher than 20 million yuan.

The PRD is the economic core region in Guangdong Province (Figure 3.1). Its population is 58.7 million in 2015, accounting for 54.1% of the provincial total. Its area is 55,000 square km², covering 30.5% of the total area of Guangdong Province (Table 3.2). The PRD includes nine prefecture-level cities in Guangdong, namely, Guangzhou (the capital), Shenzhen, Dongguan, Foshan, Zhongshan, Zhuhai, Jiangmen, and Zhaoqing (Figure 3.1). To take advantage of the opening and reform policy initiated in 1978, the PRD has marked significant industrialization over the past decades (Lin, 1997; Sit & Yang, 1997). The GDP and industrial outputs have significantly grown from 1979–2015 (Figure 3.2). Moreover, both GDP and added value of industries above designated size in the PRD accounted for almost 80% of the total of Guangdong in 2015 (Table 3.2). The export, import, and FDI of the PRD contributed to more than 90% of the provincial total (Table 3.2)². The FDI in Guangdong has been significantly dominated by oversea Chinese investment, particularly from Hong Kong. The foreign capital actually utilized by Hong Kong alone accounted for 68% of the total of Guangdong from 1979–2015, which is followed by the Virgin Islands, Japan, Singapore, and Taiwan (Figure 3.3). In this study, we primarily use the data of Guangdong to represent that of the PRD in the analysis because of the lack of data on the PRD, such as industrial indicators which are unavailable in the statistical yearbooks.

² The economic data of Guangdong could largely represent that of the PRD. Due to the lack of data in the PRD in terms of furniture and garment industries, this thesis uses the data of furniture and garment sectors of Guangdong to reflect those in the PRD.

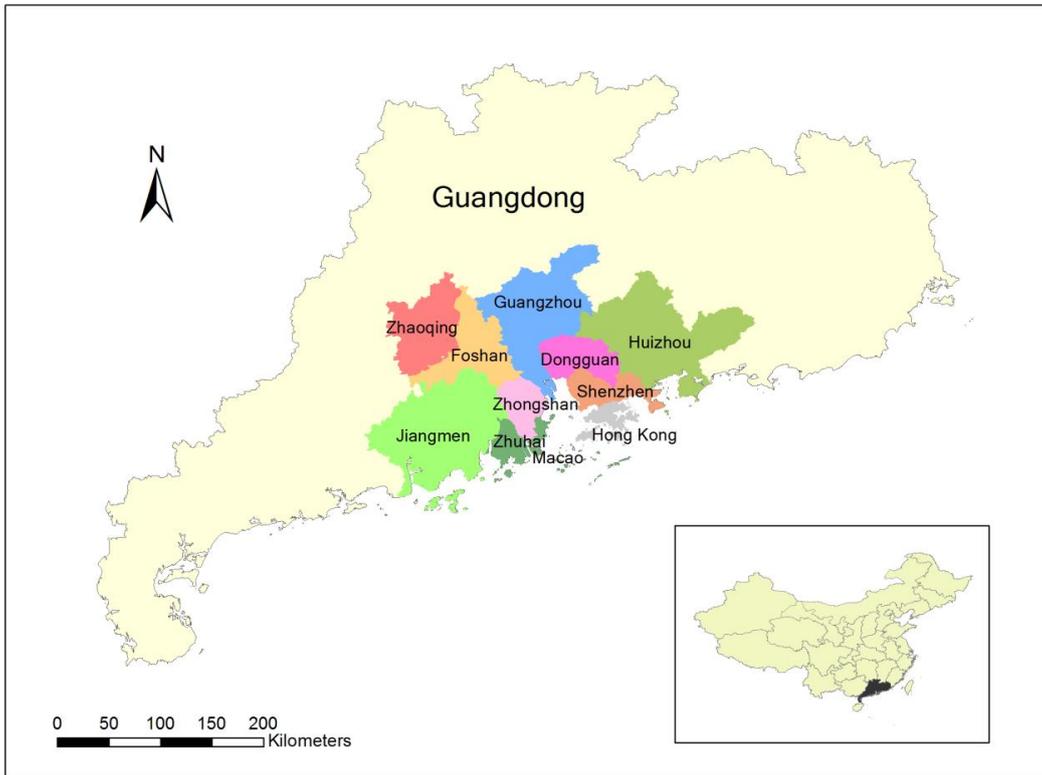


Figure 3.1 Location of the Pearl River Delta in Guangdong Province

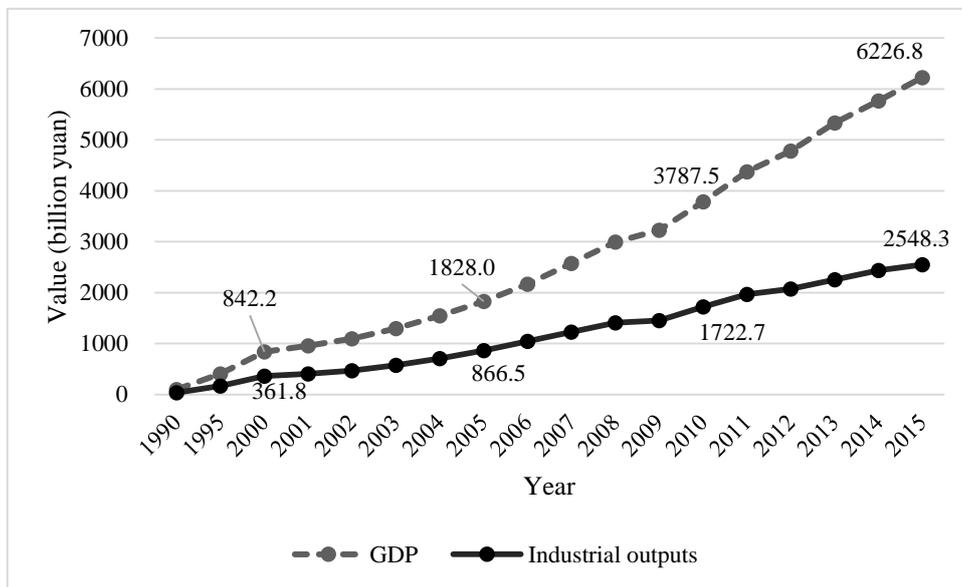


Figure 3.2 GDP and industrial outputs of the Pearl River Delta (1979-2015)

Source: Guangdong Statistical Yearbook, 2016

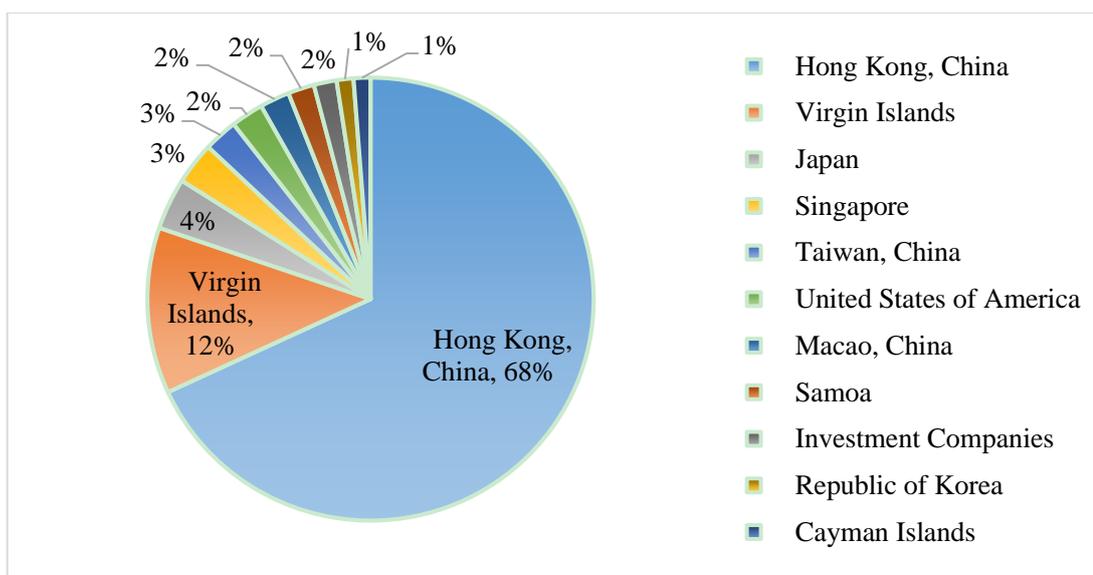


Figure 3.3 Top ten investors of foreign capital actually utilized from different economies in Guangdong Province during 1979-2015

Source: Guangdong Statistical Yearbook, 2016

3.2.1 The eastern Pearl River Delta

In the PRD, Dongguan and Shenzhen, which are cities located in the eastern PRD, are the major destinations of FDI and export-oriented industries (Figure 3.1). Owing to their close proximity to Hong Kong, Dongguan and Shenzhen received a large flow of FDI and labor-intensive industries from Hong Kong, such as garments, furniture, and electronics. Over the past decades, Dongguan and Shenzhen have experienced remarkable export-oriented industrialization. Their total exports accounted for more than half of the total exports of the PRD in 2015 (Table 3.3). The exports/GDP ratio in Dongguan and Shenzhen also reached 153.5% and 167.9%, respectively, in 2015, which were significantly higher than other cities in the PRD (Table 3.4). In particular, Dongguan has become the well-known ‘world factory’ for labor-intensive and export-oriented manufacturing industries. However, in recent years, due to the shrinking demand from Western markets, such as the US and EU, exports in Dongguan and Shenzhen declined significantly. The exports/GDP ratio in Dongguan declined from 111.6% in 2010 to 102.8% in 2015 and that of Shenzhen declined from 144.3% to 94% during the same period (Table 3.4). Considering the

salient export-oriented development in the eastern PRD, this study explores the market dynamics of export-oriented suppliers in Dongguan and Shenzhen. In doing so, we can better understand industrial transformation, particularly the firm-level market strategies of suppliers in export-oriented industries in the PRD.

Table 3.3 Major economic indicators of the cities in the Pearl River Delta in 2015

| City | Area (Km ²) | Population (million persons) | GDP (billion yuan) | Export (US\$ billion) | Import (US\$ billion) | FDI (US\$ billion) |
|-------------------|----------------------------|---------------------------------|-----------------------|--------------------------|--------------------------|-----------------------|
| Pearl River Delta | | 58.7 | 6226.8 | 608.8 | 366.4 | 25.6 |
| Guangzhou | 7434 | 1810.0 | 18.1 | 81.2 | 52.7 | 5.4 |
| Shenzhen | 1953 | 1750.3 | 17.5 | 264.0 | 178.4 | 6.5 |
| Zhuhai | 1688 | 202.5 | 2.0 | 28.8 | 18.8 | 2.2 |
| Foshan | 3848 | 800.4 | 8.0 | 48.2 | 17.5 | 2.4 |
| #Shunde | 806 | 258.7 | 2.6 | 20.7 | 5.1 | 0.9 |
| Huizhou | 11158 | 314.0 | 3.1 | 34.8 | 19.6 | 1.1 |
| Dongguan | 2465 | 627.5 | 6.3 | 103.6 | 63.9 | 5.3 |
| Zhongshan | 1800 | 301.0 | 3.0 | 28.0 | 7.6 | 0.5 |
| Jiangmen | 9541 | 224.0 | 2.2 | 15.4 | 4.5 | 0.9 |
| Zhaoqing | 14856 | 197.0 | 2.0 | 4.8 | 3.4 | 1.4 |

Source: Guangdong Statistical Yearbook, 2016

Note: Shunde is the district-city in Foshan City.

Table 3.4 GDP and exports of cities in the Pearl River Delta during 2000-2015

| City/district-city | GDP (billion yuan) | | | | Export (US\$ billion) | | | | Export/GDP (%) | | | |
|--------------------|--------------------|-------|--------|-------|-----------------------|-------|-------|-------|----------------|-------|-------|-------|
| | 2000 | 2005 | 2010 | 2015 | 2000 | 2005 | 2010 | 2015 | 2000 | 2005 | 2010 | 2015 |
| Guangzhou | 237.6 | 515.4 | 1074.8 | 1810 | 11.8 | 26.7 | 48.4 | 81.2 | 41.1 | 42.4 | 30.5 | 27.9 |
| Shenzhen | 166.5 | 495.1 | 958.2 | 1750 | 34.6 | 101.5 | 204.2 | 264 | 172 | 167.9 | 144.3 | 94 |
| Zhuhai | 36.7 | 63.5 | 120.9 | 202.5 | 3.6 | 10.8 | 20.9 | 28.8 | 81.2 | 139.3 | 117 | 88.6 |
| Foshan | 95.7 | 238.3 | 565.2 | 800.4 | 5.7 | 17.1 | 33 | 48.2 | 49.3 | 58.8 | 39.5 | 37.5 |
| #Shunde | 33.3 | 85.6 | 195.1 | 258.7 | 2.6 | 8.6 | 14.4 | 20.7 | 64.6 | 82.3 | 50 | 49.8 |
| Huizhou | 44 | 80.3 | 173.7 | 318.9 | 4.5 | 10.7 | 20.2 | 34.8 | 84.7 | 109.2 | 78.7 | 68 |
| Zhaoqing | 38.3 | 43.5 | 108.6 | 197 | 0.7 | 1.4 | 2.6 | 4.8 | 15.1 | 26.4 | 16.2 | 15.2 |
| Jiangmen | 56.8 | 80.5 | 157.1 | 224.2 | 3 | 6 | 10.4 | 15.4 | 43.7 | 61.1 | 44.8 | 42.8 |
| Dongguan | 49.3 | 218.2 | 424.6 | 627.5 | 17.1 | 40.9 | 70 | 103.6 | 287.1 | 153.5 | 111.6 | 102.8 |
| Zhongshan | 31.3 | 88 | 185.1 | 301 | 3.7 | 12.3 | 22.5 | 28 | 97.9 | 114.5 | 82.3 | 57.9 |

Source: Guangdong Statistical Yearbook, 2001, 2006, 2011, 2016; Shunde Statistical Yearbook, 2001, 2006, 2011, 2016.

Note: The data is current price

3.2.2 The western Pearl River Delta

Unlike the export-oriented industrialization in the eastern PRD, cities in the western PRD represent salient domestic market-oriented development. The exports/GDP ratio in western cities, such as Foshan and Zhongshan, only reached 37.5% and 57.9%, which are significantly lower than those in Dongguan and Shenzhen (Table 3.4). Similarly, the exports and FDI of Foshan and Zhongshan are lower than other cities (Table 3.4). Based on the domestic market-oriented development model, Foshan has become the third largest city in the PRD, just following Guangzhou (the capital of Guangdong Province) and Shenzhen, in terms of GDP in 2015 (Table 3.4). Therefore, in addition to the export-oriented industrial bases in the eastern PRD, such as Dongguan and Shenzhen, investigating the domestic market-oriented industrial bases in western PRD is imperative to understand the industrial transformation of domestic market-oriented suppliers.

In Foshan, Shunde is the most promising city district (Figure 3.4). Shunde has 10 towns (Figure 3.4). Established in 1452 during the Ming Dynasty, Shunde became a city district that was directly governed by the provincial government since 2009, under the administrative reform instructed by Provincial Party Secretary Wang Yang (Zhang, 2016). Together with remarkable economic growth, the rise of administrative status makes Shunde comparable with other cities (e.g., Dongguan) directly governed by the provincial government. Over the past three decades, Shunde has developed dramatically and transformed from an agricultural area into a domestic market-oriented district, based on the advantageous endowment (e.g., preferential policies, prime location, and rich business culture). The GDP of Shunde significantly increased from 3.4 billion yuan in 1990 to 258.7 billion yuan in 2014 (Table 3.4). Its gross industrial outputs increased from 8.8 billion yuan in 1990 to 130.5 billion yuan in 2013, ranking near the top of China's 100 strongest city districts in comprehensive strength (Foshan Statistical Yearbook, 2014; Dongguan Statistical Yearbook, 1991). Given its leading role in industrial development, Shunde was praised as one of "four little tigers" of Guangdong, along with Dongguan City, Zhongshan City, and Nanhai District of Foshan City. In terms of GDP, Shunde can be comparable to the cities in the PRD, such as Zhongshan. Its GDP is even larger than other cities such as Zhuhai,

Jiangmen, and Zhaoqing. Compare with the export-oriented production bases in the eastern PRD (e.g., Dongguan) (Sit & Yang, 1997), Shunde has developed into a typical domestic market-oriented industrial district in the western PRD. Its exports were significantly smaller than many cities in the PRD. Its export/GDP ratio (49.8%) was much lower than Dongguan (102.8%) and Shenzhen (94%) in 2015 (Table 3.4). Considering the unique domestic market-oriented industrial development in Shunde, this study selects Shunde as the case to explore the market strategies of manufacturing suppliers in domestic market-oriented district.

Overall, the PRD is a diverse industrial region, including export-oriented industries in the eastern PRD and the domestic market-oriented industries in the western PRD. Therefore, this study explores the market strategies of manufacturing suppliers not only in export-oriented industries in the eastern PRD but also in the domestic market-oriented industries in the western PRD. In doing so, this study can compare the market strategies of export- and domestic market-oriented suppliers in China. We can examine how the historical path and local assets in these two different regions influence the market strategies of their suppliers in the changing global economy. By incorporating the domestic market-oriented suppliers, we can also shed light on the local agents (domestic market-oriented suppliers) in the Global South and its role in reshaping the reorganization of GPNs.



Figure 3.4 Location of Shunde District, Foshan City

3.3 Study period

The major objective of this study is to investigate the market strategies of the furniture and garment industries in China, particularly the PRD. This study will be confined to the study period from 2000 to present, with particular focus on the period after 2008 global financial crisis. This period strongly represents the transformation trajectories of export- and domestic market-oriented industries in the PRD. Since the outbreak of 2008 global financial crisis which brought about shrinking demand of advanced Western economies, changing market dynamics have occurred in manufacturing industries in China. Therefore, focusing on the period of before 2008 global financial crisis to present makes the study on market strategies more reliable and feasible.

3.4 Sector selection

This study selects two labor-intensive industries in the PRD, namely, furniture

and garment industries, as the cases to explore different patterns of market strategies of suppliers in different sectors. Exploring the market strategies of suppliers in two different sectors can help to better examine whether the specific industrial characteristics influence the market strategies of the suppliers. This study especially emphasizes the labor-intensive industries that largely relied on the exports. According to the Twelfth Five-Year Plan of Guangdong, garment, furniture, and food and drink sectors are three most important traditional sectors. However, these traditional labor-intensive industries such as garment and furniture industries suffered significant decline of export orders after the 2008 global financial crisis, which would be described below. Therefore, exploring the labor-intensive industries can enhance the understanding of the significant industrial transformation of labor-intensive industries in developing countries in the changing global economy. The following discussion introduces China's positions in the global furniture and garment industries and Guangdong's positions in the furniture and garment industries in China.

3.4.1 Furniture industry as a case

Furniture industry has significantly developed in China over the past decades. In 2013, approximately 60,000 furniture enterprises operate in China, including around 4,000 enterprises above designated size (China Furniture Yearbook, 2014). The total industrial sales in the furniture industry above designated size increased from 139.8 billion yuan in 2005 to 497.7 billion yuan in 2011 (Table 3.5). Over half of the total industrial sales in China were meant for exports in 2005 (Table 3.5).

Furniture industry could reflect the role of China as the leading exporter worldwide. China is a leading furniture exporter in the world. In 2005, China surpassed Italy, becoming the largest global furniture exporter (Table 3.6). In 2015, the furniture exports of China increased to US\$ 60.7 billion (Figure 3.5), accounted for more than one third of the global furniture exports (Table 3.6). The US and EU are the major export markets for China's furniture industry, which accounted for 31.6% and 18.4% of the furniture exports of the country in 2015 (Table 3.7). However, in recent years, exports to the US and EU in furniture industry of China declined. The share of furniture exports to the US decreased from 45.8% of the total in 2005 to 28.8% in 2013. Similarly, the share of furniture exports to EU dropped from 23.2% in 2008

to 18.4% in 2015 (Table 3.7).

Table 3.5 Proportion of export in the furniture industry of China

| Furniture industry | 2005 | 2007 | 2008 | 2010 | 2011 |
|---|-------|-------|-------|-------|-------|
| Industrial sales value (billion yuan) | 139.8 | 237.0 | 300.4 | 430.5 | 497.7 |
| Export (billion yuan) | 73.1 | 103.2 | 111.0 | 120.3 | 124.7 |
| Export/total industrial sales (%) | 52.3 | 43.6 | 37 | 27.9 | 25.1 |
| Domestic sales/total industrial sales (%) | 47.7 | 56.4 | 63 | 72.1 | 74.9 |

Source: calculated based on the data of from China industrial statistical yearbook 2006, 2008, 2009, 2011, and 2012.

Note: the data is calculated according to the firms above designated size

Table 3.6 Share of major furniture exporters in the world

| Country | 1995 | 2000 | 2005 | 2008 | 2010 | 2013 | 2015 |
|---------------------------------------|------|------|------|-------|-------|-------|-------|
| World (Total exports US\$ billion) | 45.5 | 61.5 | 98.0 | 137.1 | 129.5 | 166.4 | 168.4 |
| Share (%) | | | | | | | |
| China | 3.9 | 7.4 | 16.9 | 23.2 | 30.1 | 35.8 | 36.1 |
| Germany | 10.0 | 7.7 | 8.4 | 9.1 | 8.3 | 7.5 | 6.9 |
| Italy | 18.0 | 13.7 | 10.9 | 10.2 | 8.1 | 6.9 | 6.2 |
| Poland | 2.9 | 3.5 | 5.7 | 6.4 | 6.0 | 5.8 | 5.8 |
| United States | 7.3 | 8.5 | 5.3 | 4.7 | 4.5 | 4.6 | 4.8 |
| Mexico | 1.9 | 5.4 | 4.7 | 3.0 | 3.4 | 3.9 | 4.5 |
| Canada | 5.7 | 8.4 | 5.8 | 3.3 | 2.7 | 2.3 | 2.6 |
| France | 4.4 | 3.8 | 3.0 | 3.0 | 2.1 | 1.7 | 1.6 |
| Czech Republic | 0.9 | 1.3 | 1.9 | 1.9 | 1.7 | 1.8 | 2.0 |
| Malaysia | 2.0 | 2.6 | 2.1 | 2.0 | 2.0 | 1.4 | 1.4 |

Source: calculated based on the data from United Nations Conference on Trade and Development (UNCTAD). Trade data for SITC (Standard Industrial Trade Classification)—furniture [821]

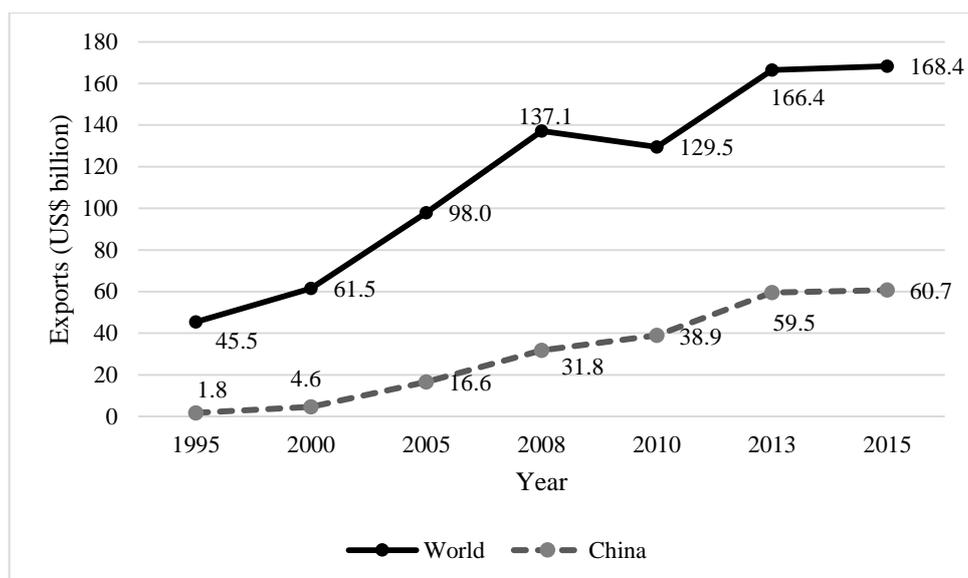


Figure 3.5 Furniture exports of China and global furniture exports

Source: compiled according to the data from UNCTAD, SITC 821.

Table 3.7 Major furniture export markets of China

| Year | China | To US | To EU28 | To Japan | To Canada | To France |
|------|-------------------------|-------|---------|----------|-----------|-----------|
| | Value (US\$ billion) | % | % | % | % | % |
| 1995 | 1.8 | 30.9 | 16.4 | 22.3 | 1.9 | 2.5 |
| 2000 | 4.6 | 47.2 | 13.5 | 15.7 | 2.0 | 1.6 |
| 2005 | 16.6 | 45.8 | 18.4 | 10.6 | 3.1 | 1.7 |
| 2008 | 31.8 | 36.8 | 23.2 | 8.2 | 3.9 | 2.2 |
| 2010 | 38.9 | 33.7 | 22.9 | 7.5 | 3.7 | 2.9 |
| 2013 | 59.5 | 28.8 | 18.6 | 6.5 | 3.1 | 2.2 |
| 2015 | 60.7 | 31.6 | 18.4 | 6.2 | 2.9 | 2.1 |

Source: compiled according to the data from UNCTAD, SITC 821.

Moreover, furniture industry could show the significant market reorientation phenomenon in labor-intensive industries. Recently, the furniture industry has increasingly paid more attention to the domestic markets of China. The ratio of export to total industrial sales declined from 52.3% to 25.1%, reflecting the rise of domestic sales ratio (Table 3.5). This value indicates that although China's furniture exports

had continued to increase in value after 2008, its growth rate has slowed down. Meanwhile, China's furniture industry has integrated into multiple markets, including emerging and domestic markets of the country. In particular, the market reorientation of the export-oriented furniture industry is significant in recent years.

In China, wooden and metal furniture are major furniture products, accounting for 63.7% and 19.7% of the total output of furniture in 2013, respectively (Table 3.8). Similarly, wooden and metal furniture are major export furniture products, which accounted for 50.3% and 26.9%, respectively, in 2013 (Table 3.9).

Table 3.8 Income from main business in the furniture industry of China

| | | Total furniture manufacturing | Wooden furniture | Bamboo furniture | Metal furniture | Plastic furniture | Other furniture |
|---------------------------|----------------------|-------------------------------------|---------------------|---------------------|--------------------|----------------------|--------------------|
| 2012 | Value (billion yuan) | 565.4 | 356 | 7.6 | 116 | 7.8 | 78.1 |
| | Share (%) | 100 | 63.0 | 1.3 | 20.5 | 1.4 | 13.8 |
| 2013 | Value (billion yuan) | 646.3 | 411.8 | 11.36 | 127.1 | 9.6 | 86.4 |
| | Share (%) | 63.7 | 1.8 | 19.7 | 1.5 | 13.4 | |
| 2012-2013 Growth rate (%) | | 14.3 | 15.7 | 50.2 | 9.6 | 22.8 | 10.7 |

Source: China Furniture Yearbook, 2014

Table 3.9 Exports of different products in the furniture industry of China

| | Total furniture manufacturing | Wooden furniture | Bamboo furniture | Metal furniture | Plastic furniture | Other furniture |
|---------------------------|-------------------------------|------------------|------------------|-----------------|-------------------|-----------------|
| 2012 Value (billion yuan) | 142 | 70.7 | 1.5 | 39.2 | 4 | 26.6 |
| Share (%) | | 49.8 | 1.1 | 27.6 | 2.8 | 18.7 |
| 2013 Value (billion yuan) | 151.8 | 76.3 | 3 | 40.9 | 4.8 | 26.8 |
| Share (%) | | 50.3 | 2.0 | 26.9 | 3.2 | 17.7 |
| Growth rate (%) | 6.9 | 8.0 | 102.1 | 4.3 | 21.4 | 0.7 |

Source: China Furniture Yearbook, 2014

Guangdong Province is well known as one of the most important furniture manufacturing production bases in China. Guangdong accounted for 21.7% of the national total GDP in China, in terms of income from main business (Table 3.10). The total industrial sales in the furniture industry increased to 339 billion yuan in 2013 (Table 3.11). Over the past decades, several furniture industries have developed in Guangdong, including Dalingshan in Dongguan, Lecong and Longjiang in Foshan, and Dachong in Zhongshan (Table 3.12). Notably, different furniture industries present different market orientation. For example, furniture industries in Dongguan focus on exports, whereas the industries in Foshan, such as Lecong and Longjiang, produce furniture primarily for domestic consumers. From this perspective, exploring the furniture industry in the PRD, including export-oriented and domestic market-oriented industries, we can compare the different patterns of market change between export- and domestic market-oriented suppliers. The unique characteristic of the furniture industry in the PRD is the major reason we choose the furniture industry as the case study to explore market strategies of suppliers in the PRD.

Table 3.10 Income from main business in furniture industry in different provinces and cities in China

| | | Total | Guangdong | Zhejiang | Fujian | Shandong | Jiangsu | Henan | Liaoning | Sichuan | Beijing | Hebei | others |
|------|----------------------|-------|-----------|----------|--------|----------|---------|-------|----------|---------|---------|-------|--------|
| 2012 | Value (billion yuan) | 565.4 | 121.7 | 62.1 | 28.9 | 72.4 | 21.9 | 40.5 | 35.7 | 34.1 | 6.4 | 18.1 | 123.6 |
| | Share (%) | | 21.5 | 11 | 5.1 | 12.8 | 3.9 | 7.2 | 6.3 | 6 | 1.1 | 3.2 | 21.9 |
| 2013 | Value (billion yuan) | 646.3 | 140.5 | 68.5 | 33.3 | 82.1 | 24.8 | 47.3 | 40 | 38.7 | 6.9 | 20.2 | 144 |
| | Share (%) | | 21.7 | 10.6 | 5.2 | 12.7 | 3.8 | 7.3 | 6.2 | 6 | 1.1 | 3.1 | 22.3 |

Source: China Furniture Yearbook, 2014

Table 3.11 Exports and domestic sales of furniture industry in Guangdong Province

| | 2009 | 2012 | 2013 | Growth rate (%) |
|---------------------------------------|------|------|------|-----------------|
| Industrial outputs (billion yuan) | 200 | 308 | 339 | 10.1 |
| Exports (US\$ billion) | 10.4 | 16.5 | 18.5 | 12.3 |
| Domestic sales (billion yuan) | 127 | 201 | 222 | 10.5 |
| Domestic sales/industrial outputs (%) | 63.5 | 65.3 | 65.5 | |

Source: China Furniture Yearbook, 2014

Table 3.12 Major furniture industrial bases in Guangdong Province

| City | Town | Name |
|-----------|------------|---|
| Zhongshan | Dachong | Annatto furniture town |
| Foshan | Lecong | China's trade and business capital of furniture |
| Dongguan | Dalingshan | Largest export town of furniture |
| Zhongshan | Sanxiang | Classical furniture town |
| Foshan | Longjiang | Important town of furniture manufacturing |

Source: China Furniture Yearbook, 2012

Guangdong is also the leading furniture exporter in China. Its furniture exports reached US\$25.3 billion, accounting for 47.6% of the total furniture exports in China (Table 3.13). Most of the export furniture were targeted for the US, Hong Kong, Japan, and Malaysia. In particular, the US accounted approximately 30% of the total furniture exports of Guangdong (China Furniture Yearbook, 2014). The furniture export in Guangdong mainly concentrated in the eastern PRD, such as Dongguan and Shenzhen. In particular, as a furniture industrial town in Dalingshan Town, Dongguan is recognized as the largest furniture export town in China. In recent years, domestic sales in the furniture industry of Guangdong Province increased. The domestic sales reached 222 billion yuan in 2013 (Table 3.11). The ratio of domestic sales to the total industrial outputs also increased from 63.5% to 65.5% (Table 3.11), indicating the market reorientation of the export-oriented furniture industry in Guangdong.

Table 3.13 Furniture exports of different regions in China

| | 2012 | | 2013 | |
|-----------|-------------------------|-----------|-------------------------|-----------|
| | Value (US\$ billion) | Share (%) | Value (US\$ billion) | Share (%) |
| Total | 50 | | 53.1 | |
| Guangdong | 22 | 44 | 25.3 | 47.6 |
| Zhejiang | 8.4 | 16.8 | 9.1 | 17.1 |
| Fujian | 3.4 | 6.8 | 2.9 | 5.5 |
| Shandong | 2 | 4 | 2.3 | 4.3 |
| Jiangsu | 3.8 | 7.6 | 3.4 | 6.4 |
| Henan | 0.5 | 1 | 0.6 | 1.1 |
| Liaoning | 0.8 | 1.6 | 0.8 | 1.5 |
| Sichuan | 0.3 | 0.6 | 0.3 | 0.6 |
| Beijing | 2.3 | 4.6 | 2 | 3.8 |
| Hebei | 0.7 | 1.4 | 0.9 | 1.7 |
| others | 5.8 | 11.6 | 5.5 | 10.4 |

Source: China Furniture Yearbook, 2014

3.4.2 Garment industry as a case

The garment industry is a traditional labor-intensive industry in China. It has developed significantly since the opening and reform in the late 1970s. In 2014, the number of enterprises above designated size reached 10,916 (Table 3.14). The industrial sales in the garment industry in China increased from 484.9 billion yuan in 2005 to 1720 billion yuan in 2014 (Table 3.15). The major products include woven and knitted garment products. Both of these products accounted for around half of the total garment outputs in terms of volume (Table 3.14). Notably, exports contributed significantly to the growth of garment industry. In 2005, exports accounted for almost half of the value of total garment industrial sales (Table 3.15).

