- Expansion of the ITP Box & Bags division-

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“This paper is done as a part of the undergraduate program at BI Norwegian Business School. This does not entail that BI Norwegian Business School has cleared the methods applied, the results presented, or the conclusions drawn.”
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Sincerely,

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Shanghai, 17.05.2012
Executive summary

This thesis is completed on the behalf of International Trading Partner’s Box & Bags division. The Box & Bags division manufactures technical textile products in Shanghai. Due to the rising price level in Shanghai, ITP Box & Bags wants the authors to evaluate the possibility of expanding to a different province. The aim of this thesis was to evaluate the profitability of the potential provinces. To be able to find the most profitable province, the authors have chosen four incentives that they assume will affect profitability.

To be able to recommend a specific province, the authors have collected data regarding the textile industry development. In order to gather the information, in-depth interviews was conducted and secondary data collected.

Through the external analysis the authors gained information about how the textile industry is changing. The analysis indicated that manufactures moved manufacturing to Central regions. Because of this, many of the provinces evaluated was located in Central China. The internal analysis shows that ITP Group is ready for an expansion, based on their financial situation and by having the right set of attitudes.

After completing the internal and external analysis, the authors developed a strategic problem definition. The objective was to find the most attractive province based on the incentives; government, costs, cluster and labor. The authors made an evaluation of several potential provinces and through an elimination process narrowed them down to three.

The three provinces were evaluated more thorough by using a decision matrix. The most profitable province was chosen. Finally, the authors calculated the costs saved by expanding to the chosen province compared to Shanghai.
Abbreviations

ASEAN - Association of Southeast Asian Nations
CM - Contract Manufacture
COWS - Criteria, Option, Weight, Score
CPI - Consumer Price Index
CSF - Critical Success Factors
FDI - Foreign Direct Investment
GDP - Gross Domestic Product
ITP - International Trade Partner
NDRC - National Development and Reform Commission
PU - Polyurethane
PVC - Poly Vinyl Chloride
R&D - Research & Development
RMB – Renminbi (Chinese currency)
SWOT - Strengths, Weaknesses, Opportunities, Threats
UN - United Nations
WTO - World Trade Organization
USCBC - The US Business Council
YoY - Year On Year

Definitions

East Coastal China: Hebei, Fujian, Guangdong, Jiangsu, Shandong, Shanghai, Zhejiang

Central China: Anhui, Henan, Hubei, Hunan, Jiangxi, Shanxi

Western China: Chongqing, Guanxi, Guazhou, Inner Mongolia, Ningxia, Qinghai, Shaanxi, Sichuan, Tibet, Xinjiang, Yunnan

Northern China: Heilongjiang, Jilin, Liaoning
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PART I: INTRODUCTION
Chapter 1: Introduction to the thesis

The authors are conducting this thesis on behalf of ITP Box & Bags, located in Shanghai. Box & Bags is a division in International Trading Partner Group, which focuses mainly on manufacturing technical textile products. ITP Group as a company has twenty years of first hand experience from the Asian market and can therefore provide their customers with excellent support and service. ITP Group is looking to expand their Box & Bag division. In the recent years there has been an increase in production costs in the Shanghai area and because of this they are considering expanding elsewhere.

1.1 Statement of the problem
ITP Group wants to expand their Box & Bags division. Because of the increasing price level in Shanghai, they are considering the possibility for an expansion elsewhere. They want the authors to evaluate if it will be profitable to expand their manufacturing to another province.

1.2 Research Aim
The aim of the thesis is to locate which province will be most profitable for a potential expansion of ITP Group’s Box & Bag division.

“Provide ITP Box & Bags with an evaluation of potential regions in China. The authors will research which incentives that will be important when expanding and based on these incentives measure which province will be the most profitable. Finally they will come up with a recommendation of the most profitable province.”
1.3 Research Questions

To be able to answer the research aim and to conduct the thesis, the authors have created five research questions.

- *How is the textile industry developing in China?*

- *Which incentives should be considered to ensure a profitable expansion?*

- *Is ITP Group ready for an expansion?*

- *Which provinces should be considered for an expansion?*

- *Will it be profitable for ITP Box & Bags to expand?*

1.4 Research Limitations

There are several limitations the authors have taken into consideration when working on the thesis. The first limitation concerns the language barrier. Reason being that the authors has little prior knowledge about the Chinese language. This may lead to the exclusion of important sources that potentially could have been useful for the research, such as reports and literature found on the Internet.

The second limitation concerns the lack of budget and time to travel to the different provinces to gather more specific information from those already involved in the textile industry. There are also many useful analysis and reports regarding the textile industry that will be excluded due to the price.
Chapter 2: ITP Group

In this chapter the authors will give an overview of ITP Group to get a better understanding of the company.

2.1 ITP Group

All the information collected in this part of the thesis comes from the company’s website and information provided to the authors by ITP Group.

ITP Holding AS was founded in Norway and has through the past 20 years been a strategic partner and link between European and Asian producers in the textile industry. More specifically does ITP Group:

1. ** Manufacture products in ITP Group or in a 3rd party facility **
2. ** Move production to Asia, this includes:**
   a. Outsourcing of components or products
   b. Offshoring of complete production or production facilities
3. ** Manage customers “Asia sourcing office”, this means:**
   a. As an integral part of the ITP organization
   b. As stand-alone organization

ITP Groups vision is to manage the whole supply chain in Asia for their customers, so that they can focus on managing their own customers. Their main focus is on ethical trade compliance and quality of products to the customers. Which means that the production of goods always is delivered with European standards and to a competitive price. The main markets as of today are: Norway, Denmark, Sweden, Finland, United Kingdom, Germany and USA.

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1 [www.nccc.no/index.php?option=com_docman&task=doc (Downloaded: 10.03.2012)]
2 [PowerPoint provided by Knut-Alexander Bronder]
3 [Appendix 1: PowerPoint provided by Knut-Alexander Bronder]
4 [http://www.itpgroup.no/about/]
In 1999, ITP Group established their first offices in Hong Kong and Shanghai. Due to changes in the Chinese governments regulations, the company decide in 2003 to open up their first production facility: ITP Lifesaving. In 2005 the second production facility was opened: ITP Box & Bags. Approximately 250 employees make up the workforce at these two facilities, where the employees work in manufacturing, engineering, specialist, quality control or ethical trade compliance.

2.2 ITP Business units

ITP Group is divided into the following business units:

**Figure 2: Overview of ITP Group business**

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5 Appendix 1: PowerPoint provided by Knut-Alexander Bronder
6 http://www.itpgroup.no/business-units/
Figure 2 provides an overview of the different units in the company. For most of the business units the need for un-skilled labor will be higher, while in the technical engineering unit they will need more skilled workers.

2.3 ITP Box & Bags in China

As stated earlier in the thesis ITP Box & Bags production facility was opened in 2005 in Shanghai. The primary focus at this facility is technical textile products. This includes production for companies that produces backpacks, bags, fabric bags, bicycle bags, and life jackets. The production of these products requires several different fabrics, including: nylon, polyester, cotton, imitation leather, plastic, PVC and PU. The availability of these fabrics are therefore essential for production at the ITP Box & Bags facility.

In the next section the authors will go into detail about what type of manufacturer ITP Box & Bags is.

2.3.1 Contract manufacturer (CM)

ITP Box & Bags are a contract manufacturing (CM) division in ITP Group. A contract manufacturer implies that they are provided with a formula, or design from hiring firms and then produce on contract. These are contracts that commonly last up to 5 years. For hiring firms it is common to approach several CM companies to get the most beneficial contract. The contract manufacturer provides everything needed to produce the goods, such as equipment, labor, and facilities. They can also store the finished goods several days before delivering. By having many customers at the same time ITP Box & Bags can benefit from economy of scale.

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7 Appendix 3: Interview with Knut-Alexander Stenvik Bronder
8 http://www.wisegeek.com/what-is-contract-manufacturing.htm
2.4 Ethical trade

ITP Group works hard to maintain their social responsible in every aspect of the business. They are committed to conduct a high set of standards in every part of the business activity that is being conducted.\textsuperscript{10} To ensure that the suppliers understand the importance of these high sets of standards, ITP Group developed a Code of Conduct.

2.4.1 Inspections

According to the Code of Conduct ITP group reserves the right to inspect a third party at any time. This fact also applies for the customers. The suppliers are also required to reach their primary goals in the timeframe set.\textsuperscript{11}

2.4.2 Standards

ITP group’s standards are based on important United Nations (UN) and International Labor Organization conventions and documents. These are:

1. Forced labor/ Prison labor:
2. Freedom of association and right to collective bargaining
3. Child Labor
4. Discrimination
5. No harsh or inhuman behavior
6. Health and safety
7. Wages and benefits
8. Working hours
9. Regular employment
10. Conditions outside the workplace
11. Environmental protection

The authors have decided not to focus on ethical issues when conducting this thesis. Reason being that ITP Box & Bags already have high ethical standards that will not be jeopardized by a expansion to a different location.

\textsuperscript{10} \url{http://www.itpgroup.no/ethical-trade-2/}
\textsuperscript{11} \url{http://www.itpgroup.no/wp-content/uploads/code-of-conduct-itp-apr2011-english2.pdf}
PART II: METHODOLOGY
Chapter 3: Research process

In this part the authors will give the reader an understanding of the methods and theories being applied in the thesis and at the same time thoroughly explain how the authors will use them.

The authors have decided to structure the thesis based on the framework of Gripsrud, Olsson and Silkoset (2010), which divides the research process into six different stages (2010, 36).

Figure 3: Stages in the research process¹²

3.1 Research Design

Selecting the appropriate research design is important because it will provide as a framework for the analysis of the data.¹³ According to Gripsrud, Olsson and Silkoset (2010, 49) the design of a research should: 1) Specify the data needed in order to answer each research question, 2) Be a guideline for how we should precede in order to acquire the data we need, 3) Help explain how we should analyze the data.

In the next section the authors will further describe the research design and how it will help answering the research questions.

3.2 Explorative design

The choice of design should according to Gripsrud, Olsson and Silkoset (2010, 38) be based upon three factors: experience, knowledge of theory and the level of ambition. Because the aim of the research is to explore the subject on a deeper level and the authors have little prior knowledge about the subject matter, descriptive and causal design will therefore be excluded and explorative design will be applied.14

3.3 Data Collection

The data collection for the analysis will be collected through both primary and secondary sources. The primary data will be collected in form of in-depth interviews and the secondary data in form of both external and internal sources. The authors will in the following section explain further the choice of data collection.

![Figure 4: Overview of the different data sources](image)


3.3.1 Primary data: In-depth interviews

One of the characteristics of primary data is that it is collected for a specific purpose to be able to answer the research questions. In this thesis the only form of primary data that will be collected will be through in-depth interviews with professionals in the fields of Chinese economy, law and textile industry. The professionals that will be interviewed are:

- Knut- Alexander Stenvik Bronder, Client Manager at ITP Foreign Trade
- Professor Wang Xiaozu, at Fudan University
- Teodora Mincheva, Factory Manager in Shanghai area
- Law Professor Daxiao Shi, at Fudan University
- Professor Jørgen Ørstrøm Møller, visiting senior fellow isees
- Zong Amanda, Factory Manager at ITP Box & Bags
- Professor Wei Li, at Donghua University

The reason for choosing this interviewing method is because it will provide the analysis with valuable information, in form of getting important expert opinions regarding what provinces that will provide ITP Box & Bags with the best incentives for an expansion. At the same time will it provide the authors with valuable insight into the different individuals prior experiences and knowledge with no interference from other opinions.

The authors have further decided to use a semi-structured interviewing approach when conducting the interviews with the professionals. The reason for choosing this structure is because it would allow the person interviewing to “ask further questions in response to what are seen as significant replies.”

The interview guide will therefore provide as a guideline to ensure that the

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information given, from the interviewees, will be relevant to answer the statement of the problem.

3.3.2 Secondary Data

Secondary data is according to Gripsrud, Olsson and Silkoset (2010,58) characterized by the fact that it is data collected by others, for a different purpose than the research itself. In the thesis the authors will collect data both using internal and external sources. These sources will help emphasize the primary data collected through the in-depth interviews and answer the research questions. The different sources will be further explained in the next section.

- **Internal sources**

  “Data from internal sources can be sales numbers, hierarchical structure, product information, company vision and mission, future plans” (2010,59). In this thesis the internal sources will particularly be important when conducting the internal analysis of ITP Group, to evaluate the whole company’s internal ability to expand.

- **External Sources**

  The external sources are all the sources of information collected that does not come from the company internally. The authors have decided to use two forms of external sources: public sources and professional literature. The public sources will be collected using the Internet, while the professional literature will be based on books.

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3.4 Reliability and Validity:

Reliability can be defined as: “the extent to which an experiment, test, or any measuring procedure yields the same result on repeated trials.”²¹

The authors have applied a qualitative research method when conducting the thesis. The main criticism of this method is that it is very difficult to produce the same results if repeating the research. Reason being that the author’s own interpretation of the data collected would be hard to duplicate although the same prerequisites is set.

It may be challenging to find credible secondary data because there are many sources regarding the textile industry in China. However it is difficult to evaluate the accuracy of the sources. To ensure reliability the authors will try to collect the same data, through in-depth interviews and secondary sources.

Validity refers to “the degree to which a study accurately reflects or assesses the specific concept that the researcher is attempting to measure.”²²

The definition of profit is: Profit = Revenue – Costs.²³ To locate the most profitable province, the authors have made the assumption that the chosen incentives will ensure profitability. These incentives will reduce costs and therefore increase profitability. The reason for not including revenue is that the authors were not provided with sufficient information from ITP Group. Consequently the validity of the thesis is affected by not calculating the revenue.

²¹ http://writing.colostate.edu/guides/research/relval/pop2a.cfm
²² http://writing.colostate.edu/guides/research/relval/pop2b.cfm
²³ http://en.wikipedia.org/wiki/Profit_%28accounting%29
Chapter 4: Theories

There are many different theories that can be applied to analyze the external and internal environment. To be able to answer the statement of the problem in the most accurate way the authors have chosen to apply PESTEL-, Porters Diamond- and ACE theory. In this chapter the authors will explain why the theories have been chosen and how they will be applied. The analysis is divided in an external and internal part.

4.1 External analysis Theory

PESTEL and Porters Diamond model will be used in the external analysis.

4.1.1 PESTEL Theory

There are several factors in the macro-environment that will influence the textile industry. Tax changes, laws and trade barriers are all examples of changes in the macro environment. The PESTEL analysis will help the authors to ensure that the company’s expansion is positively supported with the forces and changes in the macro environment. The PESTEL framework divides the environment into six different factors:

- **Political factors**
  These refer to government policy such as the degree of involvement in the economy. What goods and services does a government want to provide? To what extent does it believe in promoting firms? What are its priorities in terms of business support? Political decisions have a huge impact on business regulations and functions in a country.

- **Economical factors**
  These include interest rates, taxation changes, economic growth, inflation and exchange rates. The economical factors have a major impact on

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24 http://www.oup.com/uk/orc/bin/9780199296378/01student/additional/page_12.htm
25 http://www.oup.com/uk/orc/bin/9780199296378/01student/additional/page_12.htm
company’s performance and it is therefore important to take this in
consideration in both short- and long-term decisions.26

• **Sociocultural factors**
  Changes in social trends can impact the demand for a firm’s products, and
  the availability and willingness of individuals to work. Factors important to
take in consideration are language, norms, values and attitudes.27

• **Technological factors**
  New technology creates new product and processes. Technology can reduce
costs, improve quality and lead to innovation. These developments can
benefit consumers as well as the industry providing the products.28

• **Environmental factors**
  The environmental factors can be affected by government restrictions. The
restrictions force industries to take responsibility of manufactured factors
such as pollution.29

• **Legal factors**
  Legal factors are related to the legal environment in which firms operate.
Company’s needs to follow the legal standard when doing business in a
foreign market. Legal factors also include international agreements such as
World Trade Organization (WTO) and the Association of Southeast Asian
Nations (ASEAN).30

26 [link]
27 [link]
28 [link]
29 [link]
30 [link]
4.1.2  Porter’s Diamond Theory

Porter’s Diamond Theory states that there are “inherent reasons why some nations and industries within nations are more competitive than others on a global scale”\(^31\). In the thesis the authors have decided to use Porters Diamond Theory to evaluate the competitive advantage of the textile industry in different regions in China. Reason being that this will help to locate which region that will provide the expansion with the best competitive advantage. The competitive advantage of an organization is due to four specific determinants made available to them by the region they are located in. There are also two additional variables that could have a great affect on all of the determinants. All of these will be further described in the next section.

