Introduction

We tend to think that global value chains involve large companies or at least that the organisation of a global production network must have a large firm somewhere in the chain. However, small and medium size enterprises (SMEs) dominates the private sector in almost every developing country and in developed economies, SMEs are increasingly internationalised. Particularly in small open economies, SMEs in the competitive sectors are forced to look at global opportunities with respect to both sales and sourcing. This paper deals with the question of how global chains constituted of small firms are formed and organised, and how the firms strategically operate and benefit from participating in “small chains”.

At the empirical level the paper looks at business cooperations between Danish and Vietnamese firms in the textile and garment industry. Export of garments from Vietnam has reached a top position in the country’s total export. After larger state owned enterprises dominated the industry, small private firms have since the early 1990s entered the industry and started exports mostly as sub-suppliers in various international garment chains. Like in other countries the problem for the Vietnamese companies is how they are integrated into the chains and what possibilities do they have for upgrading and enhance their part in the value chain, stay competitive and survive in the long run.

Several studies have been made of how the buyer driven textile and garment chains work with large global design and retail firms dominating and governing the chains. In Asia large intermediates for example in Hong Kong and Taiwan have organised the supplies from a great number of producers in lower income Asian countries like Vietnam and Bangladesh to sell their products in high income countries. However, many small and medium size firms are today also operating globally both as buyers and sub-suppliers. In developed countries there are still a large number of small and medium size garment firm that may not produce them self any longer but source from developing countries sub-suppliers and sell their products under less well known brand names. In other words we can
assume that in addition to the chain dominated by big global buyers there is still a great number of smaller firms with a national or regional market that organise a production chain and source from small developing country supplier firms. This study looks at how the relationships are formed and how the local SMEs in developing countries organise themselves and make their strategies.

Data from partnerships between Vietnamese and Danish firms were collected. The data are used to see how the relationships works, their potentials for upgrading and the strategies made by the domestic firms. The private garment industry in Vietnam is not organised in clusters but it is geographically concentrated around Hanoi and Ho Chi Minh City. However, in some respects the industry still has some characteristics as clusters particularly in the state owned part of the industry with intermediate companies, associations and government institutions that play a role in the functioning and promotion of the industry. The Danish textile and garment industry is old and still maintain its strong cluster characteristics.

**Small firms in global value chains**

Most developing countries are dominated by SMEs and it is not easy for them to enter into the international market and become exporters. Many of the difficulties relate to the small scale nature of their operations; they can not exploit scale economics in production, get volume discounts in input purchases, they operate with limited management capacity, and have limited resources to train labour etc. They are also at a disadvantage in their internationalisation with respect to the increasing demands for standardisation in the international economy (Kaplinsky & Readman 2001).

However, in spite of these drawbacks that are common for all SMEs it has been demonstrated how SMEs in developed countries have been able to become exporters and operate internationally. Many of the drawbacks they face can be remedied and strategies found to offset others. Small firms will most often have the advantage of being flexible both with respect to process and product changes. They may be better to accumulate and utilise knowledge often of a tacit nature that offset the advantages of a large organisation. Furthermore, small firms can act collectively and reap some of the scale benefits. There is no reason why this should not be the case also for small firms in developing countries, and what can be observed is also that manufactured exports from domestic firms in certain industries like garments, processed foods and handicrafts in many developing countries origin from SMEs.

For developing country firms in exporting industries it is today a most common view to see them integrated in a global value chain. They are linked into the chain mainly because of their low labour costs advantage perhaps combined with a national natural resource endowment. The global value chain is seen first of all as a means to get access to export markets and secondly as a potential source for upgrading and value-added expansion opportunities in the chain.

The question is how developing country SMEs internationalise and upgrade so they can stay competitive internationally? Few of these firms sell directly to retailers or consumers abroad. They are mostly linked to the international economy through other forms of exchange than direct arms-length trade, and they face the risk in the chain linkages to experience a low road of immiserizing growth that alone exploit their low wage production without any learning or innovative contributions to the firm. As the contrast to the arms-length relation, there is the possibility of the SME to be included as part of a foreign firm in hierarchial relationships. In between the market or hierarchy extremes, developing country SMEs can be related to foreign firms and customers
through other forms of exchange organisation. The literature on international value chains in particular has identified at least three other exchange modes (Gereffi et.al. (forthcoming); Humphrey 2003; Kaplinsky & Readman 2001):

1. **Modular value chains** characterized by the supplier’s production of modules according to a customer’s specifications, which may be more or less detailed. However, when providing these specified services, suppliers take full responsibility for competencies surrounding process technology and use generic machinery that limits transaction-specific investments.

