Pacific Rim Connections: Relinking the Vietnamese Apparel Industry to the Global Economy*

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Vietnam presents a particularly intriguing case to study shifting patterns of industrial governance. The country is still ruled by the Communist Party and nominally committed to its ideology, but the state is spearheading (and trying to control) "reforms" that will relink its exports to global markets, open the country up to foreign investors, and move its economy toward an increasing reliance on markets. The contradictory image of "market reform" by a communist-led state strongly committed to development makes this a particularly interesting case in which to study the key issues involving recent global economic restructuring, including debates about "flexible production," the structure of new types of "buyer-driven commodity chains," and arguments about positive and negative roles for states in the process of economic transformation. This paper focuses on the recent emergence and growth of a western-oriented export apparel industry in Vietnam. We provide an overview of garment production and export in the Asian Pacific Rim, and sketch out the recent history of the Vietnamese textile and garment industries. The focus is on the last decade, when the manufacturing sector's output and export volumes increased dramatically, foreign investment surged, and an industrial structure that was once monopolized by state-owned enterprises (SOEs) gave way to a more differentiated one that now included foreign and domestic private companies, various types of joint ventures, and some privatization of SOEs. In addition to describing these changes and their organizational impact on garment manufacturing, we attempt to offer some sense of how key actors (local businesspeople, state bureaucrats and SOE managers, foreign investors and managers, and local workers) are agents in the dynamics of change. We conclude with speculation about the future of the Vietnamese export apparel industry and its potential role in wider efforts to promote national economic development.

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INTRODUCTION

The Pacific Rim has attracted a great deal of attention from social scientists in the final decade of the twentieth century. Early on, the region was hailed as the locus of "manufacturing miracles" (Gereffi and Wyman 1990), with some analysts confidently predicting that we were witnessing the beginning of a veritable "Pacific century" (Gibney 1993). More recently, of course, apocalyptic accounts of "the East Asian crisis" predominate, prompting some writers to suggest that the "economic miracle" in the region might turn out to be an "economic mirage" (McLeod and Garnaut 1998).

There is something deeply un-nerving about the way in which many scholars and pundits suddenly reversed themselves, when thirty years of growth in the East Asian "tigers" was followed by a few months of economic stagnation. There is good reason to be skeptical about *post hoc* assessments of how inherently flawed East Asian economies were post-crisis, especially when a few months before, many of the same economic experts were trumpeting "the Asian model" and searching for the keys to its success! Mainstream media depictions of deep-seated problems of crony capitalism and "economic statism" touted the crisis as an opportunity for economic reform toward more rational U.S.-style neo-liberalism. But a number of more critical views about the nature of the East Asian crisis and its causes and consequences cast doubt on this "conventional wisdom" (Cumings 1998; Lee 1998; Wade and Veneroso 1998; or Smith 1999).

Regardless of our perspective on the recent crisis, there is very little doubt that East Asian economic growth and development has been very dynamic in the long run. There are a number of distinct ways to explain the "motor" of the region's decades of growth. Some cling to old "culturalist" claims about Confucianism (Pye 1985; see also Singaporean Prime Minister Lee Kuan Yew cited in Kim 1998, 432-33) while a few economists argue (despite evidence to the contrary!) that the basis of the expansive growth was really "free markets" (Belassa 1987; World Bank 1993). But others focus on more sociological and political-economic explanations that stress on "developmentalist states" (Gold 1986; Amsden 1989; Appelbaum and Henderson 1992; Evans 1995; World Bank 1997), or stress the ways that East Asian social networks promote business (Ortu, Biggart and Hamilton 1992; Gerlach 1992; Whitely 1992).

These latter approaches, emphasizing business and political institutions and organizations and the way that they are connected and coordinated, are all efforts to understand *industrial governance*. They focus empirical attention on the pattern of relationships between business organizations, states, and key individual and collective actors, as they grapple with problems of economic development and industrial upgrading, particularly the development, production, and marketing of goods and services. These organizational patterns often emerge from socially embedded relationships inherited from the past, and they are often sector or industry specific. Our premise in studying these governance arrangements is that they often hold the key to the relative success of "industrial upgrading" and, ultimately, divergent national economic performance. In the case of East Asia, establishing internationally competitive export manufacturing was an integral aspect of this (Gereffi

1992), which meant that governance arrangements, out of necessity, took on a transnational character.

Most of the existing research on this sort of economic governance centers on distinct patterns among the relatively industrialized "four tigers" of South Korea, Taiwan, Hong Kong, and Singapore, even the spectacular rise of post-war Japan. There is the difference between a highly centralized, vertically-organized, state-coordinated corporate pattern of organization in Japan and South Korea (Johnson 1982; Amsden 1989) versus the relatively loose horizontally-integrated, network-based business groups favored by the Chinese in Taiwan, Hong Kong, the mainland and elsewhere (Redding 1990; Whitely 1992, 1996; Liu 1998). Debates center around the relative advantages and disadvantages of these contrasting forms both in the early stages of development of export-oriented industrialization, as well as their institutional appropriateness now as these economies are trying to recover from the regional crisis.

In our research on Vietnam we are also interested in issues of industrial governance in East Asia, and both Pacific Rim connections and international export competitiveness are crucial in this case, too. But in some significant ways our study of the emerging Vietnamese apparel industry is distinct.

First, while Vietnam shares many characteristics with other countries in this fast-growing region, and its political and business leaders are intrigued by the prospect of becoming the latest "tiger," this is also an "economy in transition." Even today Vietnam is still ruled by the Communist Party and nominally committed to its ideology, although the economy has now undergone almost two decades of reform (Tran and Smith 1999). Thus, the society is dealing with many issues intrinsic to a transition from a command toward a market economy.

