

# Entrepreneurship, Markets and Industrializing Effects: the Case of Textile Industry

**Jean-Christophe Simon**

Economic analysis generally identifies three strands which define and condition the attitude of entrepreneurs: the search for opportunities to make profit, the capacity for rational arbitration to maximise profit, and the acceptance of risk.

It has been the tendency over the past years to consider the attitudes of entrepreneurs with specific reference to the institutional context in which they operate especially their relationship with regard to rules and regulations governing economic activity, and State intervention. Thus certain liberal economists emphasize the idea of the State as an additional risk factor - which leads to an apology for true competition and liberalisation - although, as we will see, States and markets present complex interactions, that contribute to the success of enterprises, or to the process of rapid industrialisation.

In this paper, we would like to go beyond an approach which views agents as individuals and consider modern industrial entrepreneurs both as a type of economic actor responsible for profitable, productive activities, and as members of a social group whos networks and attitudes are socially determined:

- The first aspect pertains to their role in the process of economic development, the circulation and accumulation of capital and also in the context of our study, to the general process of industrialisation.
- The second aspect takes into account multiple and diverse characteristics inherent in value systems, as well as favourable networks, industrial clans which naturally tend to seek political power (in order to influence economic institutions and regulations).

The intervention of entrepreneurs in the construction of the industrial sector of a developing economy has specific, characteristic features: those related to the sector and those related to national economy, for example. The attitude of entrepreneurs is therefore also indicative of the characteristics of the industrialisation process as a whole.

In this context, our reference to the textile sector is justified for two reasons:

On the one hand, it is a fundamental sector which emerges right from the beginning of most industrialisation processes - taking Europe of the XVI to XIX centuries as a first case. In developing countries, this sector has initiated or given rise posteriorly to most industrialisation strategies - in Latin America as in Africa and Asia. In South-East Asia, the modern textile industry with its forty-year-old history, is both dynamic and instructive, especially in Thailand. This historical depth enables us to trace the stages of the development process and highlight the lasting experiences related to the intervention of entrepreneurs.

On the other hand, it is a sector which lays bare certain bases of the dynamics in newly industrialised economies in Asia. It combines oligopoly forms of organisation (which are politically influential) and dispersed forms which constantly give rise to the emergence of new entrepreneurs. This diversity of structure, the types of markets and actors, are often underestimated: textile is said to be a "low-tech" industry. This might be true to a certain extent with regard to equipment and process, but highly debatable when it comes to entrepreneurial attitudes - in fact it is a skill-intensive industry from the latter point of view.

Last but not least, it is a sector which coincides with World Economy in Braudel's (1985) sense of the term. The textile sector is indeed one of the vectors of the internationalisation of industrial capital. Furthermore, the techniques it employs and its markets are globally structured and globally determined: the products are quasi-commodities compared to the basic raw materials, the techniques can be found from Sao Paulo to Seoul, the patterns travel by fax from Paris, Milan or Munich to Bangkok.

In this paper our presentation focuses on the relationship between entrepreneurs' attitudes and textile sector development in the context of a rapid industrialisation process. We will draw data from both the macro-economic level and firm level analysis. This was collected in particular through interviews with managers/entrepreneurs in order to get a good picture of the context for initiation and development of activities and the competitive strategies (Porter, 1980). We will refer mostly to the context of Thailand, but also to the experience of other Asian countries with similar industrialisation patterns in South East and East Asia.

## **1. Entrepreneurship and Sectoral Development**

### **1.1 Structuring of the Textile Industry in Thailand**

The diversity of entrepreneurs in the textile industry derives from both its construction pattern and its specific structure: Textile as an activity was for a long time limited to small workshops and traditional domestic cottage production. In the early fifties there was hardly a textile industry as such (except for government-owned mills and a couple of private ventures), and imports of material from neighbouring countries were substantial. It can be said that in the 60's, the perception of a growing market, and the national development policy, encouraged both local and foreign entrepreneurs to initiate ventures in Thailand.

Since that period, the expansion of the textile industry has been strong, with cyclical boom and recession periods. Interestingly, this sector has, throughout the past decades of development, maintained a dual pattern of formal and informal enterprises: The revival of traditional handicraft, and the strong growth of the "shop-house" garment producers are noticeable features, as they are well connected to the modern sector (either through sub-contracting or trading arrangements; see Voravidh Charoenlert, 1992). In the modern sector itself, another dual pattern can be identified, with a minority of companies operating as standard incorporated ventures, and others still keeping a fairly family-owned and managed, semi-registered form of operation.