2. **Network relationships** where mutual dependency is regulated through reputation, social and spatial proximity, family and ethnic ties and other institutional arrangements regulated for example by the state. Examples of such networks are industrial districts, but they may also exist in spatial dispersed networks where trust and reputation are built-up over time.

3. **Quasi-hierarchical relationships** where small suppliers are transactional wise dependent on larger buyers. Suppliers face significant switching costs and therefore captured in the relation. Such networks are frequently characterized by a high degree of monitoring and control by the lead firm in the chain, which can create dependence both for the individual supplier and for the supply-base as a whole.

These exchange modes can be identified in the way international value chains are organized but also in more simple dyadic forms cross-border business alliances or cooperations.

The opportunity for developing country SME upgrading and competitiveness enhancement depend on what type of relations it is involved in and what possibilities it has to move from one mode to the other. The upgrading possibilities derived from the relationships whether of a value chain or dyadic business cooperation nature can be divided into: 1) Processing upgrading increasing efficiency; 2) Product upgrading including product differentiation; 3) Functional upgrading increasing value-added elements; and 4) Chain upgrading by moving to a new product chain. The possibilities for SME upgrading are better where scale economics in production are not embodied in machinery and equipment or in purchase and sales. Where upgrading depends more on disembodied activities often of a human resource nature SMEs stand a better chance.

The discussion has concentrated on how the developing country SME is integrated in international value chains or foreign business cooperation when it starts internationalise its activities and on what the possibilities are for the firm not to end in an immiserizing process but to upgrade and enhance its activities. Not much is said in the literature about the foreign partner firms in the chain or the business cooperation but most often it is assumed explicitly or implicitly that they are large transnational companies. That traditional literature of buyer driven garment chains or producer driven automobile chains always emphasizes the leading role of the large leading firms in the industry. Gereffi (2003:76) express it in this way “One of the major hypotheses of the global commodity chain approach is that development requires linking up with the most significant “lead firm” in an industry”. The lead firm is distinguished by its control over access to major resources that generate the most profitable returns in the industry. The question is how realistic a proposition that is for most small private producers in developing countries? Does the lead firm need to be firms like Wall Marth, Benneton etc. In reality it can be expected that the companies developing country SMEs are linked to in the industrialised developed countries may themselves be SMEs, which are internationalised and in their strategy see an advantage of outsourcing to grow in spite of limited capacity and resources. Located in high wage areas the developed country SME can be interested in downsizing employment wise, avoid large investment commitments by outsourcing activities and
prefer value chains with partners located in its proximity to be able to control production and save scarce management resources.

Global value chains in textile and garments
The international organisation of the textile and garment industry has been the standard example of a buyer driven global commodity or international value chain in the literature, two recent example being Gereffi and Memedovic (2003), and Gereffi (2003). However, the examples have been cases of buyer driven chains with large multinationals or national retailers as the lead firms often organising the chain in a quasi-hierarchical way. When the interest here is on SMEs the organisation of the chain will still have the same elements but perhaps with a larger number of independent firms in the chain. For our analysis the following types of firms, excluding the fibre and raw materials networks, in the chain are proposed for the cooperation networks of industrialised country firms sourcing products overseas:

- Fibre and textile fabric producers
- Design and cutting firms
- Garment contractors – located overseas under contract with a buyer taking responsibility for the contract with the regional producer
- Intermediaries – facilitating agent acting on behalf of the buyer
- Manufacturing sub-suppliers – typically sewing and packaging
- Marketers or wholesalers – buying garments and responsible for sales and marketing to retailers
- Retail outlets – department stores and chains

A single company can include several of the functions of the chain within its organisation. Large department stores can have design and cutting departments plus sales and marketing functions within the firm going directly to contractors abroad to organise their specified orders with the manufacturing sub-suppliers. For small developed country firms that earlier had been manufacturers themselves the typical arrangement is that they integrate the design and cutting stage with the control of sales and marketing onwards to the retail networks.