Second, Vietnam is just at the very beginning of the path toward industrialization and development. Its gross national product per capita for 1997 was \$330 (source www.un.org/Depts/unsd/social/inc-eco.htm), placing it among the lowest tier of poor countries, far behind most of its East Asian neighbors. Furthermore, Vietnam's economic structure remains skewed toward agriculture and extractive activities (i.e. raw materials, particularly oil). As of 1998, the only manufactured goods to break into the country's top ten export goods were "garments and textiles" (see Kim 1994 for earlier data). Despite the onset of the East Asian financial crisis in late 1997, Vietnam's textile and garment exports did not decline, but remained the same level (U.S.\$1.35 billion in 1997, U.S.\$1.351 billion the following year). In 1998 they retained their top export spot (ahead of oil [\$1.2 billion], rice [\$1.1 billion], and shoes [\$1.0 billion]). The leading destinations for these textile and garment exports were Japan (\$321 million), Germany (\$236 million), Taiwan (\$218 million), France (\$68 million), South Korea (\$40 million), and Singapore (\$33 million). But Russia (\$59 million) and other eastern European markets remained important, too (*Annual Report of the General Customs Department*, December 1998).

Finally, Vietnam is distinctive because of its peculiar geopolitical history. It survived a devastating war with a superpower, but was subsequently labeled a pariah state by

the United States and suffered from western-imposed international isolation. For many years its main economic ties were to the East Bloc countries, with limited trade and investment relations with capitalist East Asia and some western European countries. With the collapse of eastern European communism in 1989, Vietnam looked rapidly to renew ties with the European Union, Japan, ASEAN (Associate of Southeast Asian Nation), and the East Asian "tigers" as a source of investment capital and a market for Vietnamese goods. But as late as 1999, Vietnam still does not have the type of "normal" trade relations with the United States, the world's richest source of capital and most lucrative market, that "Most Favored Nation" (MFN) status would permit (something that the Communist Party-ruled People's Republic of China has enjoyed for some time).

This paper will focus on the emergence of the export apparel industry in Vietnam, which has grown rapidly in the past decade as it became more integrated into global markets. After some brief comments about how global economic restructuring affects the global sourcing of garment production in the Asian Pacific Rim, we will provide a sketch of the recent history of the Vietnamese textile and garment industries. This analysis will focus on the changes of the last ten years, as sectoral output and export volumes have increased dramatically, foreign investment has surged, and an industrial structure that was once the exclusive domain of state-owned enterprises (SOEs) went through various types of "reform," including the emergence of foreign and domestic private companies, various types of joint ventures, and some privatization of SOEs. In this section we will attempt to provide an overview of main contours of change in industrial governance, as well as some sense of how the main actors—local businesspeople, state bureaucrats and SOE managers, foreign investors and "buyers", and local workers—contributed to this dynamic (by necessity, the treatment here will be illustrative and anecdotal— for the more complete version, see Smith and Tran, forthcoming). Finally, we conclude with some speculation about future directions for the Vietnamese export apparel industry.

GLOBAL RESTRUCTURING, FLEXIBLE PRODUCTION & EAST ASIAN EXPORTS

To some extent "globalization" and "global restructuring" are fashionable catchphrases, with a plethora of meanings (Smith and Borocz 1995; Smith, Solinger, and Topik 1999). But it is difficult to ignore some basic changes in the world-economy in recent decades. Some claim that the main dynamic has been the rise of a "new international division of labor" (NIDL) (Frobel, Heinrichs, and Kreye 1981) in which a "global assembly line" driven by the relentless search for cheap labor emerged in the 1970s and 1980s (Feuntes and Ehrenreich 1984). This process leads to "deindustrialization" in the "advanced" countries, and now even in mid-level East Asian "tigers" (Smith 1996), but little real development in the poor countries where the factories locate. Others take a more sanguine view. They see technological and organizational innovations pushing the world over a new

"industrial divide" (Piore and Sabel 1984) and into growing "flexible production" (Scott 1988). In this regime, nations must reconfigure organizations and institutions to maintain global competitiveness (Porter 1990). Poor countries can achieve genuine economic development by exploiting distinct "export niches" and continuously engaging in "industrial upgrading" (Gereffi 1992). "Flexibility" in a labor-intensive sector which is extremely quality- and fashion-sensitive is particularly critical in export apparel production where the rapid delivery of small "batch" runs at a reasonable cost is crucial (Elson 1989; Dicken 1992, Chapter 8).

In everyday parlance flexibility is usually seen as a beneficial thing, something that is unambiguously positive for business organizations and for those within them. But economic flexibility in an industry like garment production has more complex implications. It refers to organizations' "ability to adjust their activities to uncertainty and to rapidly changing conditions brought about by competition" (Malecki 1991, 202). Frequently, knowledge intensive high technology sectors like semiconductors or computer software, staffed by skilled workers with access to innovative technologies, are spotlighted to epitomize flexibility. Clearly, in these sectors both technological and organizational innovation are crucial paths to enhanced competitiveness. But other industries show that flexibility is multifaceted and includes a darker side, which can be inimical to both workers and genuine industrial upgrading. Flexibility frequently involves large amounts of subcontracting, temporary and casual workers, and aggressive anti-union practices, as Deyo (1995) demonstrates in his work on Thai automobile factories. Indeed, insofar as flexibility calls for simultaneously lowering production costs while quickly responding to frequent market changes, it has strong appeal to all industries that involve tight coordination between design, production, and marketing. Dickens (1992, Chapter 8) points out that fashion apparel is an excellent example. To succeed in a ruthlessly competitive business, companies need access to information and innovation (i.e. fashion design) and linkages to suppliers, buyers, production partners, and marketing outlets.

