GÖTEBORGS UNIVERSITET

HANDELSHÖGSKOLAN

Chinese apparel production- where to next?

A *case study of a sportswear MNE relocating production out of Eastern China*

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Abstract

Abstract

Background and problem: China has over the past decades been considered the world's factory with low production costs and an abundance of low-cost labor. As a result, many foreign firms have located their low cost manufacturing in the country. However, the former cheap production hubs are becoming increasingly expensive, especially in Eastern China. Subsequently, many apparel companies and suppliers located in East China are now looking for cheaper production either inland or in nearby East Asian countries. This study focuses on a multinational Scandinavian anonymous sportswear company located in Shanghai and their process and reasons for relocating parts of their production in order to stay competitive in the apparel market.

Purpose: The purpose of this study is to increase the understanding of where foreign apparel manufacturing firms decide to relocate production when moving out of Eastern China. It focuses on the key factors behind this decision and how well the selected MNE (Multinational Enterprise) motives correspond to the identified determinants.

Method: A qualitative method has been used to collect empirical evidence and analyzing the empirical data. It has been conducted through a single case study based on interviews with the top management of the selected company in Shanghai.

Results and conclusions: The selected MNE has chosen to relocate parts of their production by following an existing supplier to Myanmar. Combinations of fluctuating exchange rates, relationships, incentives to spread risks and reduced tariffs have been identified as key drivers behind the decision.

Table of content

1. Introduction **7**
1.1 Background 7
1.2 Problem discussion 8
1.3 Purpose of the thesis 10
1.4 Research question 10
1.5 Limitations of the thesis 11
2. Theoretical framework **12**
2.1 The OLI paradigm 12
2.2 Determinant-model: Relocating production 14
2.3 Model: Geographical relocation strategies 28
2.3.1 Go Out 29
2.3.2 Go West 30
2.3.3 Alternative strategies 31
3. Methodology **32**
3.1 Research approach- Qualitative approach 32
3.2 Research Method- Qualitative, single case study 33
3.3 Scientific approach 34
3.4 Theoretical framework collection 34
3.5 Empirical material collection 35
3.5.1 Interviews as an empirical research method 36
3.5.2 Background to the interview questions 38
3.5.3 Recording and Transcription 38
3.6 Method for empirical material analysis 39
4. Empirical Evidence **40**
4.1 Current production facilities & networks 40
4.2 Key determinants behind the relocation decision 42
4.3 Decision making process 43
4.4 The sourcing process 44

4.5 Quality assurance & Inspections 45
4.6 The new factory in Myanmar 46
4.7 Trends within the sportswear industry according to respondents 47
4.8 Summary of empirical findings- Determinants 48
4.9 Myanmar's textile industry 49
5. Analysis 50
5.1 OLI-paradigm 51
5.2 Determinants 54
5.3 Geographical relocation strategies 63
6. Conclusion 65
6.1 Conclusions of the thesis 65
6.2 Suggestions for future research 67
6.3. Implications for practitioners 67
8.1 Original Model: Restructuring strategies adopted by the export-oriented apparel firms. Pearl River Delta, PRD; Yangtze River Delta, YRD 81
8.2 Interview questions 82

Key words

Relocation, production, apparel industry, MNE, China, East Asia, sourcing.

List of Abbreviations & Definitions

FDI- Foreign Direct Investment

FOB- Free On Board Shipping Point

FTA- Free Trade Agreement

HRM- Human Resource Management

MFA- Multi Fibre Agreement

MNE- Multinational Enterprise

NGO- Non-governmental Organization

NIE- Newly Industrialized Economies

NOK- Norwegian Krone

PRD- Pearl River Delta

RMB- Renminbi (Chinese currency).

Trims- Materials used to ornament or enhance garments. Often combined with accessories.

SME- Small Medium Enterprises

YRD- Yangtze River Delta

1. Introduction

This section aims to provide the reader with a background of China's current economic slowdown and insight into why MNE's have started to look outside of China alternatively towards Central-Western China when relocating manufacturing. It is followed by a problem discussion, purpose of the study, research question and limitations. In addition, the thesis structure is presented in order to give the reader a clear overview of the study and its sections.