Table 3.14 Production of garment enterprises in China in 2014

| | Number of the enterprises | Output (billion piece) | Growth rate (%) |
|------------------------|---------------------------|------------------------|-----------------|
| Garment | 10916 | 29.9 | 1.61 |
| 1. Woven garments | 7554 | 15.5 | 0.46 |
| Including: down jacket | 478 | 0.3 | 5.1 |
| tailored | | | |
| suit | 650 | 0.6 | - 4.39 |
| shirt | 691 | 1.1 | - 3.83 |
| 2. Knitted garments | 4224 | 14.4 | 2.88 |

Source: China Garment Industry Development Report, 2014-2015

Note: garment enterprises refer to enterprises above designated sale

Table 3.15 Sales and exports in textile and garment industry of China

| Manufacture of textile garments, footwear and headgear | 2005 | 2007 | 2008 | 2010 | 2011 | Textile and garment industry | 2012 | 2013 | 2014 |
|--|-------|-------|-------|--------|--------|---|--------|--------|--------|
| Industrial sales value (current billion yuan) | 484.9 | 740.4 | 916.2 | 1199.3 | 1319.4 | Industrial sales value (current billion yuan) | 2105.7 | 1938.2 | 1720.0 |
| Export (billion yuan) | 232.4 | 315.8 | 329.4 | 334.5 | 321.9 | Export (billion yuan) | 489.6 | 472.8 | 442.0 |
| Export/total industrial sale (%) | 47.9 | 42.7 | 36.0 | 27.9 | 24.4 | Export/total industrial sale (%) | 23.3 | 24.4 | 25.7 |

Source: calculated according to the data from National Bureau of Statistics of China

Note: the data of “manufacture of textile garments, footwear and headgear” is only available during the period of 2005-2011. The data of textile and garment industry is only available during the period of 2012-2014. This study combined these two data to depict the exports and export ratios of textile and garment industry in China.

The garment industry could reflect the role of China as the leading exporter in the global garment production networks. China is a leading garment exporter in the world. From 2000–2015, its garment exports increased from US\$36.1 billion to US\$174.7 billion (Figure 3.6). In the global market, China nearly tripled its share of the total world exports from 14.41% in 1995 to 36.1% in 2013 (Table 3.16). Notably, in 2006, it transcended the EU to become the largest exporter, accounting for 29% of the total world exports. Its garment exports primarily targeted traditional Western advanced markets, such as EU, the US, Japan, and Hong Kong (Table 3.17). In 2015, the US and EU together accounted for over 40% of China’s total garment exports (Table 3.17). Even in the aftermath of the 2008 global financial crisis, the share of China’s garment export to the US and EU continued to increase from 15.4% in 2008 to 19.4% in 2010 and from 25.6% in 2008 to 27.1% in 2010, respectively.

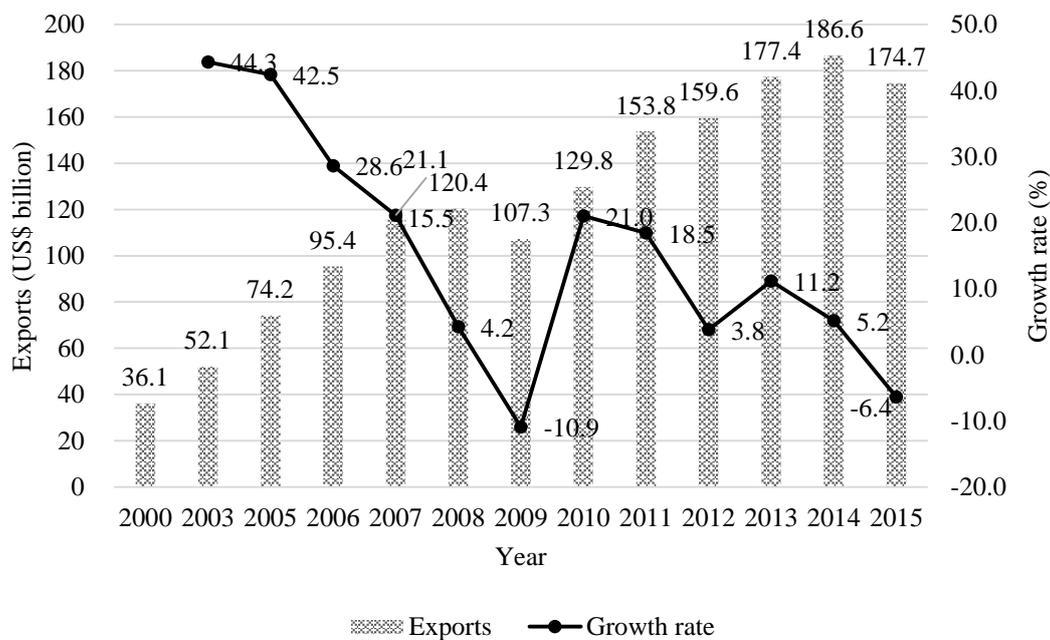


Figure 3.6 Garment exports and growth rate of garment industry in China

Source: UNCTAD. Trade data for SITC (Standard Industrial Trade Classification): Articles of apparel & clothing accessories 84.

Table 3.16 Share of major garment exporters in the world

| Year | 1995 | 2000 | 2005 | 2008 | 2010 | 2013 | 2015 |
|----------------|-------|-------|-------|-------|-------|-------|-------|
| World | | | | | | | |
| (US\$ billion) | 167.8 | 209.9 | 296.0 | 387.6 | 375.4 | 475.4 | 474.5 |
| Share (%) | | | | | | | |
| China | 14.3 | 17.2 | 25.1 | 31.1 | 34.6 | 37.3 | 36.8 |
| EU28 | 33.2 | 26.4 | 28.9 | 29.6 | 26.7 | 25.3 | 24.0 |
| Hong Kong | 12.7 | 11.5 | 9.2 | 7.2 | 6.4 | 4.6 | 3.9 |
| Bangladesh | 1.3 | 2.3 | 2.4 | 3.2 | 4.1 | 4.9 | 5.5 |
| Vietnam | 0.5 | 0.9 | 1.6 | 2.3 | 2.8 | 3.6 | 4.9 |
| India | 2.5 | 2.8 | 3.0 | 2.8 | 3.0 | 3.5 | 3.8 |
| Turkey | 3.6 | 3.1 | 4.0 | 3.5 | 3.4 | 3.2 | 3.2 |
| Indonesia | 2.0 | 2.3 | 1.7 | 1.6 | 1.8 | 1.6 | 1.7 |
| Cambodia | 0.1 | 0.5 | 0.8 | 0.9 | 1.0 | 1.2 | 1.7 |
| Mexico | 1.6 | 4.1 | 2.5 | 1.3 | 1.2 | 1.0 | 0.9 |

Source: calculated based on the data from United Nations Conference on Trade and Development (UNCTAD). Trade data for SITC 84.

Table 3.17 China's garment exports to different economies

| Economy | 2000 | 2003 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|----------------------------|------|------|------|------|------|------|------|------|------|------|------|------|------|
| Exports (US\$ billion) | | | | | | | | | | | | | |
| EU | 4.6 | 8.1 | 14.6 | 23.4 | 22.0 | 30.8 | 28.7 | 35.2 | 42.2 | 36.5 | 40.0 | 45.9 | 41.2 |
| US | 4.8 | 6.6 | 13.7 | 16.3 | 18.8 | 18.6 | 19.9 | 25.2 | 28.2 | 29.0 | 31.0 | 33.5 | 35.8 |
| ASEAN | 0.6 | 1.5 | 2.0 | 2.6 | 5.1 | 4.0 | 3.5 | 4.3 | 5.7 | 10.9 | 14.2 | 13.9 | 12.2 |
| Japan | 11.5 | 12.5 | 14.7 | 15.8 | 16.5 | 17.7 | 17.4 | 18.4 | 22.0 | 22.3 | 22.1 | 19.7 | 17.3 |
| South Korea | 1.2 | 2.6 | 2.5 | 3.3 | 3.4 | 3.3 | 2.3 | 2.9 | 3.6 | 3.3 | 4.0 | 5.1 | 5.9 |
| Hong Kong | 6.6 | 8.5 | 6.9 | 9.1 | 9.3 | 7.8 | 7.1 | 7.2 | 7.5 | 8.5 | 10.7 | 8.9 | 7.2 |
| Taiwan | 0.3 | 0.3 | 0.3 | 0.4 | 0.3 | 0.4 | 0.4 | 0.6 | 0.8 | 0.6 | 0.7 | 0.9 | 1.0 |
| Share of total exports (%) | | | | | | | | | | | | | |
| EU | 12.8 | 15.6 | 19.7 | 24.5 | 19.0 | 25.6 | 26.8 | 27.1 | 27.5 | 22.9 | 22.6 | 24.6 | 23.6 |
| US | 13.3 | 12.6 | 18.5 | 17.1 | 16.3 | 15.4 | 18.6 | 19.4 | 18.3 | 18.2 | 17.5 | 17.9 | 20.5 |
| ASEAN | 1.7 | 2.9 | 2.7 | 2.7 | 4.4 | 3.3 | 3.3 | 3.3 | 3.7 | 6.8 | 8.0 | 7.5 | 7.0 |
| Japan | 31.9 | 24.1 | 19.8 | 16.5 | 14.3 | 14.7 | 16.3 | 14.2 | 14.3 | 13.9 | 12.5 | 10.6 | 9.9 |
| South Korea | 3.2 | 5.0 | 3.3 | 3.4 | 2.9 | 2.8 | 2.1 | 2.3 | 2.3 | 2.1 | 2.3 | 2.8 | 3.4 |
| Hong Kong | 18.3 | 16.3 | 9.3 | 9.6 | 8.1 | 6.4 | 6.6 | 5.5 | 4.9 | 5.4 | 6.0 | 4.8 | 4.1 |
| Taiwan | 0.8 | 0.5 | 0.5 | 0.4 | 0.3 | 0.3 | 0.3 | 0.5 | 0.5 | 0.4 | 0.4 | 0.5 | 0.6 |

Source: Calculated by the authors based on the data collected from United Nations Conference on Trade and Development, (UNCTADSTAT); Garment is represented by SITC 84.

In recent years, especially after the 2008 global financial crisis, the garment export growth of China has slowed down. Figure 3.6 indicates that the growth rate of China's garment exports decreased from 44.3% in 2003 to -10.9% in 2009. Although the growth rate rebounded to 129.8% in 2010, it decreased again to -6.4% in 2015. This decrease indicates that the garment industry in China has confronted slow growth in the post-crisis era.

In the garment industry, there has witnessed the shift of export orders from Western markets (e.g. the US and EU) from China to the Southeast Asian countries, such as Vietnam. The slowing growth rate of garment exports in China is due to the shrinking demand of Western markets, such as the US and EU, as well as the changing sourcing strategies of global buyers. The US and EU have increasingly turned to import garment products from other developing countries, such as Vietnam, because of the fast-growing production cost in China (Figure 3.7). Table 3.18 indicates that although the US imported the largest share of garment from China, it has increased its imports from other Southeast Asian countries, such as Vietnam. In 2014, Vietnam has become the second largest garment exporter of the US, which accounted for approximately 10% of the total garment imports of the US (Table 3.18). The growth rate of import of the US from Vietnam was 14.1%, which is significantly higher than that of China (Table 3.18). Similarly, the EU imported increasing garment products from developing countries, such as Bangladesh, Vietnam, and Cambodia. In particular, the growth rate of import from Cambodia reached 25.8%, which is significantly higher than that of China (Table 3.19). With the rise of garment industry in Southeast Asian countries, Vietnam and Cambodia become China's competitors in terms of garment exports (Figure 3.8).

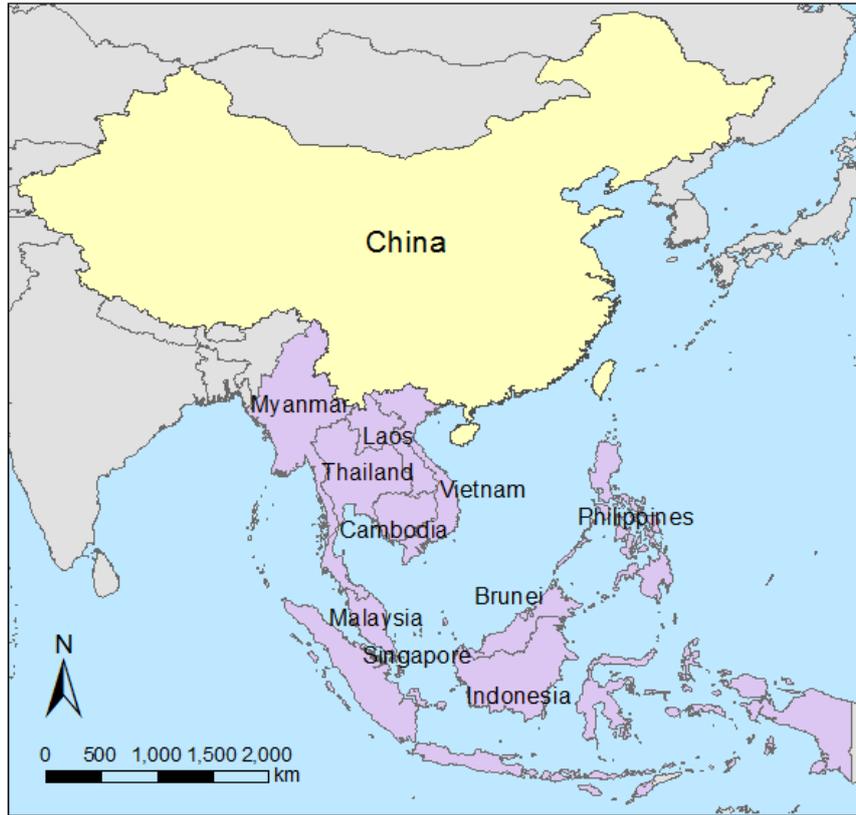


Figure 3.7 Locations of China and Southeast Asian countries

Table 3.18 Garment imports of the US from different countries in 2014

| | Value (US\$ billion) | Growth rate (%) | Share (%) |
|--------------|----------------------|-----------------|-----------|
| World | 902.8 | 2.5 | 100 |
| 1 China | 341.9 | 0.4 | 37.9 |
| 2 Vietnam | 94.2 | 14.1 | 10.4 |
| 3 Italy | 50.3 | -2.9 | 5.6 |
| 4 Indonesia | 48.4 | -2.2 | 5.4 |
| 5 Bangladesh | 39.7 | 1.3 | 4.4 |
| 6 Thailand | 36.3 | 6.5 | 4 |
| 7 Myanmar | 26.8 | 3.5 | 3 |
| 8 Cambodia | 25 | -2.9 | 2.8 |
| 9 Malaysia | 19 | 2.4 | 2.1 |
| 10 India | 18.6 | 6.4 | 2.1 |

Source: China Garment Industry Development Report 2014-2015

Table 3.19 Garment imports of EU from different countries in 2014

| | Value (US\$ billion) | Growth rate (%) | Share (%) |
|--------------|----------------------|-----------------|-----------|
| World | 1039.9 | 8.8 | 100 |
| 1 China | 402.6 | 5.8 | 38.7 |
| 2 Bangladesh | 146.9 | 13.2 | 14.1 |
| 3 Turkey | 124.3 | 5 | 12 |
| 4 India | 69.1 | 12.1 | 6.7 |
| 5 Vietnam | 31 | 22.1 | 3.0 |
| 6 Morocco | 30.9 | 10.1 | 3.0 |
| 7 Cambodia | 29.5 | 25.9 | 2.8 |
| 8 Pakistan | 28.7 | 26.8 | 2.8 |
| 9 Tunes | 28.1 | 1.6 | 2.7 |
| 10 Sri Lanka | 20.4 | 12.9 | 2 |

Source: China Garment Industry Development Report, 2014-2015

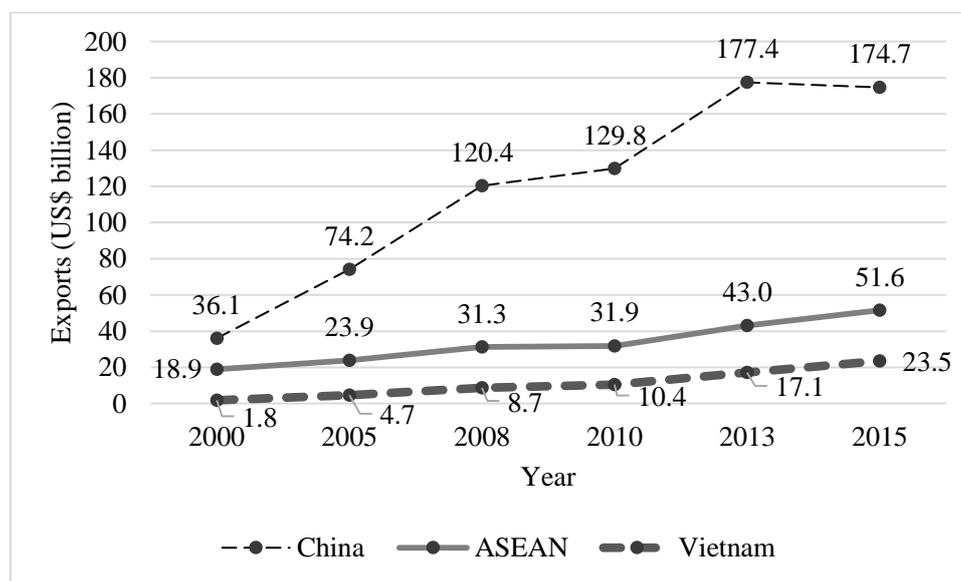


Figure 3.8 Total garment exports of China, ASEAN, and Vietnam

Source: UN Commodity Trade Statistics Database (UNcomtrade)

Note: Export data is based on SITC Rev. 84

Owing to the increasing global sourcing of global buyers from Western markets, such as the US and EU, the garment industry has developed rapidly in Southeast Asian countries. However, the growth of the garment industry in Southeast Asia has been largely driven by foreign investment particularly from Greater China. Taking the garment industry in Cambodia as a case, foreign firms accounted for more than 90% of garment factories in Cambodia in 2008. In particular, firms from Greater China, such as Hong Kong (19%), Taiwan (25%), and mainland China (18%), accounted for over 60% of the total number of garment factories in Cambodia (Natsuda et al., 2010). By 2009, nearly 1000 Chinese garment firms have set up factories in Cambodia and Vietnam (Zhu & Pickles, 2014). According to the ASEAN Investment Report (2013–2014), Chinese garment firms and China-based foreign companies build manufacturing operations in ASEAN countries, such as Vietnam, Cambodia, and Myanmar, to take advantage of the lower production labor cost for maintaining competitiveness when global buyers continued to squeeze margins. These relocated firms include Li & Fung, TAL, and Top Form. According this report, in 2012, 85 plants established in Cambodia were owned by Chinese companies. In this sense, garment relocation from China to Southeast Asia has enhanced the shift of garment sourcing of Western buyers from China to Southeast Asia. Similarly, according to the survey conducted by Bloomberg (Roman, 2016), most of the investigated companies in the PRD have plan to move their manufacturing capacities to Southeast Asian countries, such as Vietnam and Cambodia (Figure 3.9). The survey indicates that Southeast Asia has been viewed as the promising alternative for companies in China, particularly the PRD. From this point of view, garment industry could show the remarkable production relocation of garment suppliers from China to Southeast Asia, such as Vietnam and Cambodia.

Evidence indicates that compared with export-oriented furniture industry in China and the PRD, which initiated market reorientation from Western markets to the domestic market of China, export-oriented garment industry adopted different transformation strategy in response to the changing production environment in China and the changing global economy. In particular, compared to furniture suppliers, garment suppliers in China have significantly relocated their production operations in lower-cost neighboring Southeast Asian countries. Exploring these issues can help us

to examine the interaction between market strategies of suppliers and their cross-border production relocation. Therefore, this study pays attention to the garment industry in China and the PRD in particular to demonstrate the market strategies of these relocated garment firms. We want to understand whether these relocated garment firms will turn to target China's market, which is similar with export-oriented furniture suppliers in China, or whether these relocated garment firms explore the host markets in Southeast Asia.

In general, taking furniture and garment sectors as cases, this thesis could examine the significant changing market dynamics in the export-oriented and domestic market-oriented industries in the PRD. Because furniture and garment industries are representative buyers-driven industries in the global production networks, this thesis tries to examine how the firm-level market strategies of local suppliers influence the reconfiguration of global buyer-driven production networks.

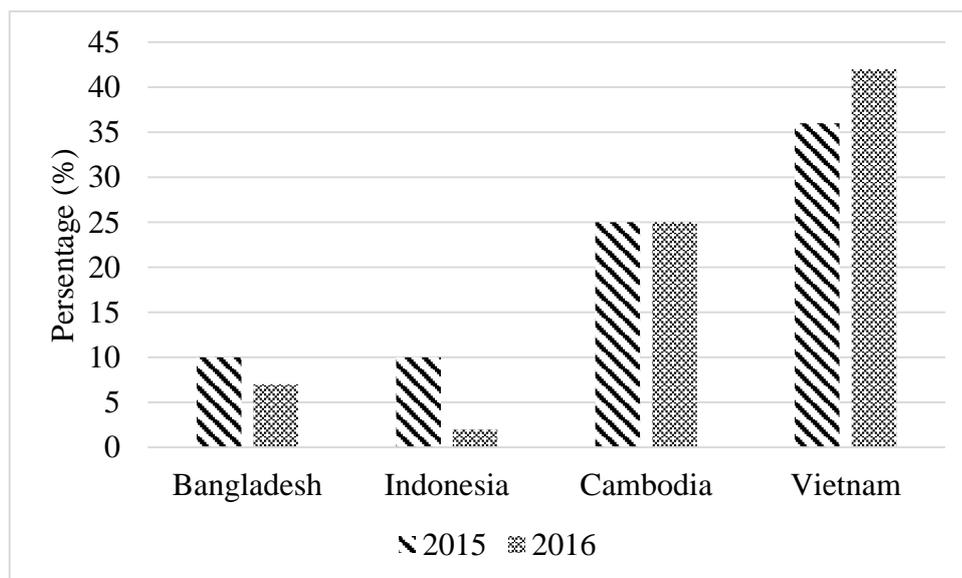


Figure 3.9 The plan of shifting capacities to other countries among companies in the Pearl River Delta

Source: Roman, 2016

Note: Survey conducted among 290 companies

With the rise of domestic market of China, domestic sales increase in the garment industry. Figure 3.10 indicates that the growth of domestic garment consumer price is kept at 2–3% during 2011–2014. This growth is different from the negative

growth before 2011. Moreover, the retail consumption in garment industry also increased significantly. The growth rate of retail sales of enterprises above designated size in garment industry increased from 14.6% in 2003 to 28.7% in 2007, and then kept in the range of 10% and 20% in recent years (Figure 3.11). In this context, garment suppliers have paid more attention to the domestic markets of China. Table 3.15 indicates that the ratio of exports to the total industrial sales value declined significantly from 47.9% in 2005 to 25.7% in 2014. China's domestic market has become an important market that consumed 56% of the garment production in China in 2008 (Clothesource, 2008).

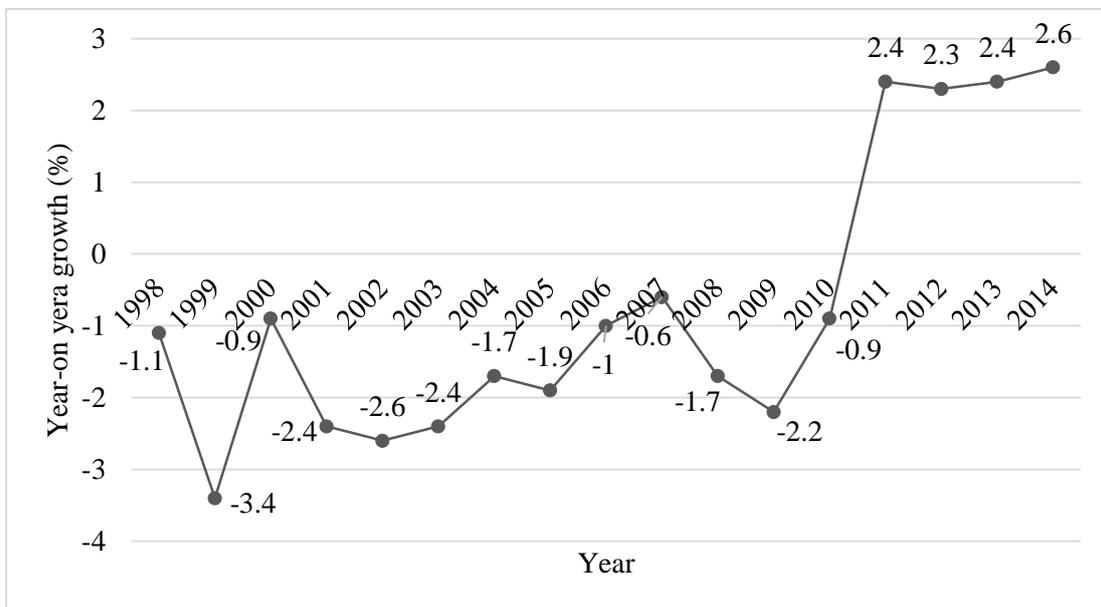


Figure 3.10 Year on Year growth of consumer price in garment industry of China

Source: China Garment Industry Development Report, 2014-2015

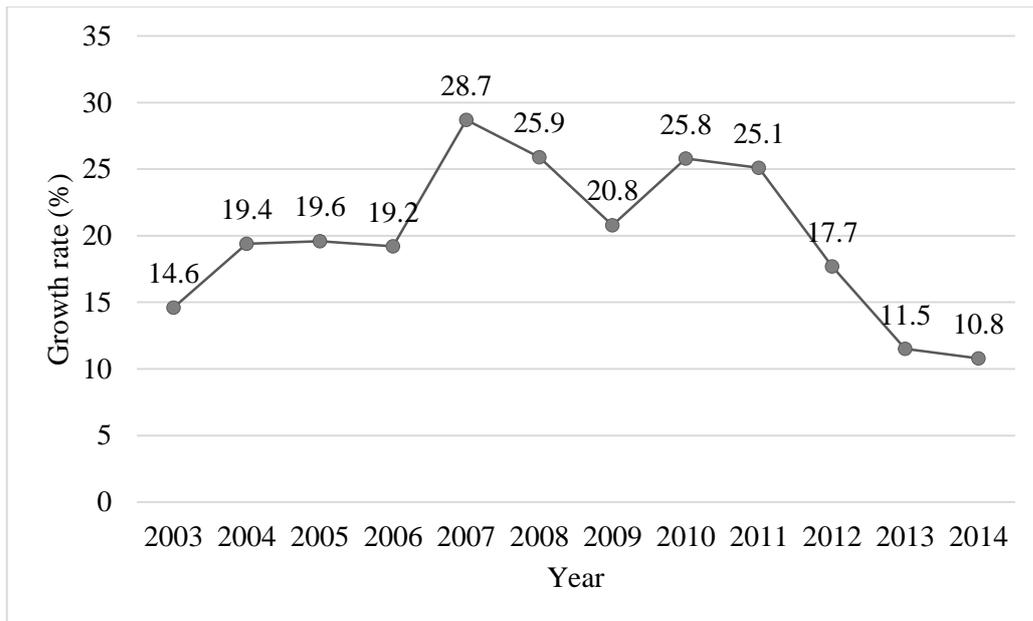


Figure 3.11 Growth rate of retail sales of enterprises in garment industry of China

Source: China Garment Industry Development Report, 2014-2015

Note: the enterprises refer to those above designated size

In addition, garment firms in China pay attention to emerging markets such as ASEAN and Russia, which accounted for 7.5% and 5.3% of the total garment exports of China in 2014. Notably, the growth rate of China's garment exports to Mexico reached 41.1%, which was significantly higher than the exports to other countries in 2014 (Table 3.20). Owing to the changing market orientations, China's garment industry could survive the global financial crisis. Gereffi and Frederick (2010) suggest that China is the winner in this recent round of crisis, owing to its reduced reliance on traditional developed country partners and increasing attention to important emerging markets, such as Russia and countries from the former Soviet bloc. The exports of China's garment firms to other emerging markets also indicate the rise of emerging markets in the Global South. With the rise of these emerging markets, to explore how these emerging markets reshape the structural and spatial organization of GPNs is imperative.

Table 3.20 Garment exports of China to developed markets in 2014

| | Value (US\$ billion) | Growth rate (%) | Share (%) | Percentage increase or decrease (%) |
|--------------------------------------|-------------------------|--------------------|--------------|--|
| Traditional developed markets | | | | |
| European Union | 45.9 | 14.9 | 24.5 | 2 |
| United States | 33.6 | 8 | 17.9 | 0.4 |
| Japan | 19.8 | -10.8 | 10.5 | -1.9 |
| Hong Kong | 8.9 | -16.6 | 4.75 | -1.3 |
| Total | 108.2 | 4.1 | 57.6 | -0.7 |
| Emerging markets | | | | |
| ASEAN | 14.1 | -1.7 | 7.5 | -0.5 |
| Russia | 10 | 7.9 | 5.3 | 0.1 |
| Brazil | 2 | 16.5 | 1.1 | 0.1 |
| Mexico | 1.5 | 41.1 | 0.8 | 0.2 |
| Total | 27.7 | 4.6 | 14.8 | -0.1 |

Source: China Garment Industry Development Report, 2014-2015

In China, Guangdong Province is one of the largest garment producers in China, following Jiangsu Province in the YRD. In 2014, the income of Guangdong's garment industry reached 357.6 billion yuan, which accounted for 17.2% of the national total (Table 3.21). Guangdong is also the largest garment exporter in China, which accounted for around one fifth of the national garment exports in 2014 (Table 3.22). Following Guangdong Province, Zhejiang and Jiangsu Provinces are the second and third largest garment exporters in China (Table 3.22). In Guangdong, many garment industrial bases have been emerging in Dongguan, Zhongshan, and Foshan (Table 3.23).

Considering the important role of Guangdong Province in the garment industry of China, this study pays attention to the industrial transformation of garment industry in Guangdong. In particular, with the rise of emerging markets, such as the domestic market of China and the emerging markets in Southeast Asia, this study examines the market strategies of the garment firms in China, including Chinese garment firms and

foreign-invested garment firms.

Table 3.21 Economic indicators of garment industry in major provinces in China in 2014

| Province | Number of company | Income of main business | | Share (%) | Profit income (billion yuan) | Share (%) |
|-----------|-------------------|-------------------------|----------------|-----------|------------------------------|-----------|
| | | (billion yuan) | (billion yuan) | | | |
| China | 15167 | 2077 | | 100 | 124.7 | 100 |
| Jiangsu | 2520 | 411.6 | | 10.9 | 29.6 | 23.8 |
| Guangdong | 2936 | 357.6 | | 17.2 | 16.1 | 12.9 |
| Zhejiang | 2442 | 226.8 | | 10.9 | 13.4 | 10.7 |
| Fujian | 1178 | 16.4 | | 7.9 | 12.8 | 10.3 |
| Shanghai | 444 | 40.6 | | 0.2 | 2.0 | 0.2 |

Source: China Garment Industry Development Report, 2014-2015

Table 3.22 Exports of garment and clothing material in major provinces in China in 2014

| Province | Export (US\$ billion) | Growth rate (%) | Share (%) |
|-----------|-----------------------|-----------------|-----------|
| China | 186.3 | 5.2 | 100 |
| Guangdong | 36.4 | 9.8 | 19.5 |
| Zhejiang | 33.3 | 4.3 | 17.9 |
| Jiangsu | 25.5 | 3.4 | 13.7 |
| Fujian | 17 | 3.4 | 9.2 |
| Shanghai | 14.2 | 0.9 | 7.6 |

Source: China Garment Industry Development Report, 2014-2015

Table 3.23 Garment industrial bases in Guangdong Province

| Region | Prefecture-level city | County-level city | Street/Town | Name |
|-----------------|-----------------------|--------------------|-------------------------|--------------------------|
| In the PRD | Dongguan | | Humen Town | Women's clothing town |
| | Zhongshan | | Shaxi Town | Leisure clothing town |
| | Foshan | Chancheng District | Temple (Huanshi) street | Children's clothing town |
| Outside the PRD | Chaozhou | | | Wedding gown city |
| | Shantou | Chaonan District | Xiashan Street | Household clothing town |
| | Huizhou | Boluo City | Yuanzhou Town | Leisure clothing town |
| | | | Huicheng District | |

Source: China apparel association

3.5 Data collection

This thesis attempts to conduct three empirical case studies to explore the market strategies of local suppliers in the PRD. The method of using case studies could help us pay more particular emphasis on the changing market dynamics of local suppliers on the firm level. Regarding the three empirical cases, this study primarily adopted qualitative method to investigate firm-level market strategies of suppliers in the PRD in particular. Apart from the in-depth interviews, this study attempts to employ structural questionnaire surveys with manufacturing firms to collect data. However, due to the low response rate of questionnaire surveys, this study relies on the in-depth interviews to collect first-hand data.

3.5.1 In-depth interviews

To explore the market strategies of manufacturing suppliers in China and the PRD in particular, this study primarily employed firm-level investigation to collect first-hand data. On-site field investigations and particularly the firm-level interviews were conducted from June 2014 to November 2016 in several cities in the PRD, including Dongguan, Shenzhen, Foshan, Zhongshan, and Guangzhou, as well as Hong Kong. In response to three research case studies, we primarily conducted four rounds of the field investigations, including a pilot investigation and three in-depth investigations.

The pilot field investigation was conducted to understand the overall information of the furniture and garment industries in the PRD in June 2014. The investigation covered three aspects, namely, export-oriented furniture industry in Houjie Town and Dongguan City; domestic market-oriented furniture industry in Lecong Town in Shunde District and the specialized furniture markets in Shunde and wholesale garment markets in Guangzhou, such as in Liuhua, Baima, and Shisanhang.

