

DOCTORAL THESIS

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

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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 previous 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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