1.1 Background

Since the 1970s, China has emerged from a secluded and politically unstable country into a major global economic player (Hägerdal, 2008). The country has over the past decades experienced dramatic economic growth fueled by separate reforms. The combination of increasing international demand and internal reforms has contributed to a rapid development of the private sector, which in turn has resulted in China emerging as one of the most prominent actors within the global manufacturing market (Pickles & Zhu, 2014). China's status as a world factory accelerated through their entrance into the World Trade Organization in 2001. In 2011, China overtook the U.S. as the world's largest producer of manufactured goods (Eloot et al., 2013; WTO, 2016a). The emergence of China as a key exporter has mainly relied on its ability to provide unskilled or semi-skilled labor, industrial clusters and low wages. Until recently the primary economic activity has been located in the Eastern coastal regions of the country as a result of low wage employment. However, as the competitive pressures and the production costs have started to rise in this region, the Chinese business environment has undergone major transformations (Pickles & Zhu, 2014). China is the biggest clothing exporter (WTO, 2015), nevertheless the growth in apparel exports for smaller Asian countries such as Vietnam and Bangladesh has increased much more than in China over the past few years (WTO, 2013).

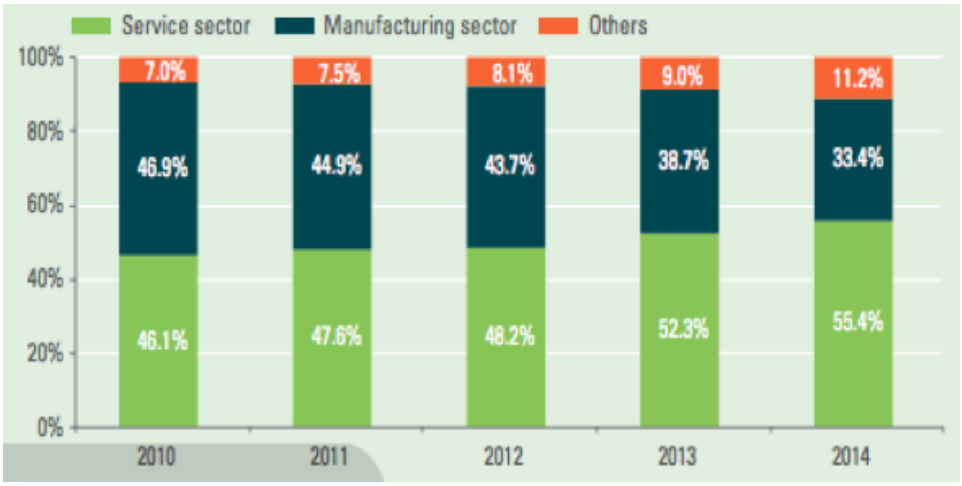
Since the beginning of the 21st century, an increasing amount of factories located in the Eastern coastal areas have experienced difficulties related to increased economic and social costs. This has forced manufacturers and producers to relocate low-skilled manufacturing operations. The apparel industry in China, regarded as a low-skilled industry, is a case in point of how the reconstructions have affected the business environment and altered the outlook of the industry. The rise of China's export-oriented apparel industry has largely been driven by the opportunity of utilizing advantages linked to a specific location such as low

wages and preferential national regulations (He & Zhu, 2013). These location strategies are now used in order to find more competitive areas for production towards Central-Western China or abroad (Zhu & Pickles, 2014).

1.2 Problem discussion

MNE's that continue to base their manufacturing strategies solely on China's reputation as the "world's factory" are in for a surprise. Current research debates whether China will be able to maintain its dominant position on the global market since recent reports are showing an decrease in FDI (Foreign Direct Investments) into China's manufacturing sector, as Figure 1 reveals (KPMG, 2015).