\(^31\) http://www.businessmate.org/Article.php?ArtikelId=49
Four determinants influencing national competitive advantage

- **Factor conditions**
  Is cited as the “inputs used as factors of production.” This includes natural resources, capital, labor and infrastructure. Porter claims that the “specialized factors” is created, not inherited. In other words can organizations create their own competitive advantage if they have specialized factors hard to duplicate by other organizations.

- **Demand conditions**
  Having high demanding customers in the market puts a high pressure on the organization to improve and increases the likelihood of competitive advantage.

- **Related and supporting industries**
  Having related and supporting industries working in the same area could facilitate for a constant exchanging of ideas and innovation, and lead to a competitive advantage.

- **Firm strategy, structure and rivalry**
  Local conditions as for example the capital market, the structure of the management style and the rivalry among other competing organizations does have an impact on the competitive advantage.

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33 [http://www.12manage.com/methods_porter_diamond_model.html](http://www.12manage.com/methods_porter_diamond_model.html)
34 [http://www.12manage.com/methods_porter_diamond_model.html](http://www.12manage.com/methods_porter_diamond_model.html)
Additional variables

- **Government**
  
  Government has the power to influence all the determinants of competitive advantage above, this through: Subsidies, taxes, different policies and standards.\(^{37}\)

- **Chance**
  
  Chance can be described as unexpected events outside of the company’s power to influence. This variable has like government variable the power to influence all the determinants of competitive advantage.\(^{38}\) Examples of chance events could be: Significant shift in exchange rates or political decisions made by foreign countries.\(^{39}\)

4.2 **Internal analysis theory**

The ACE theory will be used in the internal analysis.

4.2.1 **ACE theory**

![Diagram of ACE theory](http://vectorstudy.com/management_theories/diamond_model.htm)

![Diagram of ACE theory](http://www.clusterland.at/822_ENG_HTML.php)

![Diagram of ACE theory](http://books.google.no/books?id=HtV2-umnoJrsC&pg=PA51&dq=example+of+chance+events+in+porters+diamond&hl=no&sa=X&ei=FY2bT5ytG4zmMRAWMya2WBQ&ved=0CGoQ6AEwCA#v=onepage&q=example%20of%20chance%20events%20in%20porters%20diamond&f=false)

*Figure 6: An overview of the ACE-theory*
The ACE theory is primarily used to analyze a company’s progress in international markets and in the internationalization process. The authors have decided to apply the theory to analyze ITP Group internally and use it to evaluate if they have the right set of attitudes and competence to expand their Box & Bags division. The expansion process depends on a variety of conditions. It is primarily the company’s internal commitment and support to the expansion process that determines if they will become successful. Through the development of attitudes, competence and experience ITP Group will have a better chance of a successful expansion.  

According to Solberg, it is important that the management and the employees of ITP Group have a set of “correct” attitudes that characterizes the activities and decisions when expanding. The areas that distinguish between a “good” and “bad” exporter, and “good” and “bad” progression for a company includes the willingness to take risk, orientation of the market, attitudes towards other cultures and ability to avoid obstacles in the market (2009, 132-133). The second factor is competence. Competence is skills and insights that differs a successful company from an unsuccessful company. When evaluating ITP Group’s competence it will be important to focus on their market analysis, knowledge about the new markets and possible regions to expand their production to.

Finally, an expansion also requires embodiment of the two mentioned factors and their integration in the company. To have a successful expansion of the Box & Bags division they needs to have internal support and involvement from every part of the company.

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PART III: DATA COLLECTION

Chapter 5: Findings

The authors have decided to include this chapter to present the main findings collected through the primary and secondary research. The reason for doing so is because the authors believe that it will ensure that the research questions are being answered in the analysis part of the thesis. As stated earlier, the data is based on several different Internet sources and in-depth interviews with professionals in the fields of Chinese economy, law and textile industry.

5.1 Textile industry

The textile industry has a long history in China and has been a major contributor to the country’s growth. Over the past decades China has attracted manufacturers from many different sectors, including textile producers.43

According to a study in 2009 by China Textile Network Company, China was the world’s most favorable textile manufacturing location.44 This has been hard to sustain, due to the high inflation rate and the increase in labor and production costs. In order to cope with the issues, the government is currently trying to stabilize the inflation by increasing import and promoting domestic consumption. Recently they have also started focusing on technological development, due to the desire to shift towards a higher-end manufacturing.45 The government has started to restructure the Coastal regions to attract higher value added companies with more developed technology. In the Central and Western regions they are not working on the same restructuring, reason being that it is not as well developed regarding infrastructure.46

45 Appendix 3: Interview with Professor Wang
46 Appendix 3: Interview with Professor Wang
5.1.1 Location of the textile industry in China

The research has given the authors an indication of where in China the majority of the textile industry is located. According to Professor Wei Li the textile industry has traditionally been located in Shanghai and other Coastal provinces such as Zhejiang, Jiangsu, Shandong and Guangdong. The argument is that rising costs in these provinces has contributed to new clusters evolving in the more Central provinces, where the labor cost is lower. The fact that Shanghai over the years has been a center for textile production is starting to change. The R&D and head quarters are still kept in Shanghai, while the production facilities are gradually moving to more Central China.48

Traditionally different provinces have specialized in different types of production. According to Professor Wei Li, Xinjiang province has a lot of raw material, in Jiangsu province the government provides with good investment

48 Appendix 3: Interview with Professor Wei Li
incentives and Henan province is a big province that facilitates for both textile and chemical production. Traditionally Shandong province was good at spinning while Zhejiang and Jiangsu province was good at weaving and knitting. In recent years it has appeared to be a change in the specialization of these provinces. Consequently, other provinces are becoming attractive for the textile industry.49

5.1.2 Future outlook on the textile industry in China

According to a study done in 2009 China is still one of the most “competitive locations in the world for textile production.”50 However the Chinese manufacturers must still deal with increasing costs in the coming years.51 An example of rising costs is that total logistic costs rose 18.5 percent in 2012 compared to 2011.52 In labor costs, the trend is that wages is getting too high in the developed Coastal regions of China. This has led textile manufactures to look for new locations in the Central and Western regions where they can gain a cost advantage. According to Professor Wei Li lower labor costs does not necessary mean there is a future advantage for textile manufacturing in these areas53. Reason being that the infrastructure, cluster formations and labor access is not necessarily as good.

Another important trend is the shift in types of textiles being produced in China. The production of basic textile products is currently being moved to other South-Asian countries such as Vietnam and Cambodia. While the textile industry in China is shifting towards more advanced products.54 This change is leading to a higher need for qualified workers in the future.55

49 Appendix 3: Interview with Professor Wei Li
52 http://english.peopledaily.com.cn/90778/7731408.html
53 Appendix 3: Interview with Professor Wei Li
5.2 Clustering of the industry; Industrial parks

ITP Box & Bags production facility is currently located in an industrial park in Shanghai. According to Professor Wang the government use industrial parks to attract businesses to their province and to reach an economy of scale. The definition of an industrial park is that it is “an area zoned and planned for the purpose of industrial development.” The benefits of industrial parks are that they are located in areas that have well developed infrastructure and supporting industries. At the same time they also reduce the social and environmental impact of the industry. In other words industrial parks can be said to be a cluster formation of the industry.

5.3 General environment

To get an overview of the general environment in China, the authors will describe the macro situation by using the PESTEL factors. It will be important for the authors to fully understand the overall situation before analyzing the provinces. The findings will be further used with regard to the Box & Bags expansion in the external analysis.

5.3.1 Political factors

The Peoples Republic of China was established in 1949. Since then the government have had strict control and the citizen involvement has been low. The government’s objectives are to ensure social stability, economic growth and determine the Chinese politics. On the basis of this the government is making five-year plans. The 12th five-year plan was adopted in March 2011 and displays many important issues for the government to grasp, but there are five significant objectives that stand out concerning the manufacturing

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57 http://en.wikipedia.org/wiki/Industrial_park
58 Appendix 3: Interview with Professor Wang
60 http://www.landsider.no/land/kina/fakta/politikk/
industry\textsuperscript{61}:

1. To restructure the Chinese economy by encouraging domestic consumption over exports. The aim was to reduce export, so the central banks monetary supply would decrease, and the economy would become more stable.

2. To develop the service sector

3. To shift towards higher value-added manufacturing. Increase in labor cost, is making it difficult for China to be competitive in low value-added manufacturing.

4. To conserve energy

5. Clean up the environment

In 2009 China’s ministry of commerce launched a “Go Inland” campaign to promote Foreign Direct Investment (FDI) in the Central provinces; Shaanxi, Shanxi, Anhui, Jiangxi, Henan, Hubei and Hunan.\textsuperscript{62} Other priority zones mentioned in the campaign is the “economic belts along the Yangtze River and Beijing-Guangzhou Railway and other areas closely linked with the Yangtze River Delta, Pearl River Delta and the Bohai Bay Rim\textsuperscript{63}. According to China-briefing.com “At the time of official campaign launch in 2009, the central region’s combined exports accounted for only 4.3 percent of the national total, and manufacturing, energy and raw materials industries dominated.” \textsuperscript{64}

5.3.2 Economical factors

The Chinese government has used many years trying to build China as a world leading economy. In 2010 they became the worlds largest exporting country

\textsuperscript{61} http://www.icis.com/Articles/2011/10/31/9503669/five-year-plan-launches-china-textiles-on-new-course.html
and in 2011 the second largest economy in the world.\textsuperscript{65}

Since the late 1970s China has moved from a closed, centrally planned system to a more market-oriented economy that plays a key role in the world. In 2011 China exported for a total of $1,898 trillion and the import value was $1,743 trillion. The GDP was $11,29 trillion in 2011, which estimates $8400 per capita\textsuperscript{66}. The government is aiming at an annual growth of 4 percent on the CPI. The CPI increased by 5.4 percent in 2011, and the food prices increased by 11.8 percent.\textsuperscript{67} Table 6 shows that the last three years there have been a lot of fluctuations in the inflation rate. According to Professor Wang, the inflation is at the moment stable.

![Figure 6: Inflation rate in China\textsuperscript{68}](https://www.cia.gov/library/publications/the-world-factbook/geos/ch.html)

\textsuperscript{65} https://www.cia.gov/library/publications/the-world-factbook/geos/ch.html
\textsuperscript{66} https://www.cia.gov/library/publications/the-world-factbook/geos/ch.html
\textsuperscript{67} http://english.mofcom.gov.cn/article/newsrelease/counseloroffice/westernasiaandafricareport/201204/20120408058445.html
\textsuperscript{68} http://www.china-window.com/china_economy/china_economy_guide/prospect-of-chinas-future.shtml
According to Joseph Lee author of “Prospect of China’s future economy growth” on China-window.com. China economy will continue to grow in the years to come, due to these factors:

1. Huge market potential
2. Rich labor resources
3. Comparative advantage in labor cost
4. Sound corporate governance
5. Stable government society

5.3.3 Sociocultural factors

China is one of the largest countries in the world with a population of 1,347,350,000 inhabitants. Of these 816,2 millions are counted as part of the labor force. By 2011, the unemployment rate was 6.5 percent. The government’s one child policy is leading to China being one of the fastest aging countries in the world.

Over the past years there has been a labor shortage in China. According to a director of the Chinese Academy of Social Sciences, “China’s coastal cities are short of estimated 10 million workers.” In cities such as Shanghai and Guangzhou 20 million workers left their jobs. Reason being that they were moving back to their homes in rural provinces, where there has been an increasing need for labor over the past years. Consequently, this has lead to a “highly competitive labor market”, especially in the East Coastal provinces. In the light of this, the wages was according to a respondent at a USCBC survey raised 20 percent at his factory from 2010 to 2011.

70 http://www.globalissues.org/article/144/china-and-human-rights
In 2011 the government set a new low standard for the poverty line at 2300 RMB, as a result 128 millions Chinese are now considered as below the poverty line.\(^75\)

### 5.3.4 Technological factors

According to Professor Shing-Tung Yau the author of “*Science and technology in China*” the prosperity China is now experiencing is highly connection to the technological progress.\(^76\) China is more technological developed than other Asian countries, implying a production advantage.\(^77\) In some areas regarding technological advancements, China is currently outpacing the US. This includes; High-speed railway, high voltage transmission, nuclear power and renewable energy.\(^78\)

### 5.3.5 Environment factors

According to Pan Yue, Vice Director of the State Environmental Protection Administration of China said, “*Environmental problems have become a main factor affecting China's national security and social stability*”\(^79\). Currently China has 16 of the 20 most polluted cities in the world and they will therefore face many environmental challenges in the future.\(^80\) The Chinese government’s increased focus and commitment to the environment regarding how to reduce the pollution, is a challenge for the companies due to rapid changes in regulations. An example is that new laws enforced are imposing companies conducting manufacturing in China to install filters and catalysts to reduce the pollution.\(^81\)

\(^77\) [http://www.greenbiz.com/blog/2010/12/07/technologies-where-china-has-us-beat](http://www.greenbiz.com/blog/2010/12/07/technologies-where-china-has-us-beat)
\(^78\) Appendix 3: Interview with Professor Wang
\(^79\) [http://www.theepochtimes.com/news/6-6-10/42510.html](http://www.theepochtimes.com/news/6-6-10/42510.html)
\(^80\) [http://www.theepochtimes.com/news/6-6-10/42510.html](http://www.theepochtimes.com/news/6-6-10/42510.html)
\(^81\) [http://www.vjel.org/journal/VJEL10058.html#_Toc163823492](http://www.vjel.org/journal/VJEL10058.html#_Toc163823492)
5.3.6 Legal factors

China is divided into twenty-three provinces, five autonomous regions and four municipalities. According to Professor Daxiao Shi, *The National People’s Congress* has the authority to make laws in China. He also pointed out that it is important to distinguish between the concept of laws and regulations. Laws do not necessarily affect the textile industry, but it is instead affected by regulations that are passed on by the State Council in the specific province.

A law is “any written or positive rule or collection of rules prescribed under the authority of the state or nation, as by the people in its constitution”.

While regulations can be defined as “administrative legislation that constitutes or constrains rights and allocates responsibilities”. In other words the regulations are made on the basis of the law to make it easier to follow and comply with the law.

According to Samantha Jones, author of *Operational Costs of Business in China’s Inland Cities* “in China Briefing “Mandatory welfare payments to Chinese employees (including pension, unemployment, medical insurance and housing) will typically be an extra 30 percent to 50 percent on top of salary and vary by city.”

5.4 Incentives

The authors are not provided with sufficient information from ITP Group to calculate their revenue. Therefore based on their findings, they have chosen four incentives that they assume will ensure profitability. The different provinces will be evaluated based on these incentives.

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83 Appendix 3: Interview with Professor Daxiao Shi
The incentives the authors have decided to use in the process of evaluating regions are:

- Government
- Costs
- Clustering
- Labor

The choice of incentives will be further elaborated and reasoned in the next sections.

### 5.4.1 Government

Government has been chosen as an incentive because the Chinese government can affect the development of different industries. The local government can provide strong investment incentives or restrictions to regulate where industries are located. As a result of this, there will be formation of industry clusters. China’s Ministry of commerce provides investment incentives through the “Go inland” campaign to promote foreign direct investment (FDI).\(^{88}\) The local government can also decide minimum wage, and affect facility costs by setting the rent or price of land areas.

### 5.4.2 Costs

A cost can be defined as “an amount that has to be paid or given up in order to get something.”\(^{89}\) It is important to point out that that authors understand that costs together with revenue are the only direct way to evaluate whether or not a company is profitable.