Global garment production is dominated by what Gereffi (1994) calls buyer-driven commodity chains, in which "large retailers", brand-named marketers, and trading companies play a pivotal role in setting up decentralized production networks in a wide range of exporting countries (Appelbaum and Gereffi 1994, 44). This is a relatively new, more flexible form of industrial organization than the old corporate model of capital and technology-intensive transnational firms in sectors like automobiles or electronics, which used "producer-driven chains" in which "large industrial enterprises play the central role in controlling the production system" (ibid). In these buyer-driven commodity chains, profits "derive not from sale, volume, and technological advances as in producer driven chains, but rather from unique combinations of high-value research, design, sales, after-sales services, marketing, and financial services that allow buyers and branded merchandisers to act as strategic brokers in linking overseas factories and traders with evolving product niches in the main consumer markets" (Gereffi 1994, 99). From the perspective of government officials and businesspeople in the Vietnamese textile and garment industries, the initial goal is to establish a reputation for quality production in key "niches" so that they

can become "linked" into these chains. Subsequently, the strategy shifts to devising ways to position this sector so that it "moves up" from simple labor-intensive sewing to some of the more profitable activities, while simultaneously limiting the power of the "brokers" mentioned above.

One premise of our work is that states in peripheral countries like Vietnam are a potentially crucial factor in this effort to bring about economic transformation. Given the enormous global power of the transnational firms that are the buyers and control the brand names (and their ability to play geographically dispersed factories off against one another), governments may be the only effective counterweight in these situations. Vietnam's relatively strong authoritarian state might have some advantages, if it develops the bureaucratic competency and technological sophistication to promulgate effective policies.

Of course, this takes us into ideologically-charged theoretically-disputed ground. Neo-classical economists claim that states are "rent-seeking" entities which offer a haven for unproductive activities (Krueger 1974; Buchanan, Tollison, and Tullock 1980). In the 1980s this image became the basis for policy-making via "global neoliberalism" that called for "dismantling states" and "freeing markets" throughout the developing world. Armed with evidence from the East Asian "miracles," other scholars argue that "developmental states" play pivotal roles in industrial transformation (Amsden 1989; Wade 1990; Evans 1995): the key is to understand the details of state "intervention," and the relationship between governments and local and multinational business. While this does not mean that all or even most states are capable of playing this sort of constructive role (and some states to use Evan's term are more "predatory" than "developmental"), it suggests that the historical pattern of East Asian growth has been guided by various degrees of state intervention and that this might be an important component of Vietnam's reintegration into the contemporary global country. The role of the state is further complicated, in this case, first by geopolitics and U.S. trade policy, and second, by the continued importance of textile and garment SOEs as key manufacturers and exporters.

VIETNAM'S EVOLVING PLACE IN GLOBAL GARMENT SOURCING

Export-oriented garment manufacturing in East Asia took off in the early 1960s and was a key factor at the onset of the "economic miracles" that occurred in Hong Kong, South Korea, and Taiwan in the 1970s (Bonacich and Waller 1994). By the 1980s, East Asian nations clustered among the top ten exporters and fully one-third of world apparel exports came from this region, with much of these destined for the U.S. market (Appelbaum, Smith, and Christerson 1993, 190). But recently there has been a dramatic shift away from the previously industrialized economies within East Asia, toward China and the lower-wage countries of Southeast Asia (Smith 1996), including Vietnam.

Vietnam has a long tradition of fine handicraft garment and textile production. But export-oriented industrial manufacturing of apparel to non-East Bloc nations is new. Prior to the late 1980s market liberalization, the country's garment factories were under

the control of CONFECTIMEX, a state monopoly which mainly produced for the internal market and some East Bloc allies. In 1987, Vietnam signed a series of trade agreements with the Soviet Union guaranteeing the export of over 150 million textile and garment products over a three year period. As late as 1991 most Vietnamese textile and garment firms operated under government agreements to export over 90 percent of their products to the USSR and eastern European countries in exchange for heavy machinery and to pay off national debts to these nations. While most of the exports to the East Bloc was produced in state firms, reforms in late 1988 and 1989 stimulated the rise of many new private firms in this sector. Furthermore, amendments to the foreign investment law in June 1990 opened the door for foreign direct investment (FDI) and the emergence of joint ventures and business cooperation contracts in the textile and garment sector. Their exports were mostly working clothes and uniforms, made with Vietnamese fabrics and accessories, but of modest quality and limited variety.

The last decade has been one of both impressive growth and fundamental reorientation in the Vietnamese garment industry. Vietnam is now emerging as a production sourcing point for global apparel commodity chains oriented to the affluent markets of Japan, Western Europe, and North America. Exports have grown over ten-fold in the past decade (see Table 1). Today the industry is large and was expanding rapidly before experiencing the effects of "the Asian crisis" in 1998. As of early 1999, it officially employed over half a million workers (see Table 2), about one-fifth of the nation's manufacturing workforce (this number may actually be low because it misses part-time and home workers in the garment industry). The sector turned out 1.35 billion dollars of exports in 1998, which is just under 15 percent of the country's total- and exceeds the value of any other exported commodity, including Vietnam's lucrative petroleum exports. Building from the reforms of 1988-90, the industry now shows striking diversity in ownership structure and organization, ranging from giant 100 percent foreign-owned textile mills, various large-scale joint venture arrangements with overseas investors, and big state-run multi-factory garment and fabric firms, to very small private sewing shops that employ a handful of people and rural provincial enterprises that rely almost exclusively on the age-old "putting out" homework system.

Given the size of the industry, the array of different ownership types, the multitude of geographically, physically, and institutionally distinct production settings, attempting to capture all the complexities of this sector is impossible, especially in a relatively short paper. Instead, the following section will try to outline the main contours and changes in the industrial governance arrangements over the past decade, and sketch the impacts that some of the main actors have had in shaping them.

THE 1990S: RAPID GROWTH AND ORGANIZATIONAL CHANGE

There is little doubt that the early 1990s was a period of rapid economic growth and a time when various market reforms were consolidated in Vietnam. Economic growth

rates accelerated in the first half of the decade and the industrial output of the non-state sector, while still relatively modest, doubled. In addition, both foreign investment and overseas trade burgeoned. (For an overview of this period of reform and its economic effects and social impacts, see Tran and Smith 1999).

As a leading industrial sector, the Vietnamese textile and garment industry was a focal point for these changes. Whereas in the previous decade there were a variety of "fence-breaking" activities that gradually and unevenly moved factories and enterprises away from a rigid command economy model and began to open the industry up to overseas investors and imports, the pace of change picked up speed in the early 1990s.