The three follow-up in-depth field investigations were conducted to understand the three research issues. First, regarding the market strategies of export-oriented furniture suppliers in the eastern PRD, the investigation was primarily conducted in Houjie and Dalingshan Towns in Dongguan and Shenzhen Cities. Notably, Houjie

Town and Dalingshan Town are well-known export-oriented furniture Towns in the PRD. We conducted intensive in-depth firm-level interviews with senior marketing managers or CEOs of export-oriented furniture firms who are familiar with their companies' market strategies to collect first-hand data during the period from March to September 2015. Most of the firm samples in my interviews were constructed through direct contacts made with furniture firms during walks throughout the furniture exhibitions, such as the bi-annual Famous Furniture Fair and Shenzhen International Fair held in Dongguan and Shenzhen, in March and September 2015, respectively. These furniture exhibitions are the two most important and large furniture exhibitions in Guangdong Province in terms of the number of suppliers. For example, there were 1306 furniture supplier firms participated the exhibition in Dongguan in March 2015³. Thus, in these exhibitions, it is convenient to reach the furniture supplier firms in the PRD. In the exhibition, if the senior managers or CEOs were not free to accept the interviews, we obtained the information through follow-up face-to-face or phone interviews. 46 interviews were completed, including 36 interviews with export-oriented furniture firms (Table 3.24). The interviewed furniture firms cover 21 brand name firms (most of these firms' brand names were established after they target China's market) and 15 firms without brand names. Majority of the interviewed furniture companies engage in the production of modern household furniture, such as sofas, tables and chairs, beds, and TV cabinets. We also conducted interviews with domestic retailers, managers of E-commerce furniture and furniture planning project firms, and personnel from furniture industrial associations.

³ <http://www.gde3f.com/about/review/?session=33>

Table 3.24 Summary of interviewees

| Export-oriented furniture industry | | |
|--|---|---|
| Investigation period | March and September, 2015 | |
| Location | Dongguan & Shenzhen | |
| Number of interviews & interviewees | 36 | Furniture supplier firms |
| | 2 | Retailers |
| | 2 | Managers of E-commerce furniture firms |
| | 1 | Planning project firms |
| | 2 | Personnel from furniture industrial associations |
| | 3 | Personnel from local government |
| Domestic market-oriented furniture industry | | |
| Investigation period | June 2014 - March, 2016 | |
| Location | Lecong Town & Longjiang Town | |
| Number of interviews & interviewees | 31 | Furniture supplier firms |
| | 11 | Domestic retailers |
| | 2 | Managers of furniture shopping malls in Longjiang and Lecong Town |
| | 1 | Personnel of the Chamber of Commerce of Lecong Furniture Cities |
| | | |
| Garment industry | | |
| Investigation period | June 2014 - March, 2016 | |
| Location | Hong Kong, Guangzhou, Dongguan, and Zhongshan | |
| Number of interviews & interviewees | 33 | Garment supplier firms |
| | 8 | Textile supplier firms |
| | 2 | Representatives of garment industrial associations |
| | 1 | Personnel of the Chamber of Commerce of Lecong Furniture Cities |
| | | Focus group interviews with governmental personnel in Dongguan, |
| | 3 | Shaxi and Dachong, Zhongshan. |

The interviews cover the following aspects: (1) general characteristics of firms, including ownership, date of establishment, location of production bases and headquarters, major products, scales of investment, employment, and number of brand names; (2) transaction of export-oriented furniture firms with their global clients (e.g., global buyers/trading companies); (3) transaction of export-oriented furniture firms in China's market, particularly their retail strategies, interaction with domestic clients (e.g., domestic retailers and final consumers); (4) changes of corporate strategies, including market definition, technological improvement, and production capability; and (5) problems relating to the retail and the opportunities and challenges faced during market reorientation.

Second, with respect to the market strategies of the domestic market-oriented suppliers in Shunde, I conducted interviews in the towns of Lecong and Longjiang,

the well-known domestic market-oriented furniture towns in Foshan City. In total, I conducted in-depth interviews with 31 managers or owners of domestic market-oriented furniture firms during shop visits to the specialized market in Lecong and exhibition visits to Longjiang from June 2014 to March 2016 (Table 3.24). The local furniture firms (hereafter called “local firms”) refer to furniture manufacturers or suppliers who started their business through domestic sales (usually domestic sales ratio of over 50%). These local firms engaged in furniture manufacturing production and sales. Interviews were also conducted with 11 domestic retailers. Domestic retailers refer to retailers (from different cities or provinces such as Hunan, Hubei, and Shandong, in China) who purchase furniture products from Lecong and then distribute to their localities. The retailers primarily engage in retail activities but not production. Moreover, two managers of furniture shopping malls and one representative of the Chamber of Commerce of Lecong Furniture Cities (furniture market association) were interviewed to understand the role of specialized market in the changing market dynamics of the domestic market-oriented industry. Overall, the interviews and investigation covered various topics: (1) production and marketing activities; (2) exports and domestic sales strategies; (3) innovation; (4) interaction with other actors such as domestic/foreign retailers, consumers, specialized market platform companies, and non-firm actors (e.g., local government and industrial associations); and (5) challenges faced by these firms as they extend their market reach to overseas markets or other segments of domestic market.

Third, I conducted interviews with garment firms in the PRD, such as Guangzhou, Dongguan, and Zhongshan as well as in Hong Kong, regarding the garment production relocation from China to Southeast Asian countries and the market strategies of the relocated garment firms. I conducted 33 firm-level interviews with chief executives and managers of garment firms, including Chinese private firms, Hong Kong, Macao, and South Korean firms (Table 3.24). Eight interviews with textile suppliers in the textile specialized market in Guangzhou were undertaken. Two interviews with key informants including garment industrial associations in Dongguan and Zhongshan were conducted. Three focus group interviews with governmental personnel in Dongguan Economy and Information Technology Bureau and Shaxi and Dachong Towns in Zhongshan were undertaken. In addition, I attended four business seminars organized by the Federation of Hong Kong Industries and Hong Kong

Footwear Association in January, 2015, December, 2015, March 2016, and November 2016 to speak to the chief executives or managers of Hong Kong firms. These seminars were related to the manufacturing in Vietnam and the production relocation from the PRD to Southeast Asia. The investigation and interviews cover the basic information of garment firms, incentive of production relocation from China to Southeast Asia, the market change in production relocation, and the methods in organizing production networks for the target markets.

Apart from the interviews conducted through exhibitions and wholesale or specialized market, the other interviewees, which were introduced by my principal supervisor, undergraduate and postgraduate classmates, families, and friends in Guangdong, were contacted directly by myself. Based on these closed relations with the CEOs, I was provided with much reliable information on the domestic market and export expansions. I also communicated with the garment and furniture companies directly. I was fortunate to obtain the company list of garment and textile firms in Dongguan. I called the managers of these firms one by one. However, only one out of the 100 managers in Dongguan accepted my interview. I also contacted the managers of the companies according to the contact information provided in the official website. The snowball method was used in my investigation to search for interviewees. For example, the representative of industrial associations introduced some managers of garment and furniture companies for interview.

This study primarily focuses on and conducted interviews with supplier firms to understand their market strategies. However, to better understand the market strategies of suppliers in the furniture and garment industries, the investigations also covered other actors (e.g., retailers, local governments, and industrial associations). In the interviews with local supplier firms, I also asked their relations and interaction with global buyers who previously governed and controlled the global production networks/value chains. In doing so, this study attempts to understand the power relations between different actors when supplier firms adopted different kinds of strategies.

Most of these in-depth interviews lasted for approximately one hour. The focus group interviews lasted for nearly two hours. The complete dialogue of all the interviews was tape recorded for transcript. Handwritten notes were conducted for

recording the key information and data. Mostly, the interviews were conducted in Mandarin or Cantonese. In some cases, the tracking interviews after the first interview were conducted one year ahead to understand the change in the dynamics of market expansion.

This study primarily employed the in-depth interviews to collect first-hand data rather than questionnaire surveys for four reasons. The first reason is related to the low response rate and low efficiency of questionnaire survey. At the early investigation period, I designed questionnaire surveys for garment industry. With the help of the Economic and Information Technology Bureau in Shaxi Town, Zhongshan, approximately 200 questionnaires were distributed to the garment companies in Shaxi Town in the beginning of 2015. However, only 14 questionnaires were returned after two months. I also attempted to conduct questionnaire surveys by sending questionnaires via mail or email to the marketing and sales managers of some furniture companies. The questionnaire survey method was unavailable in my study; thus, I gradually shifted to in-depth interviews. The second reason is that because this thesis aims to explore different patterns of firm-level market strategies of supplier firms rather than examine the proportion of different market strategies in the whole region in the PRD, so the lack of large-scale questionnaire survey will not affect the results of this thesis. The third reason is that interviews could exploit much information from CEO/market managers in different firms compared to questionnaire surveys, which provide limited structured answers. The fourth reason is that compared to the large-scale survey, the method of in-depth interviews is the most convenient and workable ways to complete the investigation in two sectors in different towns in the PRD. This study also conducted firm-level interviews with companies in other industries, such as toy and footwear firms in Hong Kong, light manufacturing firms in Guzhen Town, Zhongshan, and hardware manufacturing firms in Fenggang Town in Dongguan. The study is not intended to conduct exhaustive interviews, but it attempts to understand the overall transformation and market dynamics of manufacturing suppliers in China, particularly the PRD.

3.5.2 Statistical data

The second-hand data were collected from the statistical yearbooks to understand the furniture and garment industrial development in the world, specifically in China

and the PRD. The statistical data is derived from the statistical yearbooks of China (2005–2014), Guangdong (2005–2014), Dongguan (2005–2013), Foshan (2005–2013), Shunde (2005–2013), and from the statistical bulletins of China, Guangdong, Dongguan, Shenzhen, Foshan, and Shunde. These statistical yearbooks and bulletins include the basic information of China and Guangdong, such as GDP, population, employment, foreign investment, export, and import. Other sets of statistical yearbooks include China Industry Statistical Yearbook (2005-2013), Guangdong Economic Census Yearbook 2008, and Shunde Economic Census Yearbook. This set of statistical yearbooks provides information on garment and furniture industries in Guangdong, such as export, import, output, foreign investment, sales, and employment of garment. This research also acquired data on furniture and garment industries from China Furniture Yearbook and China Garment Industry Development Report. These specific yearbooks in different sectors provide information on the overall furniture and garment industries in China and in different provinces.

Statistical data were collected from the data bases of international organizations, such as United Nations Conference on Trade and Development (UNCTADSTAT). The export and import data of China with other economies, such as ASEAN, Vietnam, the US, and EU were also collected from these databases. The statistical data analysis is primarily conducted, and discussed in Chapter 6. In Chapter 6, two datasets were used. The first dataset was collected from UNCTADSTAT, including export/import value by countries and different products (textile and garment products). In this study, garment represents the final products, whereas textile represents the intermediate products. The garment industry covers seven three-digit products, and the textile industry includes 14 three-digit products (Table 3.25). The second dataset collected from UN-Comtrade database details the information associated with the value and unit of different export/import products that were not provided in UNCTADSTAT. In this study, the price per unit (dollar/unit) is applied to examine the relative prices of textile or garment products in identifying the market level of outputs. In this data base, the unit prices of all ASEAN countries are available, but the unit prices of some specific products are not available.

Table 3.25 Categorization of final and intermediate products in textile and garment industry

| | SITC | Products |
|--------------------------------------|---|--|
| Final products: garment | [841] | Men's clothing of textile fabrics, not knitted |
| | [842] | Women's clothing, of textile fabrics |
| | [843] | Men's or boy's clothing, of textile, knitted, croche. |
| | [844] | Women's clothing, of textile, knitted or crocheted |
| | [845] | Articles of apparel, of textile fabrics, n.e.s. |
| | [846] | Clothing accessories, of textile fabrics |
| | [848] | Articles of apparel, clothing access., excluding textile |
| Intermediate products: textile | [261] | Silk |
| | [263] | Cotton |
| | [265] | Vegetable textile fibres, not spun; waste of them |
| | [266] | Synthetic fibres suitable for spinning |
| | [267] | Other man-made fibres suitable for spinning |
| | [268] | Wool and other animal hair (incl. wool tops) |
| | [651] | Textile yarn |
| | [652] | Cotton fabrics, woven |
| | [653] | Fabrics, woven, of man-made fabrics |
| | [654] | Other textile fabrics, woven |
| | [655] | Knitted or crocheted fabrics, n.e.s. |
| | [656] | Tulles, trimmings, lace, ribbons & other small wares |
| [657] | Special yarn, special textile fabrics & related | |
| [658] | Made-up articles, of textile materials, n.e.s. | |

Source: according to the categorization of UNCTADSTAT data base.

3.5.3 Online database and internet resources

Second-hand data were collected from online databases, which include the research reports from Hong Kong Trade Development Council (HKTDC), McKinsey & Company, as well as the annual reports of the manufacturing firms. Information of relocated government firms, such as TAL and The Top Form in Hong Kong, Youngor

and Texhong in China, and Hyosung in South Korea were primarily collected from their official websites and annual reports given the difficulty in setting interview schedules with the managers of these large international corporations (TNCs). The annual reports of TNCs include employment, income of the main business, production capability, market share in different export markets, and the strategies of these firms.

Some information and data were also obtained from the official websites of various government offices in Guangdong Province, including the Department of Commerce of Guangdong Province and Bureau of foreign trade and economic cooperation of Guangzhou Municipality, Dongguan City, Zhongshan City, and Shunde District. The export and import data and the other export development trend of the garment and furniture industries were gathered. In addition, the policies of the garment and furniture industries were gathered from the website of the government of Guangdong. The data from the websites assisted in the analysis of the changing external and internal market environments in the global and domestic markets of China.

3.6 Firm-level analysis

This study explores the different market strategies of manufacturing suppliers in China and the PRD in particular through three empirical case studies. This thesis firstly focuses on the export-oriented furniture firms in the eastern PRD (Dongguan), which significantly turned into domestic markets of China in the aftermath of the 2008 global financial crisis, as illustrated in the study area and sector selection sections. Thus, Chapter 4 focuses on the market reorientation of export-oriented furniture firms from Western markets to the domestic markets of China. Export-oriented furniture firms refer to manufacturing furniture firms that relied on exports and originally served overseas markets, such as the US and EU (primarily, their export ratio is more than half of the total turnover), before the 2008 global financial crisis. However, they turned to expand their market orientations to the domestic markets of China. These furniture firms include branded and unbranded firms. This study differentiates the furniture firms according to the ownership of brands, and categorizes them into brand names because ownerships of brands could reflect the capabilities and competitiveness of the furniture firms that might influence

their market strategies. In this study, the manufacturing firms are primarily engaged in furniture manufacturing, and they have less experience in branding and retail, which have been previously controlled by global buyers, such as IKEA. Given the limited knowledge on domestic market, we propose that furniture firms tend to forge links with local partners (e.g., domestic retailers) to facilitate domestic sales. Retailers refer to firms or individual merchants that directly purchase products or goods in small quantities from suppliers and selling them to final consumers (e.g., online or offline consumers). This study will particularly examine the interaction between furniture firms and retailers for domestic sales. Therefore, in this study, we focus on the firm-level sales strategies of these furniture firms, and explore how they can be strategically coupled with the domestic market of China. In addition, the role of local institutions (e.g., governments and industrial associations) in shaping strategic recouping would also be investigated. This study follows the firm-level strategies framed by Coe and Yeung (2015) to explore the firm-level strategies for selling products in new markets. According to their framework, the four types of firm strategies include intra-firm coordination, inter-firm control, inter-firm partnership, and extra-firm bargaining. After the interviews, transcripts were coded to identify the pattern, dynamics, and impacts of the sales strategy of each firm. Then, we categorized and conceptualized the different strategies according to the conceptualization of firm strategies framed by Coe and Yeung (2015). In addition, this study applies this conceptualization with refinement if required according to the results of the interviews. In this study, market strategy is not one single method adopted by supplier firms. Supplier firms might simultaneously adopted different kinds of market strategies for different segment of markets and consumers in the changing global market dynamics. Therefore, the study primarily depicts different kinds of market strategies. To compare the market strategies in different sub-regions, the second empirical studies in Chapter 5 sheds light on the domestic market-oriented in the western PRD (Shunde) and its market strategies. We can compare the market strategies in the two different sub-regions based on the two empirical case studies in Chapters 4 and 5, and then examine whether the previous path (market orientation), such as focusing on exports or domestic sales, will influence the market strategies of manufacturing suppliers. Chapter 5 presents the domestic market-oriented furniture manufacturing firms. These firms refer to the furniture manufacturers that started business by serving the domestic markets of China. However, they may change their

market orientation in the face of the changing global economy. The changing global economy is associated with the rise in domestic markets in the Global South, such as China, and shrinking demand on Western markets in the Global North. In the case of Shunde, the majority of the domestic market-oriented furniture firms sell furniture directly in the furniture specialized market in Lecong Town, which is one of the largest furniture specialized markets in China. The specialized market includes different market shopping malls in different market segments. Therefore, market strategies were identified according to the market platforms that they integrate, in which local firms provide different kinds of products and serve different buyers. This study specifically identifies different market segments in the local specialized market to understand the different requirements that must be met by the local suppliers. The market segment is categorized based on the quality and sophistication of a product and the ownership of brands (Gadiesh & Leung 2007). In this study, in the low-end segment (e.g., Shunlink South Section, Dongheng, and Tuanyi furniture shopping malls), unbranded products with low price and low quality are sold by local firms. In the middle segment (e.g., Shunlink North Section), unbranded furniture products with higher price and higher quality than low-end products are sold to domestic retailers. In the high-end segment (e.g., Louvre and Red Star Macalline), branded furniture with the highest price and quality among the three segments are sold to individual consumers. In the case of a set of upholstered sofas, the price is approximately 500, 1000–3000, and 10,000 yuan in the low, middle, and high-end market segments in the specialized market, respectively (interview in Lecong, December 2016). The transcriptions were coded based on market strategies, effects of market orientations toward low-end domestic sales, upgrading practices, role of institutions (e.g., specialized market), and non-firm actors and local governments influencing the market strategies.

Third, to evaluate the difference in the market strategies between different sectors, Chapter 6 explores the garment firms in China, particularly the PRD and their market strategies. Moreover, to examine the interaction between market strategies and spatial production restructuring, this study emphasizes on the market strategies of the relocated garment firms from China to Southeast Asia. The relocated garment firms include Chinese private firms and TNCs in China, such as Hong Kong, Taiwan, and South Korea-invested firms. These firms have relocated their garment manufacturing

operations from China to Southeast Asian countries, such as Vietnam and Cambodia. The analysis in this chapter includes national level trade data analysis and the firm-level case studies. The data collected from UNCTADSTAT enable us to analyze the market orientation of the garment industries in the ASEAN countries. Moreover, this study primarily exploited the dynamics of the market strategies from the annual reports of the relocated firms (the large TNCs) given the difficulty in conducting interviews with the managers of these firms. Most of these firms are listed companies; therefore, securing their annual reports is easy. This chapter uses some specific relocated firms to demonstrate the different patterns of market strategies when they relocated from China to Southeast Asia. In addition, the interviews with garment firms in Hong Kong and the PRD, such as Guangzhou, Dongguan, and Zhongshan assisted in understanding the changing production environment in China and the PRD in particular and the mechanisms behind the production relocation and changing market orientation of garment firms.

In summary, this thesis provides a holistic understanding of the different patterns of market strategies in labor-intensive industries in China and the PRD in particular. This research examines the mechanisms behind the market strategies, such as the previous market orientation, industrial characteristics, and spatial production restructuring, by comparing the three empirical studies. This research proposes that the markets, particularly the emerging markets in the Global South, play an important role in reshaping the structural and spatial organization of GPNs and identifies the major coordinators.

4 Market Reorientation of Export-oriented Furniture Firms in the Eastern Pearl River Delta

This chapter sheds light on export-oriented furniture firms in the PRD and their firm-level market strategies in the changing global economy, particularly the rise of Chinese domestic markets. The chapter illustrates the market reorientation of export-oriented furniture firms (hereafter “furniture firms” in this chapter) in Dongguan and Shenzhen in the aftermath of the 2008 global financial crisis. The chapter then explores how furniture firms coupled with the domestic market of China in their market reorientation. In particular, the study identifies firm-level sales strategies of furniture firms for coupling with domestic markets of China. The study finally demonstrates the transformation of export-oriented production networks in the PRD. This chapter aims to explore the implications of the rise of domestic markets in the Global South, such as China, for the transformation of export-oriented industries in developing countries.

4.1 From exports to selling in the domestic markets of China

Since the opening up in the late 1970s, the PRD in Guangdong Province has developed into a well-known “world factory” in China. As one of most well-known export-oriented furniture production bases, Guangdong accounted for 40.5% of the national total furniture exports with US\$9 billion and 27.75% of national furniture outputs in 2007 (China Statistical Yearbook, 2008; Guangdong Statistical Yearbook, 2008). Furniture exports were concentrated primarily in Dongguan and Shenzhen City in the Eastern PRD. In particular, Dongguan contributed over 20% of the furniture exports of Guangdong with US\$2.8 billion in 2008 (Guangdong Statistical Yearbook, 2009; Dongguan Statistical Yearbook, 2009). Major export products include beds, mattresses, sofa, wardrobe, and tea tables, as well as office furniture in metal, bamboo and rattan, plastic and upholstered furniture. In Dongguan, furniture exports were centered in the Dalingshan Town, which is recognized as the largest furniture export capital in China (Figure 4.1). In 2013, furniture exports increased to 90% of total furniture outputs in Dalingshan Town, which has a concentration of 500 furniture firms (China Furniture Yearbook, 2014). In addition, Houjie Town in Dongguan, a

famous furniture exhibition town in China, also plays a key role in furniture industry in the PRD. Approximately 125000 foreign and domestic buyers visited the bi-annual furniture exhibitions held in Houjie in 2015⁴. Based on furniture exhibitions, both export-oriented furniture firms and domestic retailers and consumers could establish connections with foreign buyers.



Figure 4.1 Location of the Pearl River Delta in China

However, since the 2008 financial crisis, the export-oriented furniture industry in the PRD has experienced unprecedented challenges. In Guangdong, the growth rate of exports dropped from 35.7% to 3.2% during 2010–2012 (China Furniture Yearbook, 2014). Furniture employment was reduced to 40,000 during 2008–2009, and 400 furniture enterprises were subsequently closed down during 2010–2011 (Table 4.1). Export-oriented firms began to expand sales to the domestic market to cope with the shrinking demand of Western markets (e.g., EU and the US). Table 3.5 shows that in China, furniture domestic sales ratio increased from 47.7% in 2005 to 74.9% in 2011. In Guangdong, furniture domestic sales proportion increased from 56.6% to 64.7% during 2008–2011 (China industrial statistical yearbook 2009, 2010, 2011, and 2012).

⁴ <http://www.gde3f.com/about/review/?session=33>

While maintaining export orders, export-oriented firms have also made notable strategic recoupling with the Chinese market. For export-oriented firms, strategic recoupling with the domestic market is a strategy to reduce their reliance on exports and create a balance between exports and domestic sales.

Table 4.1 Indicators of furniture industry in Guangdong Province

| Year | Number of enterprises (Unit) | Gross industry output value (billion yuan) | Value-added of Industry (billion yuan) | Number of Employed Persons (1000 persons) |
|------|------------------------------|--|--|---|
| 2007 | 1090 | 67.1 | 16.2 | 318.9 |
| 2008 | 1417 | 83.1 | 22.7 | 363.9 |
| 2009 | 1409 | 87.2 | 22.8 | 324.6 |
| 2010 | 1463 | 109.9 | 28.5 | 366.6 |
| 2011 | 1086 | 117.5 | 28.6 | 325.8 |
| 2012 | 1070 | 122.7 | 30.6 | 323.7 |
| 2013 | 1205 | 151.7 | 38.0 | 341.5 |

Source: compiled based on Guangdong Statistical Yearbook 2008-2014.

Note: the data calculated according to the enterprise above design size

The significant domestic market expansion in export-oriented furniture industry benefited from the rise of domestic consumption. Domestic furniture sales⁵ increased from 76.2 billion yuan in 2000 (Castaño, 2002) to 227.3 billion yuan in 2014 (HKTDC, 2015a), with an average annual rate of 41% (HKTDC, 2014). Wood furniture in particular contributed to the largest national furniture sales (63.7%) with sales value of 411.8 billion yuan in 2013. Metal furniture held the second place, accounting for 19.7% of the national furniture sales, followed by rattan furniture (1.8%) and plastic furniture (1.5%) (China Furniture Yearbook, 2014). The growing consumption of furniture was boosted by the rise of the middle class⁶ and their

⁵ Furniture sales means sales of wholesalers and retailers above the designated size.

⁶ The middle class refers to Chinese households with annual income from 60,000 to 229,000 yuan. The middle class household spend less than 50% of income on necessities.

<http://www.bloomberg.com/news/articles/2015-02-10/why-china-s-middle-class-can-t-find-its-buying-power>

frequent replacement of furniture. According to a consumer survey on furniture consumption conducted by HKTDC (HKTDC, 2015a), 73% of the investigated Chinese middle-class consumers are now more willing to spend money on purchasing or replacing home decorative items (Table 4.2). Moreover, China’s shanty town reconstruction project will create a huge potential furniture demand, under which 37.6 million houses are expected to be renovated by 2020 (HKTDC, 2015a).

Table 4.2 Consumer survey on furniture replacement

| The number of consumers | Percentage % |
|--|--------------|
| More willing to spend money on purchasing or replacing home decorative items than before | 73 |
| Will replace furniture on every 10-15 years | 11 |
| Will replace furniture on every 7-10 years | 26 |
| Will replace furniture on every 5-10 years | 22 |
| Will replace furniture on every 3-5 years | 13 |

Source: compiled according to survey conducted by HKTDC and data from HKTDC (2015a)

Compared with Western advanced markets where consumers demand large volume but simple styles of furniture, domestic consumers present distinct demands. According to a consumer survey conducted by HKTDC (2015), domestic consumers primarily involve the following: 1) luxury/branded goods consumers demand high-quality branded products in the high-end segment; 2) average wage-earning consumers prefer cheap products but exhibit less preference for brands and quality in low-end segment; and 3) the middle class exhibit less concern for ‘price’ but pay extra attention to the ‘quality’ and ‘style’ in purchasing furniture. Given the complex consumer demands in China, the types of consumer demand that will be targeted by export-oriented furniture firms deserve extra attention.

Given the limited knowledge on domestic market, we propose that furniture firms tend to forge links with local partners (e.g., domestic retailers) to facilitate domestic sales. Retailers refer to firms or individual merchants that directly purchase products or goods in small quantities from suppliers and selling them to final consumers (e.g., online or offline consumers). This study will particularly examine the

interaction between furniture firms and retailers for domestic sales. The role of local institutions (e.g., governments and industrial associations) in shaping strategic recouping would also be investigated.

4.2 Firm-level strategies for domestic sales in China

According to interviews, 77.8% of interviewed firms increased their domestic sales to over 50% after recouping with the domestic market, and 66.7% started their domestic sales after 2008 (Table 4.3). Furniture firms adopted four types of firm strategies to facilitate domestic sales, including intra-firm coordination, inter-firm partnership, and two different types of extra-firm bargaining (Table 4.4 and Figure 4.2). Among the four types, inter-firm partnership is the most popular strategy (72.2% (26/36) of the interviewed firms), followed by intra-firm coordination (47.2% (17/36) of interviewed firms) (Table 4.4). Results show that some strategies were adopted simultaneously by some firms. Compared with the categorization of firm strategies conceptualized in “GPN 2.0”, the strategy of inter-firm control-reflecting furniture firms exerting strong power onto domestic firm actors (e.g., retailers) has rarely been adopted by furniture firms in the PRD. Moreover, the strategy of extra-firm bargaining between furniture firms and individual retailers is not conceptualized in “GPN 2.0” but was adopted by furniture firms in our study. These strategies will be demonstrated in the following discussion.

Table 4.3 Progress of domestic sales engaged by export-oriented furniture firms in the Pearl River Delta

Table 4.3 (a) Proportion of export in total turnover before 2008

| Exports as % of total turnover | Firms engaging in exports as% of interviewed export-oriented furniture firms |
|--------------------------------|--|
| >80% | 44.4% (16/36) |
| 50%-80% | 38.9% (14/36) |
| 20%-50% | 11.1% (4/36) |
| <20% | 5.6% (2/36) |

Table 4.3 (b) Proportion of domestic sales in total turnover in 2015

| Domestic sales as % of total sales | Firms engaging in domestic sales as% of interviewed export-oriented furniture firms |
|------------------------------------|---|
| >80% | 36.1% (13/36) |
| 50%-80% | 41.7% (15/36) |
| 20%-50% | 19.4% (7/36) |
| <20% | 2.8% (1/36) |

Table 4.3 (c) Initial year for engaging in domestic sales in China

| Year | Of total interviewed export-oriented furniture firms |
|---------------------|--|
| 2008 and afterwards | 66.7% (24/36) |
| 2005-2007 | 22.2% (8/36) |
| 2002-2004 | 5.6% (2/36) |
| 2001 and before | 5.6% (2/36) |

Table 4.3 (d) Initial year of establishing of brand names for engaging in domestic sales in China

| Year | Of total interviewed export-oriented furniture firms |
|---------------------|--|
| 2008 and afterwards | 41.7% (15/36) |
| 2005-2007 | 22.2% (8/36) |
| 2002-2004 | 5.6% (2/36) |
| 2001 and before | 5.6% (2/36) |
| Not yet | 25% (9/36) |

Source: 36 interviewed export-oriented furniture firms

Table 4.4 Comparison of firm strategies in “GPN 2.0” and the sales strategies of furniture firms in this study

| | | | | | |
|---|---|---------------------------|---|--|---|
| Firm level strategies conceptualized in 'GPN 2.0' | I. Intra-firm coordination | | II. Inter-firm partnership (between suppliers and lead firms) | III. Inter-firm control (between suppliers and lead firms) | VI. Extra-firm bargaining (between lead firms and local institutions) |
| Firm retail strategies in this study | I. Intra-firm coordination | | II. Inter-firm partnership | III. Inter-firm bargaining | VI. Extra-firm bargaining (between lead firms and local institutions) |
| Characteristics | 1) Establishing physical direct-sale stores | 2) Operating online shops | Making partnerships with domestic chain retailers | Selling products directly to domestic individual retailers | Supports or helps from local governments or industrial associations for boosting domestic sales |
| % of total interviewed firms (36 firms) | 17 firms (48%) | 9 firms (26%) | 26 firms (74%) | 9 firms (26%) | Direct supports is not evident |

Source: compiled according to the interviews with furniture firms.



Figure 4.2 Different firm-specific strategies of furniture firms

4.2.1 Inter-firm partnership

Inter-firm partnership means that furniture firms cooperate with domestic private chain retailers (hereafter called ‘chain retailers’) who assist them in distributing furniture products to China’s final consumers. The majority of these furniture firms are firms who started to establish brands after embarking on domestic market. Chain retailers are private retail firms who purchase wholesale⁷ products from furniture firms and then distribute these products to consumers in their localities (e.g., Hunan and Hubei Province) in China. Furniture firms found it difficult to conduct domestic sales in China’s market by themselves because of the lack of experience in retail and sales activities. In previous exports, the furniture firms focused mainly on manufacturing and assembly activities (ranging from purchasing timber and leather, sawmilling, molding, component fabrication, assembly, japanning, drying to packing); whereas design, retail, and sales activities were controlled by global buyers (e.g., IKEA) who have well-established distribution and sales channels in advanced economies markets (Ivarsson & Alvstam, 2010). Consequently, furniture firms have less knowledge on retail and sales activities during their longstanding relations with global partners, hindering their direct domestic sales in China. The chief executive of a furniture firm in Dongguan complained: “we are manufacturers and good at production in our factories. But we totally have no idea about sales and consumer demand in China” (interview in Dongguan, March 2015). Therefore, collaborating with domestic partners (i.e., chain retailers) who clearly understand domestic demands and have established sales channels is a better choice for furniture firms in their recoupling with China’s market (Table 4.4).

Partnerships between furniture firms and chain retailers are also driven by the strategic needs of chain retailers. Chain retailers in China establish their stores primarily in high- and middle-end furniture shopping malls (e.g., *Red Star Macalline*

⁷ Based on the division of United Nations Statistics, wholesale means reselling new or used commodities to final consumers. Wholesalers are the merchants who assemble, sort, and grade commodities in large lots and redistribute the commodities in small lots. <https://en.wikipedia.org/wiki/Wholesale> In our study, wholesale refers to furniture first-tier suppliers selling a set or several sets of furniture with ex-factory price to the domestic chain retailers. In their cooperation with domestic chain retailers, furniture first-tier suppliers are regarded as the wholesalers.

and *Easyhome*) located in first and second-tier cities (e.g., Beijing, and Shanghai), where consumers have stronger purchasing power and higher demands on quality and brands (interviews in Dongguan, March 2015). As explained by interviewed retailers, brand ownerships are the precondition of entering into China's high- and middle-end markets (interviews in Dongguan, September 2014). However, different from global branded buyers, domestic chain retailers focus mainly on retail and sales activities but do not engage in branding, design, and production. Therefore, in targeting high- and middle-end consumers, these retailers prefer to team up with manufacturers with brands. One domestic chain retailer from Hunan Province claimed the following:

“Consumers prefer large shopping malls (e.g. Easyhome and Red Star Macalline). They have more choices there. They also trust the brands and products in these shopping malls. If we can enter these shopping malls, we can increase our sales and our brand awareness.”(Interview in Dongguan, September 2015).