The authors have chosen to consider labor, facility and logistics cost when evaluating the different provinces. Land and labor cost is the most important, as it account for 70 percent of the total operating cost.\(^{90}\) The authors assume

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\(^{89}\) [http://www.businessdictionary.com/definition/cost.html#ixzz1sB1cCz1i](http://www.businessdictionary.com/definition/cost.html#ixzz1sB1cCz1i)

that by adding logistic costs they will get a more accurate overview of total operating costs.

5.4.3 Cluster

Cluster is defined as “a geographic concentration of interconnected businesses, suppliers, and associated institutions in a particular field. Clusters are considered to increase the productivity, with which companies can compete, nationally and globally.” According to Professor Wei Li, having manufacturing in a cluster will give advantages to ITP Box & Bags. Cluster can be defined as industry-chain, which includes supporting industry, technology, infrastructure and logistics.

Based on the findings the authors assume there will be technological and cost advantages if located in an industry cluster. Therefore the degree of clustering will be important when evaluating different provinces.

5.4.4 Labor

Labor can be defined as “productive activity, especially for the sake of economic gain.” In other words, without labor there will be no production. Through the findings the authors recognize that there are differences in the access to labor in different provinces. As stated earlier, in some urban areas there is a labor shortage. Consequently the access to labor is important when evaluating different provinces. The demand for low-skilled labor is higher for ITP Box & Bags because the production process involves mostly low skilled tasks.

91 http://en.wikipedia.org/wiki/Business_cluster#cite_note-0
92 Appendix 3: Interview with Professor Wei Li
93 http://dictionary.reference.com/browse/labor
5.5 Current situation in Shanghai

As stated earlier, ITP Box & Bags are currently located in Shanghai. The authors find it necessary to analyze the textile industry situation, by using the given incentives, to be able to compare Shanghai to potential provinces.

5.5.1 Government

Previously the government in Shanghai was providing important incentives for the textile industry in Shanghai. However according to Professor Wang the government is now giving more incentives to attract high-end manufacturers, large companies and companies investing in R&D\(^95\). According to understand-china.com there are no specific incentives regarding the textile industry for foreign companies.\(^96\)

5.5.2 Costs

The average wage in Shanghai rose from 1996 RMB in 2010 to 3084 RMB in 2011. The current minimum wage in Shanghai is 1,120 RMB per month; this is the highest of every province/municipality in China.\(^97\) The average facility cost in Shanghai is 27.3 RMB/m\(^2\).\(^98\)

5.5.3 Labor

Traditionally there has been a vast amount of labor in Shanghai and the other coastal cities, but in the last years there has been an increasing labor shortage. According to the consulting firm Runckel & Associates, at one factory only 70 percent of the workforce returned to work after Chinese New Year. The reason for this is that they are now moving closer to their homes in Central China, where a lot of new jobs have emerged.\(^99\)

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\(^95\) Appendix 3: Interview with Professor Wang
\(^96\) http://understand-china.com/?manufacturing=shanghai-labor-costs
\(^98\) http://understand-china.com/?province=shanghai
\(^99\) http://www.icis.com/Articles/2011/10/31/9503669/five-year-plan-launches-china-textiles-on-new-course.html
5.5.4 Clustering

It has developed a large textile industry cluster in Shanghai, due to the government previous focus on promoting this industry. According to Professor Wei Li, Shanghai has been the center for textile industry for a long time. As stated earlier, production is being moved out of Shanghai to more central-regions, while HQ and R&D center is still located in Shanghai. It is important to point out that Shanghai has China's largest multi-platform shipping hub and that the Waigaoqiao Port was the first Free Trade Zone appointed by the Chinese government. Shanghai also has 2 airports and a well-developed railway system so the infrastructure and logistic in the area is one of the best in China.

Shanghai is overall becoming a more expensive place to invest and have production in. The increase in labor cost and the changes in investment incentives, forces manufacturers to look for other locations to gain a production cost advantage.

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100 Appendix 3: Interview with Professor Wei Li
101 http://understand-china.com/?manufacturing=shanghai-logistics
PART IV: DATA ANALYSIS

In this part of the thesis the authors will use the findings and other secondary data, to analyze the textile industry in China and explore potential regional differences. The authors will also conduct an internal analysis to evaluate if ITP Group is ready for an expansion.

Chapter 6: External Analysis

In chapter 6 the authors will analyze the external environment in China by applying the PESTEL theory and Porter’s Diamond theory.

6.1 PESTEL analysis

To get a better understanding of the textile industry and how it is developing, the authors have chosen to use the PESTEL theory to analyze how macro factors are affecting the textile industry.

6.1.1 Political factors

Three objectives from the 12th five-year plan will have significant implications for the textile industry. The government goals are to make a shift in manufacturing to high value-added manufacturing for promoting new technology. This creates challenges for textile manufacturers, because new technology requires high-skilled workers that are demanding higher wages. This has led to the trend of textile manufacturers moving inland. The government is trying to lower energy consumption to reduce pollution. Textile industry is one of the main reasons behind pollution in China102; this particularly includes dyeing and chemical textile production.103

103 Appendix 3: Interview with Professor Wei Li
To help the Chinese textile industry grow stronger, the government decided the following directions: to stabilize the share of China in the international market, to enlarge the domestic consumption, to focus on proprietary innovation and technical upgrade, to phase out old facilities, and optimize geographical distribution of the industry.\textsuperscript{104} According to Professor Wang the government promotes cluster industry by giving incentives such as tax reduction, cheap land, or other benefits in an industrial park. The government can also make industry move from a particular location, by stop giving incentives.\textsuperscript{105}

Furthermore the government promotes and supports all companies in China to be innovative and efficient, so that they can contribute to technological and social development. The intellectual property right law provides incentives for innovation; this could for example be environmental solution.\textsuperscript{106}

\textbf{6.1.2 Economical factors}

By 2011, the predicted value of China’s textile industry was 2393.80 billion RMB, with a growth of 30 percent YoY.\textsuperscript{107}

According to the textile industry report 2011, China’s textile industry has faced several different macro economical challenges, \textit{“this includes RMB appreciation, sharp price fluctuations of different materials, and rise in labor cost and energy.”}\textsuperscript{108} RMB appreciation will have a negative effect on export, while price fluctuations and rising costs creates uncertainty in the textile industry. Inflation is a challenge most importantly because it causes higher production costs. The trend is that production costs are higher in East Coastal regions than in Central China.\textsuperscript{109}

\textsuperscript{104} http://www.china-window.com/china_economy/china_economy_guide/prospect-of-chinas-future.shtml
\textsuperscript{105} Appendix 3: Interview with Professor Wei Li
\textsuperscript{106} http://news.xinhuanet.com/english/china/2012-02/18/c_122719389.htm
\textsuperscript{107} http://seekingalpha.com/instablog/416848-eileen-gu/216420-textile-industry-report-2011
\textsuperscript{108} http://seekingalpha.com/instablog/416848-eileen-gu/216420-textile-industry-report-2011
According to Professor Wang, the textile industry in China are benefiting from economy of scale, which gives them a production advantage.  

### 6.1.3 Sociocultural factors

The findings indicate that there is a trend towards higher labor cost in the East Coastal cities in China, compared to Central and Western regions. The labor is also moving to more rural provinces. Therefore it is predicted that the movement of labor force affects the textile industry. The increasing labor cost and higher demanding workforce creates labor shortage in Coastal regions. A manufacturer needs to provide good incentives and other benefit packages as compensation too retain the workers. Central and Western regions provide new opportunities, which makes it possible for workers to relocate closer to home.

### 6.1.4 Technological factors

In general the Chinese textile industry is further technologically developed compared to many other Asian countries. The production in China is more automated, implying a production advantage in China. The government is encouraging innovation and technological development at the East Coast of China, as a part of their five year plan. As a result they wish to attract higher-end manufacturing.

### 6.1.5 Environment factors

As stated in the findings, China has 16 of the most polluted cities in the world. As a result of this, the government has introduced regulations to minimize pollution, leading to increased costs for the textile industry, especially
concerning the dyeing process and chemical fiber production.\textsuperscript{114}

6.1.6 Legal factors

According to Daxiao Shi, law professor at Fudan University “\textit{laws on tariffs and technicians are the main laws and regulations currently affecting the textile production}”. Different provinces have different regulations concerning the textile industry; therefore it will be important to be located in a province with beneficial regulations.\textsuperscript{115}

The local governments in different regions develop regulations that will affect industry, labor and other important aspects. The National Development and Reform Commission in China is also one of the main contributors affecting the textile industry today and in the future.\textsuperscript{116} The NDRC's functions are to study and formulate policies for economic and social development, maintain the balance of economic development, and to guide restructuring of China's economic system.\textsuperscript{117}

6.1.7 Summary of the PESTEL analysis

After going through the various factors in the PESTEL analysis the authors have decided to draw a conclusion of the most important findings.

The Chinese government seems to have a great influence on the textile industry through the strong political control. In the five year plan the focus is on developing the industry into becoming more technologically advance. It will consequently be a gradually shift in how the textile industry is managed in the years to come. The regional government investment incentives imply that there will be a shift in where textile manufacturing is located.

\textsuperscript{114} Appendix 3: Interview with Professor Wei Li
\textsuperscript{115} Appendix 3: Interview with Professor Daxiao Shi
\textsuperscript{116} Appendix 3: Interview with Professor Daxiao Shi
\textsuperscript{117} http://en.wikipedia.org/wiki/National_Development_and_Reform_Commission
The economical situation in China appears to influence the textile industry due to the price fluctuations in cotton, high inflation and increasing manufacturing costs. The increase in overall costs for the textile manufacturers will most likely reinforce their desire to look into new provinces for production.

The movement of labor force to the more central China, appears to have an affect in the textile manufacturers in Coastal regions. For the manufacturers in the Coastal regions the movement of labor force to Central China could potentially lead to a labor shortage.

6.2 Porters Diamond theory

To evaluate the regional competitive advantages in China the authors have chosen to focus on the differences in the development of the textile industry. They will point out the differences in the competitive advantage, if there appears to be one, between the East Coast and the Central regions in China.

After going through all the factors that enhances competitive advantage the authors will make a short summary of the analysis.

6.2.1 Factor conditions

When using Porters Diamond theory to analyze the textile industry, one of the factor conditions that can give the industry a competitive advantage is labor cost. In China the general trend is that minimum wages is rising and textile manufacturers are starting to look for new places to manufacture their products\textsuperscript{118}. The trend is indicating a major difference between the minimum wage in Central China and the East Coast. For example an average salary in Sichuan was only 1400 RMB/month in 2011, the average salary in Shanghai at the same time was 3084 RMB/month.\textsuperscript{119} Another reason for the high wages is

\textsuperscript{118}http://www.icis.com/Articles/2011/10/31/9503669/five-year-plan-launches-china-textiles-on-new-course.html
\textsuperscript{119}http://understand-china.com/?page_id=678
that Coastal cities want to keep improving living standards, attract high-end manufacturing and spur domestic consumption.\textsuperscript{120}

Another important factor in gaining a competitive advantage is how good the infrastructure is developed. In the Coastal regions where the textile industry traditionally has been located, the infrastructure is already well developed. However the government is still planning to make the infrastructure even better. For example in the south, city planners have laid out a plan to merge together 9 cities that is located around the “Pearl River Delta.”\textsuperscript{121}

\textbf{Figure 8:} Pearl River Delta project\textsuperscript{122}

In comparison the infrastructure in Central China is not that well developed. It varies a lot from province to province but in general the East Coast is more developed. Another aspect is that many of the Central regions have in common that the local government is giving investment incentives to promote the development of the infrastructure. One example of this is in Hubei province. This province has, with help from the government, developed into one of Chinas major manufacturing centers and has a strong infrastructure and good logistics.\textsuperscript{123}

\begin{thebibliography}{9}
\bibitem{120} Appendix 3: Interview with Professor Wang
\bibitem{121} http://www.economist.com/blogs/freeexchange/2011/02/infrastructure
\bibitem{122} http://www.economist.com/blogs/freeexchange/2011/02/infrastructure
\bibitem{123} http://understand-china.com/?province=hubei
\end{thebibliography}
The next factor that affects the competitive advantage is the amount of capital invested in the industry. In 2010 China crossed the $100 billion mark for FDI and the FDI has continued to grow since then.

![Figure 9: FDI in China](http://www.economist.com/node/17967018)

Previously most of the investments in the textile industry have been in the East Coast provinces such as Jiangsu, Shanghai and Guangdong. Lately the trend has shifted more towards Central regions like for example Sichuan, who has a large potential workforce and inexpensive facility costs.

Another important factor is labor, which refers to the skills, quality and most importantly availability of labor force in an area. With a population of approximately 1.35 billion people China has the largest potential workforce in the world. This has been the main reason why China has been the world’s largest manufacturing country for many years now. However the latest trend is that on the East Coast it is getting harder to acquire labor. As stated earlier according to the consulting firm Runckel and Associates “Many firms can not
even fully staff their operations”. In one factory they reported that only 70 percent of the workforce returned after Chinese New Year. One of the reasons for this is that people is finding new jobs closer to hometown.”

Another reason that the labor force is shrinking is because of the one child policy.

**Figure 10: World population prospect chart**

As shown in the UN “World Population Prospects charts”, the number of potential entrance to the labor force will drop drastically in the coming years.

The last factor that has been explored is how good access the industry has to natural resources. China is well known for its cotton production and is one of the largest cotton exporters in the world. China has also good access to other raw minerals needed in the textile industry as for example yarn, cloth and chemical fiber. The authors assume that the access to raw materials will be sufficient in all of China.

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130 Appendix 3: Interview with Professor Wei Li
Based on the previous factors the authors assume that ITP Box & Bags will get a distinctive competitive advantage in Central China compared to the East Coast. In the Eastern regions ITP Box & Bags will benefit from a more developed infrastructure. They will also have the benefit of having a fully developed textile-cluster, which will support them with all their needs. The negative factor in this area is that the recent trend shows that there has been a lack of labor because many workers are migrating back to their homes in West. In Central China the infrastructure and textile-cluster is not as developed as in the East. However the government is giving good incentives to speed up the development and there is also a larger potential labor force.

6.2.2 Demand Conditions

According to the China Textile Industry Association’s 2011 analysis meeting, “the Chinese textile industry is stable, but there are some indicators that shows various types of risks. Raw material price fluctuations, tight financing environment, the various elements and labor costs increased, external demand growth low, are factors increasing the operating pressure”\(^{131}\)."

In 2011 the export increased by 19.87 percent YoY, but the growth rate has decreased compared to previous years.\(^{132}\) This shows that there is still high demand for Chinese textile products in the world. The domestic demand is an important source to the development of the industry. Domestic demand is continuing to increase and the government is making huge investments in the textile technology. 70-80 percent of the world orders of modern equipment are delivered to China.\(^{133}\) Having the best equipment contributes to giving the Chinese textile industry a competitive advantage. The industry is trying to be innovative to meet the pressure, and the huge investment from the government shows that they are trying to maintain their competitive advantage and develop more advanced technology.

The demand for the Chinese textile products shows that there is a future for ITP Box & Bags in China. According to Knut-Alexander Stenvik Bronder, there is a high demand for ITP Box & Bags products. ITP Group has developed a set of standards they need to follow, because their customers are demanding high quality products. This will contribute to give ITP Box & Bags a competitive advantage wherever they decide to expand, as long as they maintain their high quality product.

6.2.3 Related and supporting industries

Over the years the Chinese textile industry has gradually been formed into regional clusters that works as a basis for the competitive advantage in these regions. The clustering of the industry has strengthened Chinas positions as one of the leading textile manufacturers. As the textile industry grew in China the clustering formation created a significant divide between the formation of the textile industry on the East Coast and in the Central regions. On the East Coast there was developed a specialized geographical division, where the different regions had their own characteristics and focus areas. In the Central regions the same clustering of the textile industry seem to be partly absent with little or none supporting industries. Today one can see great change in this trend, due to the Chinese governments adjustments in the macro-politic environment. According to the findings “the development of textile capital asserts” was in 2009 more rapid in the Western and Central regions, than in the East. This indicates that the clustering of the textile industry in the Western and Central regions will most likely continue to grow, as long as the Chinese government facilitates for this.