The overseas manufacturing sub-suppliers can be charged with a variety of functions that can embrace various elements of the value added chain. The most simple arrangement is the OPT (outward processing traffic), where the sub-supplier is only responsible for the sewing function and its provided with designs, cut materials and accessories. In Vietnam this is also called FOB operations. Packaging and labelling etc. is often added. A next step is that the sub-supplier is charged with additional functions that to cut, sew and trim the garments (cut, make and trim (CMT)) where the buyer supplies the design and materials. In a following step, the sub-contractor receives only the design from the buyer but source himself materials and accessories and become a original equipment manufacturer (OEM) but still having the buyer to do all the sales and marketing. This is from the buyers point also called sourcing of own designs (SOD). An original brand name manufacturer (OBM) is upgrading his production expertise to the design stage and then sales of own brand name products. Some of the sub-contractors in the first wave of newly industrialising countries like the trade-mark and fashion companies from Hong Kong and Taiwan have reached that stage.
The Danish textile and garment cluster

Profile and development of the cluster
The Danish textile and garment industry is recognised as having a proper cluster. Its geographical centre is located around the provincial neighbouring towns of Herning and Ikast in Jutland, where most of the firms are located together with supporting institutions like the headquarters of the industry association and technology and training centres for the industry. Furthermore, Herning has facilities for housing large international fairs where the textile and garment industry in particularly is meeting its international business partners. The largest firms in the industry are located in the Herning-Ikast region, and firms have a close cooperation both horizontal in material and design development, and vertically particularly between garment firms using the materials of the textile producers. There are established network and experience-sharing groups and communication is easy so “all knows what every body else know”! The cluster has a history that goes several hundred years back to the time when raw materials like wool were produced in the area (Erhvervsfremmestyrelsen 2000:25-26).

Today the industry has about 320 firms primarily involved in garments with 12,000 employees. With an average employment of less than 40 people per company, the industry is today dominated by SMEs. As the rest Europe the industry went through a turbulent period in the 1990s resulting in a radical restructuring of the industry in the form of deployment and concentration, relocation of production, and functional changes.

Compared to Europe as a whole, the Danish industry has been less severely hit although almost 12,000 jobs have been lost over ten years. The number of firms have gone down from around 700 in 1987, 400 in 1998 and now 320. The fall has been greater in garment than in textiles. Wage-based factory tailored garment firm are almost non-existing today. Several larger company mergers have taken place but both turnover and export was doubled in the ten year period 1990-2000 contrary to the overall trend in Europe. At the same time the export concentration on a few neighbouring markets has decreased and the industry has penetrated into several new markets, however each with a fairly small export share and they are all still located in Europe. The market concentration on the Western part of Europe means that the Danish firms feed into value chain structures that particularly with respect to sales and marketing are organised differently from the US and Japanese chains with the maintenance of a large number of independent wholesalers or marketers.

Production relocation has been most significant for the garment part where the labour intensive production has been moved abroad. Many models for the outsourcing are applied but the most three common concepts are: 1. Outward processing traffic (OPT) where only sewing and packaging is moved to the sub-supplier; 2. Cut, make and trim (CUT) where textile material preparation, cutting and quality control is moved abroad, and 3. Sourcing from own design (SOD) where also sourcing materials is moved while only the functions of design, logistics and distribution are kept in Denmark. While there is mix of these concepts applied the pattern for the different type of garments are shown in table 1.
Table 1. Danish garment outsourcing patterns

<table>
<thead>
<tr>
<th>Type of garment</th>
<th>Outsourcing concept</th>
<th>Share of firms</th>
<th>Turnover Billion DKK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Knitwear</td>
<td>OPT (FOB)</td>
<td>30%</td>
<td>4.5</td>
</tr>
<tr>
<td>Ready-made</td>
<td>CMT</td>
<td>50%</td>
<td>5.0</td>
</tr>
<tr>
<td>Design &amp; trading houses</td>
<td>SOD (OEM)</td>
<td>20%</td>
<td>6.5</td>
</tr>
</tbody>
</table>

Dansk Textil & Beklædning (2000)

The Danish garment producing firms have generally upgraded their products and maintained the high value added jobs while the labour intensive parts have been moved primarily to East European countries particularly Poland and the Baltic countries. The outsourcing firms maintain their domestic material suppliers. For example was Danish export of textiles to Poland doubled 17 times from 1987 to 1999. In general the outsourcing has been organised based on long or short-term production contracts with independent sub-suppliers to maintain flexibility and not be committed with capital investments. Some larger garment firms have, however, gone into joint ventures in East Europe to secure production capacity. For the relative fewer textile firms that have moved production it has often been as investments in own production facilities abroad to continue the control of the production processes.