Moreover, unlike global buyers who import products in simple style from local furniture firms, domestic chain retailers tend to purchase high-quality branded products. To meet the strategic needs of chain retailers and target China's high- and middle-end consumers, 41.6% of interviewed furniture firms began developing brands after 2008 for domestic sales (Table 4.3), and have also exerted significant effort to improve furniture quality.

Based on brand ownerships, furniture firms establish partnerships with chain retailers through franchising. Franchise involves granting retail rights to chain retailers for operating stores with furniture firms' brands. Under franchise agreement (generally renewed every 1–2 years), furniture firms and chain retailers exert symmetric power on each other. On the one hand, furniture firms could require chain retailers to operate retail stores in conformity with overall brand images despite retailers having a large degree of pricing discretion. A Hong Kong-invested furniture firm in Dalingshan Town, Dongguan stated: “we will unify all of our chain stores (around 120) to protect the reputation of our brands” (interview in Dongguan, March 2015). In this process, furniture firms exert power onto chain retailers and control their retail networks, thereby differentiating inter-firm partnership strategy from other strategies that would be discussed below. On the other hand, franchise empowers

chain retailers. Most franchise agreements are a regional exclusive retail right in a city or province, which ensures exclusive sale right of chain retailers, thereby reducing competition. Compared with the captive control exerted by global buyers on furniture firms, the systematic structure notably releases extra space for furniture firms to improve their production capability, design, and brand reputation. Furthermore, because of the systematic power, inter-firm control is unlikely to occur because furniture firms could not exert control onto their partners in domestic sales.

In general, strategy of inter-firm partnerships with chain retailers effectively facilitated the strategic coupling of furniture firms with China's domestic market. According to our interviews, most furniture firms cooperating with chain retailers have successfully increased their domestic sales to over half of their total turnover.

4.2.2 Intra-firm coordination

Intra-firm coordination refers to furniture firms that have a tendency to internalize sales activities (e.g., retail) into their own firms while consolidating cross-functional activities ranging from timber procurement, furniture production, and design to branding (for furniture firms engaging in direct-sales stores). According to our interviews, 47.2% (17/36) of furniture firms have established physical direct-sale stores and 26% (9/36) have built online shops in their recoupling with the domestic market (Table 4.4). Furniture firms who establish physical direct-sale stores are branded firms with strong capabilities in finance and retail management. The motivation behind establishing physical direct-sale stores lies in two reasons. First, direct sales enable furniture firms to capture the latest market trend and obtain feedback regarding products and sale service, thereby responding accordingly through timely sale adjustment and production adaption (e.g., design revision, quality improvement, material change, as well as price and cost adjustment). Second, extra profit could be generated from direct sales that benefit from the reduction of management and retail agent costs. As such, furniture firms could pursue better cost control in direct sales. Thus, to better control sales, these firms consistently establish their direct-sale stores in various surrounding PRD cities (e.g., Dongguan and Shenzhen), which are proximate to their production bases. Other first-tier cities (e.g., Beijing, Shanghai, and Guangzhou) with huge potential high- and middle-end demands are also the target markets for these branded furniture firms.

However, gaining profits for furniture firms via their direct sales stores was difficult because of their weak management and finance abilities. After years of exports, furniture firms have limited experience in direct sales involving matters, such as furnishing, decorating stores, and training sales personnel. As a marketing manager of a furniture firm in Foshan City explained, furniture consumption is experiencing a type of consumption different from that of other daily goods (e.g., footwear and garment). The placement of furniture and furnishing of stores will largely influence consumers' purchase willingness (interview in Shenzhen, March 2015). Thus, unfamiliarity with sales and retail activities (e.g., unskillful decoration and placement) may lead to the failure of direct-sale stores. As shared by the CEO of a Hong Kong-invested firm (Firm X) in Shenzhen:

“From 2006, we started to establish 10 direct sales stores in several first-tier cities, like Shenzhen, Beijing, and Shanghai. However, we are not good at retail strategy. We are not familiar with the consumption culture in different regions in China. Thus, the sales in our direct sales stores were not good. So far, we have closed down all the direct sales stores and just kept one store in Shenzhen.” (Interview in Dongguan, March 2015)

Financing capability is also crucial to the operation of direct sales stores. The high cost of establishing physical stores (e.g., approximately 500 thousand yuan in Shenzhen) and high rent of stores (e.g., approximately 100 thousand yuan per month in Shenzhen) impose huge financial pressure on furniture firms (interviews in Dongguan and Shenzhen, March 2015). Accordingly, doubts have been cast on the viability of domestic expansion via direct-sale stores.

Compared with direct-sales stores, the strategy of online sale has gained growing popularity with furniture firms in their coupling with China's market. The majority of such firms are small-scale unbranded enterprises (with around 10–20 employees) who previously exported low-end products to developing countries (e.g., in Southeast Asia and the Middle East). The driving forces behind the adoption of online sales include low entry barriers of online platforms and low requirements of online consumers. After years of engaging in low-end exports where much of the consumer demand involves cheap unbranded products with simple styles, furniture firms have failed to cultivate strong capabilities in design, brand, and finance. Thus, redesigning products

(which requires investment and innovation capabilities) is a challenge for these unbranded furniture firms. To reduce new capital investment in redesigning, branding, and innovation, these firms prefer to enter online platforms (e.g., Tmall, Taobao and JD.com) which lack branding preconditions and only require lower deposits (around 50,000 yuan in Taobao). In online platforms, furniture firms sell previous export products directly to online consumers who are less concerned on the quality and design of products but more interested in low prices (see Table 4.4 and Figure 4.2). However, most furniture firms complained that they faced severe competition from other suppliers who adopted the strategy of ‘racing to the bottom’ online. This severe competition further diminishes the low marginal profit (around 5%) of online sales (similar with exports). Therefore, many unbranded furniture firms continue to struggle with online sales.

Interestingly, to diversify their sales channels in China, some branded furniture firms have also promoted online sales, but most have failed to increase their profits significantly. In fact, branded firms encountered considerable difficulties in promoting their high-quality branded products online where consumers primarily pursue low prices. Consequently, branded firms did not succeed in online sales. A CEO of a furniture firm in Houjie remarked: “Our online sales (1 million yuan per year) represented less than 5% of our total domestic sales” (interview in Dongguan, September 2015). Moreover, conflicts between online and offline sales (physical chain stores) amplify the reluctance of branded furniture firms to expand domestically through online platforms. The senior manager of a branded furniture firm in Dongguan stated the following:

“The online prices of products are usually cheaper than those of physical stores because of the lower online operation cost. If furniture firms sell branded products online with lower prices, no consumer is willing to buy the same branded products from physical stores with higher prices; so, to some extent, online sales will destroy our partnerships with chain retailers who operate the chain stores.” (Interview in Dongguan, September 2014)

To address this problem, some branded firms deliberately designate certain products exclusively for either online or chain stores, or downgrade some branded products for low-end online sales. Such practices lead to the downgrading of branded

furniture firms. Take the case of Firm F⁸ in Dongguan. To protect its brand reputation, this firm began online sales on a platform called *Meilele* (in Chinese) in 2014, and sold furniture products without their brand names online (interview in Dongguan, September 2015). Some firms believe that online furniture sales will become increasingly popular, despite their limited contribution to overall sales, and are willing to maintain online furniture sales for domestic expansion. This fact indicates that online sales have the potential to change the configuration of the traditional production network in the future.

4.2.3 Inter-firm bargaining and extra-firm bargaining

In this study, inter-firm bargaining and extra-firm bargaining have been observed. The first is the transactions between furniture firms and domestic individual retailers. The second one is the interaction between furniture firms and local institutions.

With respect to the intra-firm bargaining between furniture firms and individual retailers, the small-scale furniture firms pay little attention to branding and innovation. Long-term coupling with low-end export markets (e.g., in Southeast Asia and the Middle East) cause these firms to have less experience in branding, innovation, and retail. Thus, such firms find it difficult to collaborate with chain retailers who target high and middle-end markets (for which brand is the precondition). Their lesser knowledge of sales activities (e.g., retail) also hinder furniture firms from generating direct sales with domestic consumers. Thus, these unbranded firms tend to transact with individual retailers who target the low-end domestic market and who support the distribution of their products to China's low-end consumers.

Furniture firms tend to sell their unbranded products previously produced for export to individual retailers who operate local retail stores in various regions in China (e.g., Hunan, Hubei, or Shandong Province). However, price-based transaction with individual retailers is an ineffective strategy for domestic sales. Compared to long-term partnerships, price-based bargaining are relatively loose, short-term, and unstable, wherein individual retailers could change their suppliers freely according to their needs.

⁸ The names of the furniture companies in this study are anonymous as requested by interviewees.

As explained by the CEO of a furniture firm in Foshan, Guangdong: “the current marginal profits of our sales are just around 5%. As the cost of labor and production materials such as timber and leather continue to increase, we will incur losses in domestic sales if individual retailers force down the bargaining price” (interview in Dongguan, March 2015). Therefore, furniture firms did not gain considerable profits from inter-firm bargaining with individual retailers. Many firms remain reluctant to invest in production improvement and brand building to adopt other strategies for domestic sales. From their perspective, exporting is simpler for them compared to sophisticated domestic sales. Many firms have declared that they are still waiting for the recovery of export markets. An interviewed firm explained,

“We lack the capabilities to improve and redesign previous export products. Registering a brand with a governmental institute is easy for us, but making it well-known is very difficult. Without a popular brand, we cannot succeed in domestic sales. For us, it is easier to profit from exports because of the large volume of exports. We hope the export market recovers in the coming years.” (Interview in Dongguan, September 2015)

In addition to the interactions with local economic actors (e.g., retailers or consumers) in domestic expansion, the role of institution (e.g., local governments) in market expansion attracted increasing attention in recent years. Hence, this study also examines the importance of extra-firm bargaining, which refers to the attempts of furniture firms to obtain assistance from local institutions or governments for changing market orientation to the domestic markets. Numerous studies on China have highlighted the role of governments regarding domestic consumption stimulus policies, such as the well-known ‘4 trillion’ policy for mitigating the severe decline of exports after the 2008 crisis (Yang, 2014). In our firm-level investigations, most furniture firms noted the rise of the domestic market as driven by central government policies. However, they have received neither sufficient financial support from local banks nor adequate policy support (e.g., domestic sales tax reduction and financial support for innovation improvement) that would directly benefits their domestic expansion. A domestic private supplier in Houjie Town, Dongguan noted the following:

“We did not receive any support from the Houjie town government or the Dongguan municipal government. It is very difficult for our small firms to

obtain bank loans in recent years especially after the 2008 global financial crisis.” (Interview in Dongguan, September 2015)

Interviews with local officials in Houjie indicate that local governments have announced several preferential policies to assist firms in reducing the effects of the financial crisis (e.g., export rebates, innovation platform establishment, and branding subsidies) (interview in Houjie, Dongguan, July 2015). But an interviewed firm remarked:

“In most cases, we are unqualified to apply for this kind of support, because we are small firms. The local government preferred supporting large firms or leading local firms. The other thing is, sometimes the small subsidies (e.g., around 500,000 for innovation) are insufficient for us to improve something like design.” (Interview in Dongguan, September 2015)

At this stage, most furniture firms viewed promoting domestic sales as a firm business strategy, while local governments and institutions did not have direct impact. Compared with the direct support from local governments, most furniture firms expressed that they obtained more benefit from exhibition platforms in the PRD (e.g., Dongguan and Shenzhen) where they could have direct contact with domestic retailers and consumers. Local governments have exerted efforts to facilitate domestic expansion of export-oriented industries, but with limited directed impact.

4.3 Reorganization of production networks and upgrading prospects

As the furniture firms turned to expanding domestic sales, the emergence of domestic market-oriented production networks has been in the previous export-oriented furniture industries noted. According to the above analyses, brand ownership is vital in shaping furniture firms' domestic sales channels. Driven by the various sale strategies of branded and unbranded furniture firms, two types of domestic market-oriented production networks have been identified. They are (a) branded firms-involved production networks and (b) unbranded firms-involved production networks (Figure 4.3). These production networks include different power relations.

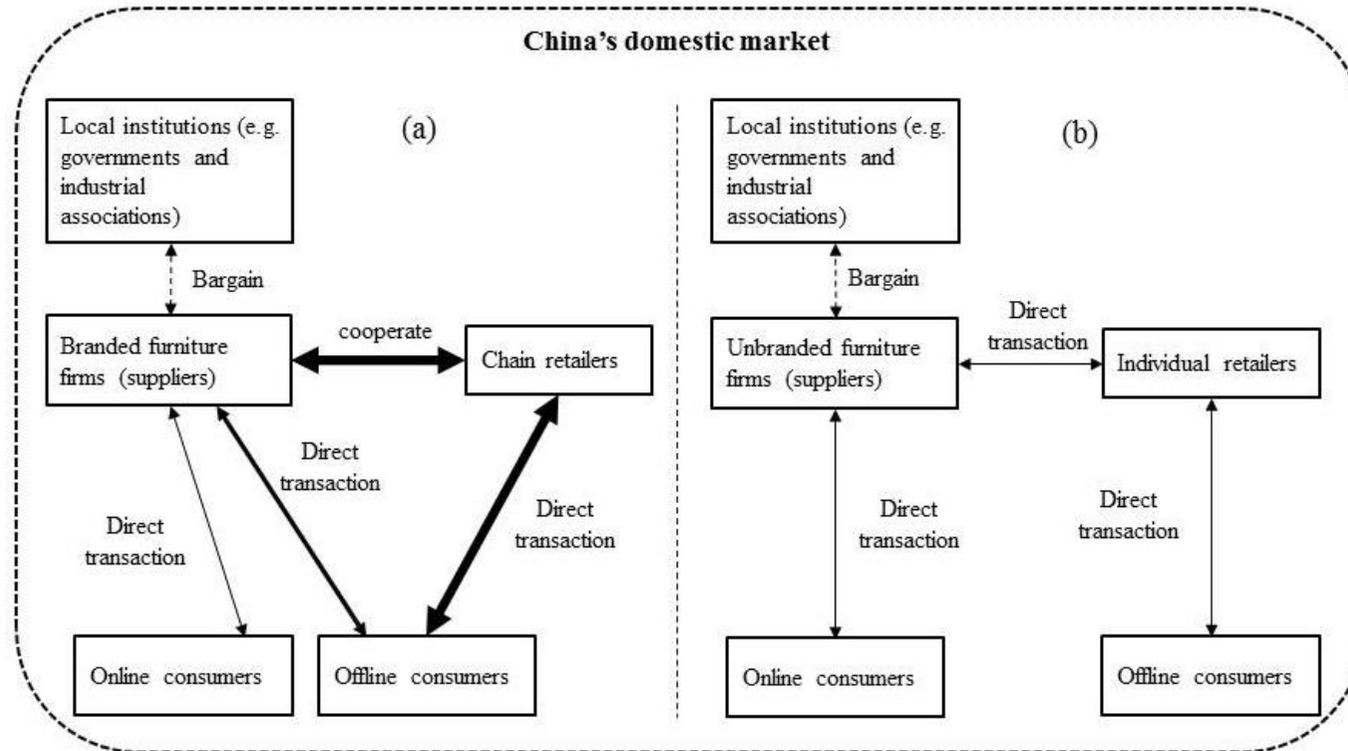


Figure 4.3 Configurations of domestic market-oriented furniture production network

Configuration (a) involves three kinds of structural organization. First, branded furniture firms engage chain retailers primarily for its product distribution and sales to final consumers, thereby forming strategic partnership relations between branded firms and chain retailers (Figure 4.3). This configuration presents a particular analytical attention to the relatively symmetric coordination between furniture firms and chain retailers. Second, firm-centric organization also occurs because branded furniture firms engage directly with online and offline⁹ consumers. With firm-centric organizations, branded furniture firms dominate and drive the entire production network to exercise greater control over the quality and delivery of their products to consumers. Thus, analytical focus falls primarily on the responses of furniture firms to the strategic needs of online and offline consumers. Third, extra-firm bargaining relations between furniture firms and local institutions (e.g., local governments and industrial associations) are expected to intermediate the complex power relations between furniture firms and local institutions, but has been found to exert less direct influence on shaping the coordination and governance of the production networks.

Configuration (b) involves loose and unstable coordination between unbranded furniture firms and individual retailers. In this loose coordination, unbranded furniture firms or individual retailers could not exercise control or power over each other in relation to product sales and services or regarding production adjustment in their transactions. This configuration also involves firm-centric organization in which unbranded furniture firms internalize and control most of the activities, including sales. Such firms strategically couple directly with online consumers and respond to their strategic needs. Similar with configuration (a), extra-firm bargaining among furniture firms, local governments, and industrial associations have less impact on the organization of production networks. The configuration in domestic market-oriented production networks is dynamic and the firm-centric model could be transformed into a strategic partnership model, as furniture firms establish brands and change their sales strategies.

⁹ Offline consumers are defined as final consumers that purchase through physical stores. We use offline consumers to differentiate them with online consumers.

Compared to entering into global production networks, coupling with domestic production networks provides more prospects for upgrading and manifests more relatively symmetric power relations. First, the majority of furniture firms primarily expanded their activities from production to design, branding, and sales in domestic market-oriented production networks, suggesting functional upgrading. In our study, functional upgrading is the adaptive strategy implemented for a new market segment. Two forces drive the upgrading: (1) that the original equipment manufacturing (OEM) model is an ineffective means of domestic expansion, as furniture firms encounter difficulties in acquiring large volumes of OEM orders from major domestic brand name retailers to maintain their businesses and (2) to meet the strategic needs of domestic chain retailers, most furniture firms proactively attempt to move beyond unprofitable OEMs and advance toward high value-added activities (e.g., branding and design). For example, to improve the design of their products, a new design team was established in 2009 in a local furniture firm (Firm H), including 10 foreign designers and 10 domestic designers. As explained by the CEO, they tend to design and sell their own brand name products in the market, instead of working for other brand names. In doing so, they could generate higher margin profits (interview in Dongguan, September 2015). A senior marketing manager of an export-oriented furniture firm in Shenzhen explained

“Before, our company was one of IKEA’s suppliers. Although the volume of production orders from IKEA is larger than those from the domestic chain retailers, the marginal profit is extremely low, around 5% of the ex-factory price. If they terminate the collaboration with us, we will face closure. Hence, we prefer to establish our brands and produce furniture bearing our brands. Although the overall sale in domestic chain retailers is less than in IKEA, we can increase the marginal profits to 20%.”
(Interview in Shenzhen, March 2015)

Second, symmetric power relations provide considerable leeway for furniture firms to achieve product and process upgrading. Take the case of a Hong Kong-invested furniture firm (Firm F) in Dalingshan Town.

Firm F, a wood furniture firm operating in Dongguan for 27 years, has developed four series of brand name products for domestic sales. The firm

began to automate some of their furniture production lines in recent years (starting at around 2010) to improve production flexibility and efficiency and save on labor cost. It imported robot arms from Italy worth 0.3 billion yuan. These robot arms automated the work previously done by low-skilled workers, including sawmilling, modeling, and painting. Consequently, 30% of the human workforce has been eliminated, significantly reducing the production cost. Moreover, green timber imported from Africa and Europe was used to produce eco-friendly wood furniture products favored by domestic consumers. By September 2015, the domestic sales of this company have increased to 50% from 30% of total turnover before 2008, and the company established partnerships with over 80 chain retailers after their launch in China's market. (Interview in Dongguan, September 2015)

However, domestic sales do not always spur upgrading; instead, downgrading may occur. For example, in configuration (a), some branded furniture firms have encountered downgrading as they deliberately designed low-end products for online consumers, an approach that could be viewed as strategic downgrading identified by Blažek (2015). Moreover, because of the low entry barriers of online platforms and the lower requirement of online consumers, unbranded furniture firms engaging in online sales in configuration (b) have not been motivated to upgrade their products and establish brands. The inter-firm bargaining with individual retailers reflecting the loose cooperation in configuration (b) is also too weak to promote upgrading because of the lower requirements of low-end consumers.

From the above analysis, this study argues that the transformation of export-oriented firms in developing countries is not necessarily defined and simplistic, such as moving from low-end unprofitable export manufacturing to functional upgrading. Instead, furniture firms tend to adopt diverse strategies to cope with external shock and the changing global economy, leading to complex production networks that involve different kinds of power relations and differentiated upgrading trajectories (Tokatli, 2013). However, rather than giving up export markets, furniture firms simultaneously maintain coupling with domestic and export markets. To increase flexibility and competition in the changing global economy, furniture firms also assume

the role of OEM suppliers in global production networks while acting as brand name suppliers or retailers in domestic production networks. Some respondents indicated that 40% of domestic sales and 60% of exports is the ideal proposition of market share (interview in Dongguan, March 2015). Moreover, multi-market strategies not only empower furniture firms in the changing global economy, but also leads to the reconfiguration of global production networks (Zhou, 2015) wherein furniture firms may enhance their position in domestic production networks while remaining in the low-end export manufacturing position. This analysis provides evidence that simplistic governance relations should be transcended and upgrading analysis conceptualized in GVC studies (Humphrey and Schmitz, 2002; Gereffi et al., 2005) and that further empirical studies should be conducted to assess the transformation of export-oriented industries and upgrading trajectories.

4.4 Summary

This chapter attempted to explore how export-oriented furniture firms strategically recouple with their domestic and host markets of China to offset the decline of export orders. This research argues that majority of competitive branded furniture firms prefer to establish inter-firm partnerships with chain retailers for high and middle-end domestic sales, leading to the emergence of a so-called domestic market-oriented production network, within which furniture firms experience upgrading and downgrading simultaneously. This empirical study advances literature on strategic recoupling through firm-specific strategies. By adopting firm-specific strategies that conceptualized how global buyers (e.g., brand name retailers) coordinate their production on the global scale (Yeung & Coe, 2015), this study considers firm-specific sales strategies of export-oriented suppliers to coordinate sales channels in their reorientation to the domestic market. Thus, it elucidates the structures of the relations between export-oriented suppliers and domestic actors such as retailers. This study also extends previous studies of recoupling with domestic market from the regional and national scales to the firm level (Horner, 2014; Yang, 2014; Yang et al., 2017).

This study also enriches theoretical discussions on the implications of emerging markets in the Global South for the transformation of export-oriented industries in developing countries and the reconfiguration of global production networks. This study considers the importance of market strategies in the strategic recoupling of export-oriented suppliers with their host/domestic markets. Empirical evidence collected from China indicates that domestic markets in the Global South not only includes low-end market demand (which suggests low concern on product quality and production standards), but also covers high and middle-end segments. The higher-end market segments provide more upgrading (particularly functional upgrading) to local suppliers, which is discouraged in the previous coupling with global production networks of export markets. This finding echoes the findings of Horner's (2014) study of India's pharmaceutical firms. Given the various market imperatives in the domestic market, switching to emerging domestic markets notably stimulates various and complex value capture outcomes, including upgrading and downgrading (Kaplinsky et al., 2011). Overall, market reorientation of export-oriented industries indicates that the role of China has evolved from a manufacturing base to an emerging market in the Global South.

Empirical experience from China and the PRD also indicates that local governments and other institutions must be encouraged to provide more financial backing, further assistance for innovation, and additional preferential policies to support the coupling of export-oriented suppliers with the domestic market, thereby facilitating the transformation of export-oriented industries. Given the increasing importance of emerging markets in the changing global economy, more studies are required to explore different mechanisms that might influence market reorientation to domestic markets of developing countries, such as ownerships of firms and the workers' capabilities. Further comparative empirical work is also necessary to examine firm-level recoupling in various export-oriented sectors and different regions. More studies should investigate the relations between domestic market reorientation, the upgrading prospects of export-oriented suppliers, and the changing trajectories of export-oriented cities/regions in developing countries.

5 Market Diversification of Domestic Market-oriented Furniture Firms in the Western Pearl River Delta: the case of Shunde

This chapter sheds light on the domestic market-oriented furniture firms in Shunde District, Foshan City. Drawing upon the theory of EEG, this chapter explores the market strategies of domestic market-oriented furniture manufacturing suppliers and its impact on their upgrading trajectories. This study attempts to enrich the literature by examining the domestic market-oriented industries in developing countries, which have been understudied in the existing literature. This study also adds the literature through the exploration of the market strategies of domestic market-oriented suppliers. Finally, after examining the market strategies of domestic market-oriented furniture firms, this study compares the different market dynamics and firm-level strategies in the eastern PRD (Chapter Four) and the western PRD (this chapter).

5.1 Domestic market-oriented furniture industry in Shunde District

The remarkable domestic market-oriented development of Shunde is attributed to the boom of industries, including the furniture industry. The furniture sales outputs of Shunde reached 8.6 billion yuan in 2013 (Table 5.1), thereby contributing to 22.6% of the value-added of furniture outputs of Guangdong Province, which accounted for around one-third of the national furniture outputs of China. The furniture industry outperformed 28 industries in Shunde, with the number of legal entities reaching 2,886, accounting for 17.1% of the total legal entities in 2013 (Shunde Statistical Bulletin, 2013). The furniture products include 24.9% of wooden furniture, 31.8% of upholstered furniture, and 42.7% of metal furniture, according to the volume of furniture products (9 million pieces) in 2013 (Third National Economic Census of Shunde, 2014). These products were primarily sold in the domestic market. The domestic sales accounted for 72% of the total furniture industrial sales outputs in 2013, and the ratio was higher than that of Guangdong Province (65.5%) (Shunde Statistical Yearbook, 2014; Guangdong Statistical Yearbook, 2014).

Table 5.1 Economic indicators of Shunde District, Foshan City

| Year | GDP (billion yuan) | Total exports (US\$ billion) | Total industrial outputs (billion yuan) | Total industrial added value (billion yuan) | Number of furniture enterprises | Furniture sales outputs value (billion yuan) | Furniture exports (billion yuan) | Furniture exports/sales outputs (%) | Furniture employment |
|------|--------------------------|---------------------------------|---|---|---------------------------------------|--|---|---|-------------------------|
| 2004 | 70 | 7.4 | 150.7 | 33 | 70 | 2.2 | 1.3 | 59.1 | 12561 |
| 2005 | 85.6 | 8.6 | 202.2 | 49.7 | 51 | 2.1 | 1.4 | 66.7 | 10495 |
| 2006 | 106.2 | 9.7 | 256.2 | 63.4 | 105 | 3.2 | 1.8 | 56.3 | 16983 |
| 2007 | 129 | 12 | 323.6 | 78.7 | 147 | 4.9 | 1.2 | 24.5 | 22463 |
| 2008 | 156.2 | 13 | 398.3 | 79.7 | 197 | 7.2 | 2.6 | 36.1 | 27282 |
| 2009 | 167 | 11.1 | 427.7 | 98.3 | 197 | 9.9 | 2.2 | 22.2 | 24727 |
| 2010 | 195.1 | 14.4 | 523.5 | | 197 | 9.9 | 2.2 | 22.2 | 24727 |
| 2011 | 215.4 | 16.9 | 596.6 | | 130 | 9.2 | 2.3 | 25 | 19982 |
| 2012 | 231.7 | 17.1 | 533.9 | 125.3 | 116 | 7.6 | 2 | 26.3 | 17679 |
| 2013 | 255.7 | 18.7 | 580.2 | 130.5 | 125 | 8.6 | 2.4 | 27.9 | 16535 |
| 2014 | 276.5 | 20.6 | 644 | 140.3 | | | | | |
| 2015 | 258.8 | 20.7 | 681.5 | 146.1 | | | | | |

Source: Shunde Statistical Yearbook, 2005-2016. Shunde Statistical bulletin 2004-2015

Note: the furniture data collected according to the enterprise above designated size

The domestic market-oriented furniture industry in Shunde has experienced two rounds of evolution process. First, since the opening and reform initiated in China in the early 1980s, the furniture manufacturing firms in Longjiang Town and Lecong Town have proliferated on scale. In 1984, China's Rural Land System Reform was initiated by Chinese central government, which allowed farmers to change the function of rural lands into commercial use. Driven by the efforts of private village entrepreneurs who get political supports by the local government (Li et al., 2016), furniture stores were increasingly established along the Provincial Road S121 in Lecong Town (Figure 5.1). By the mid-1990s, the number of furniture stores have reached around 1100, with the growth rate of more than 15% during 1980s-mid-1990s (Lu, 2011). At this stage, furniture industry is characterized by the structure of “store in the front, factory in the back”. In the local production networks, furniture suppliers produced low-end products in Longjiang and sold their products to the retailers in the specialized market in Lecong.



Figure 5.1 Location of Lecong furniture specialized market in Shunde District, Foshan City

Source: provided by the Chamber of Commerce of Lecong Furniture Cities

Second, the industry has witnessed the market diversification of the furniture supplier firms since the late 1990s, which was underpinned by the development of the local specialized market in Lecong. By 2013, more than 180 furniture shopping malls have been established in Lecong (China Furniture Yearbook, 2014). The specialized market has become diversified in the market segment from the low-end segment to the middle and high-end segments, as some middle (e.g., Shunlink North Section) and high-end shopping malls (e.g., Louvre) have been established since 1999. The local specialized market covers sales of household, hotel, outdoor, and children's furniture. The products include sofas, dining tables and chairs, wooden and upholstered beds, and metal and glass furniture. In 2013, the yearly turnover of the specialized furniture market reached 50 billion yuan, making it the largest specialized furniture market in China, followed by Likou in Jiangsu Province and Xianghe in Hebei Province. The rise of a specialized market stimulated the improvement of supply production networks and backward linkages in Longjiang Town.

As one of China's well-known furniture production bases, Longjiang increased its furniture production to around 40% of the total industrial output value in 2015 (China Furniture Yearbook, 2016). Around 2,280 manufacturing firms and over 3,000 material (e.g., timber and coating) and sales firms were located in Longjiang in 2015, respectively (Table 5.2). Meanwhile, furniture domestic sales increased to 20.6 billion yuan, accounting for more than 80% of the total furniture industrial outputs (25.6 billion yuan) (Table 5.2). More than 90% of final furniture products in Longjiang Town were sold in the specialized market in Lecong Town, particularly the low-end market segments, within which retailers and consumers have lower requirements of production quality and design (interviews in Longjinag, August 2015).

Table 5.2 Furniture indicator of Longjiang Town, Shunde District

| Indicators | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|------|------|------|------|------|
| Number of enterprises | 1128 | 1535 | 2171 | 2806 | 2280 |
| Number of enterprises above designated size | 87 | 81 | 76 | 86 | 82 |
| Gross industrial outputs (billion yuan) | 16.7 | 16.9 | 18.3 | 19.4 | 25.6 |
| Exports (billion yuan) | 0.09 | 0.09 | 0.09 | 0.10 | 0.12 |
| Domestic sales (billion yuan) | 16.5 | 16.7 | 18.2 | 19.2 | 20.6 |
| Volume of industrial outputs (million yuan) | 3.0 | 3.2 | 3.5 | 3.9 | 4.4 |

Source: China Furniture Yearbook, 2016

The rise of furniture production in Longjiang has been supported by the local institutions. Bi-annual furniture exhibition established by local government in Longjiang Town in 2000 helped local suppliers to reach numerous domestic and foreign buyers. Moreover, furniture industrial associations in Shunde and Longjiang were established in 1997 to improve knowledge transfer and exchange among local industries (Lu, 2011). At this stage of furniture industry, benefits from the institutional supports, a mature production network emerged, ranging from raw material supply to manufacturing production, retail, and marketing.

In recent years, driven by the emergence of middle and high-end market platforms in Lecong, furniture supplier firms in Longjiang have recently expanded their market orientations from the low-end segment to the middle and high-end segments in the changing dynamics of global markets and China's domestic market. In China, the main business revenue of furniture enterprises above a certain scale reached 646.3 billion yuan in 2013, including 76.51% of domestic sales (China Furniture Yearbook, 2014). The rise of domestic furniture consumption is primarily reflected in coastal regions (e.g., Guangdong Province) and the second- and third-tier regions such as Hubei Province (central regions in China) and Chongqing Municipality (western region in China) (China Furniture Yearbook, 2014). Moreover, China has expanded its market orientation to emerging economies. Data shows that 10.3% and 3.7% of national furniture exports were for ASEAN countries and Brazil, Russia, and India excluding China, respectively, in 2015 (China Furniture Yearbook, 2016). In 2013, the growth of export rate to ASEAN reached 28.73% (China Furniture

Yearbook, 2014). Nevertheless, a few investigations have been conducted on the implications of the rise of the domestic market of China and other emerging economies for the market strategies of the domestic market-oriented suppliers. The statistical data shows that the growth rate of furniture exports in Shunde reached 61.6% in 2013 (Shunde Statistical Bulletin, 2014). However, because of the insufficient statistical data, the export destinations of the furniture products of Shunde were unclear. Therefore, this chapter explores the patterns of market strategies of furniture supplier firms in Shunde through interviews.

5.2 Market diversification of furniture firms

According to our interviews, 64.5% (21/31) of the interviewed local firms that started their businesses in the low-end domestic sales have tended to expand their sales networks to emerging markets (e.g., Middle East and Southeast Asian countries). A total of 22.6% (7/31) expanded their market share in the domestic middle-end segment, whereas 12.9% (4/13) tapped into the domestic high-end segment (Table 5.3). The following discussion explains the reason and manner by which local firms expand to different market segments and the subsequent changing geographical and structural organization of the production networks.