For ITP Box & Bags the need for related and supporting industries is important. The clustering of the industry will provide them with a competitive

\[http://chinatextile.360fashion.net/2010/03/expansion-of-textile-industria.php\]
\[http://chinatextile.360fashion.net/2010/03/expansion-of-textile-industria.php\]
advantage, due to the opportunity of sharing infrastructure with related companies in the industry.\textsuperscript{138} Supporting firms are also important because they provide components, support service, and raw materials.

6.2.4 Firm strategy, structure and rivalry

The textile industry in China has developed into clusters; this means that rivals are located at the same place. Porter’s theory says, “…Presence of intense rivalry in the home base is also important; it creates pressure to innovate in order to upgrade competitiveness.”\textsuperscript{139} The rivalry in the different regions is making companies become more innovative. According to Knut-Alexander Bronder, ITP Box & Bags have no direct competitors that they know of. By being located in a cluster formation they can benefit from supporting industries, sharing of infrastructure, logistics and materials.\textsuperscript{140}

A company’s structure depends on which culture it is influenced by. ITP Group has an egalitarian Scandinavian business structure, compared to the typical Chinese structure that is more hierarchical. ITP Group has 20 years of experience in Asia, and has been established in China since 1999 so they have adapted to the Chinese way of doing business. This will help them getting a competitive advantage when expanding.

6.2.5 Government

The Chinese government plays a key role when it comes to affecting the competitive advantage of the textile industry. Reason being that it has the power to influence all the determinants through regulations as described earlier in the thesis.\textsuperscript{141} Consequently the government is the solid foundation that potentially could either have a negative or positive affect on the industry.

Today there seems to be a certain divide between how the government uses it power to influence the textile industry on the East Coast and the more Central

\textsuperscript{138} http://www.referenceforbusiness.com/small/Bo-Co/Clusters.html
\textsuperscript{139} http://en.wikipedia.org/wiki/Diamond_model
\textsuperscript{140} Appendix 3: Interview with Knut-Alexander Stenvik Bronder
\textsuperscript{141} http://vectorstudy.com/management_theories/diamond_model.htm
and Western part of China. Since the textile industry-chain is relatively strong in the East Coast, the government is not to the same extent anymore providing the industry with the same investment incentives as before. Compared to the more Central and Western regions where the government through their authority wants to influence more growth.\footnote{http://understand-china.com/}

For ITP Box & Bags the government will be an important force that needs to be carefully monitored, to ensure that the operation of the production facility does not become negatively affected by regulations. Since the Chinese Government has the absolute authority to make decisions without any interference from NGOs. The monitoring of government regulations is especially important to ITP Box & Bags because it could affect the competitive advantage in the different regions.

6.2.6 Chance

Chance events are out of the company’s own control and impossible to predict, therefore it would be hard to specifically identify any events that ITP Box & Bags could possible face in the future.

6.2.7 Summary of Porters Diamond analysis

ITP Box & Bags delivers a high quality product and will continue to focus on this wherever they decide to expand. This will help give ITP Box & Bags a competitive advantage.

Today it appears to be the East Coast of China that will provide ITP Box & Bags with the greatest competitive advantage when it comes infrastructure and to the clustering of the textile industry.

The Central regions will provide ITP Box & Bags with a competitive advantage regarding labor cost and access to labor. It is also important to take into consideration that the Chinese government is currently giving more
investment incentives for the textile industry in the Central regions compared to the East Coast. Consequently this is leading to the development of clustering formations in the Central regions.
Chapter 7: Internal Analysis:

In this chapter the authors will analyze the internal situation of ITP Group, by doing a financial analysis and applying the ACE theory.

7.1 Financial Analysis

<table>
<thead>
<tr>
<th>ITP GROUP</th>
<th>Accounting result</th>
<th>Accounting result</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2010</td>
<td>2009</td>
</tr>
<tr>
<td>Profit</td>
<td>1.696.878</td>
<td>-144.380</td>
</tr>
<tr>
<td>Equity</td>
<td>4.695.843</td>
<td>998.965</td>
</tr>
<tr>
<td>Allocated to equity</td>
<td>1.696.878</td>
<td>-144.380</td>
</tr>
<tr>
<td>Liquidity ratio</td>
<td>177%</td>
<td>124%</td>
</tr>
<tr>
<td>Debt ratio</td>
<td>1,288</td>
<td>3,917</td>
</tr>
</tbody>
</table>

*Figure 11: Overview of ITP Groups financial situation 2010, made by the authors*

Figure 11 is based on the income statement from 2010, provided by ITP Group. ITP Group’s financial situation gives an indication of how well ITP Group is able to handle the financial risks of expanding. Based on the income statement the authors have analyzed the company’s profits, liquidity and solidity.¹⁴³

¹⁴³ Appendix 2: Income statement 2010
7.1.1 **Profits**

The authors first looked at ITP Groups profit in 2009 and 2010. In 2009 the company had a deficit of 144,380 NOK, while in 2010 they had a surplus of 1,696,878 NOK. One of the reasons for this is because they reduced their labor costs, operating cost and also greatly increased their sales.

Equity is also an important factor when analyzing the economical situation of the company. ITP Groups equity has increased from 990,965 in 2009 to 4,695,843 in 2010. The increase in equity is a good sign, because it shows that the company has used its profit to reinvest, which shows that they are willing to invest further in the company.

7.1.2 **Liquidity**

The authors also analyzed ITP Group`s liquidity ratio to evaluate the company`s ability to cover it`s payment obligations. A healthy liquidity ratio should be above 150 percent.\(^{144}\) In 2009 ITP Group`s ratio was only 124 percent. This shows that their short-term debt is almost as big as their current assets. However in 2010 the ratio increased to 177 percent, which shows that ITP Group is able to manage its short-term debt.

7.1.3 **Solidity**

Solidity tells us about ITP Group`s ability to handle loss and deficit, and is therefore important when looking at the possible risks of expanding. The debt ratio is the ratio between the amounts of debt relative to equity. If the ratio is 1 the debt and equity is the same. The smaller the ratio, the more solid the company is.\(^{145}\) In 2009 the ratio was 3,917, which means that ITP Group had a lot more debt than equity. The ratio decreased in 2010 to 1,288, this shows that the economic development is going the right direction, and that the equity is almost the same as the debt.

\(^{144}\) [http://www.1881.no/Hjelp/RegnskapAnalyse.htm](http://www.1881.no/Hjelp/RegnskapAnalyse.htm)

\(^{145}\) [http://www.1881.no/Hjelp/RegnskapAnalyse.htm](http://www.1881.no/Hjelp/RegnskapAnalyse.htm)
7.1.4 Summary of the financial analysis

In 2009 ITP Group had a profit deficit. They had low equity and a high debt ratio. However in 2010 they managed to turn the situation around. They reduced their costs, increased their equity and significantly increased their sales\(^{146}\). Given their financial situation in 2010 the authors’ believes that ITP Group is in stable financial position. The numbers also indicate that ITP Group is a relatively small company.

7.2 ACE- theory analysis

In this chapter the authors will analyze ITP Group’s attitude, competence and the embodiment of these two factors in the whole company.

7.2.1 Attitudes

According to Knut-Alexander Bronder, ITP Group has despite being a small company a positive attitude towards expanding. They value the importance of having several business units. Being well represented in a market reduces risk; consequently this shows that ITP Group has the right attitudes\(^{147}\).

Another important aspect of attitudes is the cultural understanding and the attitudes towards different cultures. ITP Group’s whole administration has a positive organization culture. They have many years of experience in China, and they are currently moving away from only having Chinese-speaking personnel in the administration, to create a more cultural divers environment. These aspects supports that they have a positive attitude towards expanding.

7.2.2 Competence

ITP Group conducted a market analysis regarding cost levels in the relevant regions. They have also analyzed the infrastructure in different regions and studied both import- and export barriers. Concerning expanding they have not yet completed any thorough analysis. When evaluating their own competence

\(^{146}\) Appendix 2: Income statement 2010
\(^{147}\) Appendix 3: Interview with Knut-Alexander Stenvik Bronder
they consider themselves as very capable to expand. ITP Group’s production has been located in China for several years so they have the accurate knowledge about Chinese business culture, language and production. Over their many years in China they have also developed a strong network in Shanghai.

ITP Group provides a competitive product as they focus on high quality. Being a trade company they provide good salaries, insurance and retirement plans for employees, which makes them attract competent workers.

7.2.3 Embodiment

The internal support has to be integrated by the management and supported by the entire company. ITP Group has good attitudes towards expanding, and they have many years of experience in China. Based on this the authors conclude that ITP Group has managed to integrate both attitudes and competence throughout their organization, and is in a good position to expand their Box & Bags division.
Chapter 8: SWOT

8.1 SWOT analysis

The SWOT analysis is “a strategic planning method. It involves specifying the objective of the business venture or project and identifying the internal and external factors that are favorable and unfavorable to achieve that objective.”

The SWOT will be used to summarize the external and internal analysis, and to reveal the most important factors that need to be considered when deciding to expand. The SWOT analysis will give an overview of ITP Box & Bags internal strength and weaknesses, and the external opportunities and threats. It is important to understand that this SWOT analysis represents ITP Box & Bags situation today.

<table>
<thead>
<tr>
<th>Strengths:</th>
<th>Weaknesses:</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Stable financially</td>
<td>1. Small company</td>
</tr>
<tr>
<td>2. Experience and cultural understanding</td>
<td>2. Low Equity</td>
</tr>
<tr>
<td>3. Internal Support</td>
<td></td>
</tr>
<tr>
<td>4. Network</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Opportunities:</th>
<th>Threats:</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Government regulations</td>
<td>1. Rising price level</td>
</tr>
<tr>
<td>2. Cluster formation</td>
<td>2. Government regulations</td>
</tr>
<tr>
<td>3. Textile industry growth</td>
<td></td>
</tr>
<tr>
<td>4. Technology</td>
<td></td>
</tr>
<tr>
<td>5. No direct competitors</td>
<td></td>
</tr>
</tbody>
</table>

Figure 12: Summary of the SWOT analysis, made by the authors

148 http://en.wikipedia.org/wiki/SWOT_analysis
The elements in figure 12 are ranked after importance. If ITP Group should decide to expand it will be important to be aware of their strengths and weaknesses. Turning their weaknesses into strengths will make them more competitive.

ITP Group’s greatest strength if expanding is that they are stable financially. While their largest weakness is that they are a small company and therefore facing a larger risk if expanding. As a manufacturing company it is important to maintain low costs to keep an advantage. Government regulations have an impact on the industry regarding how and where it is developing. The largest opportunity for ITP Group will need to be located in a cluster formation where the government provides them with good incentives, while they should avoid areas with high costs.
PART V: STRATEGY

After analyzing the internal situation the authors has concluded that ITP Group is ready internally to expand their Box & Bags division. The external analysis implies that certain regions provide good opportunities to gain or strengthen a competitive advantage in the textile industry.

A strategy can be defined as “a long term plan of action designed to achieve a particular goal or set of goals and objectives.” In order to achieve the goal of having a profitable expansion the authors have developed a strategic problem definition. Further the authors will evaluate several provinces that have been discovered throughout in-depth interviews and secondary data. The authors will finally develop a recommendation.

Chapter 9: Strategic Problem Definition

In order to develop a strategy for ITP Box & Bag´s expansion, a strategic problem definition based on the problem statement and findings, needs to be created. The reason being that it will ensure a clearer understanding of the strategy that needs to be followed to make the expansion profitable.

“If China will be most profitable for an expansion, based on the given incentives?”

In the next chapter the authors will evaluate different provinces.

Chapter 10: Evaluation of provinces

In this chapter the authors will evaluate potential provinces for an expansion. To be able to evaluate the provinces the authors will use the given incentives. Figure 14 gives an overview of the selection process. Through the process the authors will narrow the provinces down to three alternatives. These three alternatives will further be analyzed before a final recommendation.

![Selection process, made by the authors](image)

**Figure 13: Selection process, made by the authors**

10.1 Weight of the incentives

To be able to evaluate the different provinces the authors have weighted the incentives after importance. The province that receives the highest score after evaluating all four incentives will be the most profitable province. Next, the authors will describe the choice of weight given to the different incentives.

**Government**

Government is the most important incentive, reason being that the local government has the power to facilitate textile production in the different provinces. The local government will have the ability to control the cost level, the clustering formation and the labor force.
**Costs**

Costs are the only incentive that has a direct affect on profitability. It is considered the second most important incentive because the government has the ability to influence costs. The authors will use minimum wage, facility- and logistic cost to compare the potential provinces with each other.

**Cluster**

As stated earlier in the thesis it will be beneficial for ITP Box & Bags to expand their manufacturing to an area with cluster formation. A cluster formation will create the opportunity to share logistics and supporting industries with other companies. This will give a reduction in costs and provide other benefits such as innovation and technology.

**Labor**

Labor is the least important incentive. The access to labor is in general good, but the recent trend is that there has been a shortage in some regions.

<table>
<thead>
<tr>
<th>Incentives:</th>
<th>Weight$^{150}$:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government</td>
<td>5</td>
</tr>
<tr>
<td>Cost</td>
<td>4</td>
</tr>
<tr>
<td>Cluster formation</td>
<td>3</td>
</tr>
<tr>
<td>Labor</td>
<td>2</td>
</tr>
</tbody>
</table>

**Figure 14:** *Weight of the incentives, made by the authors*

$Weight^1$: (1) = Low importance (5) = High importance
10.2 Selection process

There are many potential provinces for an expansion. The following provinces have been chosen because they have been repeated as the most suitable provinces, by the experts interviewed, and in our secondary data.

1. Henan
2. Fujian
3. Hubei
4. Sichuan
5. Anhui
6. Hunan*
7. Shandong
8. Zhejiang

In the following sections the authors have evaluated and eliminated different provinces based on the importance of the incentives. After the process the authors will be left with the three most attractive provinces, which will be further studied.

* According to Amanda Zong, factory manager at ITP Box & Bags Hunan will not be further studied. Reason being that they have already excluded an expansion to this province.
### INCENTIVES

<table>
<thead>
<tr>
<th>REGIONS</th>
<th>Government</th>
<th>Costs</th>
<th>Cluster</th>
<th>Labor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Henan</td>
<td>3</td>
<td>2</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Fujian</td>
<td>1</td>
<td>3</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Hubei</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Sichuan</td>
<td>3</td>
<td>2</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Anhui</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Shandong</td>
<td>3</td>
<td>2</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>Zhejiang</td>
<td>3</td>
<td>1</td>
<td>3</td>
<td>3</td>
</tr>
</tbody>
</table>

**Figure 15:** Evaluations of the different provinces, made by the authors

Attractiveness: (1) = Low, (3) = High

Arrows: Indicating how the textile industry is developing

More information regarding the eliminated provinces can be found in Appendix 4.

1. **Government**

   The first step in the selection process is to evaluate and eliminate the provinces that provide the least attractive government incentives.
As shown in figure 15 the province that the authors eliminates, is:
  - Fujian\textsuperscript{151}

2. **Costs**

The second step is to evaluate the provinces based upon the costs. As stated earlier costs includes minimum wage, logistics- and facility costs.

As shown in figure 15 the provinces that the authors eliminates, is:
  - Zhejiang\textsuperscript{152}

3. **Cluster**

The third step in the process is to evaluate whether or not the cluster formation is present, stable and attractive enough for ITP Box & Bags. The factors that are important in a cluster are logistics, infrastructure and the access to natural resources.

As shown in figure 15 the provinces that the authors eliminates, is:
  - Sichuan\textsuperscript{153}

4. **Labor**

The forth step in the selection process is to look at the access of labor in the different provinces.

As shown in figure 15 the provinces that the authors eliminates, is:
  - Shandong\textsuperscript{154}

\textsuperscript{151} Appendix 4: Fujian province
\textsuperscript{152} Appendix 4: Zhejiang province
\textsuperscript{153} Appendix 4: Sichuan province
\textsuperscript{154} Appendix 4: Shandong province
10.3 Henan, Hubei and Anhui

The elimination process shows that Anhui, Henan and Hubei are the most attractive provinces. They will be further studied in this section.