### *1.1.1 The Foundation of Industry*

The first entrepreneurs were indeed locals; they established the core of the textile industry: spinning, weaving operations, with technical assistance and financial participation of members of the Chinese communities in Southeast-Asia . They also benefited from the first set of government promotion rules for industrial activities (Chirayu Isarangkun, 1969).

This phase of import substitution lasted until the beginning of the seventies, and the following policy of export promotion was poorly timed (with the volatile regional situation, and the willingness of most companies to recoup their investment by selling on the local market) Actually exports took off only after 1975 and exporters made full use of the export credit scheme generously granted by the Government - and by the beginning of the seventies there was an excess supply on the local market, as several major Japanese ventures had contributed to doubling the capacity in spinning , weaving and dyeing. In 1973, garments emerged as one of the ten exports of Thailand, but still together with other textile products they were a mere 3% of total exports.

The upstream companies were rapidly established as oligopolistic structures with considerable bargaining power with government officials. In that respect, by 1971, the group of spinning and weaving mill entrepreneurs had successfully affirmed itself as a major industrial lobby, although with about 15 % of manufacturing value added in the 60's, textile and garments were not heavy-weight players with the ministry of Industry.

This position, coupled with an official policy of import substitution, tended to increase the protection of the domestic markets and to raise the entry barriers in industry - promotion of investment for production geared towards the local market was suspended in order to avoid further excess capacity, and regulations were adopted to forbid the expansion of capacity of existing companies.

### *1.1.2 The Expansion and Diversification Phase*

Prosperity came back in the late seventies as export of both woven product and garments took off after 1975. Because of mimetic strategies and poor coordination by public institutions, periodical overproduction crises appeared such as in 1978 and 1983.

Nevertheless, the textile industry was well established by the end of the 70's: it amounted to 18 % of manufacturing value added (a similar share of manufacturing employment), equally divided between upstream and downstream activities (garment). This diversification resulted in a comprehensive industrial structure, that was large, nationally controlled (if not operated) and thriving; Out of a total amount of about 33 Billion Baths total investment (accounted for by Thai Textile Manufacturers Association) only about one third was approved and promoted by the Board of Investment (13 Bn Baths in 1978). This promoted investment was mostly related to upstream plants with 63 firms in spinning, knitting and weaving, and only 15 in the garment sector.

It is very striking indeed to compare the small number of promoted companies to the estimated total number of enterprises in the textile industry: more than five hundred upstream, and over one thousand in the garment sector by 1979-90. This clearly demonstrates the fact that industrial promotion by the government was not responsible for the rapid take off. Rather, similarly to other areas of

industrial policy, the government set a reasonable target for expansion, and went alongside the entrepreneurs' and industrialists own strategies.

### 1.1.3 The Boom of Entrepreneurship in the Garment Industry

It is the major feature of the 1980's, and naturally the results were more clearly seen on the export structures: by 1984 textile exports reached 10 % of total exports, and they now amount to about 18 %.

The expansion of the garment sector resulted in the doubling of the number of companies, and certainly was a decisive pull-factor to encourage in turn the expansion of weaving and dyeing activities. In 1990 the economic structure of the textile industry was based on about one hundred enterprises at the up-stream level, more than 1,100 engaged in knitting and weaving, and about 1,800 in the garment sector. A noticeable contribution to this trend was made by industrialists from East Asia, and Europe transferring part of their production base to Thailand.

	1965	1970	1975	1980	1985	1990	1992
Manuf value added	18500	24900	40800	63900	81500	156000	199000
Textile share/ m.v.a %	16.1	18.2	23	24	24	20.8	20.9
1.Upstream/m.v.a %	10.6	9	13.2	14.7	14.1	10.5	11.1
Production index	21	24	57	100	121	218	234
2. Garment share/ m.v.a %	5.5	9.2	9.7	9.2	10.1	10.4	10
Production index	17	39	67	100	140	298	339

Source . National Accounts NESDB. M.V.A Mn Baths base 72

## 1.2 The Entrepreneurs, their Linkages, their Networks

Behind the macro-economic data and intertwined with the historical transformation of the textile industry, we can identify a pattern of entrepreneurship with particular attitudes and dynamism:

- Linkages between companies, are not limited to up-stream and down-stream input-output flows as one would conclude from the superficial analysis of industrial structure. They also extend horizontally, to cover cooperation between enterprises. These cooperation can have several practical purposes: from sourcing raw material to acquisition of second-hand equipment, or arranging sub-contracting to fulfill an unexpected order on time. Most of the time they are informal, i.e. not covered by any contractual arrangement that is known to outsiders (Redding, in Hamilton, 1991).