Table 5.3 Categorization of market strategies of local suppliers in Shunde

| | 1) Low-end strategy | 2) Middle-end strategy | 3) High-end strategy |
|---|--|---|---|
| Share interviewed firms adopted this strategy | 64.5% (20/31) | 22.6% (7/31) | 12.9% (4/31) |
| Firm style | Small-scale unbranded firms | Small-scale unbranded firms | Large-scale branded firms |
| Target market | Emerging markets (e.g. Middle East, Southeast Asia, and Russia) | Domestic middle-end market in China | Domestic high-end market in China |
| Consumer demand | Care most about price but less about quality, design and brand | Care most about the quality, less about the design and brand | Brand is necessary. Care more about brand, design and quality of products, but care less about the price |
| Characteristic of transactions | 1) Local firms made direct contacts and transactions with foreign retailers/brokers in low-end market platforms in local specialized market; 2) short-time transaction | 1) Local firms made direct contacts and transactions with domestic retailers/consumers in -middle end market platforms in local specialized market; 2) short-term transaction | 1) Local firms got financial supports from other actors; got franchise from foreign brands; 2) made direct contacts and transactions with domestic retailers/consumers in middle-end market platforms in local specialized market; short-term transaction |
| Growth of local firms and upgrading prospects | Increase the volume of sales; limited product, process and functional upgrading | Increase the marginal profits; local firms could achieve process and product upgrading | Increase marginal profits; local firms could achieve functional upgrading |
| Reconfigurations of production networks | Co-dependency on domestic and emerging markets | Expand to higher position in the local production network | Local production network expand to the high-end segment; forge linkages with foreign brands |

Source: compiled according to the interviews

5.2.1 Market expansion in the low end and limited upgrading prospects

Local firms that expanded to low-end segments of emerging markets are small-scale¹⁰ suppliers who produce furniture products (e.g., decks, beds, and chairs) with low quality and sell them to independent buyers or representative retailers from emerging markets (e.g., the Middle East, Vietnam, and Russia). The low-end market expansion is largely influenced by the negative effects of local firms' long-term engagement in the domestic low-end sales. The lower requirements of product quality and design innovation in the low-end market segment hinder local firms from developing higher-value functions (e.g., R&D and design) that are required in the domestic higher-end segment and Western markets. With these negative effects, local furniture tends to stay in the low-end market segment where gaining profits are easy to earn. Therefore, local firms tended to target foreign traders or retailers from emerging markets (e.g., Russia, the Middle East, and Southeast Asian countries). Most foreign retailers or brokers operated with small amounts of capital and relied on earning profits from purchasing cheap products in Shunde and then distributing the products in their home countries. Thus, local firms expanded their sales networks by selling previous products directly to these foreign traders without redesign. In this sense, low-end market expansion enhanced the vitality of domestic market-oriented supplier firms, as they co-depend on the domestic market of China and other emerging markets. However, previous integration into low-end domestic sales hindered the local suppliers' attempts to upgrade and catch up to higher market segments. Therefore, the low-end market expansion could be viewed as the passive response to the rise of domestic consumption in the high and middle-end market segments.

The severe competitive dynamics in the low-end segment also serve as a significant incentive for the low-end expansion of local firms. Some interviewees complained that because China's government initiated a series of policies to boost domestic consumption after 2008, an increasing number of new domestic suppliers started to tap into China's market, particularly the low-end market with low entry barriers, e.g., without the precondition of brands (interviews in Longjiang, January 2016). The intense competition in the low-end segment led to the "race to bottom"

¹⁰ Most of these firms employed few workers (around 5–10) in their factories.

strategy among local firms. Furthermore, the upsurge of production cost reduced the profit margins of local sales. A saleswoman in Sunlink South Section (low-end market platform in Lecong specialized market):

“Normally, the price of a set of sofa would be set at 10,000 yuan. Nobody will regulate our pricing in this shopping mall. So the profit could go to 10-20%. But now everything is expensive, raw materials. The labor wage increased. So our marginal profits reduce 50% in recent years.”
(Interview in Lecong, January 2016)

For the saleswoman in Sunlink South Section (low-end market platform in Lecong specialized market):

“Our profit declined gradually in recent years. Given the rent of our store per month increased to around 70,000 yuan. So only if our sales values reach 450,000 yuan per month, can we survive the severe competition.”
(Interview in Lecong, January 2016)

To make up for the shrinking profit margin, local firms turned to maintain market sales value by expanding sale networks and increasing sale volume. For instance, for a local firm in Sunlink South Section (the low-end market platforms), it has increased exports to 40% of its total turnover, as it expanded sales to emerging markets in recent years (interview in Longjiang, March 2016).

In the integration into emerging markets-driven production networks, local suppliers establish symmetric power relations with foreign traders and retailers. In the short-term transaction with external actors, local suppliers find it difficult to establish long-termed and stable partnerships with these foreign traders. According to the local furniture firms, foreign buyers visited their shops in Lecong Specialized market and then bought some products directly (interview in Lecong, March 2016). The price-sensitive foreign buyers tended to pick up furniture products from the supplier firms who providing products with lower price. Thus, most of local suppliers established market-based power relations with foreign buyers in the emerging market-driven production networks. This kind of relation is different from the captive power relations between export-oriented furniture firms with global brand names and buyers from Western markets.

Notably, the emerging market expansion has been supported by the local institutions. The well-known specialized market, which provides many kinds of cheap furniture products, attracted numerous foreign traders or retailers from emerging markets. By linking with these intermediate agencies, local firms could gain access to the emerging markets.

Integration into emerging markets-driven production networks provides new development opportunities to local firms (Wei et al., 2007). For example, local firms could reduce their reliance on the domestic market and improve their validity in the intense competition in the low-end segment. Furthermore, co-dependence on domestic and emerging markets made local firms more competitive in the changing global and domestic economy (Zhou, 2015). The experience of low-end suppliers implies that global linkages should not be excluded from the industrial transformation of domestic market-oriented industries. Instead of merely focusing on one major market, market diversification is conducive to the development of local firms and industries. The study also elucidates that the market expansion of domestic market-oriented suppliers occurred in the involved production networks that might transcend the boundaries of local production networks. The evidence of Shunde indicates that the previous production networks have expanded horizontally from the low-end segment of the domestic market of China to the low-end segment of emerging markets (Figure 5.2).

However, market expansion does not necessarily lead to the upgrading and competency improvement in the local suppliers. Given the low requirements of foreign traders or retailers from emerging markets, which are similar to those of domestic retailers concentrated in the low-end segment of the domestic markets of China, local firms have not been forced to improve their competency and provide high-quality and innovative furniture products. This scenario implies that trans-local linkages or global pipelines do not always transfer innovation knowledge to local industries for upgrading or catching-up (Zhu & Pickles, 2016). It also indicates that the outcomes of trans-local linkages in domestic market-oriented industries are largely determined by the specific market segments that local firms integrate into.

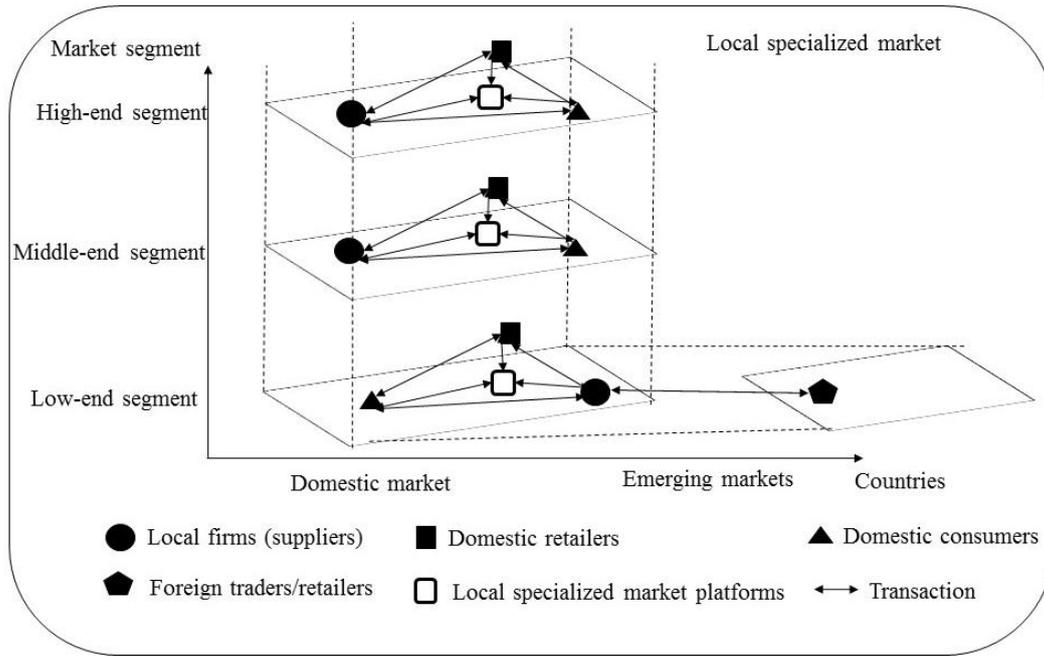


Figure 5.2 The structure of production network based on market diversification

5.2.2 Market expansion to the middle end and product upgrading

Some local firms that previously focused on the domestic low-end segment have burrowed up to the middle-end segment of China’s domestic market. As the experiences of local firms suggest, the middle-end market platform (e.g., Sunlink North Section) is a “good enough” market segment that involves reliable products with relatively high quality but low price, thereby attracting China’s fast-growing middle class (Gadiesh & Leung, 2007). The price sensitivity in this market segment is opening up ground for local firms who have traditionally engaged in the low-end segment. Low capital requirements and lack of brand ownerships have also enabled local firms to compete in the middle segment of China. A common entry point for this kind of market platform is to improve capabilities in producing quality products. Therefore, given the limited capability in branding that is essential in high-end markets or Western advanced markets, local firms adapt to breaking into middle-end markets, where consumers care more about quality and design than the brand of products.

The adaptive expansion to the middle-end segment makes these firms different from those that adopted the low-end market expansion. Local firms

designed and released good-enough products that meet buyers' demand on quality at significantly lower prices, gaining higher margins than their low-end products. According to an interviewed furniture firm manager, the marginal profit has doubled as the company shifts market from the low-end to the middle-end segments of China's domestic market from around 10% to 20% (interview in Longjiang, January 2016). By contrast, emerging markets are less attractive to these local firms, due to the low-profit margin. As the local firms explained, they did not intend to completely give up exports to emerging markets (e.g., Southeast Asia and the Middle East), while these foreign buyers show less interest in products with high price in the middle-end market platforms. The following is mentioned by one interviewee in the Shunlink North Section.

“Our products are very expensive. Foreign buyers from Russia and the Middle East cannot afford them. Foreign buyers primarily pursue the cheap price of Chinese furniture. That is why they come to Lecong to buy furniture.” (Interview in Lecong, January 2016)

As a result, these local firms averagely increased domestic sales to 80% of total turnover, thereby revealing few exports.

Market expansion to the domestic middle-end segment shows that local firms attained reasonably high process and product upgrading. In their integration into domestic market-oriented production networks, local suppliers primarily established market-based relations with domestic retailers. As the price sensitive retailers, domestic retailers prefer to make transactions with suppliers who could provide relatively high products with lower price. The market-based power relations between domestic market-oriented suppliers and domestic retailers are different from those long-term and stable relations between branded export-oriented suppliers with franchised domestic chain retailers which have been demonstrated in the case of export-oriented furniture industry. Therefore, in order to win over the transactions with domestic retailers, local suppliers pay much efforts in process and product upgrading. Specifically, the upgrading practices have been forced by the higher requirement of domestic retailers and consumers in the middle-end segment on

the one hand. Local firms have paid much effort to sustain effective scale economies, adding value through new product development; improving product quality, design, and production; and reducing costs through supply-chain management capabilities in inventory control. We take Firm A, a local supplier from Longjiang Town, as a case. The firm covers a factory area of 300,000 Square Meters and employs 300 workers. According to the shop manager, the monthly turnover of their store in Shunlink North Section (middle-end shopping mall) increased to 7 million yuan on average, which was significantly higher than the 0.4 million yuan turnover in low-end market platforms such as Shunlink South Section (interview in Lecong, January 2016). From this point of view, in comparing emerging markets, the rise of the domestic markets, particularly the middle end, provides more process and product upgrading prospects for local firms to catch up (Brandt & Thun, 2016). Moreover, functional upgrading may occur in the middle-end market expansion to China's domestic market. We take Firm B as an example. After moving to the middle-end market platform, Firm B has developed 60 series of branded products involving 3,000 furniture products by 2015. The yearly turnover increased to more than 0.1 billion yuan (interview in August 2015, Lecong). Given the product and process upgrading, local firms could increase their competitiveness in the face of competition from other domestic manufacturers or those export-oriented suppliers (e.g., from Dongguan) with higher production competencies (interview in Lecong, December 2015).

Disarticulation with domestic low-end sales and integration into middle-end market segment led to the reconfiguration of the production network, which expanded vertically from the low-end to middle segments (Figure 5.2). In the production network, local firms elevate their position within domestic production networks and establish symmetric power relations with domestic retailers and consumers.

In our study, local institutions provide implicit support to local firms. According to our interviews, local firms did not receive obvious or direct financial support or political support from the local government or industrial associations; this situation is similar to the case of local firms that adopted

emerging market expansion. Instead, the local government or industrial associations tended to improve the overall business environment in Lecong specialized market through ways such as organizing the furniture sales promotion activities to attract more foreign and domestic buyers. This scenario implies that the role of the local government has shifted from explicit top-down political support at the early stage to the current implicit support. Meanwhile, many local firms expressed that the environment conducive to middle-market platforms (e.g., Shunlink North Section) is helpful for them to participate in the middle segment. For example, the cheap rent, loose control, and lack of the precondition of brand ownership in the middle-market platform have encouraged the entry of a growing number of local firms. Therefore, middle-market expansion is the coupling between firms' adaptive strategies and conducive local assets.

5.2.3 Market expansion to the high end and functional upgrading

Some local firms have also managed to break into the high-end segment of the domestic market of China. These local firms are the suppliers who can produce high-value-added products with brands. Changing market orientation to the high-end segment emphasizes local firms' production capabilities and brand ownership. To gain access to the high-end platforms where high-end domestic consumers are found, local firms strive to upgrade their production capabilities and supply branded and high-quality products for the consumers in the high-end market platforms. In the Lecong specialized market, Louvre is widely recognized as the highest market platform; it was established in 1999 with support from the Lecong Township government. The establishment of Louvre provided a high-end market channel for local firms to connect with high-end consumers. However, gaining access to this kind of high-end market platform is not easy for local firms that lack strong financial and branding capabilities. As the manager of Louvre explained:

“Suppliers (furniture firms) who want to enter our shopping mall should submit many profiles to prove that they meet our requirements. Particularly, they need to have a well-known brand. Most of the products in our shopping mall are high-end branded products. In doing so, we could

ensure the products sold in our shopping mall are in good quality. We need to protect the fame of our shopping mall.” (Interview in Louvre, August 2015).

To expand market share in the high-end segment, local firms primarily adopted two strategies. First, they tended to strategically couple with foreign firms to obtain financial support for establishing brands. This strategy could be exemplified by Firm C, a domestic wooden furniture manufacturing firm in Lecong Town (interview in Lecong, August, 2014). Firm C was established in 1980 with the name of Firm H in Lecong Town. It currently has employment of more than 600 and covers the factory area of 65,000 Square Meters. Over the past three decades, the firm was transformed from a non-branded manufacturer into a famous branded manufacturer in China. The success of Firm C was attributed to its transformation from domestic firm into Hong Kong-invested firm. In 2000, it made cooperation with a real estate developer in Hong Kong and subsequently transited into the foreign-invested firm. Subsequently, Firm C got a considerable investment from their foreign partner in branding, innovation improvement, design and production. Presently, Firm C is recognized as the foreign-invested brand in the high-end market platforms.

Second, some local firms tended to establish strategic coupling with foreign brands and gain franchise rights to sell branded products in the local high-end segment. Taking advantage of the sophisticated knowledge of domestic demand and marketing skills in China, local firms could easily establish cooperation with foreign brands that attempted to open up China’s market but were unfamiliar with Chinese consumers. One representative example is Firm Z in Longjiang Town. Firm Z is a domestic upholstered furniture manufacturer. Its products cover beds, sofa, and mattress. In 2006, Firm Z successfully made cooperation with Firm S, is a high-end branded manufacturer which established in Melbourne in 1942. After getting the franchise of sales in China’s market. Firm Z changed into branded retailers and sold the branded products with the brand name of Firm S in Louvre (interview in Lecong, August 2014).

The study indicates that previous experience in domestic sales has exerted positive effects on these local firms. The high-end market expansion is the outcome of local firms’ strategic response to the high requirements of local institutions (internal

tension) and local firms' cooperation with external actors (e.g., foreign brands) in production networks (external linkages). Based on the strategic needs of both sides, the strategic partnerships have been established between local suppliers and global brand names for the integration into high-end market of China. Different from external linkages with emerging markets, close global linkages and strategic partnerships with foreign brands or financial supporters provide functional upgrading to local firms that have transformed from unbranded manufacturers to branded manufacturers or retailers. This situation implies that functional upgrading is more likely to occur in the domestic market-oriented production network (Navas-Alemán, 2011). In addition, driven by the strategic partnerships with global brand names or foreign partners, the domestic market-oriented production networks have expanded vertically to the high-end market from the low and middle-end to the high-end market segments. Market expansion to the high-end segment benefits from political support from local governments. For example, to advertise the brand of the furniture industry, the Longjiang town government applied for the general brand of "Longjiang Furniture" from the provincial Trade and Industry Bureau to permit all the local furniture firms to attach the label "LongJing Furniture" to their products. Moreover, the Longjiang government initiated a branding strategy in the local industry and encouraged local firms to establish their own brands. In 2003, Ming Jiang Xuan in Shunde had been recognized as the most famous brand in Guangdong, becoming the first firm to win this award (Lu, 2011). In this sense, the high-end market expansion has emerged in the supportive political environment.

However, the number of local firms that changed market orientation to high-end segment is small in the case of Shunde (Table 5.3). Most local firms experienced difficulty in making deeper tracks in the high-end segment of the local specialized market, which is dominated by foreign brands that directly conduct domestic sales in the local specialized market. According to our interviews, only around 10% of around 200 stores are opened by local firms in Louvre (interview in Louvre, August 2015) and 30% in Red Star Macalline, another high-end market platform (interview in Lecong, January 2016), respectively. A major obstacle for local firms is their inability to compete with foreign brands through innovation or by establishing a strong brand because of their limited size and their lack of strong capital capability. With long-term competition based solely on price, they have limited experience in solving

segment-specific demands, linking those needs to innovation and brand-building efforts. The furniture manager in Louvre complained: “although we invested 1 or 2 million yuan in building a brand, it mostly did not work. Branding is a long-cycle activity which is described as ‘high investment and slow return’” (interview in Lecong, August 2015). The other firm manager remarked: “some firms die in their ways of establishing brands” (interview in Longjiang, March 2016). These circumstances have made local firms pessimistic about competing in the domestic high-end segment, where they could reap higher marginal profits. Therefore, the effectiveness of high-end market expansion in the industrial transformation needs further investigation.

5.3 Summary of the case of Shunde

Since the 2008 financial crisis, a review has been conducted on the development model, specifically export-oriented development, in developing countries, particularly China. Increasing attention has been directed to the domestic consumption-driven development and the dynamics of domestic market-oriented industries. While existing literature on global production networks focuses on export-oriented industries, the present chapter advances the literature through the empirical case of the domestic market-oriented furniture firms in Shunde. Drawing upon the perspective of GPN, this study examines the manner by which local firms expand market orientation by disarticulating with the low-end segment of China’s domestic market. The empirical evidence of Shunde elucidates the market diversification of the furniture firms based on different market strategies of different local firms. The production networks have expanded horizontally to the low-end segment of emerging markets, as local firms co-depend on the low-end segment of the domestic market and emerging markets. In this process, the market strategies provide limited upgrading prospects to local firms. Moreover, production networks also vertically expanded from the low-end segment to the middle- and high-end segment of the domestic market, thereby leading to process, product, and even functional upgrading of local firms. The evidence of Shunde indicates that market diversification of domestic market-oriented suppliers is a complex process that was driven by tension and cooperation among local and non-local firms and institutions in the related production network that might transcend

the boundaries of the local production networks. With the emergence of the market diversification of the domestic market-oriented furniture firms, this study advances the theoretical debates on the importance of market strategies in industrial restructuring of domestic market-oriented industries in emerging economies.

The emerging market expansion driven by transactions with foreign traders or retailers and the high-end market expansion supported by the foreign brands and partners shed light on fundamental implications for China's development model, which are expected to turn from relying on exports to domestic consumption. Interestingly, the empirical experience of Shunde elucidates that the restructuring of domestic market-oriented industries that relied on domestic consumption may be unnecessary to exclude the participation of global actors (e.g., traders, retailers, and brand names). The collaboration between local firms and emerging market retailers or traders illustrate the manner by which local firms and external actors leverage the rise of emerging market consumption in the Global South. Moreover, the strategic coupling between local firms and strong global partners (brands) driven by the strategic needs of local firms reflects ways by which local actors and external actors responded to the rise of China's demand, particularly in the high-end segment. In this sense, making linkages with foreign partners or agents is conducive to exploring the demand from emerging markets and domestic markets. This study agrees with the opinion stating that trans-local linkages are not determined by the innovation in local suppliers (Zhu & Pickles, 2016). By contrast, integration into the middle and high-end domestic markets of China might provide more upgrading prospects to local firms. This situation is different from the viewpoint showing that integration into developing countries with the low standard requirement would lead to downgrading for suppliers (Kaplinsky et al., 2011). Overall, this study argues that market orientation to exports or domestic markets does not determine the effects or upgrading prospects for local suppliers, whereas the specific market segment that local firms integrate into does (Brandt & Thun, 2016). Therefore, market diversification is important in maintaining the validity of a domestic market-oriented suppliers, which can be learned by export-oriented suppliers in their response to external shocks (Zhou, 2015). Moreover, the empirical evidence of Shunde elucidates the importance of exploring and comparing the market strategies of local suppliers with different market orientations in response to the dynamic of markets in the Global North and South.

The empirical evidence from Shunde sheds light on the dynamics of domestic market-oriented industries in the Global South, which have fundamental implications for latecomer cities in developing countries in the quest for growth and restructuring in the context of globalization. Thus, leveraging exports and domestic sales has become a challenge for China's policymakers in pursuing industrial restructuring in the uncertain global and domestic economy. The evidence of Shunde indicates the initiative of local firms and local institutions to break out of old paths and create new avenues for the changing trajectories of local suppliers. Although this case study analysis can provide policy recommendations, the actions taken by local individuals, firms, or governments in the Global South should be understood to build transnational cooperation to attract and sustain foreign investment and trade (Murphy & Schindler, 2011). A need exists to understand the manner by which networks extend outward from the Global South and extend within the domestic market. We should focus our analysis on firms, sectors, and institutions in the Global South and frame them as important forces of industrial transformation and not simply as receivers of foreign investment and trade. We should recognize that agents and emerging markets in the Global South have played an important role in reshaping the trajectories of industrial development in developing economies.

5.4 Comparison of the market strategies between the eastern and western Pearl River Delta

Based on the exploration of market strategies of export- and domestic market-oriented furniture firms in the eastern and western PRD in the Chapter 4 and current chapter, respectively, this section discusses and summarizes the differences and similarities of the market strategies in these two kinds of supplier firms for the understanding of market strategies in different sub-regions.

Export- and domestic market-oriented furniture firms present different patterns of market strategies in the changing global economy. The differences are the following: first, in general, most export-oriented furniture firms changed their market orientations from Western markets to the domestic or host markets of China. In particular, the export-oriented furniture firms tended to expand their market reach to the high-end segment of China's market, in which they could gain functional upgrading prospects, as

they transferred from unbranded manufacturers and brand name manufacturers. By contrast, the majority of domestic market-oriented furniture firms in Shunde tended to maintain their market orientation to the low-end segment of domestic markets of China and expanded their market reach to the low-end segment of other emerging markets of developing countries (e.g., the Middle East and Southeast Asia). In this process, most of domestic market-oriented furniture firms have yet gained upgrading prospects through their market strategies. The major reason behind the different market strategies is that export-oriented furniture firms have significantly improved their production and financial capabilities in their previous strategic coupling with global buyers from Western markets. Notably, despite the low marginal profits from OEM manufacturing for exports, furniture firms could gain considerable incomes thanks for the large volume of exports. The strong financial capability enable furniture firms to invest large capital in branding, while well-improved production capability enable them to supply high-quality products for the high-end consumers in China. However, due to the low marginal profits from selling in the low-end segment of China where consumers have low requirements in terms of product quality and style, domestic market-oriented furniture firms have yet significantly improved their production and financial capability, thus hindering them to tap into the higher-end market segments where consumers have higher requirements. From this point of view, in general, export-oriented furniture firms in the eastern PRD have higher production and financial capability than those in the western PRD.

Second, the export-oriented furniture firms in the eastern PRD strategically coupled with high-end segment of the domestic markets of China through the inter-firm partnerships with domestic partners, namely domestic chain retailers. However, a small number of domestic market-oriented furniture firms in Shunde tended to tap into the high-end segment of China through their own sales in the local specialized market. The mechanisms behind this difference is that due to focusing on manufacturing for a long time, export-oriented furniture firms have less experience in sales and retailing and have little knowledge about the domestic consumers of China. Hence, they rely on the intermediate agents, namely domestic chain retailers, who are more familiar with domestic consumers to unpack the domestic markets of China. Whilst, domestic market-oriented furniture firms in Shunde not only focused on production but also sales in local specialized markets, which enables them to engage with retail and sales by

themselves. Notably, the sophisticated knowledge of retail and sales are the advantage of domestic market-oriented furniture firms in Shunde, compared to the export-oriented furniture firms in the eastern PRD. From this point of view, export- and domestic market-oriented furniture firms cultivated different capabilities from their previous exports and domestic sales, respectively.

Third, based on the cooperation with domestic chain retailers from different provinces and regions in China, export-oriented furniture firms established their sales networks widely in China. However, due to the integration into the local specialized markets, domestic market-oriented furniture firms still conducted transactions in the local specialized markets even they changed their market orientations. Therefore, compared to the wide sales networks of export-oriented furniture firms, the sales networks of domestic market-oriented furniture firms were confined by the local specialized markets.

Overall, the difference of market strategies between furniture firms in the eastern and western PRD indicates that previous market orientation, to a large extent, influences the pattern of market strategies of supplier firms in the changing global economy. Previous market orientations have exert positive and negative effects on the process and patterns of strategic decoupling and recoupling of suppliers firms. In this sense, the studies of strategic decoupling and recoupling, to some extent, should consider the previous market strategies, which enable us to better explain the various patterns and mechanisms behind the market strategies of supplier firms in various regions.

Despite the differences, both of the market strategies of these two kinds of furniture firms indicates that the domestic markets of China have different market segments, including low, middle, and high end. Different market segment entails different requirements of consumers and provides different upgrading prospects. This finding is different from the understanding that market demands in the Global South, such as China, are associated with low concerns with quality and standard of products in markets of developing countries (Yeung & Coe, 2015) and the statement that integration into emerging markets in the Global South provide limited upgrading opportunities (Kaplinsky & Farooki, 2011). In the comparative study, both export- and domestic market-oriented furniture firms gained functional upgrading through market expansion to high-end segment of the domestic markets in China, in which

consumers have higher requirements in terms of brand name, quality, and styles of products. The evidences indicated that strategic coupling with home markets or host markets of China could help supplier firms extended to higher-value activities, such as retail, sales, and branding which were controlled by the global brand names in the global production networks. In addition, both of experiences of furniture firms in the eastern and western PRD implies that market diversification or balancing exports and domestic sales is important to maintain validity and enhance competition in the changing market dynamics in the Global North and South.

6 Market Strategies of Cross-border Garment Production Relocation

This chapter explores the market strategies of garment suppliers in China when manufacturing operations are relocated from China to Southeast Asia. The chapter first discusses the garment production relocation and the major driving forces that influence this process. Second, the chapter demonstrates the market strategies of relocated garment firms. The market strategies of relocated textile suppliers that followed the garment relocation are also discussed. Thus, this study identifies the difference of the market strategies between the relocated garment and textile firms. Finally, the chapter examines the reorganization of production networks to cater the target markets. The chapter contributes to the literature by exploring the interaction between spatial cross-border relocation and firm-level market strategies. Furthermore, this study aims to examine the kinds of markets that are the major driving forces behind cross-border production relocation.

6.1 Garment production relocation from China to Southeast Asia

6.1.1 Relocated garment firms

The recent cross-border production relocation from China to Southeast Asia is driven by two kinds of garment firms. First, global branded retailers and manufacturers directly outsourced their export orders to local garment suppliers in Southeast Asia. For instance, global garment branded retailers, such as Armani, Marks & Spence, and Gap, directly signed contracts with local garment factories in Southeast Asia. Nike closed its manufacturing factory in Jiangsu Province, China in 2009 and increased its sourcing in Vietnam (more than 40% of its total production source). Adidas closed down its last self-owned manufacturing firm in Suzhou, China in 2012 and started to source from Myanmar in 2015 (HKTDC, 2015b).

Second, export-oriented garment suppliers in China relocated manufacturing operations from China to Southeast Asia. These garment firms are the first-tier contractors of global brand names from Western markets, such as H&M, Gap, and J. C. Penney (Figure 6.1). These Asian garment contractors include transnational

corporations (TNCs) from Hong Kong, Taiwan, and South Korea, as well as Chinese private firms. Take Vietnam as an example, large TNCs from Hong Kong, South Korea, Taiwan, and Japan and Chinese private firms were the major investors in the garment and textile industries in Vietnam (Table 6.1). By 2009, nearly 1000 Chinese garment firms have built facilities in Vietnam and Cambodia (Zhu & Pickles, 2014). According to the Legislative Council Member of the Garment Industry in Hong Kong, more than 100 Hong Kong manufacturing firms were established factories in Vietnam. Majority of these firms are garment firms (interview in Hong Kong, March 2016). Most of these Hong Kong garment firms established factories in the PRD, such as Top Form and TAL and then recently relocated operations in Southeast Asia. The first-tier export-oriented garment firms consisted most of the relocated garment firms in Southeast Asia, such as Vietnam, unlike global brand names that directly sourced production from Southeast Asia. Thus, this study focuses on these first-tier export-oriented garment firms. Following the relocated garment firms, textile suppliers were observed to have invested in Southeast Asia, such as Texhong and Hyosung (Table 6.1). Therefore, this study also pays attention to relocated textile suppliers to understand their interaction with the garment firms in Southeast Asia.

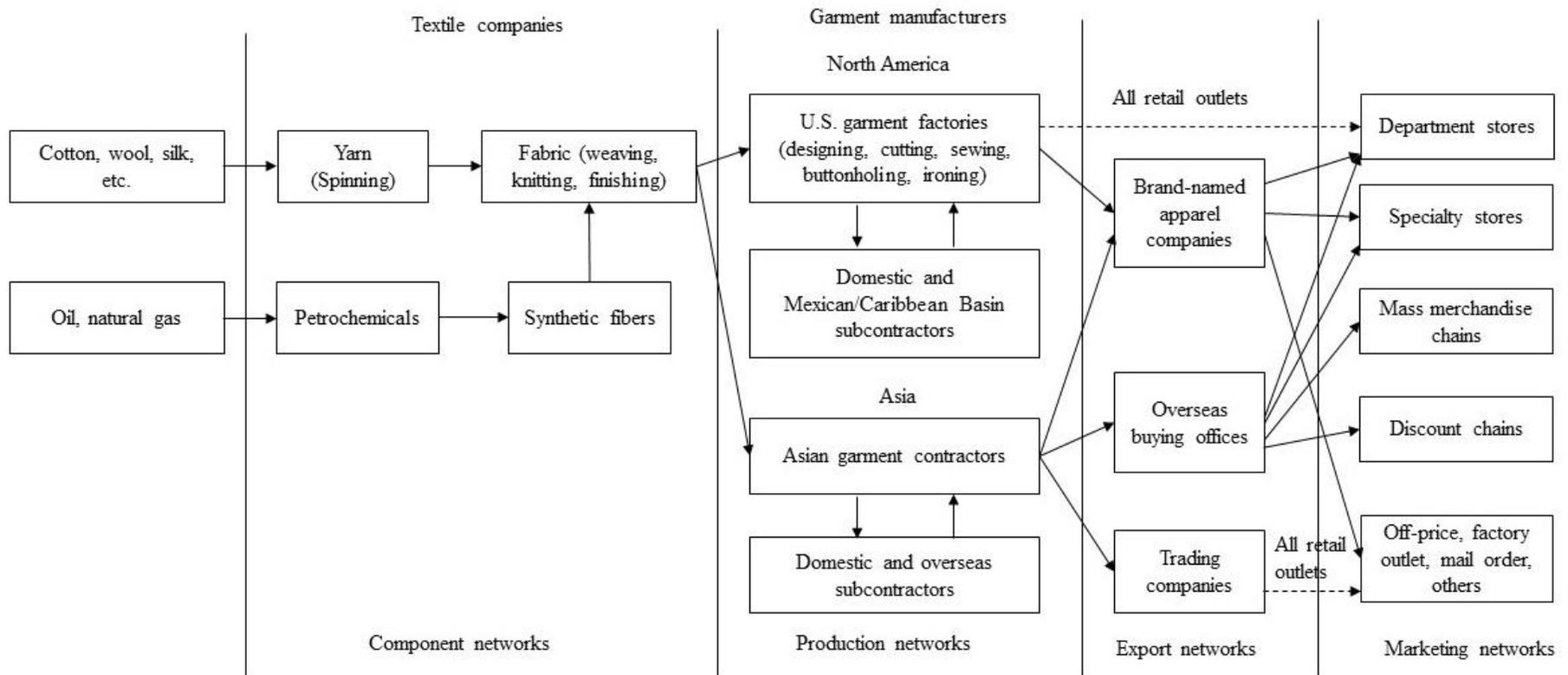


Figure 6.1 The global garment production networks

Source: Gereffi & Memedovic, 2013

**Table 6.1 Typical FDI invested in Vietnam textile and garment industry
2014-2015**

| No. | FDI | Country | Amount (US\$ million) |
|-----|---------------------|----------------|-----------------------|
| 1 | Hyosung | South Korea | 660 |
| 2 | Crystal Pacific | Hong Kong | 545 |
| 3 | Shen Zhou | China | 427 |
| 4 | Bros Eastern | Hong Kong | 400 |
| 5 | FENC | Taiwan | 320 |
| 6 | Worldon | China | 300 |
| 7 | Polytex Far Eastern | Taiwan | 274 |
| 8 | Global Byeing | South Korea | 200 |
| 9 | Lu Thai | Hong Kong | 161 |
| 10 | Haputex | Hong Kong | 120 |
| 11 | Texhong | China | 120 |
| | | JV. With Hong | |
| 12 | Thien Sun | Kong and Japan | 80 |
| 13 | Yu Lun | China | 68 |
| 14 | TAL | Hong Kong | 60 |
| 15 | Sheico | Taiwan | 50 |
| 16 | Tay An | South Korea | 6 |

Source: Adaptation of the Textile Industry to Trans-Pacific Partnership (TPP)¹¹

6.1.2 Production cost and market mechanisms

According to the garment firms, the lower production cost in Southeast Asia than that in China is one of the most important mechanisms behind production relocation. The rapidly growing production cost, including the rise of material and the upsurge of labor costs in China, significantly forced export-oriented garment suppliers in China to relocate their manufacturing operations to low-cost neighboring Southeast Asian countries, such as Vietnam and Cambodia. Table 6.2 indicates that the average monthly wage in Southern China already increased to more than US\$ 400 in 2013,

¹¹ <http://www.textiles.org.tw/icac2015/doc/2015/SessionII-Mr.NguyenVanTuan.pdf>

which was almost twice than that in Thailand or Indonesia and three times higher than that of Vietnam. A Chinese private garment firm manager in Zhongshan, Guangdong Province mentioned:

“The production cost is increasing very quickly in the PRD in recent years. Our marginal profits shrink significantly. Now the marginal profits we can earn are less than 10%. Sometimes, we are reluctant to get the export orders from our global clients because it is difficult for us to get profits from these export orders. If we gained the export orders, we cannot make money due to the lower profits. If we do not have export orders, we cannot retain the workers. The workers will leave. If we want to stay and survive here, we have to higher marginal profits. Otherwise, we have to relocate to other cheaper places.” (Interview in Zhongshan, June 2015)

In addition, the appreciation of Renminbi (RMB) added burden to the low-value added export-oriented garment firms in China. The industrial upgrading strategy of the Chinese government for enhancing production value reduced China’s attractiveness as a location for low value-added and labor-intensive manufacturing.