10.3.1 Henan

![Figure 16: Henan’s location in China](image)

**Government**

The Henan provincial government offers significant tax subsidies for foreign companies that re-invest their profits in the region. They also provide subsidies to promote cluster industry by for example providing public goods and investment in education.

**Costs**

Average employee wage in Henan Province is 3150 RMB per month. In 2009 it was only 1590 RMB, which is almost a 50 percent increase. The minimum wage for employees in Henan was 700 RMB per month in 2010. The increase in minimum wages was 35 percent in 2011. Average industrial

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156 [http://understand-china.com/?manufacturing=henan-investment-incentives](http://understand-china.com/?manufacturing=henan-investment-incentives)
158 [http://understand-china.com/?manufacturing=fujian-labor-costs](http://understand-china.com/?manufacturing=fujian-labor-costs)
facility costs in Henan province was in 2011 24.4 RMB/m$^2$.\textsuperscript{160} Logistic cost from Zhengzhou to Shanghai is 3917 RMB/Standard-container.\textsuperscript{161}

**Cluster**

1. **Textile**

   In recent years the textile industry in Henan has been growing rapidly. The good access to workforce and raw materials has been the main drive toward developing clusters. Due to some setbacks in the industry the government responded by setting goals in the 12$^{th}$ five-year-plan. The government is expecting the development of industrial systems, so the production can run on higher capacity. For 2015 the goal is that sharing of advanced machinery will be as high as 70 percent.\textsuperscript{162}

2. **Infrastructure**

   Henan is located in the central part of China, and has developed an excellent logistics industry. They have no access to a river port or seaport, but the railway network offers good transportation possibilities, domestic and international. The railway network transmits 99 million tons of cargo annually. Henan province has good access to the expanded road network. The Asia-Europe continental bridge is crossing right through the province with a highway more than 4800 km long, which carries over 700 tons of cargo annually.\textsuperscript{163}

**Labor**

Henan has a population of 98,690,000 making it the largest in China, and the labor access for low-manufacturing industries is good.\textsuperscript{164}

\textsuperscript{160}http://understand-china.com/?manufacturing=henan-investment-incentives
\textsuperscript{162}http://www.texglobe.com/content/2011-8/201182416840.html
\textsuperscript{163}http://understand-china.com/?manufacturing=henan-logistics
\textsuperscript{164}http://www.texglobe.com/content/2011-8/201182416840.html
**Overall**

Henan is the 5th largest economy of China and the largest inland province. Nonetheless, the GDP per capita is low compared to other Eastern and Central provinces. The economy continues to depend on its decreasing aluminum and coal reserves, as well as agriculture, heavy industry, tourism, and retail. The Henan state government plans to revitalize the textile industry. In addition, the economical growth and the transfer of textile industry from Coastal regions to Central and Western regions, bring good opportunities for the future development of the textile industry.

Henan textile industry cluster has the advantages of raw materials and sufficient labor resources. Because the textile cluster formation is still at an early stage the government offers good tax and land incentives to promote further development.

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10.3.2 Hubei

Figure 17: Hubei’s location in China

**Government**

Hubei local government is providing investment incentives to the following enterprises:

1. *Export-oriented enterprise*: As an incentive to attract foreign investment, the Wuhan Municipal Government offers significant tax subsidies for export oriented enterprises.

2. *Productive enterprise*: The Wuhan Municipal Government offers base tax subsidies for all manufacturing enterprises and additional subsidies for the following enterprises: Agriculture, animal husbandry, forestry, and high tech manufacturing enterprises.

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167 http://gochina.about.com/od/maps/ig/Province-Maps/Hubei-Province-Map.htm
168 http://understand-china.com/?province=hubei
169 http://understand-china.com/?province=hubei
**Costs**

In Hubei province the average manufacturing wage per month is 2499 RMB. The average industrial facility cost per month is 18.5 RMB/m².\(^{170}\) In 2011 Hubei raised the minimum wage by an average of 20.3 percent. The minimum wage was then divided into three tiers: 1100 RMB 900 RMB and 750 RMB.\(^{171}\) Logistic costs from Wuhan to Shanghai are 3198RMB/Standard-container.

**Cluster**

1. **Textile**

   The textile industry has been a traditional pillar in Hubei, and an important base for the Chinese textile industry. The textile industry cluster in Hubei is well developed. The industry includes cotton textile, dyeing, gunny textile, wool textile, knitting, color weave, silk chemical fiber, clothes, shoes, caps and textile machinery. Hubei has many development zones and industrial parks to choose from. There are three national development zones and over 20 provincial development zones.\(^{172}\)

2. **Infrastructure**

   Hubei has very good logistics. Transport from Hubei to Shanghai or other coastal areas is facilitated through railways, highways and river transits. Hubei is connected to Shanghai by the Yangtze River and Hubei has over 160 river ports with its largest being the Port of Wuhan, which is capable of carrying 89 million tons of cargo annually, making it the largest in China.\(^{173}\)

\(^{170}\) [http://understand-china.com/?manufacturing=hubei-labor-costs](http://understand-china.com/?manufacturing=hubei-labor-costs)


\(^{172}\) [http://hubei.chinadaily.com.cn/gov/2012-02/13/content_14592524.htm](http://hubei.chinadaily.com.cn/gov/2012-02/13/content_14592524.htm)

\(^{173}\) [http://understand-china.com/?manufacturing=hubei-logistics](http://understand-china.com/?manufacturing=hubei-logistics)
Labor
Hubei has a population of 57,237,740 and has a large potential work force.\textsuperscript{174}

Overall
Driven by market demand and industrial transfer, the textile industry in Hubei has made significant contributions to the industrial growth of the province. Hubei’s textile industry completed an increase value of 54.68 billion RMB, with the growth rate reaching 22.8 percent compared with 14.3 percent in 2011.\textsuperscript{175}

10.3.3 Anhui

\begin{figure}[h]
\centering
\includegraphics[width=0.5\textwidth]{figure18.png}
\caption{Anhui location in China\textsuperscript{176}}
\end{figure}

Government
As mentioned earlier, Anhui is part of the “\textit{Go Inland}” campaign. Therefore the authors assume that the government is trying to support the textile industry in Anhui. They want the industry to grow stronger in the province by facilitating industry zones. The government will especially help with the development along the Yangtze River as they are trying to reduce the transportation costs\textsuperscript{177}.

\textsuperscript{174} http://www.unescap.org/esid/psis/population/database/chinadata/hubei.htm
\textsuperscript{175} http://www.chinadaily.com.cn/m/hubei/gov/2012-02/13/content_14594561.htm
\textsuperscript{176} http://shardsofchina.wordpress.com/tag/anhui-province/
**Costs**

The minimum wage in Anhui has increased 27 percent and ranges from 680-1010 RMB. Average monthly wages is 1678 RMB, an increase of 28 percent over the previous year. According to “Operational Costs of Business in China’s Inland Cities” by Samantha Jones facility cost in Anhui is 40 percent lower than in Shanghai, 16,4 RMB m².

**Cluster**

1. **Textile**

   The government in Anhui focuses on the development of industries such as equipment manufacturing, new energy, new materials, light industry and textiles, biotechnology, IT and modern services. The textile industry in Anhui is growing. Last year Anhui’s textile industry grew to a total of 100 billion RMB.

2. **Infrastructure**

   Anhui province is close to Shanghai, which gives a significant advantage concerning logistics and quality management. The province has good access to logistics by having a port by the Yangtze River. The logistic industry in Anhui is growing, adding value to the economic growth in the province.

   In 2007 the government in Anhui invested 24.8 billion RMB to improve transportation, and spent another 100 billion RMB to build a more efficient transport network.

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177 http://www.hj16.com/article/?type=detail&id=511
180 http://www.jnz.gov.cn/js5.html
181 http://www.hj16.com/article/?type=detail&id=511
By 2012, provincial highways will in total be 3,500 km, at the same time its port capacity was projected to grow to 390 million tons from 240 millions in 2007.\(^{183}\)

**Labor**

Anhui has a population of 59,500,510\(^{184}\) and a sufficient labor force\(^{185}\). In Anhui there was a recent tide of returning migrant workers from more developed regions.\(^{186}\)

**Overall**

In the first three quarters of 2007, six central provinces, including Anhui, Henan, Hubei, Hunan, Jiangxi and Shanxi attracted $11.5 billion in foreign investment, an increase of 46.2 percent compared to the previous year. Anhui ranked first in annual growth with 190 percent, 178 percent higher than the national average. The province has attracted investment from domestic and internationally companies, including companies such as ABB, Unilever and Hitachi.\(^ {187}\)

According to Zheng Xiwen, Vice-president for public affairs at Unilever states that, "Anhui is a valuable investment destination, although it looks inconspicuous and was ignored, especially by foreign investors. Compared with the coastal regions, “Anhui could provide cheaper land, sufficient electricity and skilled labor, besides convenient transportation”.”\(^ {188}\)

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10.4 COWS- Decision Analysis

To be able to decide among the three remaining provinces; Henan, Anhui and Hubei, the authors will use the COWS- decision analysis. This decision matrix allows the authors to narrow down to one province based on three elements:

1. **Criteria:** The incentives
2. **Options:** Different provinces
3. **Weights:** Reflects the importance of the criteria
4. **Score:** Each criteria is rated by an assigned score

The given incentives will be the criteria’s that the final decision will be based on. The weighing of the incentives that was assigned in chapter 9 will be multiplied with the rating given to the different provinces. Finally the scores will be summarized. Based on the results, a final province will be recommended.

<table>
<thead>
<tr>
<th>CRITERIA</th>
<th>WEIGHT</th>
<th>Rating</th>
<th>Score</th>
<th>Weight</th>
<th>Rating</th>
<th>Score</th>
<th>Rating</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government</td>
<td>5</td>
<td>4</td>
<td>20</td>
<td>4</td>
<td>20</td>
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<td>Cost</td>
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<td>4</td>
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</tr>
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<td>Labor</td>
<td>2</td>
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<td>10</td>
<td>4</td>
<td>8</td>
<td>4</td>
<td>8</td>
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</tr>
<tr>
<td>Tot. Score</td>
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<td></td>
<td></td>
<td>54</td>
<td>57</td>
<td>56</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Figure 19: Overview of the COWS decision analysis, made by the authors*

189 http://rfptemplates.technologyevaluation.com/what-is-a-decision-matrix.html
**Government:** Henan, Anhui and Hubei are all targeted in the “go inland” campaign to promote industry in Central China. Government incentives are therefore high in all provinces.

**Costs:** Labor- and facility costs are significantly lower in Anhui and Hubei than in Henan. The monthly increase is also higher in Henan, making this the most expensive production province. Henan has the highest logistic costs, while Anhui has the lowest\(^\text{190}\).

**Cluster:** Textile industry is growing in all three provinces. Research shows that Hubei and Henan are more developed than Anhui; therefore Anhui score lower on this incentive.

**Labor:** Labor shortage is not an issue for any of these provinces. Henan has the largest population and therefore scores the highest.

Chapter 11: Recommendation

Overall Anhui scores the highest on all the incentives, and are therefore considered as the most profitable province. In this chapter the authors will compare Anhui with Shanghai, to give ITP Box & Bags an overview of how profitable an expansion will be. Further the authors will recommend steps ITP Box & Bags should implement in order to be successful with their expansion.

11.1 How profitable will the expansion be?

As stated earlier the authors have not been provided with proper information to calculate ITP Box & Bags revenue. Because of this the authors have chosen to make an example of operation costs in Shanghai compared to Anhui. The costs the authors have decided to focus on are: average minimum wage, minimum welfare contribution, facility cost and logistic cost. Reason being that facility and labor cost account for 70 percent of total operation cost.\footnote{http://www.china-briefing.com/news/2011/03/07/operational-costs-of-business-in-chinas-inland-cities.html} The authors have also added logistic cost and minimum welfare contribution to make the calculation more accurate.
Average minimum wage: The authors have chosen to calculate the lowest available minimum wage with 100 employees. The calculation shows that average minimum wage is 44,000 RMB lower in Anhui.

Minimum welfare contribution: This includes pension, unemployment, medical insurance and housing. The calculation shows that the difference is 25,480 RMB.

Logistic costs: Ten standard containers from Anhui to Shanghai. The calculation shows additional costs from Anhui 28,740. The authors assume that logistic costs from Shanghai to the customers will be the same.

**Figure 20: Operation costs per month in Shanghai and Anhui, made by the authors**

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<thead>
<tr>
<th></th>
<th>Shanghai</th>
<th>Anhui</th>
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</thead>
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<tr>
<td>Min. wage (100 employees)</td>
<td>1120*100</td>
<td>112,000</td>
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<td>Min. welfare contribution</td>
<td>112,000*0.44</td>
<td><strong>49,280</strong></td>
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<td>Logistic Costs (Ten Standard container)</td>
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<td>2874* 10</td>
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<tr>
<td>Facility cost (Per 1000m²)</td>
<td>27.3 * 1000m²</td>
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</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>434,280</strong></td>
<td><strong>284,540</strong></td>
</tr>
</tbody>
</table>
**Facility costs:** The authors used 1000m\(^2\) as an example when calculating facility costs. The calculated difference between Shanghai and Anhui is 109,000 RMB.

The calculated difference of operation costs between Shanghai and Anhui is 149,740 RMB per month. The calculation shows that it will be significantly lower costs in Anhui compared to Shanghai. It is important to consider that there are other factors that have an affect on profitability that the authors have not been able to take into account.

### 11.2 Future in Anhui

In this section the authors will explain what ITP Box & Bags should take into consideration when expanding. To successfully expand to Anhui, ITP Box & Bags should take the following steps:

- **Visit province**
  This is important to get an overview and understanding of the province. Even though the evaluation of the provinces shows that Anhui is the most suitable province, it will be crucial for ITP Box & Bags to familiarize themselves even further.

- **Locate the best industrial park**
  Findings suggest that it will be favorable for ITP Box & Bags to be located in an industrial park. In a province there will probably exist several different industrial parks promoting themselves as the best option for production. It is therefore necessary to locate the one that will provide ITP Box & Bags with the most favorable benefits.

- **Create a network**
  To ensure that the expansion goes seamlessly, ITP Box & Bags will need support from a network. A network will provide knowledge,
consultants and potential partners that ITP Box & Bags can benefit from long-term.

### 11.3 Critical success factors

CSF is defined as *“Limited number of characteristics, conditions, or variables that have a direct and serious impact on the effectiveness, efficiency, and viability of an organization, program, or project”*\(^\text{192}\). The authors developed a set of critical success factors that will be necessary to have a successful expansion in Anhui. Success is defined as: *“having a favorable outcome”*\(^\text{193}\).

![Diagram of critical success factors](image)

*Figure 21: Overview of the critical success factors, made by the authors*

1. **Internal structure and culture**
   
   It is important for ITP Box & Bags to have motivated and skilled employees in order to be profitable. All the internal aspects need to be functioning in order to create a strong division and be able to handle the external factors.


2. **Market Orientation**

ITP Group needs to use resources on market orientation. The textile industry in China is changing and ITP Group must be conscious of every possible change in the market.

3. **Quality**

Because of their high demanding customers it is important for ITP Box & Bags to maintain their high quality products.

4. **Customer Relations**

To renew existing contracts and attract new customers it is essential for ITP Box & Bags to continue to improve their customer relations. It is also important to have good customer relations to be able to learn and benefit from each other.

5. **Financial Situation**

When expanding it is important to be in a stable financial situation to be able to cope with additional costs and risks.
Chapter 12: Weaknesses

In this section the authors will give criticism to the thesis by pointing out the weaknesses that most likely has had an affect on the outcome of the thesis. The first weakness is the fact that the authors have not been able to consider the revenue aspect. Reason being that the authors have made an assumption that revenue will affect ITP Box & Bags positively if they decide to expand to the province that provides the best degree of the incentives. Consequently, the assumptions being made by the authors cannot be guaranteed to be completely correct.

During the thesis work the authors also noticed that the limitations had an impact on the outcome of the thesis. If the authors had more time and budget the provinces could have been thoroughly explored by visiting the province.
PART VI: REFERENCE AND APPENDIX

Chapter 13: References

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Chapter 14: Appendix

Appendix 1: PowerPoint presentation provided by ITP Group

What we do

ITP Group

‘Who we are, what we do and why!’