The Danish firms primarily have relocated the production to East European countries because they feel that distance matter with respect to transport costs, frequent changes in garment collections, short delivery terms and quality control. However, it does not mean that Danish firms are not sourcing outside Europe, particularly in Asia. This is the case not only for department stores and retail chains but also wholesalers and design firms are sourcing in Asia. However, the production chain will often be organised differently compared to the way it is done in East Europe where the links are close and the Danish firm may even invest. In Asia the firms will in the cases where there are direct contact to the producing supplier be organised as OPT but more often the Danish firm will operate through contracts with an agent or an intermediary located in the region. The agent takes the responsibility to supply according the Danish firms specifications including use of materials and accessories if not supplied by the Danish firm. The agent then plays orders with producing sub-supplier in the region. There is a high degree of flexibility in this system with low switching costs for the buyer and often also for the sub-supplier.

Finally, the changes in the industry has resulted in a functional restructuring where the earlier division between producers, wholesalers and retailers has disappeared in the more trend-setting and high value end of the industry. In the new type of firm functions are more or less merged around a certain concept or brand name. The competitive challenges with respect to core competences for the firms are centred on (Dansk Textil & Beklædning 2000):

- Know-how and management capacity to manage production processes and supply chains abroad,
- A spread of exports on more markets demanding improved export market knowledge and penetration capacity,
- Increased human skill demands with respect to design, product and process innovation, concept development and marketing to keep up with rapid consumer changes and increased price competition,
- Capital investment demands over a broad range of assets not least IT equipment.

Similar tendencies have been taken place in many other countries but it is worth noting that although the production functions have been moved, the cluster characteristics and cooperation have been maintained and institutionally strengthened particularly on broad design aspects. Although larger functional integrated firms have appeared they are still relatively small and the cluster is not much influenced or integrated in large buyer driven chains dominated by global wholesalers or retailers. The industry is still dominated buy national firms governing the chains.

Danish garment firms in Vietnam
With a broad definition of textile and garment firms, there have been identified 12 Danish owned companies operating in Vietnam from various official lists.

Table 1. Danish textile and garment firms operating in Vietnam

<table>
<thead>
<tr>
<th>Firm no.</th>
<th>Employment</th>
<th>Product line</th>
<th>Chain position</th>
<th>Core competitive competences</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>Bags and accessories of synthetic materials</td>
<td>Marketer of niche products</td>
<td>Sales and marketing</td>
</tr>
<tr>
<td>2</td>
<td>4</td>
<td>Outer wear</td>
<td>n.i.</td>
<td>n.i.</td>
</tr>
<tr>
<td>3</td>
<td>2-4</td>
<td>Textile weaving, women fashion</td>
<td>Design &amp; marketer</td>
<td>Design</td>
</tr>
<tr>
<td>4</td>
<td>13</td>
<td>Flags, banners</td>
<td>Producer &amp; marketer of niche products</td>
<td>Design Sales and marketing</td>
</tr>
<tr>
<td>5</td>
<td>115</td>
<td>Work clothes</td>
<td>Producer and marketer</td>
<td>Brand name Sales and marketing Material sourcing</td>
</tr>
<tr>
<td>6</td>
<td>30</td>
<td>Children clothes</td>
<td>Marketer</td>
<td>Brand name Design Sales and marketing</td>
</tr>
<tr>
<td>7</td>
<td>2</td>
<td>Services</td>
<td>Intermediary</td>
<td>Logistics Communication</td>
</tr>
<tr>
<td>8</td>
<td>14</td>
<td>Mosquito nets</td>
<td>Marketer of niche products</td>
<td>Sales and marketing Process technology</td>
</tr>
<tr>
<td>9</td>
<td>22</td>
<td>Work wears</td>
<td></td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>14</td>
<td>Rubber- &amp; rainwear</td>
<td>Textile producer &amp; marketer</td>
<td>Materials and marketing</td>
</tr>
<tr>
<td>11</td>
<td>19</td>
<td>Knitwear fabrics</td>
<td>Marketer</td>
<td>Design</td>
</tr>
<tr>
<td>12</td>
<td>10</td>
<td>Textiles &amp; materials</td>
<td>Marketer</td>
<td>Sales and marketing</td>
</tr>
</tbody>
</table>