- Strategies the entrepreneurs have to cover plant/workshop, company management and market appraisal, but they also include the management of a personal relationship network: this is an essential component to provide information, contribute to investment or capital increase , new business opportunity, but also lobbying capacity or corruption/bargaining power with State officials or influential politicians. We will see below how these linkages and networks play a key role at two levels of the firms' activities.

### 1.2.1 At production level

Many small companies in the garment sector rely on the founder's own savings, and generally family saving's too, to start up and prosper. We came across cases in both trading and manufacturing.

Obviously in the thriving garment business, investments are relatively low, so returns can be quick - in that case, manufacturing requires probably no more capital than land and property development, or even orchard-growing.

However, capital accumulation in the textile industry was greatly facilitated by the transfers of foreign investment and the willingness of local entrepreneurs to establish joint-ventures. This was certainly more relevant in the capital -intensive upstream activities (weaving, spinning), and had some bearing on the mastery of technology too (as for dyeing). Very seldom, the Thai partner will be a "silent-partner" who does not have the ability to manage the modern plant.

Our survey showed that local entrepreneurs in garment production are keen on keeping their financial autonomy, and even to restrict their expansion rather than engage an uncertain joint-venture with a foreign partner. In most cases, some small companies get technical assistance, credit facilities from Japanese or Taiwanese companies keen to secure and control a local supplier (for example in garment or dyeing sectors).

The sub-contracting and licensing relationship has been extensively debated from many points of view: the dependence and passive attitude expected from the company, the lack of incentive for upgrading production.... To add fuel to the debate we would like however to cite elements in favour of sub-contracting and licensing that seem to have played a positive role for companies in Thailand; for example, sub-contracting has enabled some firms to improve their standards by working with partners enjoying a quota of exports from the Ministry of Commerce (i.e. to market in Multi Fiber Agreement countries with import restrictions). Some companies will act as godfather and encourage smaller ones to supply them with improved production. These forms of "solidarity" or collaboration - which give a company easy access to a new market- can act as an effective anti-depression device when some markets tend to shrink temporarily as was the case during the Gulf War.

In the case of sub-contracting and licensing, it is an established practice, particularly for well known brands that the foreign license owner or the contractor will send a team to the recipient country to examine the production facilities and regularly monitor the standard and the production process of, let's say, sportswear or men's suits. It seems to have a very positive influence on quality improvement and mutual trust.

### *1.2.2 At Market Level*

It can be said that the comparative advantage and the profitability of the textile industry is as much a matter of trading as of manufacturing. In that respect, Bangkok has increasingly played the role of a hub in Southeast Asia, notwithstanding the well-established position of East Asian centers still favoured by world buying and sourcing companies.

Local entrepreneurs who have established trading companies are quick to point out that this activity requires different skills from manufacturing. Most of them have acquired prior work experience (as an employee in local trading or abroad) or share the knowledge of market and negotiation with a partner who has complementary skills. In fact, for this activity, experience is all: from giving a good quotation, to keeping a carefully selected network of local manufacturers who will supply on time and according to the expected standard.

It also frequently happens that the contract between local traders and suppliers is not a written one (it is trust that matters), in order to jointly benefit from a profitable order. It also means sometimes a duty for the trader to find ways to assist a supplying company that is going through dire straits, or for a garment manufacturer to sub-contract to other firms or workshops in order to keep his word.

### *1.2.3 From Networks to Industrial Lobbying*

All these elements help shape the dynamics of the industry, the organisation of the entrepreneurs, and also their bargaining and lobbying power. Whereas this power was mostly concentrated upstream in the 1960's and 1970's (Anek Laothamatas, 1992, p111) we can see that nowadays some powerful garment manufacturers have also established a lobby to influence and orientate public policy.

It is a well known - if not well documented - fact that many full-size textile enterprises do not operate as companies, with full registration as manufacturing plants at the Ministry of Industry. Two times throughout the 80's (1981 and 1987) the Government deemed necessary to offer amnesty to illegal firms, largely because of intense lobbying from the private sector. In the mid-eighties the assumption was a 30 % discrepancy in statistics, accounting for unregistered mills and workshop not known to the Ministry of Industry, or the Revenue Department.

From the economist's standpoint this indirect form of subsidy to start up venture is almost desirable: it allows local entrepreneurs (with adequate information and connections with government officials) to start a business with minimal tax burdens and administrative procedures. In fact, at a later stage when the entrepreneur decides to embark directly on an export-oriented strategy, he is forced to be officially registered as a company.