We manufacture our customers products in ITP Group or 3rd party production facilities

What we do

Move production to Asia
– Outsourcing of components or products
– Offshoring of complete production or production facilities

Manage customers ‘Asia sourcing office’
– As an integral part of the ITP organisation
– As stand-alone organisation – brand visibility

Our vision

We manage your entire supply chain in China, so you can manage your customers

Our mission

Ethical trade and quality products are our trademarks

Standards, procedures and processes are core components in the way we work

Our group

Business units

Managing Director

China / Vietnam / Taiwan / Thailand

Manufacturing

India / Malaysia / Indonesia / Philippines / France / Belgium / Italy / Germany
Our history
• 20 years of experience in Asia
• Hong Kong and Shanghai offices established in 1999
• 1st China factory established in 2003
• 2nd China factory established in 2005
• China Foreign Trade company established in 2008
• Vietnam Foreign Trade company est. in 2012
• Scandinavian top management
• Approx. 250 employees

Corporate organisation

Our group management team

Our business scope
We provide ethical correct manufacturing of quality products, as according to our customers ethical and product specific requirements

We are focused on outsourcing of products and offshoring of complete production or production facilities

Our business
• Production offshoring
  – Home country production to China
  – Current production country to China
  • E.g. from Eastern Europe, Central America etc.

• Production outsourcing
  – China production to ITP China production

Our main markets
• Norway, Denmark, Sweden and Finland
• United Kingdom and Germany
• USA

Our customers

KEY
• Complementary to our VIP and TOP customers’ products
• Traditional manufacturing

VIP
• Partnership within a strategic part of the supply chain
• Outsourcing or offshoring of manufacturing

TOP
• Strategic partnership – managing the entire supply chain
• Outsourcing or offshoring of productive or support facilities

Client Manager organisation

John Aarnost
CEO

Our group management team

Karina Andreassen
CFO

Amanda Zang
Factory Manager

Business units

Corporate organisation

John Aarnost
CEO

Olivia Zhao
Marketing Manager

Anna Marie Billing
Logistics Manager

Mr. Hidehiko
Project Coordinator

Business units

Our group management team

Business units
Our business philosophy

Our business units

Our focus is not on specific products, but the standards, procedures and processes around managing ethical trade, manufacturing and logistics services

Our business is successful production in Asia
Appendix 2: ITP Groups Income statement

ITP AS
Resultatregnskap

<table>
<thead>
<tr>
<th>Driftsinntekter og driftskostnader</th>
<th>Note</th>
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<th>2009</th>
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| Driftsresultat                      |      | 2 046 272     | -896 961      |
| Renteinntekt fra foretak i samme konsern | | 51 940    | 135 377      |
| Annen renteinntekt                  |      | 63 775        | 32 146        |
| Annen finansinntekt                |      | 624 720       | 3 390 450     |
| Annen rentekostnad                 |      | 155 106       | 215 838       |
| Annen finanskostnad                |      | 870 346       | 2 589 554     |
| Resultat av finansposter           |      | -285 093      | 752 581       |
| Resultat før skattekostnad         |      | 1 761 179     | -144 380      |
| Skattekostnad på ordinært resultat | 8    | 64 301        | 0             |
| Ordinært resultat                  |      | 1 696 878     | -144 380      |

Årets resultat                      |      | 1 696 878     | -144 380      |

**Overføringer**

| Avsatt til annen egenkapital       |      | 1 696 878     | -144 380      |
| Sum overføringer                   |      | 1 696 878     | -144 380      |
## ITP AS
### Balanse

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## ITP AS

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Stavanger 20. januar 2011

Fredrik Alexander Woxen
styreleder

Kim Nicolai Strømsberg
styremedlem

Bjørn Kjøtt Pettersson
styremedlem
ITP AS
Noter til regnskapet 2010

Note 1 - Generelle regnskapsprinsipper

Årsregnskapet er satt opp i samsvar med regnskapsloven av 1998. Regnskapsprinsipperne beskrives nedenfor.

Inntekter

Inntekt regnskapsføres når den er oppdelt, altid når både risiko og kontroll i hovedaksj er overført til kunden. Dette vil normalt være tilfelle når varen er leverer til kunden. Inntektene regnskapsføres med verdien av vederlaget på transaksjonstidspunktet.

Hovedregel for vurdering og klasifisering av eiendeler og gjeld


Anleggsmidler vurderes til anskaffelseskost, men nedskrives til verdiel verdi når verdifallet fortsetter ikke å være forbipassende. Anleggsmidler med begrenset økonomisk leverid avskrives planmessig.

Omløpsmidler vurderes til laveste av anskaffelseskost og verdiel verdi.

Fordringer

Kundefordringer og andre fordringer oppføres til pålydende etter fradrags av avviste forventet tabt. Avsetting til tab gjøres på grunnlag av en individuell vurdering av de enkelte fordringer. I tillegg gjøres det for øvrig kundefordringer en utspesifisert avsetting for å dekke annet tab.

Skatter

Skattekostnaden sammenstilles med regnskapsmessige resultat før skatt.

Skattekostnaden består av benytt skatt (skatt på årets direkte skattepliktige inntekter) og endring i netto utsatt skatt. Skattekostnadene fordeles på ordinær resultat og resultat av ekstraordinære poster i henhold til skattegrundlaget. Utsatt skatt og utsatt skattefordel er presentert netto i balansen.

Note 2 - Godtgjørelser, antall ansatte mv.

<table>
<thead>
<tr>
<th>Lønnskostnader består av følgende poster:</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>lønningslager</td>
<td>1 483 931</td>
<td>1 679 868</td>
</tr>
<tr>
<td>arbeidsgiveravgift</td>
<td>31 227</td>
<td>68 113</td>
</tr>
<tr>
<td>pensjonskostnader</td>
<td>1 222</td>
<td>31 161</td>
</tr>
<tr>
<td>andre lønnskostnader</td>
<td>457 266</td>
<td>624 508</td>
</tr>
<tr>
<td></td>
<td><strong>1 973 676</strong></td>
<td><strong>2 403 712</strong></td>
</tr>
<tr>
<td>Antall ansatte</td>
<td>3</td>
<td>3,5</td>
</tr>
</tbody>
</table>

17
Ytelser til ledende personer

<table>
<thead>
<tr>
<th>Lønn</th>
<th>Annen godtgjørelse</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

Daglig leder blir lønnet fra monselskapet.

ITP AS er pliktig å ha tjenestepensjonsordning etter lov om obligatorisk tjenestepensjon. Selvskapets pensjonsordninger tilfredsstiller kravene i denne loven.

Revisor
Godtgjørelse til revisor fordeler seg slik:

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lovpålagt revisjon</td>
<td>58 000</td>
<td>51 620</td>
</tr>
<tr>
<td>Andre attestasjonstjenester</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note 3 - Antall aksjer, aksjeeiere mv.

Aksjekapitalen i selskapet pr 31.12.10 består av 10.000 aksjer pålysende kr 300.

Selskapets aksjonærer er: ITP Holding AS
Eierandel 100 %

Det er kun en aksjeklasse, hvor hver aksje gir lik stemmerett.

Selskapet ingår i konsernselskapet til ITP Holding AS. Konsernselskap kan utleveres på selskapets kontor i Stavanger.

Note 4 - Varige driftsmidler

<table>
<thead>
<tr>
<th>Inventar, maskiner mv</th>
</tr>
</thead>
<tbody>
<tr>
<td>Anskaffelses kost 01.01.10</td>
</tr>
<tr>
<td>Tilgang i året</td>
</tr>
<tr>
<td>Avgang i året</td>
</tr>
<tr>
<td>Anskaffelses kost 31.12.10</td>
</tr>
<tr>
<td>Samlede av- og nedskrivninger</td>
</tr>
<tr>
<td>Bokført verdi 31.12.10</td>
</tr>
<tr>
<td>Årets avskrivninger</td>
</tr>
<tr>
<td>Økonomisk levetid</td>
</tr>
<tr>
<td>Avskrivningsplan</td>
</tr>
</tbody>
</table>
Note 5 - Konsernkonto

Selskapets ordinære driftekonto/kassekredittkonto i bank inngår i konsernkontosystem med ITP Holding AS som er kontoinnehaver.

ITP AS har pr. 31.12.10 kr. 7.817.810 i innkudd som inngår i denne ordningen. Beløpet er presentert som fordring hos ITP AS og gjeld hos kontoinnehaver.

Note 6 - Egenkapital

<table>
<thead>
<tr>
<th></th>
<th>Aksje-kapital</th>
<th>Innskatt annen EK</th>
<th>Annen EK</th>
<th>Sum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Egenkapital</td>
<td>1 000 000</td>
<td>3 625 373</td>
<td>-3 626 407</td>
<td>998 965</td>
</tr>
<tr>
<td>Årets endring i egenkapital:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kapitaløkning</td>
<td>2 000 000</td>
<td></td>
<td>2 000 000</td>
<td></td>
</tr>
<tr>
<td>Årets resultat</td>
<td></td>
<td>1 696 878</td>
<td>1 696 878</td>
<td></td>
</tr>
<tr>
<td>Egenkapital 31.12.2010</td>
<td>3 000 000</td>
<td>3 625 373</td>
<td>-1 929 530</td>
<td>4 695 843</td>
</tr>
</tbody>
</table>

Note 7 - Bundne midler

Selskapet har kr 110.258 i bundne skattetrekksmidler.

Note 8 - Skattekostnad

Årets skattekostnad består av:

<table>
<thead>
<tr>
<th>Skattegrundlag</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Resultat før skattekostnad</td>
<td>1 761 179</td>
<td>-144 380</td>
</tr>
<tr>
<td>Permanente forskjeller</td>
<td>22 639</td>
<td>11 881</td>
</tr>
<tr>
<td>Endring midlertidige forskjeller</td>
<td>48 121</td>
<td>219 110</td>
</tr>
<tr>
<td>Mostatt konsesnibidrag</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Besyntet fremforbart underskudd</td>
<td>-1 831 939</td>
<td>-86 611</td>
</tr>
<tr>
<td>Grunnlag betalbar skatt</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Betalbar skatt</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>
### Utsett skatt/skattefordel

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Driftsmidler</td>
<td>486 222</td>
<td>602 762</td>
</tr>
<tr>
<td>Fordringer</td>
<td>-44 350</td>
<td>-112 770</td>
</tr>
<tr>
<td>Skattemessig fremforbart underskudd</td>
<td>-355 607</td>
<td>-2 187 545</td>
</tr>
<tr>
<td>Sum grunnlag for beregning av utsett skatt/skattefordel</td>
<td>86 265</td>
<td>-1 697 553</td>
</tr>
<tr>
<td>Netto utsett skattefordel (+)/utsett skatt (-)</td>
<td>24 154</td>
<td>-475 315</td>
</tr>
<tr>
<td>Herav ikke balanseforl</td>
<td>0</td>
<td>515 462</td>
</tr>
<tr>
<td>Balanseforl skattefordel</td>
<td>0</td>
<td>-40 147</td>
</tr>
</tbody>
</table>

### Skattekostnad på ordinært resultat

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Betalbar skatt på ordinært resultat</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Endring utsett skatt for konsernbidrag</td>
<td>64 301</td>
<td>0</td>
</tr>
<tr>
<td>For late/nye avsatte skatt tidligere år</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Årets skattekostnad</td>
<td>64 301</td>
<td>0</td>
</tr>
</tbody>
</table>

**Note 9** **Mellomværende med selskap i samme konsern m.v.**

<table>
<thead>
<tr>
<th></th>
<th>Kundefordringer</th>
<th>Andre fordringer</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2010</td>
<td>2009</td>
</tr>
<tr>
<td>ITP Holding AS</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>ITP (Shanghai) Livensving Instrument Co., Ltd.</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>ITP Box &amp; Bag</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Sum</strong></td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Leverandørgjeld</th>
<th>Annen kortsiktig gjeld</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2010</td>
<td>2009</td>
</tr>
<tr>
<td>ITP (Shanghai) Livensving Instrument Co., Ltd.</td>
<td>741 226</td>
<td>1 173 206</td>
</tr>
<tr>
<td>ITP (Shanghai) Foreign Trade Ltd</td>
<td>223 090</td>
<td>0</td>
</tr>
<tr>
<td>ITP (Shanghai) Box &amp; Bag Co., Ltd.</td>
<td>432 283</td>
<td>61 822</td>
</tr>
<tr>
<td><strong>Sum</strong></td>
<td>1 396 599</td>
<td>1 235 028</td>
</tr>
</tbody>
</table>

**Note 10** **Kundefordringer**

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kundefordringer pålydende</td>
<td>6 015 147</td>
<td></td>
</tr>
<tr>
<td>Forskuddsbetalt</td>
<td>-3 797 179</td>
<td></td>
</tr>
<tr>
<td>Delkrediteringsbetaling</td>
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<td></td>
</tr>
<tr>
<td>Bokført verdi</td>
<td>2 173 618</td>
<td></td>
</tr>
</tbody>
</table>

Selskapets kunder blir oversende faktoringselskap. Kundefordringer er i balanse presentert netto, etter at pålydene utestående fordringer er redusert med innbetalte fra faktoringselskap.
Appendix 3. Interviews

Interview number 1. Knut Alexander Stenvik Bronder

Information received from Knut-Alexander Stenvik Bronder, client manager in ITP Group.

**Holdninger:**

1. Risikovillighet:
   a. **Hvor villige er dere til å ekspandere hvis det viser seg å være lønnsomt?**
      
      Stor, så lenge det er lønnsomt. Men det må være lønnsomt **nok** til å gjøre det. Det kommer alltid mye ekstra kostnader ved å ekspandere utover selve direkte kostnaden. Videre er det viktig å ha flere ben å stå på, og være representert i flere markedet reduserer risiko.

2. Kulturforståelse:
   a. **Hvordan blir de nyansatte i ITP integrert? (Med tanke på kultur, språkkurs)?**
      
      Kommer an på hvem dere tenker på som «nyansatte». Jeg tolker det dithen at dere mener administrasjonen? De må passe vår organisasjonskultur, og de må kunne engelsk. Vi går mer og mer bort fra bare-kinesisk talende personell i management etterhvert som vi ansetter nye. Dette for at organisasjonens administrasjon skal kunne operere bedre, og informasjon flyte mer fritt og det er positivt for gruppefølelsen at vi alle kan kommunisere.

**Kompetanse:**

1. Markedsanalyser:
   a. **Hvilke analyser har dere fortatt dere tidligere om markedet?**
      
      Kostnadsnivåer i det aktuelle markedet, ser på infrastruktur, import og eksport barrierer og –fremmere.
   
   b. **Har dere gjort dere noen tanker om hvor det vil være lønnsomt å ekspandere?**
Vi har nå nylig åpnet ITP Vietnam. Men er åpne for å se hvor som helst, det være seg like gjerne Mongolia som Sichuan.

c. Føler du at ITP har god nok kunnskap om det kinesiske markedet til å ekspandere til nye områder? (Skala fra 1-10. Forklar litt rundt) ‘

Dette blir et veldig subjektivt svar. 8. Vi har gode kinesiske medarbeidere som er essensielt både for å operere i andre kinesiske markeder, så vel som i Shanghai markedet.

2. Kundeforhold:

a. Hvor lange produksjons avtaler har dere i gjennomsnitt med deres kunder?

Kontraktene løper gjerne for 3-5 år, men noen er uten tidsperspektiv.

Forankring:

1. Hvordan vi du definer styrets støtte til en mulig ekspansjon?

   Stor, de er villige til å investere.

2. Hva er dere mest opptatt av overordnet strategi og investering i markedsutvikling, eller investering i produksjons utstyr?

   Uklart hva dere mener. Slik vi har gjort det i Vietnam er at vi åpner med sourcing, og ser deretter på muligheten for å åpne egen produksjon dersom dette skulle vise seg lønnsomt.

3. Hvordan blir avgjørelser tatt? (organisasjonsstruktur)

   Av styret.

_Hvordan vil du si at det helhetlig bildet er? Hvor godt er kunnskap og holdninger forankret i ITP?