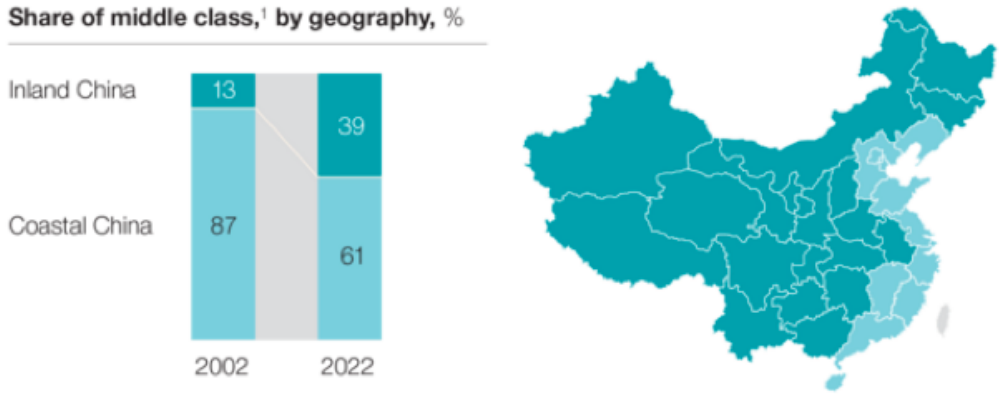
Figure 1. China's inward FDI breakdown by industry, 2010-2014



Note: "Others" refer to the following sectors: agriculture, fishery, forestry etc.
Source: KPMG, 2015.

Manufacturing wages in China have increased with an average of 12% per year since 2001. In addition, China's currency is considered being at an all-time high, making it increasingly expensive for the world to purchase Chinese produced goods (Economist, 2015). FDI has been concentrated into the Eastern coastal regions, which has caused unequal regional development (Zheng & Chen, 2007). As a result, it is becoming harder for apparel manufacturers to find low cost factory workers for their clothing production in this area. As shown in Figure 2, Eastern Coastal China is by far containing the largest share of middle class. However, this is expected to change over time (Barton et al., 2013).

Figure 2. The shifting geographic center of middle-class growth



Source: Barton et al., 2013.

A decline of the general importance of manufacturing in the Eastern areas has resulted in the loss of new factory investments to low-cost locations such as Central-Western China, Vietnam, Indonesia, Cambodia and Myanmar. In addition, evidence suggests that the manufacturing rate is decreasing quicker than the aggregated economic growth, which supports the fact that manufacturing in China is overall becoming less significant (Berg et al., 2013). MNEs are starting to adapt their strategies by relocating production to areas where labor and production costs are cheaper (ChinaDaily, 2010). However, relocating production is a complicated and time-consuming process, which may take months or even years to implement (Pauly, 2016).

In addition, companies today compete on an international market with other strong global brands and actors. It is therefore crucial that companies strive towards developing and improving the integration of their global value chains. Alternative approaches must be considered by policymakers in order to make strategic decisions that are promising for future business. In recent years MNEs have shown a tendency to increase their use of suppliers for production, a phenomenon known as externalization. The overall usage of non-equity modes of international production, such as contract manufacturing, franchising, licensing, management contracts and services outsourcing are becoming increasingly common when companies decide to expand internationally or relocate within the apparel industry (UNCTAD, 2011). One of the most frequently used non-equity modes is contractual

agreements as it requires less commitment from a company when moving into foreign markets. Subcontractors are also frequently used in production within the apparel industry (Dicken, 2014; Hill, 2011). Non-equity modes of production is becoming more significant worldwide, especially for developing economies since it may enhance the productive capacities. It also helps shape global patterns through linking international trade and FDI through integrating global value chains of companies worldwide. However, non-equity modes may also pose certain risks. For instance, employment in contract manufacturing can be easily displaced and highly cyclical (UNCTAD, 2011).

This study is a contribution to the research of the phenomenon where companies decide to utilize non-equity modes of internationalization as it presents an example of a multinational Scandinavian sportswear MNE hereinafter referred to as company A, that not only utilizes contract manufacturing but also uses a subcontractor as an intermediary for their decision to relocate production. The company, which has had a major part of its sportswear production located in the Eastern coastal regions of China, has decided to relocate some of their manufacturing activities to Myanmar due to increased production costs. The reason behind the company's wish to remain anonymous is related to the confidential nature of the information provided by the company.

1.3 Purpose of the thesis

The purpose of this thesis is to investigate and contribute to an understanding of how foreign apparel MNEs with manufacturing in Eastern China have adapted to the changing environment by relocating production through utilizing contract manufacturing and subcontractors by focusing on the underlying key determinants. This purpose is fulfilled by conducting a case study on a Scandinavian sportswear company active in China, which is in the process of relocating production out of Eastern China to Myanmar.