Therefore, the sufficiently low-cost labor in Southeast Asian countries, such as Vietnam, attracted an increasing number of garment operations from China to Southeast Asia (Table 6.3). According to the chief executive of a Hong Kong garment firm which has a factory in Dongguan, Guangdong:

“The lower-cost workforce in Southeast Asia could help us to maintain the low-value-added and labor-intensive garment manufacturing for around 5-10 years in the future” (Interview in Hong Kong, March 2015).

Notably, the improvement of infrastructure capabilities in Southeast Asia also influenced the manufacturing relocation from China. Under the “One Belt, One Road” initiative¹², China plans to invest billions of dollars in infrastructure projects stretching from coastal China to Central Asia, the Middle East, and on to Europe.

¹² The One Belt, One Road initiative was launched by China in 2013 to develop connectivity and cooperation and to promote trade and investment among countries along old trade routes. China aims to explore its surplus goods and production capacity through this initiative. The One Belt, One Road initiative now includes more than 60 countries covering Asia, Africa and Europe.

Thus, the investment in infrastructure improves freight logistics and creates substantial opportunities for the development of major ports and free trade zones in Southeast Asia, boosting their economic development.

Table 6.2 Average monthly wages in ASEAN countries and China in 2013

| Region | Average Wage (US\$) |
|----------------------------------|---------------------|
| Indonesia (Jakarta) | 228 |
| Thailand (Bangkok) | 230 |
| Vietnam (Ho Chi Minh City/Hanoi) | 120 |
| Cambodia | 100 |
| Myanmar | 70-90 |
| Dongguan, China | 420 |

Source: HKTDC, 2013a

Table 6.3 Workforce in selected ASEAN countries

| ASEAN (millions) | 2008 | 2009 | 2010 | 2011 | CAGR (%) |
|---------------------|-------|-------|-------|-------|----------|
| Laos | 3 | 3.1 | 3.2 | 3.2 | 2.7 |
| Cambodia | 7.6 | 7.8 | 8 | 8.1 | 2.3 |
| Malaysia | 11.5 | 11.7 | 12 | 12.2 | 1.9 |
| Myanmar | 27.2 | 27.6 | 28 | 28.4 | 1.5 |
| Philippines | 36.7 | 37.8 | 38.7 | 39.7 | 2.6 |
| Thailand | 39.2 | 38.6 | 39.4 | 39.8 | 0.5 |
| Vietnam | 49.3 | 50.2 | 51.1 | 52 | 1.8 |
| Indonesia | 114.3 | 116.4 | 118 | 119.8 | 1.6 |
| Total | 288.9 | 293.2 | 298.3 | 303.2 | 1.6 |
| China | 786.8 | 793.8 | 799.5 | 806 | 0.8 |

Source: HKTDC, 2013a

Note: CAGR refers to Compound annual growth rate

Moreover, the preferential market access of Southeast Asian countries to Western markets, particularly the US and EU, is considered as one of the most

important forces behind the production relocation. Most of the interviewed garment firms expressed that the proposed Trans-Pacific Partnership (TPP)¹³ is an important incentive that motivated their cross-border production relocation. This agreement includes four ASEAN countries, namely, Vietnam, Malaysia, Singapore, and Brunei, and the largest export markets such as the US, excluding China. TPP can create a new single market with low tariffs for the members. Hence, conducting, producing, and exporting products directly from TPP members enable relocated garment firms to enjoy reduced tariffs for exporting to the US. Thus, compared with other low-cost Southeast Asian countries (e.g. Cambodia and Myanmar), Vietnam, which is a TPP member, is considered a promising relocation destination. The proposed TPP stimulated the cross-border production relocation of textile supplier firms from China to Southeast Asia. The yarn-forward rule in TPP dictates that only when cotton is sourced from TPP members can garment producers enjoy low tariff cuts. Thus, large textile suppliers in China tend to establish facilities in Vietnam in order to supply textile materials to garment firms in Southeast Asia who aim to export to the US with free tariffs.

However, the US quitted the TPP in January 2017, stirring a hot debate on the advantage of Southeast Asia, particularly Vietnam, as an alternative production base to China. Nevertheless, most relocated garment firms noted that without the TPP, Southeast Asia countries are still advantageous in labor-intensive garment and textile manufacturing. Taking the Texhong Textile Group as the case, the company aggressively established production operations in Vietnam, even when the TPP has yet to come into effect. According to the chairman of Texhong: “even without the TPP, the competitiveness of Vietnam as manufacturing base is still very strong, among all Southeast Asian nations and even compared to Chinese production bases”¹⁴.

Aside from Vietnam, countries such as Cambodia, Laos, and Myanmar with preferential market access to the US and EU are also promising relocation destinations for garment firms. Least developed countries (LDCs), Cambodia, Laos, and Myanmar

¹³ TPP is a trade agreement between Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States, and Vietnam. The twelve countries that border the Pacific Ocean signed up to the TPP in 2016, representing roughly 40% of the world's economic output. This agreement excludes the participation of China. The United States withdrew from the TPP in January 2017.

¹⁴ <http://english.vietnamnet.vn/fms/business/165786/business-in-brief-25-10.html>

received tariff- and quota-free treatments, as well as special market access privileges under the Generalized Scheme of Preferences (GSP) (Table 6.4). Establishing garment production facilities directly in these countries can help relocated garment firms to significantly increase their marginal profits. According to the CEO of a Hong Kong garment firm that established factory in Shenzhen, if they produced in Cambodia and exported to the US, the tariff would be lower from around 12% to zero (interview in Hong Kong, March 2015).

Table 6.4 GSP Beneficiaries for LDC Countries in Southeast Asia

| Countries | GSP Donor | | | | |
|-----------|-----------|----|-------|-----------|--------|
| | EU | US | Japan | Australia | Canada |
| Cambodia | √ | √ | √ | √ | √ |
| Laos | √ | | √ | √ | √ |
| Myanmar | √ | | √ | √ | |

Source: HKTDC, 2015c.

In addition, the economic partnerships of ASEAN with developed economies and developing countries provide relocated garment firms preferential market access to other economies. The agreements include the ASEAN–Japan Comprehensive Economic Partnership, the ASEAN–Korea Free Trade Agreement (FTA), and the ASEAN–India FTA. ASEAN also participated into the Regional Comprehensive Economic Partnership (RCEP) and established FTA with Australia, China, India, Japan, Korea, and New Zealand. RCEP countries represent more than a quarter of the world’s GDP and global trade, respectively. RCEP countries plan to conclude negotiations in 2017.

Overall, market mechanisms are essential to production relocation. Most of the interviewed garment firms that previously served Western markets intend to directly export their products from Southeast Asia to the US and EU with a low tariff. However, considering the shrinking demands in the Western markets and the rise of emerging markets in the Global South, such as China, this study raises the questions of whether and to what extent did relocated garment firms change their market orientations from the US to emerging markets in China and whether the relocated garment firms explored the host markets in Southeast Asia. This study first

hypothesizes that the relocated garment firms sold the products produced in Southeast Asia back home or to domestic markets of China because of the launch of the China-ASEAN free trade agreement (CAFTA), which significantly reduced the tariffs between China and ASEAN. Under CAFTA's regulations on trade in goods, China and the ASEAN-6 (Indonesia, Malaysia, the Philippines, Thailand, Singapore, and Brunei) agreed to eliminate import tariffs in relation to 90% of their products by 2010 (Table 6.5). Meanwhile, the ASEAN-CLMV (Cambodia, Laos, Myanmar and Vietnam) achieved the same tariffs by 2015 (Table 6.6). Thus, garment firms will likely take advantage of the low wage in Southeast Asia and produce garment products in Southeast Asia for export back to China's domestic market with the low tariff.

Table 6.5 Tariff reduction schedule for ASEAN-6 under CAFTA

| Applicable Tariff Rates | CAFTA Preferential Tariff Rate | | | |
|-------------------------|--------------------------------|-----------|------|------|
| | 2005 | 2007 | 2009 | 2010 |
| 20% and above | 20 | 12 | 5 | 0 |
| 15% (inclusive)-19.99% | 15 | 8 | 5 | 0 |
| 10% (inclusive)-14.99% | 10 | 8 | 5 | 0 |
| 5%-9.99% | 5 | 5 | 0 | 0 |
| 4.99% and below | Unchanged | Unchanged | 0 | 0 |

Source: HKTDC, 2013b

Table 6.6 Tariff Reduction Schedule for ASEAN-CLMV under CAFTA

| Applicable Tariff Rates | CLMV Preferential Tariff Rate | | | |
|-------------------------|-------------------------------|-----------|------|------|
| | 2009 | 2011 | 2013 | 2015 |
| 60% and above | 25 | 15 | 10 | 0 |
| 45%-59.99% | 25 | 15 | 10 | 0 |
| 35%-44.99% | 20 | 15 | 5 | 0 |
| 30%-34.99% | 17*/20 | 10 | 5 | 0 |
| 25%-29.99% | 15*/20 | 10 | 5 | 0 |
| 20%-24.99% | 15 | 10 | 0.5 | 0 |
| 15%-19.99% | 10*/15 | 5 | 0.5 | 0 |
| 10%-14.99% | 8 | 5 | 0.5 | 0 |
| 7%-9.99% | 5*/7 | 5 | 0.5 | 0 |
| 5%-6.99% | 5 | 5 | 0.5 | 0 |
| 4.99% and below | Unchanged | Unchanged | 0 | 0 |

Source: HKTDC, 2013b

Note: *Applicable to Vietnam only; CLMV refers to Cambodia, Laos, Myanmar, and Vietnam.

Second, this study hypothesizes that emerging markets in ASEAN will be the target markets of relocated garment and textile firms. Since the launch of ASEAN Economic Community (AEC) in 2015, the GDP of ASEAN reached \$628.9 billion in 2015 (Table 6.7). If ASEAN is viewed as a single economy, it would be the sixth largest in the world and rank third in Asia according to the figures in 2015 (HKTDC, 2016). Given the huge potential consumption in ASEAN, it is imperative to explore market change of the relocated garment and textile suppliers.

Table 6.7 Major economic indicators of ASEAN

| | 2012 | 2013 | 2014 |
|------------------------|--------|--------|--------|
| Population (million) | 606.9 | 614.7 | 622.3 |
| GDP (US\$ billion) | 2343.2 | 2409.2 | 2573.6 |
| Real GDP growth (%) | 5.8 | 5.2 | 4.4 |
| GDP per capital (US\$) | 3861 | 3919 | 4136 |
| Inflation (%) | 3.8 | 4.2 | 4.1 |
| Exports (US\$ billion) | 1254.6 | 1271.1 | 1292.6 |
| Imports (US\$ billion) | 1221.9 | 1240.4 | 1236.3 |
| Exports (% change) | 1.0% | 1.3% | 1.7% |
| Imports (% change) | 6.6% | 1.5% | 0.3% |

Source: HKTDC, 2016.

6.2 Market strategies of relocated garment and textile firms

This section first depicts the market orientation of the garment industry in Southeast Asian countries, such as Vietnam on the national level. Concrete case studies are discussed to demonstrate different patterns of market strategies on the firm level.

6.2.1 Market orientation from trade data analysis

Given the important role of foreign-invested firms (from Hong Kong, China, South Korea, Taiwan, and Japan) in garment industries in Southeast Asian countries (Table 6.1), such as Vietnam, the overall garment export destination of ASEAN can partly reflect the market orientation of relocated garment firms.

According to the trade data, the US and EU markets are the dominant export destinations of the garment industry in ASEAN. Table 6.8 indicates that in 2015, ASEAN garment exports to the US increased to US\$ 23.5 billion, accounting for 45.5% of its total export value. Following the US, EU is the second largest export market for ASEAN garment products, which accounted for 21.9% of the total in 2015 (Table 6.8). Although the US and EU garment imports decreased in terms of shares since 2008,

these two economies remained the largest garment markets for garment suppliers in ASEAN.

Table 6.8 ASEAN's garment exports to different economies

| | 2000 | 2005 | 2008 | 2010 | 2013 | 2015 |
|-----------------------|---------|---------|---------|---------|---------|---------|
| Total garment exports | 18949.2 | 23936.6 | 31269.2 | 31864.7 | 43034.3 | 51582.4 |
| Value (US\$ million) | | | | | | |
| ASEAN | 647.3 | 844.1 | 1075.1 | 1000.7 | 1527.0 | 1490.3 |
| EU | 5012.0 | 5938.1 | 7815.4 | 7375.4 | 9378.4 | 11297.2 |
| US | 9480.4 | 13111.2 | 16370.8 | 16731.5 | 19353.3 | 23453.0 |
| China | 14.7 | 50.0 | 138.4 | 210.6 | 721.4 | 1042.9 |
| Hong Kong | 97.8 | 121.6 | 140.2 | 163.3 | 412.9 | 490.5 |
| Taiwan | 314.1 | 257.8 | 343.4 | 236.1 | 309.3 | 376.7 |
| South Korea | 87.5 | 118.4 | 204.2 | 614.1 | 2130.9 | 2828.1 |
| Japan | 1312.5 | 1263.7 | 1589.6 | 1997.5 | 4209.0 | 4572.9 |
| Share (%) | | | | | | |
| ASEAN | 3.4 | 3.5 | 3.4 | 3.1 | 3.5 | 2.9 |
| EU | 26.4 | 24.8 | 25.0 | 23.1 | 21.8 | 21.9 |
| US | 50.0 | 54.8 | 52.4 | 52.5 | 45.0 | 45.5 |
| China | 0.1 | 0.2 | 0.4 | 0.7 | 1.7 | 2.0 |
| Hong Kong | 0.5 | 0.5 | 0.4 | 0.5 | 1.0 | 1.0 |
| Taiwan | 1.7 | 1.1 | 1.1 | 0.7 | 0.7 | 0.7 |
| South Korea | 0.5 | 0.5 | 0.7 | 1.9 | 5.0 | 5.5 |
| Japan | 6.9 | 5.3 | 5.1 | 6.3 | 9.8 | 8.9 |

Source: calculated according to the data collected from United Nations Conference on Trade and Development (UNCTADSTAT)

Note: Export data is based on SITC 84

Vietnam is the largest garment exporter in ASEAN, which can represent the garment exports of ASEAN. Vietnam contributed more than one-third of the total garment exports in ASEAN in 2015 (Table 6.9), whereas more than half of its exports were destined for the US (Table 6.10). Since the phase-out of Multiple Fiber Agreement in 2005, garment exports to the US significantly increased from US\$49.2 million in 2000 to US\$2629.9 million in 2005, making the US the largest market for

Vietnam. Compared to the US, EU was the second largest garment market for Vietnam, which accounted for 15.4% in 2015. This result indicates that the garment industries in Vietnam and ASEAN countries also largely rely on the US and EU markets. The major garment products exported from Vietnam to the US, EU, Japan, and South Korea are articles of apparel, textile fabrics, n.e.s., [845], women's clothing of textile fabrics [842], men's clothing of textile fabrics, and not knitted [841] (Table 6.11). The unit value per kilo of the garment products exported to the US market are lower than for other Asian markets, such as Japan and South Korea, which have higher product requirements. This finding indicates that the garment products destined to the US are relatively simpler than those destined for Japan and South Korea.

Table 6.9 Garment exports of different ASEAN countries

| Countries | Exports to the world (US\$ billion) | | | | | | Share of different countries (%) | | | | | |
|-------------|-------------------------------------|------|------|------|------|------|----------------------------------|------|------|------|------|------|
| | 2000 | 2005 | 2008 | 2010 | 2013 | 2015 | 2000 | 2005 | 2008 | 2010 | 2013 | 2015 |
| ASEAN | 18.9 | 23.9 | 31.3 | 31.9 | 43.0 | 51.6 | 100 | 100 | 100 | 100 | 100 | 100 |
| Vietnam | 1.8 | 4.7 | 8.7 | 10.4 | 17.1 | 23.5 | 9.6 | 19.6 | 27.9 | 32.6 | 39.8 | 45.5 |
| Cambodia | 1.1 | 2.4 | 3.4 | 3.7 | 5.9 | 8.1 | 5.6 | 10.0 | 10.8 | 11.7 | 13.7 | 15.6 |
| Indonesia | 4.7 | 5.1 | 6.3 | 6.8 | 7.7 | 7.9 | 25.0 | 21.3 | 20.1 | 21.4 | 17.9 | 15.3 |
| Malaysia | 2.3 | 2.5 | 3.6 | 3.9 | 4.6 | 4.8 | 11.9 | 10.4 | 11.6 | 12.2 | 10.6 | 9.3 |
| Thailand | 3.8 | 4.1 | 4.2 | 4.3 | 4.1 | 3.7 | 19.8 | 17.1 | 13.6 | 13.5 | 9.5 | 7.2 |
| Philippines | 2.5 | 2.3 | 2.0 | 1.1 | 1.6 | 1.5 | 13.4 | 9.6 | 6.3 | 3.4 | 3.7 | 2.8 |
| Singapore | 1.8 | 1.7 | 1.6 | 1.1 | 1.3 | 1.3 | 9.6 | 7.1 | 5.0 | 3.4 | 3.0 | 2.6 |
| Myanmar | 0.7 | 0.7 | 1.2 | 0.3 | 0.6 | 0.6 | 3.5 | 3.0 | 3.9 | 1.1 | 1.4 | 1.2 |
| Lao | 0.1 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.6 | 0.7 | 0.6 | 0.7 | 0.4 | 0.4 |
| Brunei | 0.2 | 0.3 | 0.1 | 0.1 | 0.0 | 0.0 | 0.9 | 1.3 | 0.3 | 0.2 | 0.0 | 0.0 |

Source: United Nations Conference on Trade and Development (UNCTADSTAT)

Note: Export data are based on SITC 84

Table 6.10 Vietnam's garment exports to different economies

| Year | 2000 | 2005 | 2008 | 2010 | 2013 | 2015 |
|--------------------------------------|--------|--------|--------|---------|---------|---------|
| Total exports | | | | | | |
| (US\$ million) | 1821.2 | 4680.6 | 8724.4 | 10389.6 | 17148.4 | 23524.7 |
| US | 49.2 | 2629.9 | 5145.1 | 6135.9 | 8704.4 | 12495.6 |
| EU | 645.8 | 892.8 | 1740.1 | 1946.4 | 2767.9 | 3618.7 |
| Hong Kong | 9.5 | 13.4 | 31.2 | 39.4 | 122.1 | 177.3 |
| Japan | 591.3 | 596.1 | 785.6 | 1041.7 | 2221.0 | 2396.1 |
| South Korea | 64.6 | 44.7 | 108.5 | 353.2 | 1562.4 | 2266.7 |
| Taiwan | 264.5 | 183.6 | 266.8 | 150.7 | 192.7 | 244.4 |
| China | 1.3 | 8.4 | 25.5 | 57.7 | 314.8 | 551.4 |
| Share of the total exports (%) | | | | | | |
| US | 2.7 | 56.2 | 59.0 | 59.1 | 50.8 | 53.1 |
| EU | 35.5 | 19.1 | 19.9 | 18.7 | 16.1 | 15.4 |
| Hong Kong | 0.1 | 0.1 | 0.3 | 0.4 | 1.2 | 1.8 |
| Japan | 32.5 | 12.7 | 9.0 | 10.0 | 13.0 | 10.2 |
| South Korea | 3.5 | 1.0 | 1.2 | 3.4 | 9.1 | 9.6 |
| Taiwan | 14.5 | 3.9 | 3.1 | 1.5 | 1.1 | 1.0 |
| China | 0.1 | 0.2 | 0.3 | 0.6 | 1.8 | 2.3 |

Source: United Nations Conference on Trade and Development
(UNCTADSTAT)

Note: Export data is based on SITC 84

Table 6.11 Major garment products exported from Vietnam to major markets and the price of per kilo

| Products | Share of the total garment exports (%) | | | Price of per kg (\$/kg) | | |
|--|--|------|------|-------------------------|------|------|
| | 2010 | 2013 | 2015 | 2010 | 2013 | 2015 |
| US | 2010 | 2013 | 2015 | 2010 | 2013 | 2015 |
| [841] Men's clothing of textile fabrics, not knitted | 16.9 | 15.5 | 16.1 | 46.6 | 47.6 | 50.2 |
| [842] Women's clothing, of textile fabrics | 22.3 | 20.6 | 19.5 | 46.5 | | 58.0 |
| [844] Women's clothing, of textile, knitted or crocheted | 15.8 | 18.4 | 19.0 | 52.1 | | 41.4 |
| [845] Articles of apparel, of textile fabrics, n.e.s. | 34.5 | 33.1 | 33.7 | | | |
| EU | 2010 | 2013 | 2015 | 2010 | 2013 | 2015 |
| [841] Men's clothing of textile fabrics, not knitted | 32.5 | 31.3 | 33.7 | | | |
| [842] Women's clothing, of textile fabrics | 25.1 | 29.6 | 28.6 | | | |
| [844] Women's clothing, of textile, knitted or crocheted | 6.6 | 7.4 | 7.7 | | | |
| [845] Articles of apparel, of textile fabrics, n.e.s. | 21.7 | 20.0 | 19.1 | | | |
| Japan | 2010 | 2013 | 2015 | 2010 | 2013 | 2015 |
| [841] Men's clothing of textile fabrics, not knitted | 30.7 | 26.4 | 28.1 | 56.5 | 51.8 | 52.0 |
| [842] Women's clothing, of textile fabrics | 17.0 | 18.2 | 16.3 | 52.4 | 55.7 | 58.4 |
| [844] Women's clothing, of textile, knitted or crocheted | 5.9 | 7.8 | 8.4 | 54.8 | | 43.1 |
| [845] Articles of apparel, of textile fabrics, n.e.s. | 32.0 | 34.5 | 34.4 | | | |
| South Korea | 2010 | 2013 | 2015 | 2010 | 2013 | 2015 |
| [841] Men's clothing of textile fabrics, not knitted | 31.3 | 34.8 | 36.1 | 48.9 | 50.2 | 52.2 |
| [842] Women's clothing, of textile fabrics | 24.9 | 24.6 | 22.6 | 54.6 | 55.3 | 56.4 |
| [844] Women's clothing, of textile, knitted or crocheted | 3.2 | 4.1 | 4.5 | | | 42.9 |
| [845] Articles of apparel, of textile fabrics, n.e.s. | 26.1 | 28.8 | 29.0 | | | |

Source: UN Commodity Trade Statistics Database (UNcomtrade)

Note: Export data are based on SITC Rev.3. 84

Compared with the US and EU, emerging markets in developing countries, such as China, have not yet become major export markets for Vietnam's garment industry. Thus, relocated garment firms still maintain strategic coupling with global brand names despite their production relocation. This result echoes the motivation of the cross-border production relocation in relation to the preferential market access to the US and EU.

However, garment exports from Vietnam to China retained a small share of the total, which significantly increased from US\$0.7 million in 1995 to US\$57.7 million in 2010 and then US\$551.4 million in 2015, after the launch of CAFTA in 2010 (Table 6.10). To comprehensively understand the market strategies of relocated firms, the next section uses case studies to present different patterns of market strategies including selling to the US, selling back to China, and selling in ASEAN (Table 6.12). Instead of showing the proportion of market strategies of suppliers who target different markets, this study illustrates different patterns of market strategies of various relocated firms with different intentions.

Table 6.12 Patterns of market dynamics of relocated garment and textile firms from China to Southeast Asia

| Market dynamics after relocation | | Type of firm | Previous markets | Market change | Example | Mechanism of Relocation |
|----------------------------------|-----------------------|--|--------------------------|---|---------------------------------|---------------------------------------|
| I | Selling to the US/EU | Export-oriented garment firms | The US and EU | Unchanged market orientation (the US) | TAL, Top Form (Hong Kong firms) | Preferential market access to the US |
| | | Chinese domestic market-oriented garment firms | China (major) and the US | From China to the US | Youngor | Preferential market access to the US |
| II | Selling back to China | Chinese domestic market-oriented textile firms | China | Unchanged market orientation (China) | Texhong | Lower labor cost, cheap cotton |
| | | Export-oriented textile firms | China and the US | From exports to the emerging markets in ASEAN | Hyosung (South Korean firms) | Increased demand of textile materials |
| III | Selling in ASEAN | Export-oriented textile firms | China and the US | From exports to the emerging markets in ASEAN | Hyosung (South Korean firms) | Increased demand of textile materials |

Source: compiled according to the investigation

6.2.2 Western markets-driven production relocation

(1) Case of a Hong Kong garment firm: TAL

TAL, a well-known Hong Kong garment firm, is a representative of relocated garment firms that exported their garment products from factories in Southeast Asia to Western markets, particularly the US and EU (Figure 6.2). The production relocation of TAL from China to Southeast Asia is driven by their market strategies that aim to maintain strategic coupling with global brand names.

Established in 1947 in Hong Kong, TAL currently has 11 factories in China, Thailand, Indonesia, Malaysia, Ethiopia, and Vietnam with an output of 60 million units per year. The products include shirts, trousers, suits, blouses, knitwear, and outerwear. Shirts and blouses are the major products, account for 67% of its total products (Figure 6.3). It is widely recognized that TAL supplies one in six of men's formal shirts sold in the US in the past decades. TAL has largely relied on their strategic coupling with global brand names from Western markets, particularly the US. The products in TAL were primarily exported to leading global brand names, such as Tommy Hilfiger, Brooks Brothers, Nordstrom, Eddie Bauer, L.L.Bean, Burberry, JC Penny, and Levis. In general, North America still accounted for around 80% of the garment products in TAL, whereas Asia Pacific and Europe accounted for 7% and 4%, respectively, in 2010 (Figure 6.4). In terms of sales turnover, the market of North America contributed 84% of the total turnover of TAL in 2010 (Figure 6.4). From this point of view, TAL has integrated into the Western market-oriented production networks. Meanwhile, China is the largest production base of TAL serving for the Western markets.

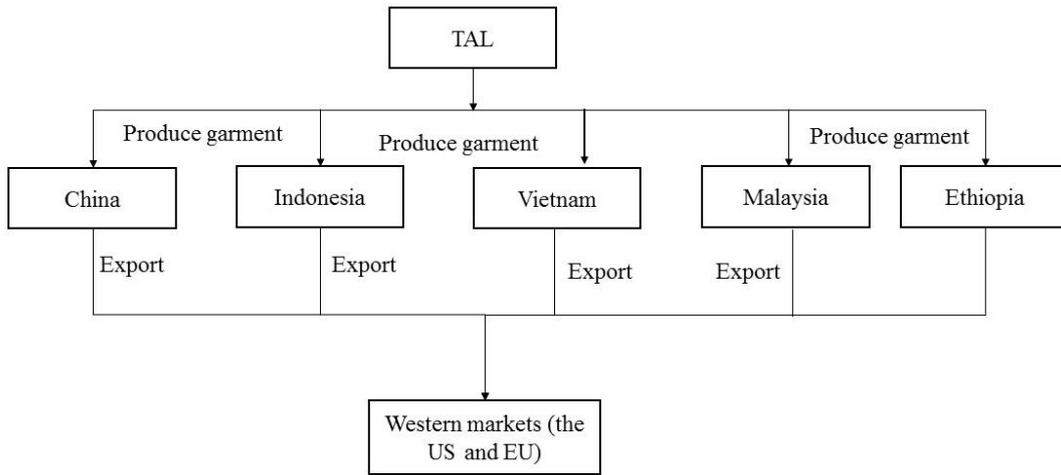


Figure 6.2 Market orientation of TAL

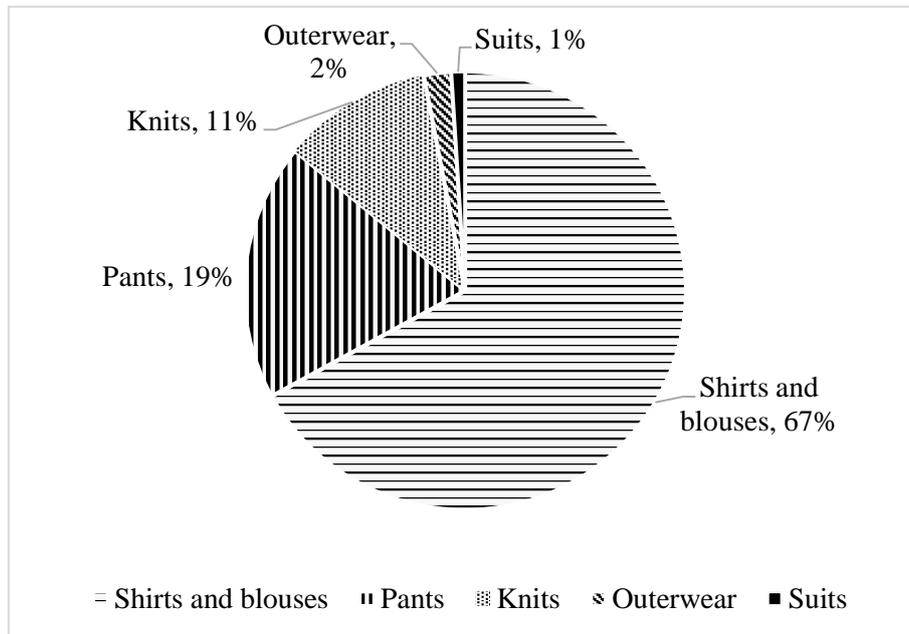


Figure 6.3 Production capacity by product type in 2010

Source: Sustainability Report of TAL Group, 2010

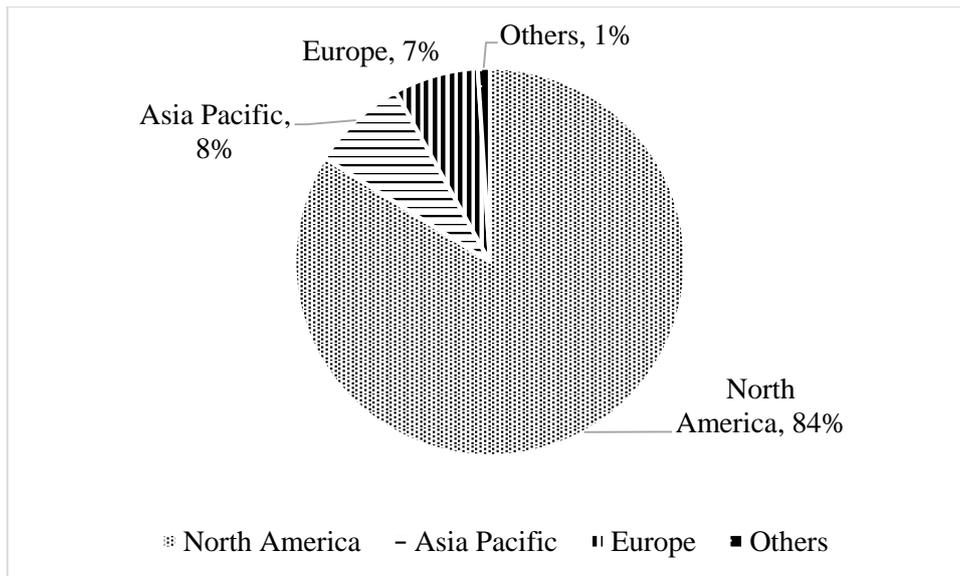


Figure 6.4 Sales quantity of TAL by region in 2010

Source: Sustainability Report of TAL Group, 2010

However, the rise of production cost in China has challenged the strategic coupling between TAL and global brand names from Western markets. In the Western market-oriented production networks, TAL primarily acts as the first-tier subcontractor of several global brand names. TAL takes the advantage of low production cost to cooperate with global brand names that pursue the low-price products. Therefore, due to the fast-growing production cost in China, particularly in the PRD, global brand names increasingly tended to outsource garment products from suppliers in Southeast Asian countries, such as Vietnam and Cambodia to import the low-priced products. In this context, TAL suffered the decline of export orders after the 2008 global financial crisis. The overall business of TAL in 2009 and 2010 compared to 2008 declined by 19% and 7%, respectively (Sustainability Report of TAL group, 2010).