Finally the questions of quota allocation and corruption, or falsified export declaration, are also evidence that manipulating the market conditions is part and parcels of the entrepreneurs' strategies. This leads them beyond the position of a factory manager, to play the role of a social actor, who will occasionally need to bend public rules and muster some political power too.

The same can be said about delays in Value Added Tax implementation, and complaints by industrialists about its "additional cost" - in fact the debate was clearly flawed as on the one hand, loopholes in the tax system were convenient for many companies, on the other, large firms were not encouraged to implement official sub-contracting networks because of the sales tax.

It could therefore be said that these horizontal cooperative linkages between companies and the personal relationship networks of the entrepreneurs are two elements which help explain both the rapid expansion of the industry and the flexibility of the adjustment of entrepreneurs' strategies to recession, new market opportunities, or government policy change.

To put it in a nutshell, personal relationship networks of the entrepreneurs are the key to risk minimizing, they play a decisive part in the identification of business/profit opportunities - and they illustrate the fact that rational arbitration is deeply influenced by the cultural context.

## 2. Competitiveness and Industrial Strategies: the Art of Survival

### 2.1 Markets and World Economy

Textile products represent about 25 % of all manufactured exports from developing countries, and they are part of the core group of manufacturing products for which these countries have enjoyed an increasing comparative advantage in competing with more advanced economies over the past two decades (Yeats 1989). From this slowly expanding market (around 1% a year over the past decade) some countries have emerged as winners by considerably increasing their market share over the past twenty years. - As a group, the Asian region (including Japan and China) represents 45% of world exports now against 30 % in 1967. Big exporters like Taiwan or Korea still maintained a large share of textile products in their exports of labour intensive manufactured goods until the late 80's (respectively 15 and 26 % in 1986). Similar figures for China (48%), Indonesia (27 %), Hong-Kong (39%) and Thailand (22 %) are evidence of the strength of the textile industry in the region.

When it comes to Thailand, it is a striking feature indeed that the export rate was minimal until the late 60's: around 10 % for weaving products, and 5 % for garments. Around 1973-75, major changes took place: the total value of exports of textile products became superior to the value of imports, and in the year 1975 the value of garment exports overtook the value of other textile products (yarn, material).

Since that time the sales structure has changed considerably: nowadays it is said that about 50-60 % of garments are manufactured for exports, and about 25 % of material and yarn are sold directly on foreign markets. But the extent to which the exports play a leading role is still debatable (Suphat Suphachalasai, 1991). It must be added that the invisible exports on the regional or distant markets (small quantities bought by individuals or tourists) plus the border trade exports are estimated at 20-30% of local consumption.

When we analyse recent trends of Thai exports, another noticeable feature is the improvement of the balance between quota markets and non-quota markets: the major expansion drive of garments, from 1986, was, to a large extent facilitated by easy access to quota markets. These MFA quota countries were at the same time increasing their restrictions in the late eighties against NIC's garment export.

Since 1990, more than 50 % of exports are directed to non-quota markets - up to 54 % in 1991 - with the following breakdown: Middle East (13% in 1990), Japan (7%) and Asean countries (6%). The remaining 24% deserves additional explanation: Thai exporters have been quick to latch onto new markets such as Eastern Europe - Poland was the fastest growing market over the past two years.

This shows that entrepreneurs in Thailand have demonstrated two major skills over the past decade: one is the flexibility, to adapt their production to a wider range of world customers (children clothes for Europe, Middle east and Japan differ widely!) to explore and conquer new markets, and second, the awareness about the potential benefits of diversification. Actually, entrepreneurs' strategies are determined as much by the perception of constraints as by the identification of opportunities; some garment makers that developed their business in the late seventies declared that they opted for new export markets from the start in order to avoid constraints related to the export quota system.

## 2.2 Competitiveness and Conditions of Maturation of Enterprises

It is frequently assumed that cheap labour is the key to textile industry development; but the Thai case certainly shows that this is not true. In reality, the historical development of the textile sector is marked by a much more complex series of interrelated factors, each of which in turn plays a decisive role to incite further expansion of industrial activity. Occasional bottlenecks that matter for price or product quality incite the entrepreneurs to seek remedies - whether new sources of raw material or modernized equipment, or even increased government regulation and support.

Indeed when we attempt to discuss production costs, and their impact on competitiveness, the conclusions are far from straightforward in the modern industry (Narongchai Akarasanee, 1980)

The first element discussed, particularly for international comparisons, is the labour unit cost per day in the country. But actually, all firms surveyed pay their production workers by the piece - even in companies with 150-800 employees. Therefore, what really matters, (in addition to the wage that workers can expect by working a reasonable length of time), is the ability of the workers to fit into the production line, and their skill in limiting the waste of material and substandard pieces. Interestingly enough, this seems to hold true for both formal/modern and informal enterprises as well (Voravidh Charoenlert, 1992).