1.4 Research question

Which are the key determinants for MNEs to relocate production?

Sub-questions guiding the direction of this study in order to fulfill the purpose of gaining increased understanding of a current phenomenon:

- *What strategy/strategies may MNE's adopt in order to relocate production?*

1.5 Limitations of the thesis

This study is conducted on an anonymous sportswear MNE. The respondents' identities remain anonymous throughout the thesis, which limits the material available for further investigation and background check on Company A. However, an overview and brief background to the company is provided in section 4.1.

The thesis is based on a single case study which has implications for the potential of generalizability between the conclusions drawn from the case study and the investigated phenomenon. Nonetheless, the thesis contributes to research by providing important insight into an MNE's relocation process which is further motivated in section 3.2. Furthermore, China is a unique country in regards to its size and its correspondingly large apparel manufacturing sector. This fact could decrease the potential of drawing conclusions to other countries active within the apparel industry since the size and diversity of China is much greater than many other manufacturing countries.

The fact that the company relocated parts of their production by following an existing supplier has facilitated their sourcing process. This can also be regarded as a limitation since the company handed over a large part of the responsibility onto their suppliers. As a result of this, some of the information we would have liked to receive from our interviews was unavailable since it is confidential to the supplier.

1.6 Structure of the thesis

A short description of the six main sectors of this thesis is presented below.

1. Introduction- A background to the selected field is presented along with a short discussion over the problem investigated in this study. It presents the study's purpose and research question and includes an outline of the limitations.

2. Theoretical framework- This chapter present two theories that are later used to analyze the investigated research area. The modified Geographical relocation strategies model describing relocation strategies adopted by MNE' is used combined with the author's own assembled

model regarding the most important determinants behind relocation decisions.

3. Methodology- The used research methods in this thesis are described and justified by addressing disadvantages and advantages of the choices and which implications it might have on the conducted research.

4. Empirical Findings- The empirical findings section presents the results from the conducted qualitative interviews. This is complemented with desk research about Myanmar.

5. Analysis- This section aims to compare and discuss the empirical findings to the theoretical background with the intent of finding similarities and differences between the two which will enable the authors to answer the research question and purpose.

6. Conclusion- This chapter provides a conclusion of the thesis with regards to the research questions and the purpose. The main findings and potential implications for future research and practitioners are presented.

2. Theoretical framework

This section aims to provide a background on current research in the selected field. Firstly, Dunning's OLI paradigm is presented as a framework of understanding the determinants behind FDI and MNE's use of foreign activities. Secondly, eight determinants are identified as key drivers behind relocation strategies and are assembled into a determinant model based on current research. Lastly, a theoretical framework that explains the geographical relocation strategies adopted by MNE's active in the Chinese market when moving production is presented.

2.1 The OLI paradigm

The OLI-paradigm is an analytical framework within international trade theory created by J. Dunning in order to analyze the determinants behind foreign direct investment and to what extent MNE's will use foreign activities. It focuses on individual firms and their motives and incentives behind these decisions. The approach to the study of FDI provides a useful framework for structuring and categorizing research within the field. OLI consists of three categories; Ownership, Location and Internalization. These factors constitutes potential

advantages which helps explain why companies decide to become multinational, where they choose to locate and how they will enter the foreign market (Dunning, 1977; Dunning 2000; Neary, 2007)

Ownership

The ownership specific advantages are key when explaining the existence of firms relocating outside of national borders. The general idea is that the greater the competitive advantages a company possess the more likely they are to increase or engage with international production. Advantages linked to ownership can be considered to be both tangible and intangible; however, the majority is of an intangible nature (Dunning, 1977; Dunning, 1999; Mundell, 1957). The advantages may include important aspects such as patents, production technology, trademarks, copyrights, particular skills and control over certain resources. The advantages linked to ownership can be broken down into three separate categories. The first type include benefits which any firm may have over another when producing in the same location i.e. monopoly power, advantages stemming from size or greater ability to exploit resources. The second type stems from advantages linked to being a part of a "multi-plant enterprise" which means having access to internal resources at a lower costs than would be possible on the external market. The third and final category refers to advantages linked to multinationalism, such as the ability to exploit market differences across countries in order to gain greater opportunities. Dunning points out that the first type is available to all firms whereas the second and third specifically stem from firms being part of multinational group (Dunning, 1977, Dunning; 2000; Neary, 2007).