To maintain the strategic coupling with global brand names by meeting their requirements of providing low-cost products, TAL relocated their production operations from China to the low-cost Southeast Asian countries, particularly Vietnam. Notably, TAL could gain lower export tariff if they export products directly from Vietnam to the US because of the preferential market access to the US under the proposed TPP framework. Therefore, TAL relocated production capabilities from

China, which made up one-third of its production, to other lower-cost regions, particularly Vietnam. In 2004, TAL purchased land and established the TAL Apparel Limited in Phuc Khanh Industrial Zone in Vietnam. In 2010, TAL constructed Phase Two and Three. In 2014, the TAL Group established a US\$50-million garment plant in Vietnam. In 2014, Vietnam only accounted for 12%–15% of its total production, but the percentage is expected to grow to 25% in the coming years¹⁵. The new plant in Vietnam was expected to manufacture around 12 million pieces per year that were meant for exports especially to the US.

The experience of TAL indicates that market strategies conducted by garment suppliers have driven the cross-border production relocation. To maintain their strategic coupling with global brand names, the strategic first-tier subcontractors have been forced to initiate the cross-border production relocation to meet the requirements of global brand names. Therefore, market strategies of TAL to target the Western markets are the driving forces behind the cross-border production relocation. The cross-border production relocation could be considered as Western market-oriented production relocation. More importantly, the market strategies of TAL are influenced by the changing sourcing strategies of global brand names. Global brand names have still exerted great power onto their strategic sub-contractors in China. They controlled the high value-added activities in the global garment production networks. Therefore, although the first-tier sub-contractors enhanced their bargaining power in global production networks when they distributed the export orders in different countries to improve their competitiveness, these sub-contractors have not significantly climbed up the ladders of global production networks. TAL is still engaging in the manufacturing activities in the production networks. The power relations between first-tier suppliers and global brand names have not significantly changed after the cross-border production relocation from higher-priced regions to lower-priced regions. From this point of view, the spatial production reconfiguration of global production networks does not guarantee the structural reorganization of global production networks.

Notably, TAL shows less interest in integration into emerging markets-led production networks. According to our investigation, the emerging host markets in

¹⁵ <https://m.vietnambreakingnews.com/tag/the-tal-group-from-hong-kong/>

Southeast Asia are not the target markets of relocated garment firms. The underdeveloped consumption in Southeast Asia is one of the reasons why multinational garment firms refused to target these markets. The chief executive of a Hong Kong garment firms explained:

“Although the population in Southeast Asia is very large, the people there are relatively poor. The consumption level is relatively lower, when it compared with the US, EU and Japan. The markets in Southeast Asia are underdeveloped. Thus, it is too early to explore these emerging markets.”
(Interview in Hong Kong, March 2016).

The characteristics of demand and requirements of buyers are major mechanisms influencing the market strategies of relocated garment firms. The simple specifications and large volume of export orders from the US and EU are major reasons why relocated garment firms prefer to take export orders from the US and EU. According to a manager of a Hong Kong firm, the US market requires products with the low price, simple design, and basic style in the segment. The simple design allows supplier firms to minimize operational losses (interview in Hong Kong, March 2015). Hence, it is appropriate for lower-skilled Southeast Asian workers to complete these orders with simple requirements.

Although the first-tier supplier failed to directly sell their products in emerging markets, it is uncertain whether their brand name clients sell these products in other markets, such as China. According to the relocated garment firms, after completing the orders of global buyers, they will send the finished garment products to the specific ports required by the global brand names. The global brand names will distribute these products to different markets. Therefore, most of garment firms are uncertain about the distribution of these finished products. In this sense, the final markets of the finished products of factories in Southeast Asian countries require further investigation.

Overall, the case of TAL implies that market strategies for strategic coupling with global brand names from the US and EU facilitated the cross-border production relocation. The study argues that market strategies, to large extent, influence the

spatial production relocation of suppliers in China. This scenario is similar with the case in China where production relocation from the coastal regions to inland China aims to explore the domestic market of China, which is evident in the case of Foxconn (Yang, 2012a; Yang & He, 2016). The experience of TAL also reflects that market strategies could indirectly facilitate the reconfiguration of global production networks through cross-border production relocation. This finding is different from the market reorientation of export-oriented suppliers who turned to target domestic or host markets in developing countries in response to the shrinking demand of Western markets, thus directly leading to the reconfiguration of global production networks (Horner, 2014; Kaplinsky & Farooki, 2011; Yang, 2014a). This situation indicates the divergent transformation trajectories of export-oriented supplier firms or TNCs in China.

(2) The case of a Chinese garment brand name: Youngor

Youngor Group, a well-known Chinese garment brand name, also relocated their production relocation from China to Southeast Asia, particularly Vietnam. Youngor exported their products to the US from their Vietnam factories (Figure 6.5). This is similar with the production relocation of TAL. However, compared to the TAL attempting to maintain its strategic coupling with global brand names through cross-border production relocation, Youngor presents different market strategies of expansion to Western markets while keeping its integration into the domestic market of China.

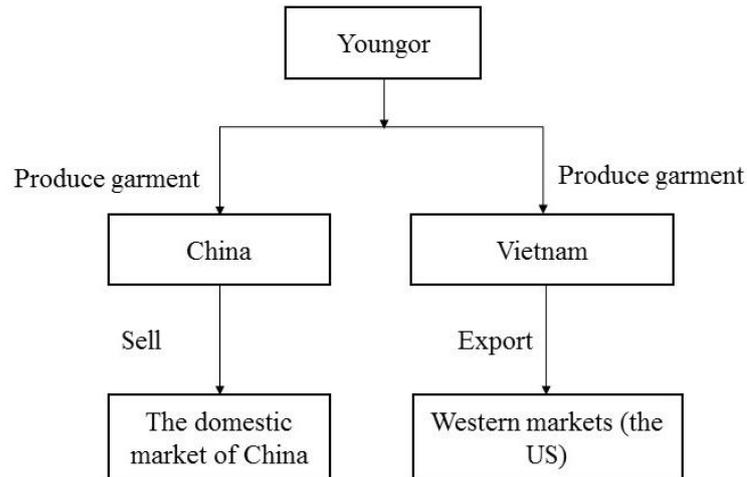


Figure 6.5 Market orientation of Youngor

Youngor has started its business through integration into domestic market of China. Founded in 1979 in Ningbo, Zhejiang Province in China, Youngor became a large multinational company that covered apparel, real estate development, and equity investment. Garment manufacturing and marketing are its major business. Currently, it employs over 50,000 workers. Youngor has become one of largest garment brand names in China. According to a report by Li & Fung (2017), Youngor accounted for 5.98% and 5.8% of the total market share in men’s suit brands and men’s shirt brands in China in 2015, respectively, becoming the top of men’s suit and shirt brand in China. In the domestic market of China, Youngor made 80% of its sales through its own sales channels with 100 branch offices, 400 self-run retail stores, and more than 1,500 sales outlets¹⁶.

While integrating into domestic market-oriented production networks, Youngor recently attempted to expand to Western markets. The international expansion of Youngor has been achieved by establishing strategic partnerships with global brand names. The strategic partnerships with global brand names are realized through the acquisition of previous strategic supplier firms of global brand names. In 2008, the Youngor Group purchased the Hong Kong-based firm, Smart Shirts Limited and its

¹⁶

<http://en.youngor.com/news.do?action=detail&cid=200811190204341243&id=200909171042400000>

property assets (Xinma Group). Smart Shirts was a former primarily menswear subsidiary of the Kellwood Company (one of the top five clothing companies in the US). Because of acquisition of Smart Shirt, Youngor gained five authorized brands and the ODM business owned by Smart Shirt, which serves more than 20 well-known global brand names, such as Calvin Klein and Polo. In this sense, Youngor could directly become strategic suppliers of several global brand names and strategic coupled with these global brand names. Moreover, Youngor controlled Smart Shirt's sales channels in the US and gained market access to the outlets in hundreds of US department stores. With the established market channels and by engaging in ODM manufacturing for global brand names, Youngor started to strategically recouple with overseas markets, particularly the US. To maintain the integration into both the domestic markets of China and Western markets, Youngor planned to sell 50% of its products in the domestic market and 50% for the global markets, particularly the US. In 2010, Youngor carried out its first overseas shirt project and sent 200,000 shirts to overseas markets¹⁷. The evidence of Youngor indicates that domestic brand name in China has strategically recoupled with global brand names through acquisition of experienced and skilled suppliers that have long-termed partnerships with global brand names. The intra-firm control of these strategic suppliers after acquisition, Youngor could directly become strategic suppliers of global brand names and then established Western market-oriented production networks for their target Western markets.

To cater for the demand of global brand names for low-priced products, Youngor established manufacturing factories in low-cost Southeast Asian countries, such as Vietnam. After gaining control of 14 manufacturing factories owned by Xinma in Sri Lanka, the Philippines, and China (in Shenzhen and Jilin) because of the acquisition, Youngor relocated its production from China to Vietnam for Western markets, particularly the US. In 2011, Youngor acquired a shirt manufacturing factory in Hanoi, Vietnam, with an investment of US\$4 million. In 2014, Youngor and an industrial park operator in Guangdong Province co-invested in an industrial park with around US\$165 million in Vietnam. Unlike the factories in China, which primarily produce

17

<http://en.youngor.com/news.do?action=detail&cid=200811190204341243&id=200909171042400000>

shirts for China's domestic market, the plants in Vietnam produce shirts for Western markets. According to the deputy of general manager of Youngor's Vietnam operations, in order to export to the US without tariffs, Youngor planned to source more textiles from Vietnam, while reduces the sources from its own plants in China¹⁸. This finding indicates that cross-border production relocation has been driven by the market strategies of domestic brand names in China that attempts to strategically couple with global brand names and then establish their production bases producing low-priced products. In doing so, Youngor developed Western market-oriented production networks in Vietnam while keeping their integration into domestic market-oriented production networks in China.

The case of Youngor indicates that market strategies of integration into Western market-oriented production networks are the major driving forces behind the cross-border production networks. Compared the domestic market-oriented production networks in China and Western market-oriented production networks in Vietnam, this study argues that market strategies in terms of different market orientation largely influence the organization of production networks of supplier firms. Meanwhile, cross-border production relocation to lower-cost Southeast Asia also enhanced the strategic coupling of these firms with global brand names. However, compare to TAL largely relied on the market of the US, Youngor engaged in multi-scaler market orientations towards domestic market of China and the Western markets. It is because that as the Hong Kong-based firm, TAL found substantial difficulty in expanding market orientation toward the domestic market of China, due to the less knowledge of domestic markets. This result implies that firm ownerships and previous market orientations influence the subsequent strategic decoupling and recoupling of relocated garment firms.

6.2.3 Home market-driven production relocation

Texhong is a well-known textile brand name and supplier firm in China. It is a representative textile firm that relocated production operations from China to Southeast Asia and sent back these products in the domestic market of China.

¹⁸ "Fabric of a Trade Deal: US Asks Vietnam to Cut Out Chinese Textiles"
<http://yaleglobal.yale.edu/content/fabric-trade-deal-us-asks-vietnam-cut-out-chinese-textiles>

Founded in 1997, Texhong has become one of the world’s largest yarn suppliers. Texhong is headquartered in Shanghai with 12 production bases in Nantong, Xuzhou, and Taizhou in Jiangsu Province, Pujiang in Zhejiang Province, and Dongguan Nai in Veitnam. Furthermore, it is listed in the Hong Kong main board in 2004, and it employed around 14,800 workers. The production of yarn accounted for more than 50% of the total production of Texhong in 2012 according to the types (Figure 6.6). Texhong specializes in spandex, which is used in sports apparel and underwear. Texhong’s revenue rose to \$588.2 million in 2013.

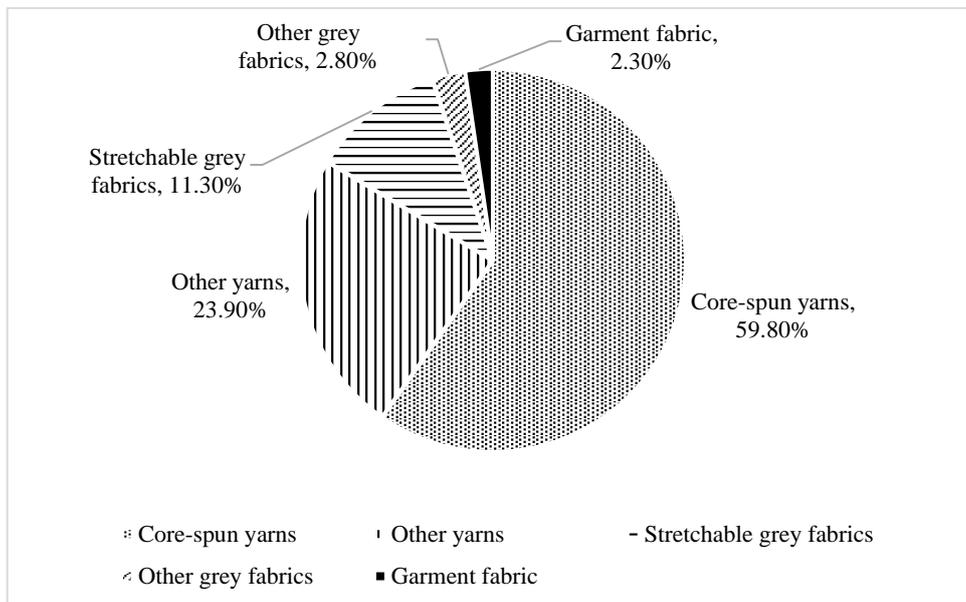


Figure 6.6 Product mix for Texhong in 2012

Source: China Galaxy International Report, 2013

Texhong has started business through integration into domestic market-oriented production networks. China’s domestic market contributed to 83% of its revenue of Texhong in 2013. The sales of the company primarily came from 1,400 customers in China, and the rest from around 200 customers from other countries, such as Brazil, Japan, Turkey, Bangladesh, and Korea in 2013 (China Galaxy International report, 2013).

In recent years, to maintain the partnerships with domestic retailers and buyers and lower-cost textile production, Texhong has increasingly relocated its textile production from China to Vietnam. The cross-border textile production relocation has

been driven by the significant rise of the cost of cotton (a major raw material of yarn production) in China. The Chinese Central government introduced a policy that forces textile suppliers to buy cotton from domestic suppliers in order to shield local farmers from falling prices due to a global oversupply. Thus, textile suppliers in China are subject to the upsurge of local prices of raw fiber and a strict quota system for cheaper imports. Thus, Texhong has established manufacturing facilities in Vietnam in order to gain more profits from the price difference by purchasing cotton from Vietnam and selling textile products back in the domestic markets of China. According to the chairman of Texhong,

“In relation to the purchase of the principal raw materials, especially cotton, we stood out from our industry peers in terms of operating results by taking bold steps and measures to leverage on the difference in prices of domestic and overseas cotton in 2012 and rapidly increasing the consumption of overseas cotton”. (Annual report of Texhong, 2012¹⁹)

In 2013, the production of Texhong’s plants in Vietnam reached 730,000 spindles in Vietnam, representing 40% of its total output. Most of these yarn products produced in Vietnam were exported back to China. Hence, the production relocation of Texhong was motivated by targeting the home markets of China with low production cost. This kind of cross-border production relocation could be considered as home market-led production relocation.

Production relocation from China to Vietnam for targeting home market in China has significantly increased gross margin of Texhong. The increase of margin benefits from the lower-priced of cotton that is the raw materials of textile production. Raw materials, such as cotton, accounted for over 80% of the production cost in Texhong (Figure 6.7). After establishing operations in Vietnam, Texhong sourced significantly cheaper cotton from the international market, which accounted for around 60% of Texhong’s total cotton sourcing through Vietnam. Texhong then sells the finished yarn products at higher price in China, which is higher by around more than 20%. Hence, the production capacity from Vietnam can generate considerable cost advantages through lower production cost thanks for the cheaper sourcing (mainly of cotton).

¹⁹ <http://www.texhong.com/upload/2014/05/26/20140526145757621562.pdf>

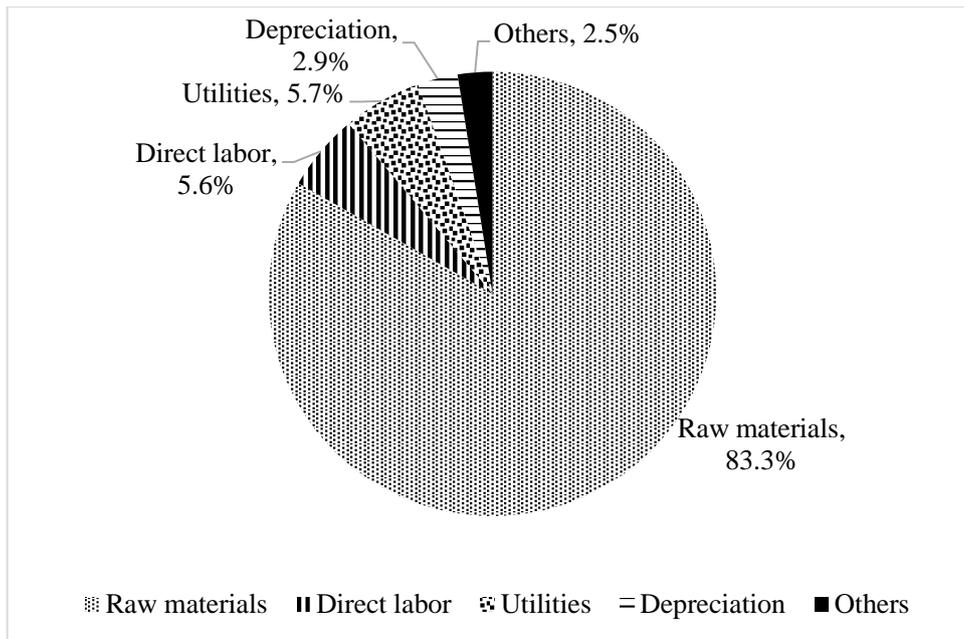


Figure 6.7 Cost of goods sold breakdown

Source: China Galaxy International Report, 2013

In fact, Texhong sold the textile produced in Vietnam back to the home markets of China. It retained the target markets of China before and after the production relocation, although the firm might supply a small share of its production to the relocated garment firms in Southeast Asia (Figure 6.8). The case of Texhong indicates that exploring the home markets of China is the mechanism behind the cross-border production relocation of Texhong, which is different from TAL and Youngor. This result indicates that the domestic market of China, as the emerging market in the Global South, has the momentum to reshape global production networks. Moreover, Vietnam is viewed by Texhong as a platform that imports lower-cost cotton from international markets and produces yarn products for the domestic market of China. However, the host markets of ASEAN are not the major mechanism behind the cross-border production relocation of Texhong.

Nevertheless, Texhong has started to supply a small share of its production to the relocated garment firms in Southeast Asia (Figure 6.6). The exploration of textile market in host markets in ASEAN is driven by the rise of textile demands with increasing number of garment suppliers relocated from China to Southeast Asia. Therefore, Texhong will likely increase its supply for the relocated garment suppliers

in Vietnam and other countries in ASEAN and cater for the needs of these garment suppliers.

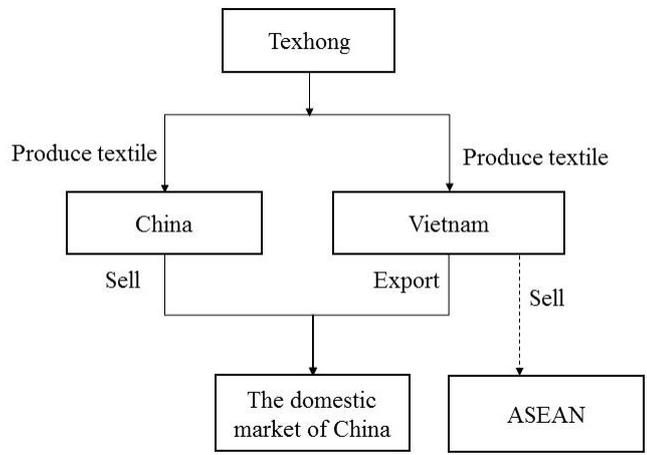


Figure 6.8 Market orientation of Texhong

6.2.4 Host markets-driven production relocation

Hyosung, a South Korea-based leading textile supplier, relocated its textile manufacturing in Vietnam to seek host markets in ASEAN, particularly in Vietnam (Figure 6.9).

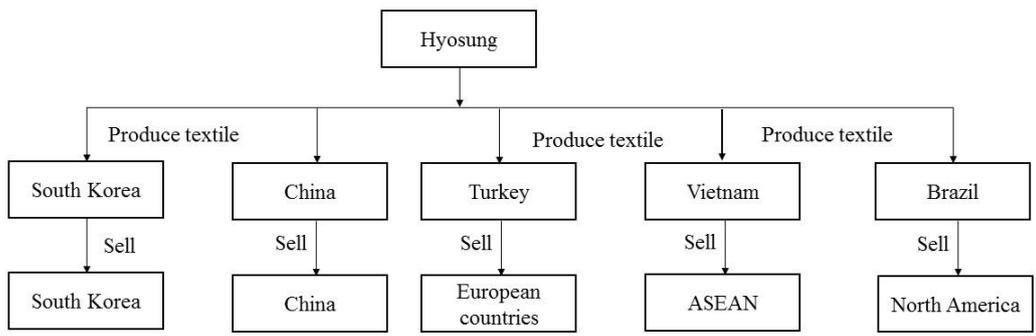


Figure 6.9 Market orientation of Hyosung

Hyosung is one of South Korea’s leading textile firms. Its annual sales increased to more than \$5.5 billion in 2015. The company has more than 73 subsidiaries and

international branch offices worldwide²⁰. The main businesses of the company include textiles, industrial materials, trading and information & communication, chemicals, power & industrial systems, and construction. In terms of textile manufacturing, Hyosung is one of the leading spandex producers in quality, technology, and market share in the world. Spandex is a synthetic fiber known for its exceptional elasticity. This fiber is widely used in underwear, swimsuits, jeans, and sportswear, as well as diapers and gloves for industrial use.

Hyosung has engaged in exports for a long term. The textile company developed spandex with its own technology for the first time as a Korean company in 1992 and, since then, it targeted the global market. The company topped global market share in spandex for many years. Creora brand spandex is the core business of Hyosung. In 2013, the Creora brand spandex growth in Hyosung increased to 150,000 tons from 180 tons in 1992 (Figure 6.10).

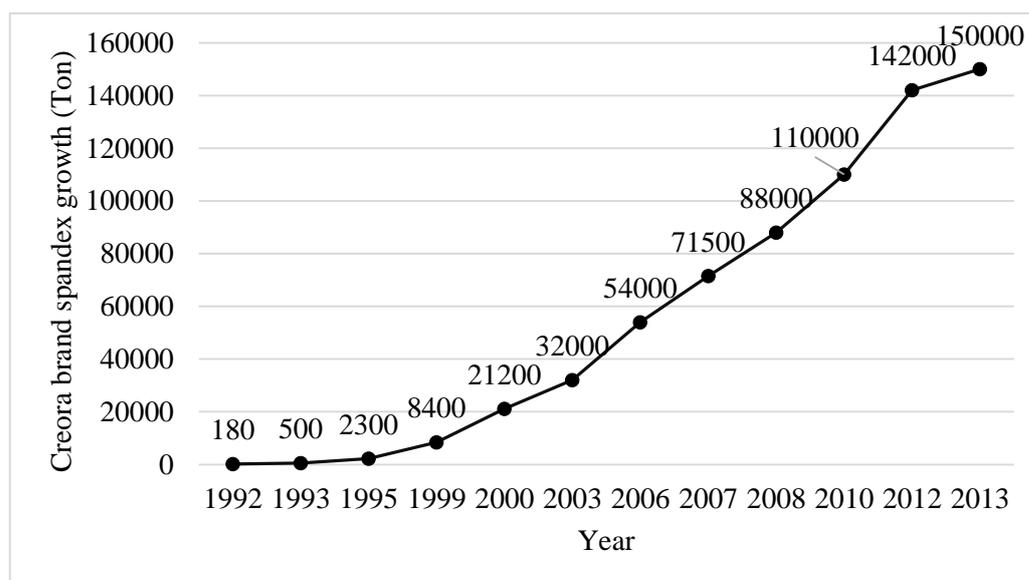


Figure 6.10 Creora brand spandex growth of Hyosung from 1992-2013

Source: official website of Hyosung²¹

Hyosung has developed multi-scalar production and sales networks. To expand

²⁰ “TPP: HYOSUNG expands production of creora® spandex in Vietnam in anticipation of TPP yarn-forward rules”.
<http://www.amchamvietnam.com/tpp-hyosung-expands-production-of-creora-spandex-in-vietnam-in/>

²¹ <http://www.creora.com/en/communication/news/view.do?idx=3>

its global market reach, Hyosung has established a large number of factories worldwide including South Korea, China, Turkey, Brazil, and more recently in Vietnam. So far, Hyosung has established production network of over 50 bases that spans from Asia to America and Europe. These production bases have been designated to provide convenient textile supply to customers in host regions across over 130 countries. In recent years, Hyosung increased the capacity of its China and Vietnam plants after identifying the two locations as key sourcing and consumption areas. The additional expansion in China comes in the light of growth of consumer demand for elastane as the country's middle class continues to grow. Hyosung has also established an innovation Centre in China with emphasis on the fabric development.

To better serve the needs in Southeast Asia particularly because of “yarn-forward” rules of origin under the framework of the TPP, Hyosung expanded creora brand spandex production in Nhon Trach, Dong Nai, Vietnam in 2013. The President of Hyosung explained²²,

“We invested to manufacture in Vietnam as the next step in Hyosung’s global growth strategy and to serve the South-east Asia Market. The facility is world class competitive to ensure fast and reliable service in the region. We believe that as cost of goods seems to be increasing in China, Southeast Asia will be increasingly important and think we are in best position to meet the customer needs with our proprietary technology.”

The evidence of Hyosung indicates seeking host markets of ASEAN is the driving force behind the production relocation of textile suppliers. Spatial production relocation facilitated the step of expanding the market orientation of the relocated textile firms. Through cross-border production relocation, relocated textile suppliers strategically coupled with the host markets of ASEAN. This condition is similar with the findings that the spatial production relocation of electronic suppliers in China from coastal regions to inland regions in China is motivated by the suppliers’ attempts at domestic market exploration (Yang, 2012a; Yang & He, 2016).

²² “TPP: HYOSUNG expands production of creora® spandex in Vietnam in anticipation of TPP yarn-forward rules”
<http://www.amchamvietnam.com/tpp-hyosung-expands-production-of-creora-spandex-in-vietnam-in/>

Firm ownership has influence on the market strategies of relocated textile suppliers. Compared to Texhong, Hyosung, a multinational textile manufacturer, significantly and strategically recoupled with various overseas markets. However, Texhong primarily relied on the domestic market of China. Therefore, firm ownerships and previous market orientation influence the patterns and processes of strategic recoupling of relocated textile suppliers. In addition, compared to the relocated garment firms, relocated textile suppliers are more likely to target the emerging markets in the Global South, such as China and the host markets in Southeast Asia. In this sense, emerging economies such as China and Southeast Asian economies became a large manufacturing base, as well as potential intermediate markets for Asian manufacturers.

6.3 Emergence of triangular production networks

Based on the different market strategies of relocated garment and textile suppliers, there has witnessed the newly formation of production networks in Southeast Asia. According to the data from the China Textile & Apparel, with more than 4000 companies, the textile and apparel industry is Vietnam's leading export sector now ranks fifth worldwide. Around 70% of the country's textile and garment production is via "processing trade" using imported textile, predominantly from China. Meanwhile 17% focus on fabrics production. (CTA, 2016). The processing trade in Southeast Asia initiated by the relocated garment firms from Hong Kong, Taiwan, and Chinese firms is similar with the previous processing trade in the PRD three decades ago, which is characterized by importing materials for processing and both ends are external (*Lailiao jiaogong, liangtou zai wai* in Chinese).

To support the garment production in Southeast Asia, relocated garment firms primarily imported their textile intermediate materials from China. Because of the small size and the convenience of delivery of textile materials such as cotton, it is easier for relocated garment firms to import the needed intermediate materials from China. By contrast, due to the difficulties in delivering the intermediate materials (e.g. timber and steel) for furniture production, less production relocation from China to Southeast Asia has occurred in the furniture industry.

The textile sourcing from China can also be reflected in the increasing share of

textile products imported from China. Table 6.13 indicates that the share of intermediate imports of ASEAN from China increased significantly since 2010 and reached 40.4% of total ASEAN's textile imports. The import value increased from US\$ 7,330.0 million to US\$15,003.7 million in 2010–2015.

Table 6.13 ASEAN's textile imports from different economies

| | 2000 | 2005 | 2008 | 2010 | 2013 | 2015 |
|----------------|---------|---------|---------|---------|---------|---------|
| Total | | | | | | |
| (US\$ million) | 12365.3 | 14511.0 | 20430.2 | 23060.8 | 32443.9 | 37102.4 |
| EU | 603.5 | 718.1 | 835.8 | 760.8 | 904.7 | 857.6 |
| US | 593.5 | 873.3 | 1333.7 | 1180.8 | 1479.0 | 1372.6 |
| China | 1484.8 | 3175.9 | 5615.1 | 7330.0 | 12121.2 | 15003.7 |
| Hong Kong | 1276.1 | 1441.2 | 1824.3 | 1403.4 | 1700.8 | 4617.3 |
| Japan | 1052.6 | 1002.3 | 1203.6 | 1345.6 | 1738.2 | 1536.3 |
| South Korea | 1863.2 | 1724.0 | 2450.7 | 2942.8 | 4210.9 | 4330.9 |
| Taiwan | 2597.2 | 2208.9 | 2698.4 | 2895.3 | 3486.5 | 2930.1 |
| ASEAN | 1824.8 | 2287.9 | 2914.0 | 3250.5 | 3988.8 | 3652.3 |
| Share % | | | | | | |
| EU | 4.9 | 4.9 | 4.1 | 3.3 | 2.8 | 2.3 |
| US | 4.8 | 6.0 | 6.5 | 5.1 | 4.6 | 3.7 |
| China | 12.0 | 21.9 | 27.5 | 31.8 | 37.4 | 40.4 |
| Hong Kong | 10.3 | 9.9 | 8.9 | 6.1 | 5.2 | 12.4 |
| Japan | 8.5 | 6.9 | 5.9 | 5.8 | 5.4 | 4.1 |
| South Korea | 15.1 | 11.9 | 12.0 | 12.8 | 13.0 | 11.7 |
| Taiwan | 21.0 | 15.2 | 13.2 | 12.6 | 10.7 | 7.9 |
| ASEAN | 14.8 | 15.8 | 14.3 | 14.1 | 12.3 | 9.8 |

Source: Calculated by the author based on the data collected from United Nations Conference on Trade and Development, (UNCTADSTAT)

Note: Textile is represented by SITC 26 and 65

The increasing textile imports of ASEAN countries from China are more significant in Vietnam (Table 6.14). Vietnam accounted for more than 40% of the total textile imports of ASEAN in 2015. The major textile products imported from China are knitted or crocheted fabrics, n.e.s [655], fabrics, woven of man-made

fabrics [653], and knitted or crocheted fabrics, n.e.s. [655], as well as special yarn, special textile fabrics and related products [657], which together accounted for more than 80% of the total textile imports from China (Table 6.15). These textile products are the high-level products that are insufficient in Vietnam. The per unit prices of fabrics, particularly, man-made fibres [653] reached US\$12.6, whereas woven reached US\$10.5, which are higher than other textile products (Table 6.15).