Uklart hva dere mener konkret. ITP har de siste 4 årene investert mye i å tilegne seg dyktige medarbeidere, med sterk kompetanse._
Interview number 2. Wang Xiaozu

Interview with Xiaozu Wang, professor in Chinese financial market. Research Field: Corporate Finance, Capital Market, and Transition Economy

Interview questions:

1. What are the main laws and regulations in China affecting the textile industry?
   
   a. How is it affecting the Chinese textile industry today?

2. What the differences in the laws and regulations regarding the textile industry in the Central and Eastern regions in China?
   
   a. Do you know if the government supports some regions by providing them with incentives or economical support, through the laws and regulations? How?

   b. In what areas of China do you think the laws and regulations provide best incentives for a production company within the textile industry? Will this change in the future?

3. How has the rapid economical growth in China affected the development of laws and regulations?

4. How do you think the laws and regulations will change in the future regarding the textile industry?

5. Do you know how the new labor law in China has affected the textile industry?
Answers:

First thing about the macro economic development in the Shanghai area I think it will continue to grow and also China. And the wages will be pushed up, and there will probably be modest inflation in the years to come. The government has many ways to stabilize prices. I do not see any run away inflation problem in China. So anyway the cost in Shanghai area is right now significant higher than inland area, so I will say the industry and structure in Shanghai area will continue to change. And only high value added manufacture will be done in here, and the economy will be shifting towards services. Specifically about textile industry I do not see it has a very bright future in Shanghai area because of the cost. The change is already happening and has been happening for the last few years. I’m not saying that there it nothing left but compared to a couple of years ago it is a lot less. The fact and you probably mean manufacturing economy I think it in general is negative for the whole type but it pushes companies toward higher value added manufacturing, which is already happening.

I don’t know any specific regulations within the manufacturing industry. Why are you asking that? “Because we are wondering if there are different regulations in different regions and if you know specifically which region textile industry will be happening in the future?” Yeah about that, yes actually in coastal areas the government requires, have a lot higher environmental standard, the energy efficiency standard and in some cases they also require that you are in specific industries. They welcome only companies in specific industries. And the reason is because now the resources in coastal areas become more and more scarce, specifically land and labor so the government is trying to push / attract companies with higher value added and higher technologic sophistication so as to push and maintain the kind of economy growth. If you just keep on building textile factories in Shanghai areas now matter how fast you build you will never have economical growth. They simply can’t even survive here. And of course again it does not mean that I personally know textile industry, not really textile but the garment makers in Shanghai area. Some are doing pretty well, but they are in the higher end of the market. Right now the government strategy is very simple they are going to upgrade, they encourage the coastal area to have technological upgrade, and in the meantime they encourage many of the coastal area companies to move inland so in a way you raise the standard here, and you keep the standard relative low over there so it flows like water. I do not see any major changes in government regulations toward foreign companies. “
You don’t think they will be more open towards them either?” Any specific examples? In manufacturing it is pretty open I will say, in service industry even in banking foreign banks can pretty much operate in the same way as Chinese banks. So I don’t see any major changes, the major changes came in the 5-10 years after 2000. So most of the things have already changed. Textile industry is located in Shandong, Hunan is a big one, Guangzhou also maybe some in Zhejiang but Shandong is a big one. “ Can I ask where in China they are located?” Shandong is in the northeast; it’s the coastal province between Shanghai and Beijing. More will develop, and it used to be more here in Shanghai area, but I think in the future definitely more in inland area because of the cost. “ But do you think they will continue to stay there?” yes they will continue to stay there, you know it took 30 years for their companies to develop and then start moving away, now the western area just developing, and is more like coastal areas 20 years ago so I think easy to assume that it will take another 10 year at least.

There will be different kind of manufacturing in China it is just like there is different kind of manufacturing all over the world. Even in countries like Norway, Sweden, Germany, France where the cost is many times higher than China there is still a lot of manufacturing going on. So I think the right question is what kind of industry will develop. I will say the coastal area will be more like Germany, Norway, more quickly in terms of the kind of manufacturing they do. They have to do high value added in order to cover their cost. And as for inland area there will be many years to come to develop the low-end manufacturing. So there will be kind of a , how should I put it, there will be a ladder of technological sophistication where the coastal area is higher than inland area. “ How long do you think foreign companies will consider China as a location for low end manufacturing?” That is a tricky question, I don’t know. I still, I don’t see textile industry moving out of China so quickly. You probably asking this question because textile industry moved out of the US, moved out of Japan, Korea and I think there is a major different here. The major different, in addition to cost consideration companies also have access to market consideration, by having the market facility in China they are closer to the market. And this being the largest market by many measures. Even when the cost is relatively higher than before, or even lower as in Vietnam it does not mean they will move to Vietnam very quickly. For one they can probably find places in China that is just as cheap as Vietnam. Number 2 more important is the access to the market. And
another important thing for any kind of investment is the ecosystem of manufacturing. For example if you are in the textile industry, you have a lot of needs. You need many workers, you need probably good supply of electricity, and you probably also need the supplier of machinery for you to do this manufacturing. When the machines break down you need someone to come in and fix it. So if you have all those things close by it becomes more attractive to operate in that value chain. Compared to many other markets, China has this advantage. Many many things that are connected, and when you look at textile industry, I am not expert in this, but it easy to imagine that you have a lot of needs, you have to be serviced. Other companies service you. If you just move somewhere else, and the service people don’t follow you, it is not good. “ And do you know when the industry is moving from coastal areas to inland China, will the government make sure that everything you say that needs to be moved will follow to the inland?” It will only happen naturally, the government can provide tax incentives, free land and so on. If people don’t come, they don’t come. It is much easier to ask people to move inside one country than outside. If you go to Vietnam you can better cost, but you are far away from everything else. I think you have to reach that threshold before you can consider it. For example Norwegian ship builders for many years they already had to high cost, but they did not disappear over night, they had JV with other people, they build shipyard somewhere else, they moved production somewhere else and they provide key technology. And what is this company that sets the standard test? “ Norwegian Veritas?” Yeah yeah, and it has a big operation in China. Anyway so this is the kind of example that you move slowly. Today I know that you still have manufactures that build some parts for ships, they just build this special parts. So it happens pretty slowly, even at the end it doesn’t mean that it will disappear.

I think the manufacture industry in the next few years will be very good, will keep on growing, and the longer they keep growing the supply to the domestic market will be more and more. Industry will become an integral part of the global supply chain for example in the auto maker business Chinese companies will join the global supply chain to supply VW China first and then VW Germany and then they will supply to other people. This is the trend; this is what is already happening. “ But with the low end production companies that are located in Shanghai, how long do you think it will take before they disappear?” Well they start
disappearing but I can’t say when they will disappear, but they start disappearing, some just disappeared, and some just moved. And they close it down and the owners gets into new business or the owner will move the business to another province where it is cheaper to operate.

The industrial parks are extremely important for China’s economic growth, it is a way for local governments to attract business, to reach an economy of scale. Earlier I mentioned services for all companies you probably need some kind of similar service like water, electricity or government services. For some industrial parks where there is a concentration of export companies there is a custom service so that everyone can clear their custom in the industrial park. So this is the kind of service that builds the ecosystem. People will be able to eat, to breath, to build, to grow. And so the industrial park is a very important and has been very successful.

Other comment I have is the overall picture for Chinese manufacturing is as a part of Chinese growing economy I think it will be growing more technological and sophisticated. It will eventually become competitive with the major developed economies such as Germany. This is in a small way, everyday its happening. That’s why Chinese company for example one manufacture in China has been globally successful is Huawei. Huawei 3-4 years ago did not have a present in Norway. Huawei is China’s answer to Cisco, and about 3-4 years ago it won a major contract with Nortel. And now its supplies equipment to Nortel and has a big office outside Oslo. So this kind of manufacturing + service is already happening. And how did they win that contract? Before this Huawei company, Nortel was using Eriksson, so Huawei just beat Eriksson winning the contract. This is old story, its 4 years ago. Now its happening everyday, and you know some are very very small parts and it can be industrial components that you and I have never heard of, it can be just a screw. And as simple as screw. They just produce tens of thousands of screws to your specification, and very quick. And then you know this kind of manufacturing you have an economy of scale and it become a global supply chain. And people will find you, and people will use you, and eventually you will establish a reputation.
Interview number 3. Teodora Mincheva

Interview with Teodora Mincheva is a factory Manager in the Shanghai area.

The main reason for this interview is to collect data about future development in the textile industry. Can you please tell us in short what kind of competence you have within the textile industry and a little bit about your work and education?

1. Where is the textile industry located today in China?
   Zhejiang province – Hangzhou area
   Shengze - Jiangsu province

2. What changes do you think will occur within the different locations?
   Sorry, I really do not know what this is exactly

3. What areas do you think is most beneficial for the future textile production?
   Same as question 1 + mainly south due to all cotton farms being positioned there + weather conditions are better than North China – you need good, warm weather to be able to dry all fabrics so definitely North China is not the place to grow this industry

4. What areas would you recommend for future production, and why?
   Same as above +
   Thailand/Bangladesh – quality is good, labor is cheap, and weather is great for textile
   India – they have the resources, cotton & labor is cheap as well. India specialized in textile for many years and they are very good with printing & quality of fabrics

5. Do you think there is a future for textile production in China? If not, where do you personally feel it would be more beneficial?
   There is definitely future in China for textile production. China is the cheapest so far and is the manufacture of the world. Population is massive and labor is cheap.
   Government is supporting the industry as a big part of China’s population made their
living based on this so definitely this will be supported and developed by the country going forward, China is growing & developing very fast and it is a definite place to consider for getting your textile from.

6. Regarding the changes in minimum wage and government restrictions/laws, how do you think it will change the textile industry?
China is becoming more and more expensive and it is not what it was 5 years ago. This definitely does not help any industry (not only textile) however this is a normal process for any growing and developing country. People invest in newer machines, education and human resource which will help improve the service & quality or product we all get out of China. So what will probably happen is as we say “you get what you pay for” – Chinese product will hopefully reach the other countries quality and standard and we all have to pay the price for it I believe.

7. During our former research we found these areas with textile production;
Chongqing, Jiangsu, Macau, Shantou, Xiamen, Zhejiang, Do you have any comments about these areas?
No sorry

If you have any information or knowledge beyond these questions we would be grateful if you would give us this.
Interview number 4. Shi, Daxiao

Interview with Daxiao Shi Law professor at Fudan University

Interview questions:
1. What are the main laws and regulations in China affecting the textile industry?
   a. How is it affecting the Chinese textile industry today?

2. What the differences in the laws and regulations regarding the textile industry in the Central and Eastern regions in China?
   a. Do you know if the government supports some regions by providing them with incentives or economical support, through the laws and regulations? How?
   b. In what areas of China do you think the laws and regulations provide best incentives for a production company within the textile industry? Will this change in the future?

3. How has the rapid economical growth in China affected the development of laws and regulations?

4. How do you think the laws and regulations will change in the future regarding the textile industry?

5. Do you know how the new labor law in China has affected the textile industry?

Gives us some general information about your field?
In Chinese law school there are very few persons who major in a special industry, so about the textile industry maybe it is a very though field for law school professors. Personally I do not know a whole lot about this industry.

Right now we are looking into the different regions in China so we do not necessary need information about the textile industry specifically, but more the production part. Do you know any main laws affecting that will affect the production that will be important for us to know about? I do not know about special laws for this industry, but I think maybe there
is laws on tariffs and laws on technicians maybe affect the textile industry. Do you know the
difference between law and regulations? No. In China we have different sources of law and
the national peoples congress can make rules, can make laws and its standing committee of
the national peoples congress also have the power to make laws and the two kind of laws,
maybe these have some regulations. Usually we use regulations to the rules or the documents
or the laws in a broader meaning made by the State Council or Local Government or the
Provincial Level Peoples Congress. Usually we have a clear difference between the laws and
other regulations so at the level of law, at the level of People’s congress and its standing
committee maybe there is no such laws to regulate the industry.

So will there be more regulations in the different regions that will affect it? Different
regions or the state council the central government usually makes some rules and still there
are some ministries or the commissions on the State Council for example the Ministry of
Commerce, and there is a very important commission that is called National Development
Reform Commission, in China many things are decided by this commission for example the
oil price and usually when very huge program will be established and “fashion program”
usually should get the approval from this commission. So I think this commission kind of
affect the textile industry.

So is that for China or is it in general in the different regions? In China we have central
government and still we have different regions for the different provinces or automated
regions the cities such a Shanghai, Beijing, szhenzhen “tsongsing”, usually the central
government including the state council and its ministry and commissions have the power over
the whole country.

So do you think that this affect the textile production? Yes, if a company with really great
products, the textile company will be set up, usually the National Development Commission
will interfere I think this maybe can affect the industry.

We have noticed that it in certain areas in China the government provides with
incentives. Do you know if the government gives different incentives to make sure that
the textile industry moves to the central part of China? I think maybe different regions
have different regions have different regulations, sometimes they use the regulations to promote the industry in this area, sometimes maybe they do not use the regulations they just apply the direction or guideline of the government. I have done some research before the interview, I found out that in 2007 Hunan province in the middle of China pro-marketed regulations to promote the textile industry, because the Hunan province is a very big agricultural province there are a lot cotton, so Hunan province decided to promote the textile industry. Usually when a province wanted to promote an industry usually they get the approval from the National Development Reform Commission.

Where did you find this information? fdi.gov.cn, here you can find out which industry is supported by the government an which is not.

We wonder if there think that there will be a future for the textile industry in the central areas? Do you think due to the regulations that it in the future will be even better to move there? I think because the textile industry includes many sub-fields, so maybe some of the sub-fields can be supported by the government. Because of the National Development and Reform Commission issue a five-year plan for different industry so you can from these plans find that nearly every industry will be supported by the government. But in the industry only some of the sub-fields can obtain the support of the government, that means that the government arrange some money to support the development of the sub-field. There are many factors that can affect the textile industry in the different regions because maybe the central government want to promote economical development of the middle and the western regions so the government can arrange some money. But if these provinces got the money they can do something, usually the local regions in the middle and the western whether they want to support the textile industry maybe that’s a question mark. Usually such thing is decided by the chief executive of the local regions, if he decides to set up this industry he sends out a person to grab the resources and grab the money. Maybe that’s the second factor that can affect the industry in the different regions.

We where wondering about the new labor law in China and do you think it will affect the textile industry in some way? Or how it has changed it? I have not had a interview
with the manager of any company, so I would just guess that it maybe it is a higher cost for the company, because the new labor law require the company to protect their workers, which then again creates a higher cost. I think there are many ways to avoid the enforcement of this new labor law. I will give you an example: In the old labor law I would just hire you for my company, but when the new labor law enacted then I would not hire you, I would hire another person to do that. Usually the third persons have a contract with another company. The company hires the third person in order to send the third person to my company. So it does not cost too much, because I just I give you the contract with another company, so if I only want to use 2000RMB for a person, it is not of my business. So in such a way the company can avoid the enforcement of the new labor law. But actually in the middle and the western part of China the prices of the labor goes high.

**But is it not cheaper in the central areas right now, for labor?** Maybe not as cheap, but it is cheaper the difference in labor price is not up fierce, usually in the eastern part in China a worker can make 3000RMB each month, in the middle they can earn 2000RMB or more.

**Do you have any other comments?** I think maybe the central government of China try their best to better the middle and western regions that affect. So maybe there are more opportunities for such a industry in the middle and western regions, so I think maybe this will be a better future. You should notice that the legal context in these regions are not very good, for example the personnel of the legal system do not have the same ability or the same ideology compared to the eastern part. Maybe there is more corruption in the western regions.

**Do you think this could be a problem?** Maybe, but in China many local governments, different levels do you know the country level, the city level, the provincial level many different government have different levels have the task or the duty to include and oversee the investment into their own region. So you can balance the different benefits and divide different practice. Maybe because in some part of the textile industry use the product cotton and some industry use oil, different resources can affect the different industry. In Hunan there is huge cotton products, usually these regions produced cotton, usually the local government would use the advantage to promote the industry and the chain of the industry.
Interview number 5. Jørgen Ørstrøm Møller

Interview with Jørgen Ørstrøm Møller, Visiting senior research fellow at iiseas

The main reason for this interview is to collect information about the future economic development in China for our Bachelor Thesis.