Two of the firms, number 1 and 7, are owned by Danes but are only operating in Vietnam and has no establishment in Denmark. Firm number 2 has recently closed its operations in Vietnam and does not any longer have a partner in Vietnam. The list covers only firms that are either present in Vietnam or have an official registered cooperation agreement in Vietnam. The number of Danish firms that are directly or indirectly sourcing from sub-suppliers is unknown. However, Danish marketers and retailers are most likely to source from Vietnamese producers but must likely through intermediary agents in the region. For example had firm no. 6 earlier an agent in Hong Kong that
sourced from producers in Vietnam until the Danish firm took contact and established cooperation directly with a Vietnamese company.

Most of the Danish firms are extremely small firms and there is only a few companies that actually perform production processes or own production facilities abroad. The answer to why so small firms can actually afford to manage cooperation arrangements with partners in Vietnam is partly the support provided from an official Danish business-to-business aid programme (PS-programme) to Vietnam. Under the PS-programme the Danish company receives direct financial support to cover expenditures for contact visits, feasibility studies, training activities and technology transfer when they establish contact with a local partner. The programme has both a start-up and a three-year project facility where the partners can obtain support now up to US$ 800,000. Except for the two Danish firms established only in Vietnam, all the others have received support from the PS-programme. Although the question has not been raised directly, it is highly unlikely that more than one or two of the Danish companies would have gone into partnerships with the Vietnamese firms in the present form without the subsidy from the PS-programme. The initial costs for making contact and spend time for training etc. are likely to have been too high. On the other hand, it appears plausible that several of the cooperations will continue on purely commercial terms after the aid support stops.

The Vietnamese textile and garment industry

Profile and development of the industry

The textile and garment industry is a fast growing industry in Vietnam constituting about 11 per cent of the processing industry, and particular with respect to export performance it has now over a long period had a double-digit annual growth. Particularly in the last couple of years export figures have exploded now being US$ 3.5 billion (2003 estimate) as a result of the US market opening up after the bilateral trade agreement was signed. Other main markets are Japan and EU but for all these markets the quota systems are operating until 2005 when the future developments for the industry in Vietnam become very uncertain.

The industry has several cluster characteristics. It is concentrated around Hanoi and Ho Chi Minh City (HCMC) and there are about to be organised special industrial zones for textile and garment companies. Several special organisations are supporting the industry. While there are obvious cluster characteristics for the industry, the ownership structure must be considered. In 2001 there were 1,034 firms in the industry of which 231 were state owned enterprises (SOEs), 449 private domestic owned companies and 354 100% FDI or joint venture companies. The SOEs manufacturing firms are normally large firms represented both in the textile and garment sub-sectors including the large conglomerate VINATEX, while the private domestic owned concentrated in garment tend to be small or medium size firms. There are 354 companies with foreign owners and they have a relative higher representation in the textile sector, where Vietnam has had an interest to attract FDI to become more self-sufficient as the country has imported much of its materials to the garment industry. While 100% owned FDI today is allowed, a substantial part of the early foreign investment in the sector has been established as joint ventures with SOEs. The foreign investors are primarily from the region. Both the textile and the garments sub-sectors have expanded significantly over the last 15 years. The textile sector have both employment and output wise been the largest sector but it the garment sector that has expanded most and is increasingly dominating in relation to exports (Hill 1998; Thoburn et. alt. 2002).
The business cooperation

The partner firms in Vietnam
Out of the 12 Danish firms in Vietnam 10 has a local partner. The partnerships are in no case based on investments from the Danish company side but are contractual based business cooperations. However, at least one company (no. 12), which is a garment trading company, has established a representative office and is sourcing from several producers in Vietnam. All these relationships are as mentioned above not based solely on commercial terms but supported by aid grant money, and therefore contain a contractual element of training and/or technology and know-how transfer. Two of the Danish firms (number 3 and 5) are partners with companies, which are owned and managed by the same Vietnamese family.