By 1991 most large Vietnamese textile and garment firms had begun to reorient their target markets away from the former Eastern Bloc and toward Western markets, particularly the European Community (EC), Canada, Scandinavia, Japan, and the East Asian Newly Industrialized Economies (NICs). This development was aided by rising wage pressures in countries like Taiwan, Hong Kong, and South Korea, which were beginning to seek lower-wage production sourcing in Southeast Asia (Smith 1996). In December 1992, Vietnam signed a major trade agreement with the EC establishing gradually rising export quotas in 151 garment categories (Tran 1997). Obviously, access to this relatively large and lucrative market was crucial to the industry's growth, especially in light of the continued U.S. embargo, which isolated Vietnam from the biggest and richest pool of consumers in the world. Even after the end of the embargo in July 1995, high tariff rates (associated with the lack of MFN status) effectively "close" the U.S. market. But the Vietnamese state was also proactively maintaining markets in the East: in 1993 a delegation from the Ministry of Light Industry traveled to Russia and eastern Europe to revive commercial relationships that had atrophied in the post-1989 period.

While state firms continued to dominate production in both the textile and garment sectors in the early 1990s, accounting for 60 to 70 percent of production, relatively low barriers to entry made the industry particularly attractive to newly formed private firms. Responding to legislation passed in the 1991 year that set guidelines for the establishment of private sector companies, by 1997 there were over 900 private (with at least some foreign and domestic investment) textile and garment firms in Vietnam (Table 2).

Overseas investors were interested, too. They have tended to prefer investment in wholly owned firms and business cooperation contracts (BCCs) rather than standard joint-ventures. While 100 percent foreign owned firms and joint-ventures create new legal entities, BCCs are contracts of joint production and distribution of specified products; all terms such as objectives, scopes, rights, obligations, and liabilities of the parties are stated in the contract. BCCs allow both sides to maintain their own accounting systems while still enjoying special tax incentives unavailable to regular business contracts (Phap Ly Publishing House 1991, 7). Whereas prior to 1991, there were only 10 enterprises with any FDI, by 1995 there were 44 domestic-foreign joint ventures, 108 wholly foreign-owned firms, and 153 BCCs between local and overseas firms.

Even the large national state firms were affected by the reform as they gained more

autonomy in production and trade. Beginning in 1991, these SOEs could trade directly with non-Communist markets, without going through the state corporations of CONFECTIMEX (which oversaw state garment firms) or TEXTIMEX (which played a similar role for textile firms), though in the last instance they did remain under the control of the relevant government ministries.

Changing Industrial Governance.

The emergence of private and para-statist institutions to promote garment exports was another significant innovation in industrial governance during this period. The Vietnamese Chamber of Commerce (VCCI), a para-statist organization, is a promotion-oriented business association. It facilitates overseas investment by reassuring foreign firms that intellectual property such as patents, trademarks, and copyrights are protected. It has also worked actively to cultivate new markets for Vietnamese exports. One strategy is to organize overseas trade shows, like the 1994 VIETEXPO, the first Vietnamese trade fair in the United States, where 24 of the 118 participating firms produced garments and textiles. In 1993, private firms formed the southern-based Association for Weaving, Clothing, and Knitting, which represented 200 member companies. This group's goals were to improve the position of private firms *vis-a-vis* state policies on matters such as loan regulations, taxes, land leasing, and EC quota allocation (though it is not clear that this organization's efforts have made much headway). In 1995 the Vietnamese government leaders made some significant policy changes designed to streamline and consolidate economic planning and export promotion in the apparel sector. A decision was made to create a new unified state corporation called VINATEX intended to oversee all central state-owned textile and garment firms (local state firms remained under jurisdiction of provincial people's committees). This larger "umbrella" corporation merged CONFECTIMEX and TEXTIMEX with the goal of fostering greater integration between state firms. One of this new corporation's major goals has been to improve the quality of Vietnamese produced textiles so that local garment factories can use indigenous fabric (although even in the late 1990s most domestically produced textiles are for domestic use or export to eastern Europe) (Tran 1997, 94). In its headquarters in Hanoi and Ho Chi Minh City, VINATEX staff members are now linked to the Internet to closely monitor worldwide market conditions and global prices of cotton and other textile and garment inputs. It also established a fashion design center and a vocational school, aiming to upgrade garment quality to better meet increasingly sophisticated consumer demands. However, as of now, this effort has just begun to serve the domestic market. VINATEX remains under state bureaucratic control. The newly formed Ministry of Industry (combining the former Ministries of Light Industry, Heavy Industry, and Energy Industry) designs the general development strategy for the textile and garment industries, proposes changes to its organizational structure, and nominates candidates for key management posts within VINATEX. The Ministry of Finance now exerts strict financial controls, providing accounting and auditing to VINATEX and all member firms. The Ministry of Trade is charged

with allocating specific garment quotas, though plans call for VINATEX to gradually make more of these decisions itself.

By the mid- to late-1990s it is fairly clear that three distinct types of firm ownership in the Vietnamese apparel industry have emerged: long-established SOEs, small but rapidly proliferating locally owned private firms, and companies with some degree of foreign direct investment. Profiling each of these types provides an overview of the basic character of the Vietnamese textile and garment industries today.

State Firms.