We can certainly agree that many small garment shops and factories have a relatively easy time recruiting temporary urban dwellers who can be conveniently laid off. During the first months of 1991, several factories we visited were half closed due to the Gulf War. But we also know that for some, the rice harvest season depletes the manpower and makes it difficult to fulfill orders on time. The answer of managers about labour turn-over was generally an average 2 years spent in the plant before resigning.

But, as a large factory owner put it last year, "if they get decent pay and work in a clean air-conditioned room, my workers do not want to go back to small factories neither are they keen to help their relatives for harvesting in the fields - they prefer sending money home instead".

Besides labour, the factors most frequently mentioned by the entrepreneurs are raw materials, and equipment. Complaints from garments manufacturers about the low quality of locally produced materials, or delays in getting supplies from local producers are certainly part of normal recriminations in a booming industry, but they are also evidence of additional constraints on productivity, quality and prices, beyond mere wage costs.

Another piece of evidence in support of the new awareness about competitiveness in the textile industry, is the investment in state of the art equipment: 50 % of new looms imported for the weaving industry are shuttleless, and computer assisted manufacturing is catching on with leaders of the garment production.

Several entrepreneurs in garment companies that were surveyed declared starting with between 6-30 machines in the 1980's - they are now thriving with more than ten times more. This should be understood as the result of an exceptional period: 11 % annual growth in the garment sector for 1980-90, and 15.6 % for 1985-90 - 8 % and 11.5 % for upstream textile activities.

This expansion pattern is very unlikely to repeat itself. Actually the textile industry will have to face major adjustments in the coming years:



- \* At the global level, textile is unlikely to remain a labour absorbing industry, as was the case in the past;
- \* The diversification of companies appears quite limited; textile entrepreneurs are very seldom the initiators of enterprises outside the sector itself.
- \* The linkage with equipment manufacturers is poor - much weaker than in Korea for example, where the machine industry followed the expansion of textiles.
- \* The forthcoming restructuring is a major challenge; until now the diversity of enterprises and production forms (from shop-houses to large mills) was responsible for the dynamism and competitiveness of the textile industry at the expansion stage.

Recession and emergence of textile activities in neighbouring countries could harm an industrial fabric that is a showcase of rapid industrialisation in developing countries.

### **Final Remarks on the Future of a Low Tech Industry**

Is textile an industry of the past in Thailand, or does it hold promise for the future ?

A glance at the textile activities in the old, European countries shows a wide spectrum of structures and entrepreneurs' strategies in countries like Italy, Germany, France or Switzerland. Their technology (from upstream synthetic fibers to garments) is upgrading, their product diversity ever-expanding: there seems to be no end to maturation, They show convincingly that competitive advantages have to be renewed and conquered periodically (Porter 1990). The experience of East Asia Newly Industrialized Economies also shows that considerable adjustment in productivity and reduction of protection took place in a span of 20 years in their development process (Lall 1990).

Even more than in the 70's at the take off stage, we could say that the answers for Thailand lie in the hands of local entrepreneurs.

One could have anxieties about the local tendency to want to make fast money - it is very seldom that industrial activity can plough back investment in two years - it requires an exceptional period of growth - like the one we have monitored in Thailand over the past decade. The expectation of profitability in the context of a booming economy has spoiled many investors - who tend to treat industrial investment like a game.

To make money in industry, particularly in textile, requires dedication and willingness to adapt through hard times and indeed entrepreneurs may indeed be tempted to put their money elsewhere. In interviews we have met with industrialists who favoured land and property investment rather than expansion of their original activity. As a matter of fact this is true in Korea (and probably Taiwan too) because of the tremendous speculation that is associated with sustained economic growth.

But we can also see several reasons why Thai entrepreneurs - in the textile sector as well as other similar manufacturing activities- may play their cards well in the future: One is the willingness to adapt and improve productive activities. This has been demonstrated in the past.

Secondly, the family business structure of many companies, although it brings with it problems of generation and conservative attitudes, brings stability and commitment. It may also be a strength in terms of creating a climate of emulation with other relatives' businesses.

Finally, the forward looking attitude of many entrepreneurs, is promising for an industry that will have to combine more software orientation with hardware investment. As actors of an industry which is part of a regional hub in Asia, the Thai entrepreneurs will have to demonstrate that textile is not a "high tech" sector but a "high ingenuity" one.

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