1. How do you think the macro economic development in the Shanghai area will change within the next years? (Wages, inflation, price-level, cost of living etc.)
   -And in China?
   -What do you know about the inflation in China today? Will the Chinese government be able to stabilize it in the future?

No big changes in Shanghai because no changes in fundamentals. China faces domestic problems that need to be tackled. It seems that the government successfully has stabilized the economy, but growth is still overwhelmingly supported by investment – that cannot continue. I doubt that stimulating private consumption is the right way ahead so economic policy in China over the next five to ten years is a big unanswered question. Inflation is under control with the current economic outlook.

2. What effect will it have on production companies?

   Competition will be harsher and many companies in labour intensive, low cost manufacturing will gradually move out of China. Higher quality, technology, service etc will take over. Main task for the Chinese government to provide framework for this.

3. How will China be able to maintain their economical growth if they manage to stabilize the inflation?

   See answer to Q2.

4. What do you know about different government regulations within the textile
industry/production industry?

Not very much.

5. What do you know about different government laws within different regions regarding the textile industry/production?

Same.

6. How are industries affected by government regulations in different regions regarding the textile industry/production?

Don’t know.

7. Do you think regulations towards foreign companies in China will change?

Not very much. China is still heavily dependent on FDI transferring technology and know how.

8. Do you know where the textile industry is located today in China?

No.

9. Which areas in China do you think is the future for production industries, especially the textile industry?

Areas with low cost labor that in principle should be the Western part of the country.

10. What will happen with the textile industry/production industry in the next years?

Probably diminish in importance as part of it loses competitiveness because of rising labor cost.
11. What is your opinion about industrial parks? How and why they are beneficial?

They have worked very well in the past, doubt whether they have a future. You do not need anymore to dispense from domestic regulation as China has and still is liberalizing the economy.

12. If you have any further comments we would really appreciate this.

No.
Interview number 6. Zong Amanda

Interview with Zong, Amanda. Factory Manager at ITP box & Bags

First of all, we are now almost done with our analysis part and to start on our strategic part we are going to evaluate different regions of China. We know that you are considering moving to Vietnam, but our focus needs to be on China due to the tasks we were asked to solve.

1. What regions of China do you feel would be profitable for ITP Box&Bags to expand to, to open up a new factory, and why?
   - What are special with these regions?

   Midland China, for instance: Anhui; Henan

   Because these areas are closing to Zhejiang and Shanghai province, in total of around six hours of driving. It is benefit for purchasing, logistic and recruitment.

2. Do you know if there are some government regulations towards the textile industry, in any region of China?

   Nowadays, Chinese government are encouraging some high tech and value added industries to replace some low valued, high polluted and energy cost industries.

3. What regulations are mainly affecting ITP today?

   The new social welfare, pension system and minimum salary rate. Currency exchange of RMB.

4. We were also wondering about your labor cost and logistic cost. Do you have any information about that? How much does it cost with one loaded truck with products to the end stop?
It is very complicated question. For the labor cost, the minimum cost is 1460RMB (from this APR). And the expectation of our workers are around 2800RMB/month (high skilled), 2500RMB/month (low skilled).

For the logistic, our business are exporting to international sales. We are in charging of transport goods from our factory to the port by truck and the sea ferry shipment. For example, from our factory to Shanghai port and other costs, it is around 4000RMB. The ferry cost from Shanghai to Oslo is always changing around 2000USD to 3000USD.

5. **How do you ship your products?**

   Sea freight mostly, and sometimes air freight.

6. **What are your main challenges for the future?**

   Inflation, currency, recruitment, labor cost, international market, government regulations.

7. **How are you preventing these obstacles today?**

   Staff training for the recruitment. Improve efficiency and cost effectiveness. Expend our business scope, target new market and increase customer satisfaction.

8. **What are your thoughts about the textile industries future?**

   “CHEAP” will no longer be the sales point of Chinese companies. We need to add on more value and high technology, transfer from labor work to automatic system.

   If you have any further information we would really appreciate that.
Interview number 7. Professor Wei Li

Interview with textile professor Wei Li, Professor at Dong Hua University

Interview questions:
1. What changes do you think there will be in the textile industry in the future? (Location/regions, technology)
2. During our research we learned that many companies are moving to more central China. Will this become the trend within the textile industry?
3. How will the development in the east-coastal areas affect the textile industry?
4. What region would you recommend for textile production today? Is there future in Shanghai?
5. Do you know if there are any regulations within the textile industry that may concern foreign companies?
6. Where do you think textile production will be most beneficial in the future?
7. Do you have any comments about the textile industry on the east-coast versus central China?
8. Do you think the Jiangsu, Zhejiang, Guangdong and Shangdong are areas that will be beneficial in the future?

Answers:
The Coastal side of China to the inland of China, the western countries moved their manufacturing placement to China, that make the garments, yarn and fabrics. But they still keep their R&D center in their own country, so I think it is the same more of the production facilities will be moved to more central China and I agree with you (Ref). Also you can see right now it is the same, it is very clearly in the central part like Jiangsu province, in the north and central part of the Yangtze river we already have moved a lot of production facilities. Especially garment production and home used textile but still the headquarter still located in Shanghai and in the coastal part. They are moving but only the production part of the business. I mean for the development of the east coast area they will lead the textile industry.
Shanghai is a good example for the establishment, has a huge textile manufacturing basement in china it is quite famous so we have the spinning, weaving, knitting, dying we have all this kind of companies in shanghai. Shanghai is quite famous for their textile but around like more or less around year 2000 a lot bit early, the Chinese government decided to transfer make an economical and kind of trading center so you can see a lot of spinning factories, weaving factories. A lot of people lost their job during that time, at this moment at our university we get a large effect by the movement, we see a lot of movement from the east coastal area to the north central areas so it is very big influence in Shanghai particularly at our university it is hard for us to find good students because people say if I go to the textile university I will not get a job, because the textile industry move out but now people understand the industry and we have good students. They go for fashion, trading, technical development they have all these kind of things they do this is quite a good questions I mean so of course the development of the east coastal areas will have an impact on the development of the textile industry. But this means this is a very leading affect, Chinese industry can catch up with foreign textiles. We can see that the production line is long for the textile industry. For example we have to pre-treat the cotton and then we can do the spinning and make yarn and do the weaving we have to do the knitting and then we have to the dyeing and finishing. So more and more companies go to the more central part of china even to the north part of china because they want to get the good materials for example for the cotton in shanghai they buy cotton from Xinjiang province from the other provinces but I do not know what is going on there, what if they harvest the cotton and did something wrong probably they did not put enough material for the cotton to grow up. So that is why more and more textile companies buy the land in Xinjiang province, they say you just produce the cotton for me and then I control the quality. This has been important the recent years so particularly for large companies they do this strategic movement so I think this is very important. In Xinjiang they have the raw materials they have the cotton, could we move the spinning companies and all the production to this area, I would say this is not a good moment because in these places the material is good but they do not have enough technical people because the living conditions are not good and infrastructure, salary and weather. It is to hot so I mean there are so many factors so the students when they graduate from Donghua they will not go back even though they were born there, this is quite a critical thing for Chinese textile we always say we have to leave shanghai for trading and move the textile to the inland, but in the inland we do not have enough technical people to support, right now the technical is not only hardworking. Because
now they need technical skills, but they do not have enough it will take a long time. at this moment it is not the right moment to move. It better to not move from Shanghai because of the distances even though the labor cost are lower. But generally the labor cost are rising all over China but for example in Africa the labor costs are low but I still do not think all the factories want to move their production to Africa, because the working conditions and infrastructure is bad. Once the country gets a kind of development they set up a kind of facility to accept this kind of industry that is the moment.

(Regulations) If you want to move to the central part of china, the regulations/policies are very important. Is there any local government want this kind of production or not. So some of the local company they say I will support textile, because it can do a lot of trading, do import and export to increase the income to the local government. But some of government says if you introduce the dyeing, the finishing is not good for the environment. So most of the government and companies are in a dilemma. They have to make a choice. In the beginning most of the government say welcome, because they can increase their income. Recently the government thinks it over whether or not it will have an impact on the environment. The government can suddenly say stop, even though there are a lot of textile in the region. Normally the government will offer you the land, they can give tax reductions, and other benefits inside the industrial park, all the companies related to textile. In some industrial parks, the government stopped supporting the textile. They will not expand it any more. They want most of the companies to move out. They want to make it “beautiful” like a garden, not production. This is very important.

Normally government want bigger companies, like if you have 10,000 looms you can go. The government wants to make results. So it depends on net income from the company. If you have a high net income the government will welcome you. Especially if it is easy to handle, no dyeing. If you can make money you can come. But right now government makes selection. If you are a design company, the government will invite you.
Henan is a big region, getting bigger. Anhui is also is good. Henan has good incentives for textile production. Not only textile, but also chemical. In China regulations and policies are important. This is one of the most important things. Production line is also important. That there is clustering. Normally the government will set up a park to accumulate this factor. You need supporting industry, ex. Buy spare parts. Electricity. China is to big, if I have a factory in Henan province, and I have to buy yarn from Guangdong province I will hate that, I will want to move closer. Traditionally Shandong is good at spinning, Zhejiang province, Jiangsu province they are good at weaving and knitting. But know there is a change; they are getting closer to each other.

East and central are relying on each other. We have the design center here in Shanghai. I don’t think the whole production will move there. It will probably take 10-20 years to move, because they will not have enough people to run it. Due to the rising wages they have HQ in Shanghai and production in Suzhou, Jiangsu, Anhui province. These are quite close. Once the HQ is moved to Jiangsu or Anhui province, then the real production will move to more central like Henan, Sichuan. Labor costs will not have a huge effect right now. If the government decides they want to move the textile from Shanghai, they will do that. Once the government say the dying, finishing and weaving cannot exist in Shanghai and along the coastal area it will move very quickly. All the technical people want to stay in the Shanghai area.

(Labor shortage) Fujian, Guangdong. People will move closer to home even though they get lower paid in ex. Henan province. They are now closer to home, worker think it is ok. They can stay with family. Depends on development of society. Before it was all about earning the most, but now they can stay closer to home. If you open up a manufacturing factory in Shanghai it is really tough. They have to pay high salary. You do not have enough employment to work for you. So that is a big problem. When it is getting better in their own province they do not want to take a risk and move to Shanghai. Why should they move when it is ok to stay.

Even though is cheaper in more central provinces, it will be difficult to get enough skilled technical persons. So you have to pay higher salary to get them. If not it will affect the
quality. For ITP it would be an idea to set up a small branch in the central areas before they move. You can send people from that region, that works in Shanghai to train them. It is important to take it gradually. Because it is too much risk moving the production.

(regions central) It is really hard to see which province is better. Henan has good advantage in population. It still depends on the environment of the industry. It depends on what kind of products you are making. Sports equipment are good in Fujian Province, Strong companies with synthetic fibers. Zhejiang province also strong for polyester and nylon. All provinces are promoting themselves as the best place to be. This makes it hard to choose.

Best regions: Henan, Fujian, Hubei, Xinjiang (cotton),
Appendix 4. Selection process

Province 1: Fujian:

Government:
Fujian is an east coast province located in an area where the government attempts to promote technological advancement. Therefore no incentives directed towards textile industry. (Appendix 3. Interview number 2: Wang)

Costs:
- Average monthly employee wage: 1.947 RMB
- Average Industrial Facility costs: 16.4 RMB/m²
- Minimum wage: 750-900 RMB
- Logistic costs: The trend indicates that, if you are located far from Shanghai, transportation costs will be higher than by being located close to Shanghai. Fujian is a coastal province, near Shanghai; therefore the authors assume that logistic costs are not high. (http://understand-china.com/?province=fujian Downloaded: 14.05.2012)

Cluster:
- Access to logistics: Very good
The government is developing higher technological advanced industry as a part of the 12th Five year plan. In these areas prices are rising and lower-end manufacturers are moving. As a result, textile manufacturers are moving to more central China, where the government provides stronger incentives, and prices are lower. (http://understand-china.com/?province=fujian Downloaded: 14.05.2012)

Labor
Good labor access. (http://understand-china.com/?province=fujian Downloaded: 14.05.2012)
Province 2: Zhejiang

Government:
The Government offers several investment incentives in the province: (http://understand-china.com/?province=zhejiang Downloaded: 14.05.2012)

1. The provincial government offers the following investment incentives for Sino-Foreign Joint Ventures: tax subsidies and tax refunds for Sino-Foreign Joint Ventures that reinvest profit.

2. As an incentive to stimulate trade and foreign investment, the Ningbo Municipal Government has set up the Ningbo Free Trade Zone. Foreign enterprises will enjoy the following preferential policies within NFTZ: merchandise entry and exit exemptions from tax, quota, and licensing, tax exemptions on equipment and materials infrastructure materials, reimbursement and subsidies on land, workshop, and dormitories.

3. As an incentive for foreign investment, the Wenzhou Municipal Government has created the Wenzhou Economic and Technical Development Zone. Foreign enterprises will enjoy the following preferential policies within WETDZ: income tax rebates; tax rebates for reinvestment of profit and lowered lease rates on state land.

Costs:
- Average monthly employee wages: 2100 RMB
- Average Industrial facility costs: 16 RMB/m²
- Minimum wage: 1310 RMB
- Logistics: The trend indicates that, if you are located far from Shanghai, transportation costs will be higher than by being located close to Shanghai. (http://understand-china.com/?province=zhejiang Downloaded: 14.05.2012)

Cluster:
Located on the east coast and good access to logistics. (http://understand-china.com/?province=zhejiang Downloaded: 14.05.2012)
Labor:

Good labor access. (http://understand-china.com/?province=zhejiang Downloaded: 14.05.2012)
Province 3: Shandong

Government: The government is enthusiastically developing the textile industry, and the authors therefore assume that the government is providing good investment incentives. (http://www.2456.com/JasperWeb/htmls/Show/228/IntroductionOfShandongTextileIndustry_en.pdf Downloaded: 14.05.2012)

Costs:
- Average industrial facility cost: 16.4RMB/m²
- Minimum wage: 950-1240 RMB
- Logistics: The trend indicates that, if you are located far from Shanghai, transportation costs will be higher than by being located close to Shanghai. (http://usa.chinadaily.com.cn/business/2012-02/28/content_14715204.htm Downloaded: 14.05.2012)

Cluster: Good industry cluster and good access to logistics. (http://eng.hi138.com/?i80719 Downloaded: 14.05.2012)

Province 4: Sichuan

Government:
The government offers some relevant incentives towards textile industry: (http://understand-china.com/?province=sichuan Downloaded: 14.05.2012)

1. The Chinese National Government strongly encourages foreign enterprises to invest in Western China. They offer tax subsidies and other preferential policies for the following types of enterprises: enterprises with newly established transportation/water conservancy/broadcast television projects, mining enterprises, banking enterprise, commercial retail enterprises, Sino-foreign trade companies, investors in RMB financial business, insurance enterprise, Sino-foreign travel agencies, accounting firms, legal firms, enterprises engaged in commercial projects and enterprises engaged in infrastructure and competitive industry projects.

2. In addition, the Chinese National Government offers preferential land use policies and a 15 percent income tax rate for all industrial enterprises in Western China (Eastern China’s tax rate is 33 percent).

Cost:
- Average employee monthly wages: 1,400 RMB
- Average industrial facility costs: 21,4 RMB/m²
- Average minimum wage: 710-1050 RMB
- Logistic: it costs 6000 RMB per standard container to Shanghai. (http://understand-china.com/?province=sichuan Downloaded: 14.05.2012)

Cluster:
Fair access to logistics. Large population and interest in expanding its manufacturing presence. Textile industry present. Rich in natural resources such as silk, ramie, cotton and...
wool. (http://eng.hi138.com/?i207930 Downloaded: 14.05.2012)
(http://www.chinaapparel.net/catalogs/087/063/037/ Downloaded: 14.05.2012)

**Labor:**

Large potential workforce. (http://understand-china.com/?province=sichuan Downloaded: 14.05.2012)