Most central state firms were established in the 1950s or 1960s. They are large and found in both the northern and southern parts of the country, and in both textile and garment production. Textile SOEs are more capital-intensive, but they often use old and obsolete equipment. According to a Ministry of Light Industry (MOLI) report in the early 1990s, 70 percent of the machinery used for textile manufacturing (spinning, weaving, dyeing) needed to be modernized (*MOLI Journal*, April 1993: 24-25). Most central textile firms have been attempting to upgrade their machinery via linkages with foreign firms. Even though some foreign firms are establishing high-technology, "state of the art" factories in Vietnam now, textile employment may be declining or at least is failing to keep pace with work in the garment sewing sector (see Table 2). The Nam Dinh Textile Company, the biggest and oldest SOE in this sector, laid off thousands of workers in the face of huge debts and an inability to produce competitive fabrics, epitomizing serious problems (Tran 1997, 111-12). The garment SOEs are more labor-intensive but also have been able to obtain some new machinery, since equipment is much cheaper in the sewing end of production. A complete garment assembly line costs about U.S.\$100,000 whereas fabric making machinery can cost many times as much. State garment firms have successfully met the challenges of upgrading production for export while textile firms have not. Garment SOEs take advantage of their state connection to procure financing and overseas apparel quotas. While they run relatively large factories ranging from a few hundred to two or three thousand employees, they are able to utilize flexible work strategies: lines can quickly change to new products and factory labor can easily be increased to meet peak demands and reduced during slack times. While it is not as prevalent as in the private sector, some state garment firms utilize "putting out systems" where simpler components of garments are sewn by home-workers. The garment labor force in Vietnam is growing, though it still lags behind the textile workforce.

Local Private Firms.

As already documented (Table 2), this type has proliferated since it became a legal option in the early 1990s. These types of businesses tend to be concentrated in the south, in and around Ho Chi Minh City. Private textile firms are usually small household

production units, producing for direct sale at indigenous markets or serving garment factories producing apparel for eastern European markets. The few garment firms that try to link up to the Western export trade are usually subcontractors for companies from Japan or the East Asian NICs. In interviews with the authors, the Vietnamese garment entrepreneurs express frustration with state export promotion policies such as quota allocation and fiscal policies (for instance, interest rates for lending and credit) that tend to privilege state firms. However, since the boundaries between state and non-state firms are becoming increasingly blurry over time (given the multi-level subcontracting between domestic firms), we need to examine this issue more fully (for a more in-depth analysis on the increasingly symbiotic relationships between state and private capital, see Tran 2001).

Foreign Investment.

This category is a bit heterogeneous. It includes joint ventures, 100 percent foreign owned firms, and BCCs. The motivation behind this inflow of foreign capital is pretty clear: Vietnam as a location for manufacturing provides relatively cheap labor costs. With changes in investment and trade laws, FDI climbed steadily. By 1997 FDI accounted for 17 percent of Vietnam's total trade value (Tran and Smith 1999, 81). Tables 3-8 give extensive data on foreign investment in both the textile and garment industry by source country, receiving provinces and type of firm. In Tables 3 and 4, it is obvious that the total value of capital is much higher in textiles than apparel, reflecting this sector's higher capital intensity. There is also a clear East Asian regional pattern: Japan, South Korea, Taiwan, and Hong Kong are among the top six investors in both areas, with the Koreans leading the way in textiles and the Taiwanese in garments. The next two tables (5 and 6) show a strong investor preference for the South, which overwhelmingly favors textile production over garment making. Finally, tables 7 and 8 show the distribution of investment into joint ventures, wholly-owned subsidiaries, and BCCs (the latter seems to be the preferred investor strategy), though 100 percent foreign ownership, especially in the textile industry, may be gaining popularity in the last few years.

The East Asian NIC connection merits a brief comment. Vietnam looks attractive to these firms because of cheap labor and unfilled garment quotas for export to the European Union. Many Taiwanese, Koreans, and overseas Chinese from Singapore or Taiwan have come to Vietnam as factory managers overseeing production on behalf of East Asian and Western buyers, often equipping factories with used machinery transferred from their homelands. In the textile sector there's evidence that much of the recent investment is to establish wholly-owned foreign companies. On the other hand, BCCs and joint ventures remain popular in garment and accessory production. Most of these collaborative business deals are with SOEs.

There is little doubt that the surge of foreign capital has been a dynamic force in these industries. There has clearly been some technology transfer, for example, especially in the textile sector where Vietnamese firms gain access to new and expensive equipment

that would be otherwise unavailable. East Asian company links to factories producing finished garments provide easier access to western export markets. But some limitations exist (the following discussion is paraphrased from Tran and Smith 1999, 81-82). First, there is a gap between the registered capital investment planned and permitted and the actual amount invested as of June 1998, for instance, only about 40 percent of the investments had materialized. This suggests there may be some issues (bureaucratic rules, lack of investor confidence) that have slowed investment in Vietnam. Second, FDI in textile and garment factories accumulates relatively low value-added as discussed above, much of the profits in the global apparel commodity chain are realized at "higher levels" via design, advertising, and marketing. Thus, both the workers' wages and businesses' profits that stay in Vietnam are fairly low.

COMPETING INTERESTS & ORGANIZATIONAL CHANGE

The previous section outlines the basic structure and recent changes in the Vietnamese apparel industry. It outlines the generic characteristics of the sector's still emerging pattern of industrial governance. Scattered through this discussion are references to the actions of people and groups; thus economic governance structures do not just "evolve," they are made via the collective action of a variety of key actors. Sometimes this is a planned, purposive process, at other times it is the result of unintended consequences; sometimes changes occur because of conflicts with other social, economic, and political interests and groups, other times they are the result of broad cooperation.

In this brief paper we can do little more than highlight some key groups (both within and beyond Vietnam) who appear to play crucial roles as actors shaping the organization and governance of the textile and apparel sector, and suggest how these groups have attempted to further their own interests via "economic reform" and global reintegration. The following observations are based on our own research (including extensive fieldwork in Vietnam). Here we simply summarize; the details will appear later (Smith and Tran, forthcoming).

Within Vietnam the two most obvious groups influencing changes within the industry are 1) the managers and owners of factories, and 2) the state bureaucrats both in VINATEX as well as in the state's economic ministries. We'll discuss each of these constituencies, and some significant differences within them. But we want to remind readers that workers—the people whose combination of quality work and low compensation has been critical thus far—could be crucial, too. International players are also important, especially foreign investors and various apparel "buyers" and "middlemen" who mediate between overseas firms and local factories.