Location

Dunning (1977) argues that certain advantages arise due to the fact that markets possess different strengths in the form of, for example, market size, assets, general pricing levels, the possibility for communication and cost of transportation. These factors affect a company's decision to determine whether a market is deemed attractive or not. In addition, rapidly growing markets, low wage levels, political stability and geographical accessibility also tend to attract foreign investors. The location specific advantages tend to answers questions such as "where" or/and "why do firms produce in one country rather than another", and generally give an indication it is profitable for a company to exploit its advantages and factor inputs outside of the country. They may therefore be considered as key when determining which

country will become host for the MNE´s future activities. However, the relative attractiveness between locations may shift over time which indicates that there is a possibility for a country to engineer its competitive advantage to some extent (Dunning, 1977; Dunning, 1998; Neary, 2007; Filippaios & Stoian, 2008).

Internalization

The internalization advantages affect which mode of entry the company selects when entering a new market. Furthermore, this category explains why companies decide to take on certain activities in-house while others are outsourced. Depending on the degree of uncertainty involved in entering a new market, the company will have to consider to what extent they are able to take on monitoring, transaction and other costs related to owning a subsidiary against entering the market with other methods such as licensing and joint ventures. The firm's specific advantages will affect the outcome and disclose the balance between the organizational costs of maintaining operations in-house versus the transaction costs linked to using the market. The internalization advantages arise as an answer to market failure in order to avoid disadvantages linked to imperfections generated on the external market (Dunning, 2000, Mundell, 1957).

2.2 Determinant-model: Relocating production

With the apparel sector in China combined with the OLI-framework as background, eight key determinants functioning as motivation for MNE's relocating production have been identified with basis in theoretical literature and current research. Since the OLI-paradigm analyzes the determinants behind foreign direct investment, the eight key determinants provides an additional important framework since they specify in relocation of production which can also happen on a national and regional level. Each factor is further motivated in the following sections A-H which can be seen as an extended version of the OLI-framework. This extended framework is hereinafter referred to as the Determinant-model which is presented in table 1.

The determinant model has been developed in combination with the OLI-model which figure 3 displays. Each factor from the determinant-model has been categorized into O,L and I depending on their relatability to the OLI-framework. Combining the OLI-framework with the determinant model reveal that certain determinants are more strongly connected to a specific category while others are highly integrated into multiple categories, such as

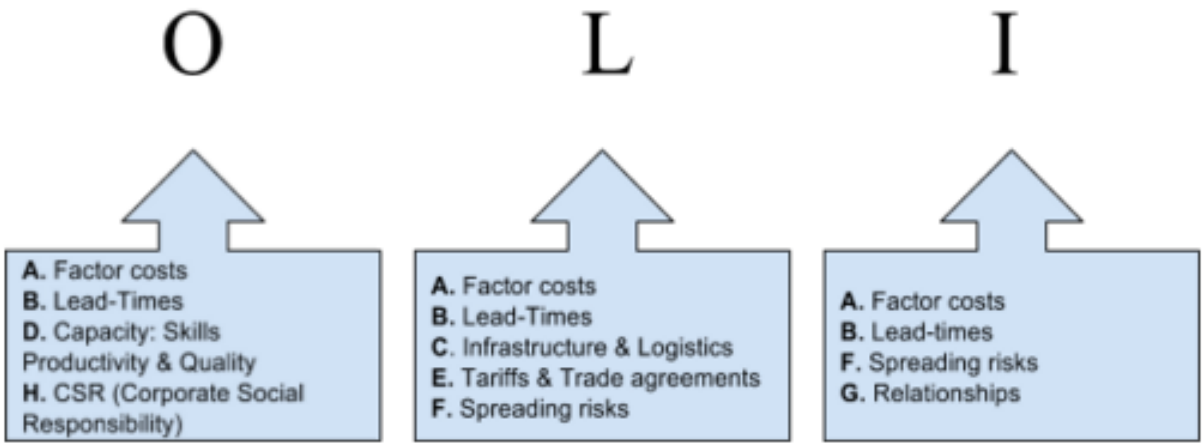
determinant A being a part of all three categories; O, L and I. In the case of company A, determinants A,B,D and H have shown to display a strong connection to the ownership specific advantages. The various factors influence the company to seek more beneficial opportunities in other markets in order to exploit their competitive advantages to the fullest. Determinants A,B,C,E and F can furthermore be linked to the locations specific advantages. They affect the decisionmaking process since they help determine whether a particular location or market can be considered beneficial enough for the company to penetrate. Determinants A,B,F and G are linked to Internalization since they influence which mode of entry the company will select when entering a new market. The analysis in section 5 further discuss and display how some factors from the determinant model have been of greater importance than others for company A when relocating production through contract manufacturing.