From table 2 it can be seen that the Vietnamese partner firms are employment wise larger medium size firms compared to the Danish ones, and in two cases they are larger than the Vietnamese definition of an SME with more than 400 employed. These two firms are SOEs while the rest are private owned firms.

Table 2. Vietnamese textile and garment partner firms and forms of cooperation

<table>
<thead>
<tr>
<th>Firm no.</th>
<th>Employment</th>
<th>Products</th>
<th>Exchange relationship</th>
<th>Chain relationship arrangement in the cooperation</th>
<th>Form of upgrading in the cooperation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>shifting partners</td>
<td>Bags and gift accessories</td>
<td>Market/Modular</td>
<td>OPT</td>
<td>No upgrading</td>
</tr>
<tr>
<td>2</td>
<td>Small partner</td>
<td>Cooperation stopped</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>3</td>
<td>250</td>
<td>Womens fashion clothes</td>
<td>-</td>
<td>OPT</td>
<td>Process Product</td>
</tr>
<tr>
<td>4</td>
<td>100</td>
<td>Flags and banners</td>
<td>Quasi-hierarchical</td>
<td>OEM</td>
<td>Process Functional</td>
</tr>
<tr>
<td>5</td>
<td>220</td>
<td>Work-wear</td>
<td>Quasi-hierarchical</td>
<td>OPT</td>
<td>Process Product</td>
</tr>
<tr>
<td>6</td>
<td>400</td>
<td>Childrens clothes</td>
<td>Quasi-hierarchical</td>
<td>Product</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Intermediary</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>8</td>
<td>800 SOE</td>
<td>Mosquito nets</td>
<td>Quasi-hierarchical</td>
<td>OEM</td>
<td>Process (Functional)</td>
</tr>
<tr>
<td>9</td>
<td>?</td>
<td>Light work wear</td>
<td>-</td>
<td>OEM</td>
<td>?</td>
</tr>
<tr>
<td>10</td>
<td>Part of very large SOE</td>
<td>Rain wear</td>
<td>?</td>
<td>?</td>
<td>Product</td>
</tr>
<tr>
<td>11</td>
<td>Large SOE</td>
<td>Flat knitting clothes</td>
<td>?</td>
<td>?</td>
<td>?</td>
</tr>
<tr>
<td>12</td>
<td>130</td>
<td>Trousers &amp; shirts</td>
<td>Market/Modular</td>
<td>CMT</td>
<td>Process (limited)</td>
</tr>
</tbody>
</table>

Forms of cooperation
Out of the 10 Vietnamese partner firms we have detailed information from six firms (nos. 3,4,5,6, 8 & 12) based on company visits and interviews with the management. The cooperation between Danish and Vietnamese firms is well established and has now functioned for some years. The
managers of the two Danish owned companies in Vietnam have also been interviewed.\textsuperscript{1} One partnership has been terminated. The remaining partnerships are started recently but there appears to be an interesting development represented in these cases where the small Danish firm works together with large SOEs that have both vertical integrated and diverse operations. It suggests that the Danish firm play a more limited role in the chain as technology and know-how supplier with the Vietnamese firm or another firm having the lead firm position. Alternatively, the interpretation can also be that the large SOE is involved in several international value chains with different partners.

The three basic forms of sub-supplier arrangements OPT, CMT and OEM are represented in the cooperation cases. But it appears that in spite of the differences, the Danish partner has a need to control its partner with respect to sourcing, process and product quality to be sure that the product lives up to the expectation of its customers. For the firms in cooperation no. 5 producing work-wear using the OPT arrangements, there was initially a need to invest in new equipment, new lay-out of the production line and training of labour in addition to the internal handling of the materials and accessories ordered by the Danish partner. In this particular case the Danish firm had the resources to do start up the cooperation investing both human resources and equipment rented to the partner and visit the production plant frequently.