During our fieldwork we interviewed a number of Vietnamese garment factory managers and owners. Currently, most of the largest, most dynamic export garment firms are SOEs. While generalization is perilous, our factory visits suggest that at least some of these state managers are proud of their firms' accomplishments, dedicated to improving

their own business skills, and eager to incorporate technological upgrading and organizational innovation. Managers seem eager to boost the competitiveness of their own firms by enhancing quality and efficiency. For instance, the woman manager of a large garment factory outside of Hanoi that we visited in July 1998 had recently been at a seminar on international business at Dartmouth University. It is in state-firm managers' self interest for the entire Vietnamese garment industry to move toward various types of industrial upgrading and better improve connections to the western market. But this group also benefits to some degree from state firms' current privileged access to credit, export quota, and state officials. Private factory owners do not have those advantages, as they are quick to point out. These entrepreneurs entered the business just a few years ago, after reforms made private companies possible (though some have family histories of involvement in garment-making). But while they run smaller-scale operations, some of these owners are moving into export production and aspire to the same managerial and technical skills and voice many of the same concerns about maneuvering into partnership relations with overseas firms that we heard from state firm managers. For instance, the daughter-in-law of the woman who owned a medium-sized family garment firm in Hanoi had just returned from a global business seminar at the University of Delaware. While complaining about the way state policy disadvantages private firms, she also described how the firm managed to secure quota allocations and bargained with a series of East Asian partner firms.

State bureaucrats may ultimately hold the key to the degree of success that the Vietnamese textile and garment industries achieve. Despite efforts to consolidate (via VINATEX and the Ministry of Industry), some coordination problems may remain (especially with different government ministries overseeing trade, finance and industrial planning). VINATEX appears to be trying to make itself a center for technical competency and organizational expertise though there seem to be some "mixed messages" about how far indigenous technology and design capacity can go. Ministry officials who we interviewed seemed to be knowledgeable about the constraints of the international economy and the limited economic growth potential for low-wage garment sourcing. The 2010 Plan demonstrates an eagerness to outline long-range plans and goals. One clear priority is to encourage cotton cultivation and upgrade textile production so that Vietnamese export garments can contain more locally produced fabrics. According to the central state plan, VINATEX is charged with implementing it, making sure that state capital is distributed to all provinces, and trying to attract foreign and domestic capital, especially for cotton growing and weaving, and dyeing shuttle plants (*The General Plan of VTGI Development to Year 2010*, VINATEX, April 1997). There seems to be a driving nationalist commitment among bureaucratic cadre to promote industrial upgrading and enhance international competitiveness consistent with the image of a "developmentalist" state. Whether the Vietnamese state and its various ministries can develop the technical and organizational competence while remaining "autonomous" enough to avoid corruption is yet to be seen. Further, the recent East Asian crisis underscores the degree to which the fate of the national industry is vulnerable to the vicissitudes of the global market.

The rapid currency depreciation in other Southeast Asian countries (Thailand, Malaysia, and Indonesia) suddenly undercut the wage competitiveness of Vietnamese-produced garments, even though wages in Vietnam remained very low.

These rather poorly paid workers (average wages about 40-50 U.S. dollars per month) are a final significant domestic constituency to consider. There have been some notable examples of labor unrest and strikes, particularly at foreign-run factories. Furthermore, there are many instances of worker protests and resistance to control and discipline on the shop-floor, particularly among women workers, who comprise over 80 percent of the textile and garment workforce (for a detailed analysis see Tran 1999). But as yet it is hard to see a coherent national labor movement emerging (and labor organizing among textile and garment workers is notoriously difficult). But currently there are well over half a million Vietnamese working in this industry. If nothing else, it is obvious that state officials are mindful of the "labor absorbing" nature of these factories and view the preservation of jobs as an important goal. But this highlights the need to examine the possible contradictions between policies promoting cheap and compliant labor in order to attract foreign investment, and the real protection of workers rights. In the history of industrialization in rich "core" countries worker organization and demands for higher wages actually promoted various kinds of "industrial upgrading," as business interests were forced to improve quality and efficiency in the face of rising costs (Block 1977). Given the current global situation of "footloose capital" especially in the garment buyer-driven commodity chain where wage costs often lead to industrial relocation this dynamic is difficult to predict.

While there are clearly indications that a constellation of domestic interests can be counted on to promote "industrial upgrading", the international actors are certainly more disinterested. Foreign investors want to make a profit, but many view Vietnam as a place where that depends on cheap labor costs, not on improved manufacturing or better quality goods. The East Asian middlemen, who manage factories or serve as "quality control" inspectors *do* care about time delivery and error-free sewing, but they are not concerned with how clothing is produced (high-grade "putting out" work is fine), and it is clearly against their own interests for Vietnamese firms to attempt to establish direct links to end markers or move into design. From the Vietnamese perspective, an obvious strategy to create more local profit is to "eliminate middlemen" from the commodity chain and deal directly with the buyers. This creates a structural tension between Vietnamese producers and workers and Korean and Taiwanese factorymen and investors.

At a macro level, global pressure comes from international agencies like the United Nations Development Program (UNDP), International Monetary Fund (IMF), and the World Bank. Space precludes much discussion of this, but acceding to these agencies' advice can have mixed developmental effects. On the one hand, evidence suggests that agencies like the IMF or World Bank often promote ideological agendas like global neo-liberalism rather than tailoring programs to fit the particular economic needs of specific countries (Bello and Rosenfeld 1990; Smith 1999). On the other hand, the history

of Vietnam's reforms suggests that "pragmatically yielding to IMF and UNDP recommendations help lay the foundations for the robust economic growth of the 1990s" (Tran and Smith 1999, 75). But for this policy to succeed, state bureaucracy should be competent and insulated enough to be pragmatic and negotiate deals that do meet national developmental priorities.