Table 6.14 Different ASEAN countries' textile imports from China

| Year | Value of textile imports (US\$ million) | | | | | | Share of imports (%) | | | | | |
|-------------|---|--------|--------|---------|---------|---------|----------------------|------|------|------|------|------|
| | 2000 | 2005 | 2008 | 2010 | 2013 | 2015 | 2000 | 2005 | 2008 | 2010 | 2013 | 2015 |
| Total | 1246.2 | 3594.3 | 7107.6 | 10344.8 | 19518.9 | 23051.6 | | | | | | |
| Vietnam | 112.9 | 786.3 | 2052.9 | 3771.2 | 7623.3 | 10452.8 | 9.1 | 21.9 | 28.9 | 36.5 | 39.1 | 45.3 |
| Indonesia | 176.7 | 638.1 | 1370.7 | 1818.8 | 2738 | 2879.5 | 14.2 | 17.8 | 19.3 | 17.6 | 14 | 12.5 |
| Philippines | 167.1 | 398.5 | 622.8 | 948.5 | 2311.5 | 2401.7 | 13.4 | 11.1 | 8.8 | 9.2 | 11.8 | 10.4 |
| Thailand | 249 | 495.9 | 951.6 | 1286.2 | 1777.9 | 1988.6 | 20 | 13.8 | 13.4 | 12.4 | 9.1 | 8.6 |
| Malaysia | 127.2 | 398.6 | 780.7 | 915.7 | 1848 | 1893 | 10.2 | 11.1 | 11 | 8.9 | 9.5 | 8.2 |
| Cambodia | 73.7 | 332.5 | 521.5 | 719.5 | 1528.9 | 1793.8 | 5.9 | 9.2 | 7.3 | 7 | 7.8 | 7.8 |
| Myanmar | 109.9 | 169.4 | 251.6 | 421.8 | 995.2 | 998.5 | 8.8 | 4.7 | 3.5 | 4.1 | 5.1 | 4.3 |
| Singapore | 223.4 | 365.2 | 546 | 424.7 | 649.1 | 603.6 | 17.9 | 10.2 | 7.7 | 4.1 | 3.3 | 2.6 |
| Brunei | 0.6 | 5.4 | 7.6 | 7.5 | 34.1 | 26.7 | 0 | 0.1 | 0.1 | 0.1 | 0.2 | 0.1 |
| Lao | 5.8 | 4.6 | 2.2 | 30.9 | 12.9 | 13.3 | 0.5 | 0.1 | 0 | 0.3 | 0.1 | 0.1 |

Source: Calculated based on the data collected from UNCTADSTAT

Note: Textile is represented by SITC 26 and 65

Table 6.15 Share of different textile imports of Vietnam from China and unit prices

| Year | Share (%) | | | Unit prices (\$/unit) | | |
|---|-----------|------|------|--------------------------|------|------|
| | 2008 | 2010 | 2015 | 2008 | 2010 | 2015 |
| Total textile imports (US\$ billion) | 3.8 | 7.6 | 10.5 | 26.2 | 40.2 | 46.6 |
| [261] Silk | 0.7 | 0.6 | 0.3 | 1.6 | 7.0 | 1.7 |
| [263] Cotton | 0.0 | 0.1 | 0.3 | | | |
| [265] Vegetable textile fibres, not spun; waste of them | | | | 1.4 | | |
| [266] Synthetic fibres suitable for spinning | 1.2 | 0.8 | 0.5 | 1.4 | 1.4 | 1.2 |
| [267] Other man-made fibres suitable for spinning | 0.3 | 0.3 | 0.1 | 2.0 | 2.5 | 2.2 |
| [268] Wool and other animal hair (incl. wool tops) | 0.2 | 0.1 | 0.1 | 10.2 | 9.6 | 11.1 |
| [651] Textile yarn | 7.9 | 10.5 | 7.1 | 2.8 | 3.3 | 2.6 |
| [652] Cotton fabrics, woven | 30.6 | 28.9 | 17.6 | | 9.5 | 10.5 |
| [653] Fabrics, woven, of man-made fabrics | 16.6 | 21.0 | 35.7 | | 6.4 | 12.6 |
| [654] Other textile fabrics, woven | 2.6 | 1.7 | 1.9 | | 9.9 | 11.4 |
| [655] Knitted or crocheted fabrics, n.e.s. | 19.6 | 20.2 | 22.1 | 9.0 | 5.6 | |
| [656] Tullies, trimmings, lace, ribbons & other small wares | 1.8 | 1.9 | 1.7 | 8.4 | 7.0 | 12.6 |
| [657] Special yarn, special textile fabrics & related | 16.0 | 10.3 | 9.5 | 3.4 | | |
| [658] Made-up articles, of textile materials, n.e.s. | 2.6 | 3.6 | 3.2 | | 6.3 | 13.2 |

Source: Calculated based on the data collected from UNCTADSTAT

Note: unit prices is calculated by the author based on the data collected from UN-Comtrade

The backwardness of the textile industry in Southeast Asia, particularly Vietnam, forced relocated garment firms to import essential intermediate textile materials from China. For example, the domestic production of cotton in Vietnam can supply only 2% of national production needs. Thus, Vietnam needs to import cotton materials, which represent 99% of the total demand (Bui Van Tot, 2014). Moreover, domestic textile firms in Vietnam have to import fiber for export garment production, considering the imbalance between supply and demand regarding the quality and quantity of fiber in Vietnam.

After importing textile from China, relocated garment firms primarily conducted simple processing and assembly activities in Southeast Asia. Considering the low-skilled labor in Southeast Asia, relocated garment firms primarily distributed the export orders for simple and basic style garment products that required low-skilled labor to their factories in Southeast Asia. The factories in Southeast Asia primarily engaged in simple assembly processing, particularly in cutting, making, and trimming (CMT). Take Vietnam as a case. Regarding the method of production, CMT is the most prevailing mode of garment production in Vietnam, which accounted for 85% of garment production in Vietnam (Table 6.16). For the operation of garment companies in Vietnam, sewing contributed to 70% of the operation activities, followed by spinning (6%), weaving/knitting (17%) (Table 6.16). The chief executive of a Hong Kong firm explained that:

“The skill of workers in Southeast Asia is relatively low. They could not handle the complicated manufacturing like the workers in Dongguan. We primarily moved the low value-added and low-tech processing activities to Southeast Asia. We retained the complex and high-end product production was retained in our factories in Dongguan.” (Interview in Hong Kong, April 2016).

Under the method of CMT, relocated garment firms or TNCs offer entire inputs for production, particularly the raw materials, after obtaining export orders from Western buyers. The workers in factories in Vietnam or Cambodia only need to understand that basic design implements activities of cutting, sewing, and finishing products. A manager of a relocated garment firm in Cambodia explained:

“We designed the garment with our clients from the US and EU. The clients took the design sample back to Europe. After the clients placed the orders, we will source the raw material from materials suppliers as required by the European clients. We will manufacture the products in Cambodia and exported them to EU with zero export tariff.” (Interview in Hong Kong, March 2015)

Table 6.16 Overview of Vietnam's textile and garment industry

| Indicators | Unit | Value |
|---|-----------|---|
| Number of companies | Companies | 6000 |
| Enterprise scale | People | SMEs of 200-500+account for a large proportion |
| Geographical allocation of company | | North (30%), Central and plateau (8%), South (62%) |
| Number of employees | People | 2.5 million |
| Average income per worker | VND | 4.5 million |
| Number of working days per week | Day | 6 |
| Number of hours worked per week | Hour | 48 |
| Number of shifts per day | Shift | 2 |
| Main export markets | | US, EU, Japan, South Korea |
| Main import markets | | China, South Korea, Taiwan |
| Major export products | | Jackets, shifts, pants |
| Method of production | | CMT (85%); others (15%) |
| Value of textile export in 2013 (excluding fiber) | USD | 17.9 billion |
| Value of textile and garment imports in 2013 | USD | 13.5 billion |
| Company structure based on ownership | | Private (84%), FDI (15%), State-owned (1%) |
| Company structure based on operation | | Sewing (70%), spinning (6%), weaving/knitting (17%), dyeing (4%), ancillary industries (3%) |
| Lead time | Day | 90-100 |

Source: Bui Van Tot, 2014

CMT is the lowest value-added activities along the garment production. The garment factories that make CMT contracts with relocated garment firms from China only gained limited processing fees, which usually accounted for less than 5% of the ex-factory price of garment products. Thus, relocated garment firms primarily relocated the low value-added activities, particularly CMT to Southeast Asia. From this point of view, Southeast Asia integrated into the global garment production networks by engaging in low-end activities.

Relocated garment firms primarily moved the low value-added CMT activities to the Southeast Asia countries at this stage while retaining the high-value added activities such as R&D and production of complicated products in China. The cross-border production relocation release room for relocated garment firms conducted high-end activities in their factories in China to improve their capability and to enhance their bargaining power in the global production networks. This condition is exemplified by the case of Top Form.

Founded in 1963, Top Form was one of the first Hong Kong lingerie companies to begin manufacturing in China. The OEM manufacturing represents over 99% of the company's business with production based in Thailand, Cambodia, and China, including Longnan in Jiangxi, Shenzhen, and Nanhai in Guangdong Province. The US is the largest market of Top Form, which accounts for almost half the total sales turnover. Europe accounts for 27% of our total sales turnover. The major clients from the US and Europe include Warnaco, Vanity Fair, Komar Intimates, Wacoal, Etam, VDV, and DBA Group. Asia accounted for 11% (Figure 6.11).

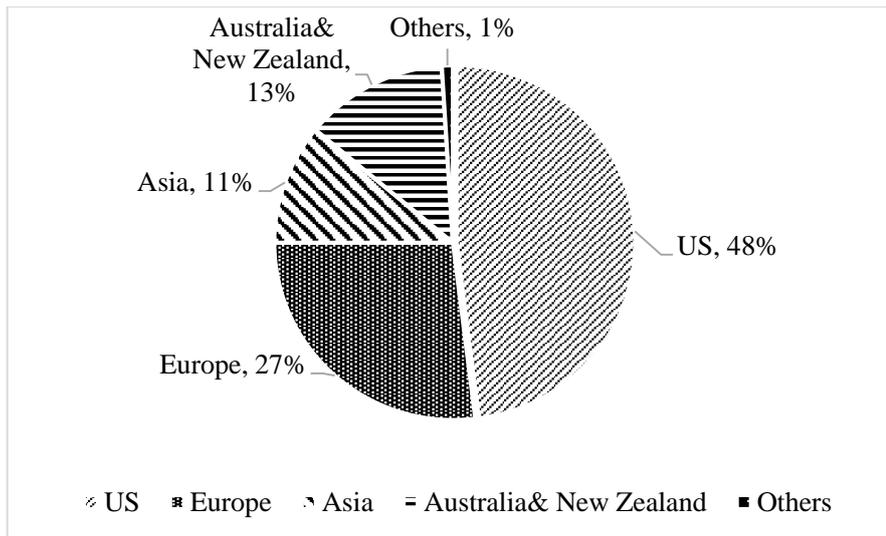


Figure 6.11 Market orientation of Top Form Corporation

Source: official website of Top Form²³

The merchandizing teams of Top Form are located in Hong Kong and Shenzhen. These teams take charge of fabrics sourcing, product development, purchasing and liaising with its production locations for product delivery to customers. The product development and R&D centers of Top Form are located in Shenzhen. The company distributes their orders to manufacturing to Foshan in China and Thailand and Cambodia in Southeast Asia. In the Top Form, the production relocation in different countries provided room for the facility in Shenzhen to upgrade and to engage in the high value-added activities.

Overall, the import of textile from China and processing garment products in Southeast Asia, particularly in Vietnam, formed the triangular production networks across Southeast Asian countries, China and the US or EU (Figure 6.12). The present study reveals that China gradually upgraded from being dominantly garment manufacturers to textile manufactures and exporters in newly triangular production networks. According to Gereffi (2005), countries can gain industrial upgrades as they change their roles along the hierarchies production networks (Figure 6.13). Similar to Japan and East Asian NIEs, as the comparative advantage in manufacturing is eroded, China capitalized on their skills and knowledge of production and distribution, and they thus extended to higher value-added activities, such as supplying textile (e.g.,

²³ http://www.topformbras.com/ab_main_markets.html

fabrics). Compared with the CMT activities, textile production is more capital intensive. Therefore, in the future, China should take advantage of matured industrial supply chains and capture high value-added activities in the triangular production networks.

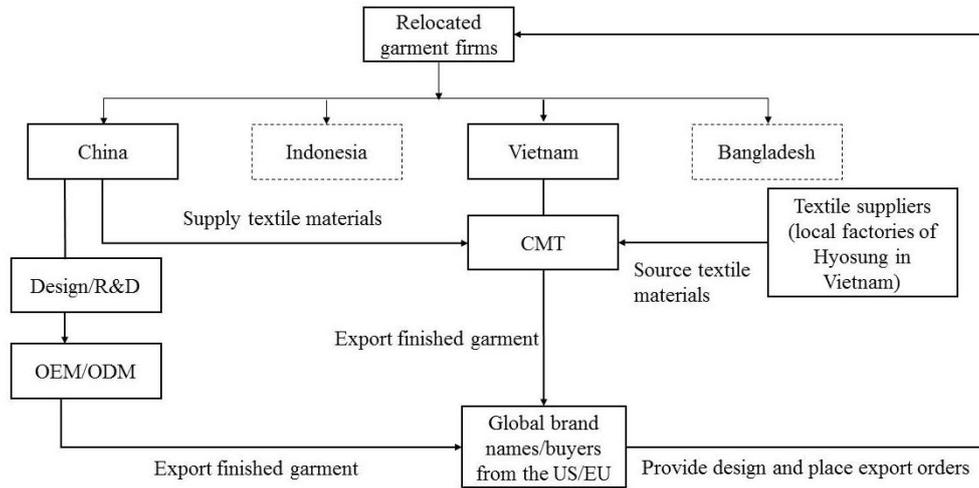


Figure 6.12 Triangular production networks in Southeast Asia (Vietnam)

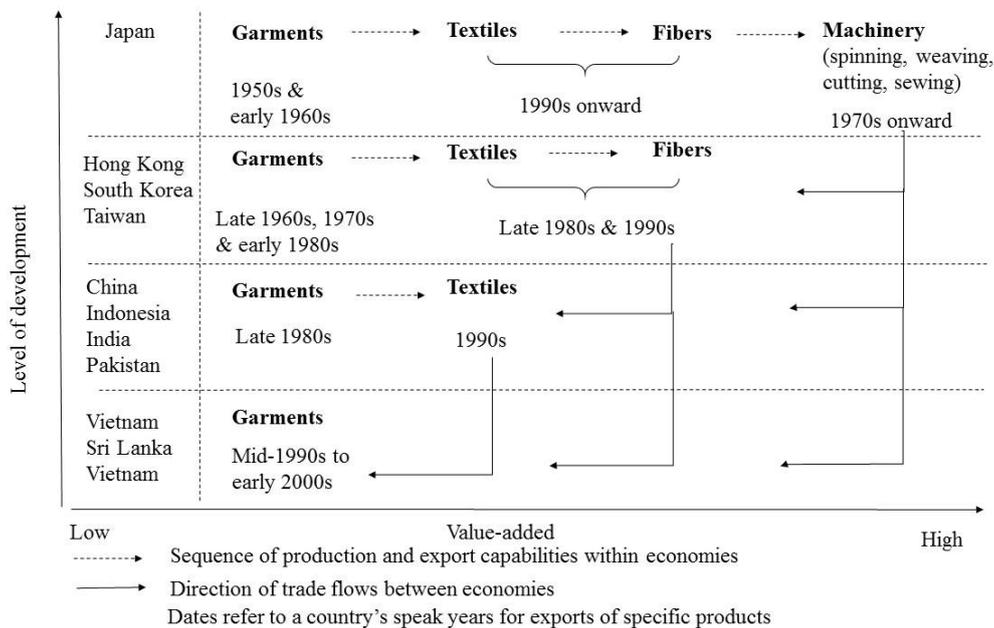


Figure 6.13 Industrial upgrading in the Asian apparel value chain

Source: Gereffi, 2005, p. 172

6.4 Summary

This chapter elucidates different market strategies of garment firms when they relocated from China to Southeast Asia. The chapter argues that Western markets are still the major final markets of relocated garment firms. Relocated garment firms strategically coupled with global buyers from advanced Western economies instead of changing their market orientations to the home markets of China or host markets of ASEAN. To cater for the cost-sensitive buyers from the US and EU, relocated garment firms coordinated the triangular production networks, in which they imported textile imports from China for processing low-end garment products in Southeast Asia. However, emerging markets in China and other developing countries in Southeast Asia are the major intermediate textile markets. Unlike the relocated garment firms, relocated textile firms targeted the home markets of China and host markets of ASEAN to meet the increasing demand of textile in these emerging economies. In the production networks, China provided high value-added textile suppliers to provide textile materials for relocated garment firms. Meanwhile, Southeast Asian factories engaged in the low-end garment processing activities. This finding indicates that as China moves up the value chains, Southeast Asia steps in and leverages its low-cost advantages, which is similar with what China did 30 years ago.

The chapter advances the literature by making connection between cross-border production relocation and firm-level market strategies. For making strategic coupling with buyers from different markets, relocated garment and textile firms relocated their production relocation from China to Southeast Asia. Preferential market access to the US and EU, search for the home markets of China, and exploration of host markets of ASEAN are the major driving forces behind cross-border production relocation. Moreover, this chapter also differentiates the markets into final and intermediate markets. It is found that Western markets are still the major driving forces of reorganization of global garment production networks, while emerging markets, such as China and ASEAN, increasingly became the intermediate markets for the relocated textile suppliers in Asia. Recent studies have explored the implication of emerging markets for the reconfiguration of global production networks and value chains (Gereffi, 2014; Horner, 2014; Yang, 2014). But these emerging markets are considered as the final markets for supplier firms in developing countries. However,

the chapter demonstrates that emerging markets in China and Southeast Asia are become the intermediate markets for the relocated textile firms. From this point of view, the studies on rise of emerging markets in the Global South should carefully categorize the final and intermediate markets. Emerging markets might played different role in reshaping the global production networks. This chapter adds the literature by exploring cross-border production relocation on firm-level strategies. It highlights the importance of the Greater China firms, such as Hong Kong firms and Chinese brand names, in reshaping the global production networks (Azmeah & Nadvi, 2013, 2014). These firms play as the ‘giant transnational contractors’ as suggested by Appelbaum (2008). This study indicates that many Asian garment firms have yet to upgrade into the high-value activities globally, such as branding or retail. Instead, they tended to advance their competition and maintain spatial flexibilities by maintaining multiple production locations and becoming strategic subcontractors of global brand names. Nevertheless, these relocated garment firms still highly relied on a small number of global buyers from Western markets. Hence, the sourcing decisions of these buyers can significantly influence the practices and locational of these garment and textile supplier firms. Therefore, the path for Asian firms to become the highly independent coordinators of global production networks is long.

This study suggests further investigation on the processes and developmental and policy implications of market strategies and spatial production relocation. In this study, in the context of changing trade policies and production environment in China, spatial relocation and market change has led to the structural and spatial transformation of production networks by strategic textile and garment firms in Greater China and Asian firms with the goals of enhancing flexibility and competitiveness at global scale. This has important empirical and policy implications for the sector that pursue industrial transformation in the changing global economy.

7 Conclusion

This chapter summarizes the major findings of the thesis, including patterns of market strategies and the effects on the transformation of manufacturing industries in China and reconfigurations of GPNs. Moreover, this chapter highlights the theoretical contribution of this thesis for the literature. Then, this chapter discusses the empirical and policy implications of the patterns of market strategies in labor-intensive industries. The last part presents the suggestions for future research.

7.1 Summary of the research findings

The thesis attempted to fill a research gap in the understanding of the market dynamics of GPNs and GVCs in the changing global economy by investigating the different types of firm-level market strategies of suppliers in the PRD. Firm-level market strategies, which has seldom been examined in previous studies, is observed to be significant to the structural and spatial reorganization of labor-intensive industries in China. In particular, emerging markets in the Global South such as China have increasingly played an essential role in reshaping the labor-intensive industries in developing countries and organization of GPNs. As a result, transformation of manufacturing industries under the dominant role played by emerging markets and Chinese firms and TNCs based in China through market strategies have indicated some salient characteristics of industrial development compared to the previous Western market-led development in developing countries.

After a brief review of the new paradigm of GPNs, including final market shifts from advanced Western economies to developing countries, Chapter 1 introduced the research issue of this thesis based on the identified limitations of theoretical and empirical studies on GPNs and GVCs, which have been confined in the Western market-centric perspective. Then, the chapter presented the research scope and significance of the study.

Chapter 2 provided a literature review of the new paradigm of GPNs and GVCs including theoretical dynamics of strategic coupling and market dynamics in various

scales and empirical studies on market strategies of manufacturing industries in China. A considerable change of market dynamics towards diversification has generated significant effects on manufacturing industries in developing countries. With the changing global economy, the rise of emerging markets in the Global South is fundamental to change the structural and spatial organization of GPNs and GVCs. Thus, the conceptual framework of the thesis is based on the assumption that research on industrial transformation in developing countries could not ignore the importance of market strategies and emerging markets in the Global South.

After delineating the research questions, objectives, and hypotheses of this study and introducing methodology in Chapter 3, the following Chapter 4, 5, and 6 demonstrated three empirical studies to explore the patterns of market strategies in manufacturing industries in the PRD. The result indicated different patterns of market strategies identified in the furniture and garment industries in the PRD.

First, market reorientation from exports to selling products in the domestic markets of China has been witnessed in the export-oriented furniture industry in the PRD, particularly the eastern PRD, such as Dongguan and Shenzhen. The strategic coupling with domestic markets of China firms has been primarily driven by firm-level partnerships between export-oriented furniture firms with their domestic chain retailers who are familiar with the domestic consumers in China.

Second, different from the export-oriented furniture industry in the eastern PRD, market diversification have been found in the domestic market-oriented furniture industries in the western PRD, namely Shunde. Three market diversification strategies have been identified, including (1) expanding from low-end segment of domestic market to the low-end segment of emerging markets in other developing countries (e.g. the Middle East, Southeast Asia countries), (2) market expansion from low-end to middle-end segment in the domestic markets of China, and (3) high-end market expansion from low-end segment of the domestic market. Variegated market expansion to the higher-segment of domestic markets of China and low-end segment of emerging markets in developing countries has been driven by the firm-level market strategies of domestic market-oriented furniture suppliers and the support from local agents, including direct intervention of local specialized market platforms and implicit supports from local governments and industrial associations.

Third, different from furniture industry, the majority of export-oriented garment firms in the PRD have maintained their market orientation to Western markets when they relocated from China to Southeast Asia. Instead of seeking the emerging markets in Southeast Asia, relocated garment firms would rather consider Southeast Asian countries as the lower-cost production bases with preferential market access to Western markets. Compared to the relocated garment firms, relocated textile suppliers exploit emerging markets in China and Southeast Asian countries, such as Vietnam. Spatial production relocation has been driven by different market strategies of relocated textile and garment supplier firms.

These three patterns of market strategies indicate that emerging markets in the Global South, particularly the domestic markets of China has become one of the most important driving forces behind the transformation of manufacturing industries in China. More importantly, Chinese manufacturing firms have become important agents to reshape the structural and spatial organization of production networks through their firm-level market strategies. In addition, the local institutions, such as local governments, industrial associations and global trade policy makers have exerted implicit and indirect influence on the market strategies of the manufacturing suppliers.

In the rise of emerging markets particularly the domestic markets of China, there has witnessed the emergence of emerging market-oriented production networks in China, including (1) domestic market-oriented production networks in the previous export-oriented furniture industry, (2) production networks that co-depend on domestic market and other emerging markets in developing countries in domestic market-oriented industries. This scenario indicates the important role of emerging markets in changing the organization of GPNs and GVCs in recent years. In addition, China has integrated into various and complex production networks, including Western market-oriented triangular production networks across China and Southeast Asia in the cross-border production relocation. From this point of view, analysis of manufacturing suppliers in developing countries could not merely focus on one single market. In particular, the driverness of emerging markets in the Global South such as China deserves more attention.

Integration into domestic market-oriented production networks has positive effects on the manufacturing suppliers in the PRD. To meet the higher end demand of

Chinese consumers, manufacturing suppliers have extended to high value-added activities such as retailing, marketing, and branding and transferred from unbranded suppliers to brand names. Manufacturing suppliers thus gained functional upgrading opportunities in their strategic coupling with domestic markets of China, which are limited in their participation in Western market-oriented production networks. It indicates that China has huge momentum to provide more functional upgrading prospects to their domestic manufacturing firms than Western markets. However, given the various segments of China's market, ranging from the low end, middle end, and high end, manufacturing suppliers might experience product and functional downgrading as they target low-end segment.

In summary, firm-level market strategies in labor-intensive manufacturing in the PRD indicated salient characteristics of industrial transformation that different from the previous Western market-led industrial growth. In the changing global economy, the implications of the rise of emerging markets and the local agencies or actors in the Global South, who present rising powers in the changing GPNs, should be considered. Considering the market strategies of supplier firms various in different sectors and regions, more studies are needed to further examine the market strategies of labor-intensive manufacturing in developing countries.

7.2 Theoretical contributions

The market strategies adopted by supplier firms in the PRD have demonstrated significant theoretical contributions for the literature on economic geography in terms of theories of GPNs and GVCs and empirical research. The following theoretical contributions could be derived from the case studies in terms of theories in economic geography.

(1) The industrial growth and development in developing countries are usually driven by the demand of Western economies in the Global North, such as EU and the US, leading to the emergence of Western market-oriented production networks (Coe et al., 2008; Coe et al., 2004; Yeung, 2009). However, the evidence of PRD in this thesis indicates the significance of emerging markets-driven production networks in transforming the structural and geographies of manufacturing industries in developing

countries (Horner, 2014; Yang, 2014). Therefore, this thesis contributes to the literature by demonstrating the formation of emerging market-driven production networks and its implication of the reconfiguration of global production networks and industrial transformation of manufacturing industries in developing countries, such as China.

(2) Recent studies have called for that market dynamics should be incorporated into the framework of GPNs (Coe & Yeung, 2015; Yeung & Coe, 2015). Moreover, it is suggested that more studies should be explored the reconfiguration of global production networks on the firm level in GPN 2.0 framework. However, less investigation has been conducted to make connections between market dynamics and firm-level strategies. This study could add the literature by making linkage these two factors and explore the firm-level market strategies of suppliers in developing countries.

(3) The conventional research on GPNs or GVCs demonstrate the driverness of global brand names and retailers in buyer-driven global value chains (Gereffi, 1999; Gereffi et al., 2005; Gereffi & Korzeniewicz, 1994). These global lead firms usually exerted governance and control on the export-oriented suppliers in developing countries. However, this thesis explores market reorientation of export-oriented suppliers and market diversification of domestic market-oriented suppliers, indicating the rise of local firms and non-firm actors in the Global South.

(4) The recent studies have indicated the market shift that primarily occurred in the export-oriented industries in developing countries in the changing market dynamics in the Global North and South (Horner, 2014; Kaplinsky & Farooki, 2011; Kaplinsky et al., 2011). However, this thesis demonstrates the market diversification in the domestic market-oriented industries. It implies the process of globalization of the domestic market-oriented suppliers through firm-level strategies, which could be understood as “domesticating globalization” (Wei et al., 2009). This study could contribute the literature by shedding light on the domestic market-oriented suppliers who previously started business and developed by integration into domestic markets in developing countries. It advances the literature on local agents and actors in the Global South through firm-level strategies (Murphy & Schindler, 2011; Murphy, 2008).

(5) Previous studies on cross-border production relocation have seldom accounted for the market elements (Azmeah & Nadvi, 2013, 2014). This thesis adds the literature by making connection between firm-level market strategies and geographical reconfiguration of production networks (cross-border production relocation).

(6) Recent work demonstrates that strategic recoupling with the domestic markets probably provides functional upgrading to the export-oriented suppliers in developing countries (Horner, 2014). However, the case of the PRD indicates that strategic coupling with domestic markets in developing countries has entailed various industrial upgrading prospects to manufacturing suppliers. As the suppliers integrated into the high-end segment of the domestic markets of China, they could gain functional upgrading opportunities. However, if they integrated into the low-end segment, manufacturing suppliers might experience product and functional downgrading in their coupling with emerging markets in the Global South (Blažek, 2015; Ponte & Ewert, 2009). The study of the PRD indicates that industrial upgrading may co-exist with the downgrading given the complex and various segments of markets in emerging economies (Blažek, 2015; Plank & Staritz, 2015; Ponte & Ewert, 2009; Smith et al., 2014; Tokatli, 2013). Thus, the analyses on emerging markets should not simplify the demand and segment of emerging markets in the Global South (Staritz et al., 2011).

In summary, the experience of the PRD indicates that firm-level market strategies are essential to understand the changing landscape and organization of industries in developing countries and the reconfiguration of GPNs. Evidently, the market strategies of suppliers has become the important dynamics and mechanisms of the transformation of labor-intensive manufacturing in developing countries. This study reflects the rise of economic and political power and bargaining power from leading firms to strategic suppliers in developing economies (Gereffi, 2014). Considering the salient characteristics of the case of the PRD, theories of Western origin may thus need refinement and considerable adaptations if they are to become useful framework for explaining the rise of emerging markets particularly China and the industrial transformation in developing countries.

7.3 Empirical and policy implications

This thesis has demonstrated the significance of firm-level market strategies in the transformation of labor-intensive manufacturing in the PRD. The patterns and mechanisms of market change are subjected to complicated factors, such as Chinese political support that boosts domestic consumption, trade regimes that might influence export, and policies that influence regional integration across different countries. The pattern of market strategies in labor-intensive manufacturing in the PRD is related to future development direction and policy adaptation on the model of economic growth and industrial transformation in the PRD and other coastal regions in China and other developing countries as well. This section discusses the related policy implications for industrial transformation in the PRD and industrial development in the rise of regional integration in Asia under the “One Belt, One Road” initiative introduced by Chinese central government from the following aspects:

First, market strategies are an important strategy that could facilitate the industrial transformation of labor-intensive manufacturing industries in China and other developing countries as well. Therefore, the policies related to the industrial transformation and upgrading should take the market strategy into considerable. Market orientation could, to a large extent, influence the upgrading prospects of manufacturing suppliers.

Second, manufacturing suppliers in developing countries are encouraged to diversify their market orientations. Instead of merely focusing on Western markets such as the US and EU or domestic markets in developing countries, market diversification is essential to improve the market flexibility of suppliers in the PRD. For the Chinese central government or governments in other developing countries, balancing market orientation is fundamental to sustain economic growth. For these goals, governments should initiate policies to boost domestic consumption to stimulate the development of domestic market-oriented industries and establish free trade partnerships with other economies to gain more preferential market access to other economies.

Third, improving the innovation and branding capabilities is also important for suppliers to improve their capabilities, which should be recommended in policies in relation to industrial upgrading. With improved capabilities, manufacturing suppliers

could tap into the high-end segment of markets in which they could get higher added value. The empirical studies indicate that a considerable number of export-oriented and domestic market-oriented suppliers experience substantial difficulty in integrating into high-end markets in China, in which they could obtain higher marginal profits, because of the lack of knowledge in innovation and branding.

Fourth, local governments are suggested to provide more direct financial and political supports to local suppliers. In this study, suppliers gained limited direct support and help from local governments and institutions. Therefore, local governments need to introduce more policies and financial support to the suppliers to help suppliers to cope with the financial constraints and extend to the high value-added activities. More policies related to the intellectual property protection should be initiated. In fact, the weak supervision of plagiarism is one of major reasons for the little interests of suppliers in innovation. For the suppliers, innovation and branding is risky and capital-intensive, whereas plagiarism and copying is easier. Therefore, strict policies in terms of intellectual property protection are imperative to encourage suppliers to engage in innovation and improve their capability in innovation in the PRD and China as well.

Fifth, with the implementation of “One Belt, One Road” initiative introduced by Chinese central government, Chinese manufacturing firms should be encouraged to conduct outward investment and trade with the countries along the belt and road. With the improved connectivity between China and other countries in ASEAN, Europe, and East and Central Asia, manufacturing firms in China are suggested to export their products to new markets, particularly the emerging markets in the developing countries, and diversify their production bases. In this thesis, the evidence of cross-border production relocation from China to Southeast Asia indicates that Chinese manufacturing firms reorganized their production networks through production relocation. However, manufacturing firms still relied on the demand of Western markets, particularly the US. Therefore, more policies on the regional and local-level, such as the PRD, should be introduced to encourage manufacturing firms to target emerging markets in the rise of regional integration under the “One Belt, One Road” initiative, so as to address China’s domestic overcapacity. Chinese manufacturing firms could take advantage of regional integration to facilitate the China-centric or

Asia-centric production networks, altering the traditional Western-centric development model.

7.4 Limitations and suggestions for future research

This section presents the limitations of this research and discusses the future research agenda. The limitations of this thesis are more related to the methodology. This thesis primarily deployed qualitative method to collect first-hand data through in-depth interviews with suppliers in various cities in the PRD and Hong Kong. Meanwhile, the quantitative method is not applied in this study. In fact, the pilot study is conducted through questionnaire survey to collect data in Shaxi Town, Zhongshan for applying the quantitative method to measure the mechanisms and patterns of market strategies in the PRD. However, the low response rate (approximately 10%) could not improve the validity of the findings. Thus, the results of this study were primarily derived from the interviews and case studies. In addition, given the difficulty in conducting on-site field investigations in the Southeast Asia, such as Vietnam, interviews with the relocated garment firms in Hong Kong and the PRD were conducted and relevant information from the official websites of related institutions and websites of specific companies was collected in terms of the empirical study presented in Chapter 6. Therefore, the lack of on-site investigations in Southeast Asia made it difficult to analyze and understand the effects of spatial relocation and triangular manufacturing from the perspective of local suppliers in Southeast Asia.

For an improved understanding of market strategies, the importance of other mechanisms, such as ownerships of firms and worker capabilities, should be assessed. Given the limitations in terms of data and time, this study focused on the general export- and domestic market-oriented suppliers, including private companies in mainland China and the export-oriented manufacturing TNCs from Hong Kong, Taiwan, and South Korea. Thus, future research could conduct from the following aspects. First, the patterns of market strategies of suppliers with different firm ownerships should be examined. Second, the effects of market strategies on the workforce or labor needs further investigation as some suppliers have upgraded from engaging in labor-intensive manufacturing to capital-intensive activities and outsourced labor-intensive manufacturing to other regions. Third, rules of origin and

their role in driving flows of investments and cross-border production relocation are needed to investigate. Fourth, further research should conduct on the effects of production relocation and market strategies of relocated manufacturing firms on the local suppliers and workers in Southeast Asia, for the understanding of effects of the cross-border production relocation on the host economies. Fifth, case studies on other economies and regions and comparative research are needed for an improved understanding of the market strategies in manufacturing industries in other developing countries in the changing global economy.

Despite the limitations, this thesis has provided a theoretical framework and an applicable method to conduct the studies in other regions and countries in the Global South. This step can be employed to develop a model of Asia-centric or emerging markets-oriented GPNs in contemporary globalization.

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