However, in other cases the Danish partner does not have such resources, as the firms are very small. Although the cooperation projects get grant support from the PS-programme, the production planning, demonstration of design and production processes and training is concentrated in the initial phase of the cooperation, as the Danish partner is simply too small to pay frequent visits to the Vietnamese partner and therefore has to rely on other forms of communication. It is in this situation that the intermediary Danish owned firm no. 7 comes in. The establishment of this firm in 2000 was accidental in the sense that the owners choose to establish themselves in Vietnam without no experience from doing business in the country and with the original idea of working as an agent sourcing for larger Danish fashion firms. Now the firm is fully occupied by communication tasks and trouble-shooting for the Danish-Vietnamese partnerships. The assignments that the company undertake include: coordinate/communicate between partners, design interpretation, procurement of materials and accessories, production planning, financial calculations and quality control. According to this firm, some of these problems for the Vietnamese partners with respect to basic management functions like planning and sourcing for continuous production and calculation of production costs have been grossly underestimated by both partners who focused more on the product. The newly established small private firms has limited basic management and business experience, and the Danish firms had limited experience and capacity to go into long distance partnerships geographically and cultural wise.

Despite the differences in operational production modes, the chain relationships in the partnerships can best be characterised by the quasi-hierarchical form. In the areas where the companies are cooperating, the Vietnamese partner is very dependent of the Danish partner with respect to production planning, designs and control. The Vietnamese partners particularly in case no. 4, 5 and 8 and to a certain extend also in 6 invested to expand their production facilities, equipment and trained labour in such a way that there most likely will be substantial switching costs involved if the partnership is terminated. This is the situation even in these cases where the Vietnamese partner firm employment wise is substantially bigger than the Danish partner.

\textsuperscript{1}The interviews were made by the author and Professor Olav Jull Sørensen form Aalborg University in 2002 and the beginning of 2003.
Upgrading and strategies of the local firm

The upgrading elements in the partnerships concentrate mostly on products and processes. The process upgrading has in a certain sense been an element in all the partnerships, as there have been direct training activities for the labour and both directly and indirectly for management. The most obvious cases are however, the process upgrading for the lay out of a new production line for production of work wear (no. 5) and the production establishment for the new impregnated mosquito nets (no. 8). In most other cases the process upgrading has not involved new machinery or equipment but has simple been efficiency gains from streamlining the production process, train labour and improve management and control of the production processes.

Except for case no. 3, in all the other cases where detailed information is available, the partnerships have diversified the product lines of the Vietnamese partners. The new products introduced are what could be termed niche- or semi-niche products in the sense that they have, as can be seen from table 1, a specific purpose and do not belong to the mainstream mass-produced garments. This is well in line with fact that the Danish firm is small and will not be able to operate within mainstream products. On the other hand the products are not special fashion niche products, and price must be expected to play an important role as sales parameter.

In two cases (no. 4 and 8) a functional upgrading is observed. In the production of flags (no. 4) the Vietnamese partner operates under OEM terms, which it has not done before, and takes the responsibility for the whole value chain from sourcing and cutting materials to packaging and labelling the products. The owner has even invented a material cutting machine that can be used for the particular operations needed in the flag production. The establishment of the OEM operations has been done in close cooperation with the Danish partner, and continued support from the partner and the intermediary firm is still needed to maintain this production form. For the producer of the mosquito nets, the process of the impregnation has been new and added substantial value to the product.

There is no case where the partnerships have directly introduced original brand manufacturing or led to upgrading to a new product chain for the Vietnamese firms. For the other forms of upgrading that has been experienced, i.e. process, product and functional upgrading, it is important to analyse in what sense and under what conditions it is an upgrading. If the upgrading is only usable for the local firm in the specific value chain relations with the Danish firm and this chain has limited (volume) potentials because of the size of the Danish firm and the market, the upgrading benefits will be limited for the local firm. To use the terminology of transaction costs theory, the asset specificity of the chain upgrading seems to be high. Asset specificity may in general be high in a value chain, but when it is a chain with small size partners and a small volume of trade, it may have more limited benefits than in a value chain with large lead firms and possible low switching costs to other buyers of a similar nature.

In the present partnership chains, the local firms are tightly related to the Danish firms. The Danish firms controls in all cases both up-stream functions of design and material choice, and down-stream functions of marketing and sales. The niche type of products and markets included in the partnerships enforce the relationships giving power to the Danish firms. In the case of the mosquito net production (no. 8), the core competitive factors are technology and sales. The impregnation technology is provided on license by the Danish firm only to be used to fulfil its contracts; the local firm cannot use it otherwise. More important, the product with its specifications is only sold in bidding to international aid and emergency organisations for use in developing countries. The
know-how of these special sales arrangements and the needed logistics involved are fully controlled by the Danish firm. Similarly, full control of marketing activities take also place in the other cases; in three cases alternative marketing of similar products will be difficult for the local firm and in one case the Danish partner has a brand name.