LOOKING TO THE FUTURE

This paper provides a brief history, an overview of the organizational structure, and a quick inventory of the key actors in the Vietnamese apparel industry as it re-linked into global sourcing networks in the 1990s. In terms of general issues of "industrial governance," we tried to convey both the move toward a more market-oriented economy, as well as the continuing key role of the state. The relevant state ministries, VINATEX (and its forerunners), and garment and textile SOEs have tried to coordinate the growth of this manufacturing sector with the relatively recent arrival of both foreign and domestic capital. Defying stereotypes, SOEs remain the main partners of foreign buyers and manufacturers, and SOEs frequently subcontract their work out to domestic private firms. The old "states versus markets" debate becomes almost completely meaningless under these conditions. Indeed, the "socialist" state, often in response to pressures and demands from non-state actors, plays a role in helping to *shape* the emergence of a market-oriented industrial governance regime.

While the Vietnamese state has been critically important in the overall trajectory of economic reform, as well as the more specific emergence of the export garment sector, the pattern is very different from the sort of "developmentalist states" Evans and others identified in Japan, South Korea or Taiwan. On the negative side, it is not entirely clear that the Vietnamese state and its various economic ministries have risen to a sufficiently high level of "embedded autonomy" (Evans 1995). But, on the other hand, it is unclear whether the type of lumbering giant state needed to control the giant "Fordist" corporations of the older Japanese and Korean model is relevant to the Vietnamese case. Referring to China and Vietnam, McCormick (1998, 127) says, "Entry into the world economy has shifted power away from central authorities... foreign investors require a flexibility found only at lower levels and in smaller organizations." This suggests that the state must make even more room for coexistence with a growing private sector. The type of developmental state best suited for twenty-first century realities will have to adapt to a new set of economic realities. Certainly, a measure of flexibility will be required to compete in the global garment business.

Despite all the initiatives to change industrial governance already reviewed, the biggest obstacle to true "industrial upgrading" in this industry will involve the relatively disadvantaged structural position in which Vietnam finds itself as a low-wage manufacturing site. Global sourcing decisions are likely to be made far away from Hanoi and Ho Chi Minh City, with considerations like wage costs entering into the global calculus of the

major marketing and brand-name companies. On the ground in Vietnam, concerns about "cheap labor" may reinforce the foreign investors' pressure to maintain the status quo in which garment production is mainly subcontracting of the low value-added assemblage stage, while higher value-added inputs like patterns, and distribution and marketing services stay overseas. This reality makes entry into garment manufacturing at the lowest levels a dubious strategy for most poor countries today if they intend to "climb up the industrial ladder." But the nationalism of the Vietnamese people (including both businesspeople and bureaucrats) and the presence of a potential "developmentalist state" offer some hope. There seems to be a real commitment to develop upstream and downstream industrial linkages and learn skills that could make production more efficient, leading to more exports to western markets. The prior existence of alternative markets in eastern Europe and renewed efforts to reactivate them since the early 1990s after a "down" period might provide a way of partially circumventing the western-controlled buyer commodity chains and allow more of the value-added profit to accrue to Vietnam and its people.

TABLE 1. TEXTILE AND GARMENT EXPORT
(YEARS BETWEEN 1981-1998)

(in millions of U.S. dollars)

Year	Textile and Garment Export
1981	30
1985	58
1989	139
1990	178
1991	116
1992	180
1993	350
1994	550
1995	750
1996	1,150
1997	1,350
1998	1,351

Source: Quy Hoach Tong The, April 1997; VINATEX, December 1996; U.S. Consulate in HCMC, March 1998.

TABLE 2. TEXTILE AND GARMENT FIRMS AND LABOR BY OWNERSHIP TYPE
(1993, 1996, 1997)

Sector	State-owned Firms (1993)	State-owned Firms (1997)	Domestic Non-state (coop, Ltd, household) (1997)	Firms with Foreign Investment (1996)	Firms with Foreign Investment (1997)
Textile	75	52	227 units and 10,000 rural households (40,000 workers)	58 (32,324 workers)	129 (36,687 workers)
Garment	100	122	384 units and 30,000 households (100,000 workers)	88 (17,730 workers)	176 (40,906 workers)

Source: VINATEX, December 1996; Quy Hoach Tong The, April 1997; Phat Triem Nguanh Cong Ngaiap Det May Vietnam Den Nam 2010 [The General Plan of VTGI Development to Year 2010], 5-6, 25, 28, Appendix 16; Project Management Department Ministry of Planning and Investment, January 1998.

TABLE 3. TEXTILE INDUSTRY FOREIGN INVESTMENT BY ECONOMY
(1988-1997)

(in thousands of U.S. dollars)

Country	No. Projects	Total Capital	Total Disbursement	Total Revenue	Total Export	Labor (persons)
South Korea	28	675,000	155,500	183,000	124,000	8801
Malaysia	1	477,000	184,000	32,000	19,000	519
Taiwan	21	205,000	134,000	107,000	71,000	4990
Liberia	1	47,000	196	141	141	121
Hong Kong	6	41,000	3,700	6,200	5,200	2280
Luxembourg	1	7,600	6,000	20,800	12,100	245
Japan	1	6,750	4,500	963	282	91
North Korea	1	5,300	3,600	210	110	156
France	1	5,000	4,900	151	0	66
China	1	5,000	0	0	0	8
Australia	1	3,100	947	143	130	154
Singapore	1	3,055	4,000	10,200	10,200	300
Channel Islands	1	1,400	1,400	2,600	2,500	637
Total	65	1,482,205	502,743	363,408	244,663	18,368

Source: Reports on Foreign Direct Investment from January 1988 to December 1997. Foreign Direct Investment Management Department of the Ministry of Planning and Investment.