Apparently, the local firms are placed in a very tight position where they can benefit from the upgrading only as long as the chain is maintained. Potentially this could lead to opportunistic behaviour by the Danish firms but there is no evidence that this takes place. However, the Vietnamese firms demonstrate both strategically and upgrading wise that they have means to counterbalance the dependency. All the Vietnamese firms are medium or large size rather than small firms. Being involved in a value chain with a small Danish firm means that they often will have capacity to be involved in other international value chains with other foreign partners and produce to the expanding domestic market. Only one local firm is heavily dependent selling almost 90 per cent of its production to the Danish buyer and the rest to the domestic market. The remaining companies are all involved in at least one additional international value chain and also selling to the domestic market. The foreign value chain relations are mostly based on OPT or CMT modes, and the exchange relations short-term market based contracts or modular type of chain relations. It appears to be a very conscious strategy by the local private firm manager not to depend only on one chain but maintain the opportunity to diversify his business.

With respect to firm upgrading, the usual forms related to process, product and functions are chain specific and initiated or controlled by the Danish partner firm. However, the participation in the chain may yield more intangible upgrading benefits to the local firm in the form of improved management and know-how that is not product or chain dependent. Several managers said that they had learned from the partnerships a lot with respect to human-resource management, design, process and product planning and other basic management skills. These skills can be used for other purposed. The labour force can more easily be employed in other production lines in the company and new design can be tried first on the domestic market. In addition to the traditional upgrading categories should therefore be added one with respect to general and often intangible skills acquired through a learning buy doing process in the chain participation, which are likely to be more important for SMEs than for larger firms. The important tacit knowledge become more easily transferred in the close partnership relations. SMEs do rarely have the resources to buy market based management knowledge or employ formally trained managers. At the same time SME managers involved in international value chains have the opportunity to be involved in most of the activities that involves transferred knowledge put into practise at the shop level.

Conclusions
Most of the international value chain literature assumes the involvement of large multinational firms as lead firm and that SMEs at best are confined to the role of sub-suppliers. But small firms in industrialised countries have for a long time been highly internationalised perhaps not in large economies like the US but certainly in most European countries. Globalisation and outsourcing have further pressed these firms to internationalise their production and become involved in international value chains cooperating with other firms.

The paper concerns primarily SMEs in Denmark and Vietnam in the textile and garment industry that are partners in vertical international value chains. Most of the Danish firms belong to the old textile and garment that in spite of radical transformations remains a cluster concentrated on high value added and labour saving elements of the chain operations. Outsourcing is mostly done to
nearby locations in East Europe. The establishment of partnerships in Vietnam have been initiated and supported by an aid-funded programme. The cluster characteristics of the industry in Vietnam are mostly confined to the state owned part of the industry consisting of larger firms and support institutions. The more recent established private firms in the industry are typically within the SME sector but these firms are the partners in the cooperation with Danish firms.

The leading small firms in the value chains may sit very hard on their core competitive capabilities. It is therefore relevant to talk about chain specific upgrading where the upgrading may not have alternative use outside the chain or where switching costs will be high. This problem appears to be more serious for small developing country firm than for larger firms.

However, dependency in chain relations may be offset by local firm strategies diversifying medium size firms to participate in different chains at the same time. Furthermore, upgrading benefits may accrue outside the traditional main categories and appear in the form of management and human-resource upgrading involving tacit and intangible skills.

Summing up, we have seen how SMEs located in northern clusters increasingly engage in international value chains even as lead firms. For European SMEs, these chains will often be confined to the regional context including Eastern Europe. This paper looking into more distant functional relations shows examples of north SME–south SME chains operate. It also shows that there are limitations to how they are established and operate. In this case the SME chains are supported by aid money and the upgrading potential for the South SME appear limited. However, South SME managers may learn general tacit management knowledge and have a diversified strategy that can lead to upgrading in the long run. This may be needed in the turbulent competitive context that Vietnam is facing in the coming years.
References