TABLE 4. GARMENT INDUSTRY FOREIGN INVESTMENT BY COUNTRY
(1988-1997)

(in thousands of U.S. dollars)

Country	No. Projects	Total Capital	Total Disbursement	Total Revenue	Total Export	Labor (persons)
Taiwan	26	71,000	41,000	31,000	30,000	6,983
Japan	15	39,000	15,000	17,000	17,000	1,891
South Korea	16	26,000	14,000	26,000	25,000	4,132
Hong Kong	13	22,000	15,000	36,000	32,000	3,095
Liechtenstein	1	18,000	7,200	38,000	35,000	1,130
Singapore	1	7,000	3,300	3,200	2,000	450
Germany	3	7,000	6,800	24,000	24,000	774
France	3	6,300	5,800	19,000	19,000	1,370
Thailand	1	4,200	0	0	0	0
Cambodia	1	3,100	2,500	2,700	2,700	255
Malaysia	1	1,700	1,600	55	55	205
Russia	1	1,500	0	0	0	5
Italy	1	1,500	0	0	0	2
Sri Lanka	1	1,500	0	0	0	5
Indonesia	1	1,300	0	0	0	0
China	2	738	247	1,150	1,140	155
Australia	1	300	0	0	0	3
Total	88	212,138	112,447	198,105	187,895	20,453

Source: Reports on Foreign Direct Investment from January 1988 to December 1997. Foreign Direct Investment Management Department of the Ministry of Planning and Investment.

TABLE 5. TEXTILE INDUSTRY FOREIGN INVESTMENT BY VIETNAMESE PROVINCES (1988-1997)
(in thousands of U.S. dollars)

Region/ Province	No. Projects	Total Capital	Total Disbursement	Total Revenue	Total Export	Labor (persons)
Dong Nai	17	1,058,000	294,000	50,000	28,100	1558
Long An	1	87,000	54,000	21,000	19,500	1630
Phu Tho	2	77,600	52,000	85,000	54,000	2068
Binh Duong	9	73,000	13,000	19,000	15,000	1361
HCM City	20	67,000	60,000	153,000	83,000	6274
Tay Ninh	3	51,000	1,700	765	764	867
Vung Tau	1	35,000	0	0	0	3
Can Tho	1	600	0	0	0	2
Total South	57	1,449,200	474,700	328,765	219,564	16766
Hai Duong	1	5,300	3,600	210	110	156
Ha Noi	1	5,000	4,900	151	0	66
Nam Dinh	1	5,000	0	0	0	8
Total North	3	15,300	8,500	361	110	230
Lam Dong	5	11,000	12,900	13,600	13,200	1127
Da Nang	1	7,600	6,000	20,800	12,100	245
Total Central	5	18,600	18,900	34,400	25,300	1372

Source: Reports on Foreign Direct Investment from January 1988 to December 1997, Foreign Direct Investment Management Department of the Ministry of Planning and Investment.

TABLE 6. GARMENT INDUSTRY FOREIGN INVESTMENT BY VIETNAMESE PROVINCES (1988-1997)
(in thousands of U.S. dollars)

Region/ Province	No. Projects	Total Capital	Total Disbursement	Total Revenue	Total Export	Labor (persons)
HCM City	42	83,000	50,000	75,000	71,000	9,552
Dong Nai	12	50,100	21,000	35,000	31,500	2,639
Binh Duong	11	39,000	14,000	40,000	37,000	1,761
Long An	1	3,550	2,300	239	239	552
Can Tho	1	1,200	1,300	6,500	5,500	667
Vung Tau	1	955	899	12,000	12,000	684
Tay Ninh	1	900	600	952	952	500
Total South	69	178,705	90,099	169,491	160,191	16,175
Ha Noi	5	10,500	5,100	13,000	12,000	952
Hai Phong	3	7,100	4,700	16,000	16,000	584
Ha Tay	1	2,700	1,200	1,900	1,900	427
Ha Duong	1	1,600	780	4,500	4,500	350
Lam Son	2	738	247	1,150	1,140	155
Ha Tinh	1	529	870	0	0	138
Quang Ninh	1	300	0	0	0	3
Total North	14	23,467	12,897	36,550	35,540	2609
Khanh Hoa	1	5,100	5,110	4,120	4,120	318
Da Nang	2	2,000	3,100	3,500	3,500	1,143
Lam Dong	1	1,700	1,600	55	55	205
Quang Nam	1	1,500	0	0	0	3
Total Central	5	10,300	9,810	7,675	7,675	1,669

Source: Reports on Foreign Direct Investment from January 1988 to December 1997, Foreign Direct Investment Management Department of the Ministry of Planning and Investment.

TABLE 7. TEXTILE INDUSTRY FOREIGN INVESTMENT BY TYPES OF INVESTMENT
(1988-1997)

(in thousands of U.S. dollars)

Types	No. Projects	Total Capital	Total Disbursement	Total Revenue	Total Export	Labor (persons)	Sales Tax	Profit Tax	Imp/Ex Tax
100% Foreign-Owned	46	1,372,000	426,000	188,000	147,000	13,207	1,300	66	2,300
Joint-Venture	18	110,000	77,000	176,000	98,000	5,129	2,700	858	3,300
Business Coop.	65	1,483,000	504,000	364,000	245,000	18,351	3,000	923	5,545
Total	129	2,965,000	1,007,000	728,000	490,000	36,687	8,000	1,847	11,145

Source: Reports on Foreign Direct Investment from January 1988 to December 1997, Foreign Direct Investment Management Department of the Ministry of Planning and Investment.

TABLE 8. GARMENT INDUSTRY FOREIGN INVESTMENT BY TYPES OF INVESTMENT
(1988-1997)

(in thousands of U.S. dollars)

Types	No. Projects	Total Capital	Total Disbursement	Total Revenue	Total Export	Labor (persons)	Sales Tax	Profit Tax	Imp/Ex Tax
100% Foreign-Owned	62	159,100	72,000	140,000	135,000	12,881	361	1,136	46
Joint-Venture	26	53,400	40,000	58,200	53,000	7,572	294	230	32
Business Coop.	88	212,000	112,000	198,000	188,000	20,453	655	1,366	78
Total	176	424,500	224,000	396,200	376,000	40,906	1,310	2,732	156

Source: Reports on Foreign Direct Investment from January 1988 to December 1997, Foreign Direct Investment Management Department of the Ministry of Planning and Investment.

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