Table 1. Determinant-model; Relocating production

A. Factor costs
B. Lead-Times
C. Infrastructure & Logistics
D. Capacity: Skills, Productivity & Quality
E. Tariffs & Trade agreements
F. Spreading risks
G. Relationships
H. CSR (Corporate Social Responsibility)

Source: Compiled by authors.

Figure 3. Combined OLI-framework with Determinent-model



Source: Compiled by authors.

A. Factor costs

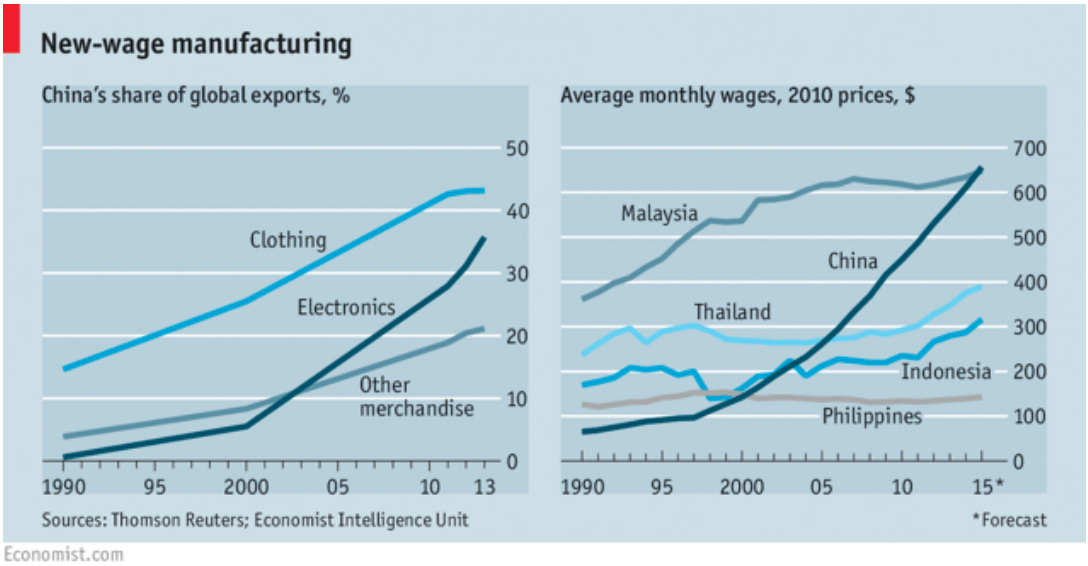
Factor costs include all costs of the factors used in production and are arguably the main motivation behind MNE's decision to relocate production in order to stay competitive (Mwikali & Kawale, 2012). According to Salmon (2015), the biggest challenges for future sourcing are increasing labor cost and wages, transportation costs, exchange rates and increasing prices on raw materials. According to Berg et al. (2013) regarding future trends in apparel sourcing, their findings reveal that most major actors in the apparel market are expecting increases in energy and labor costs, making it desirable to move parts of their production into new markets if possible to avoid unnecessarily high prices. Since the textile and apparel industry is highly buyer-driven (Dicken, 2014), companies have no choice but to find new solutions to ease margin pressure rather than simply raising prices (Berg & Hedrich, 2013).

Wages

Minimum wages in China were approximately $270/month in 2015, which is only about one fourth of the American monthly minimum wage (Economist, 2015). However, in recent years China's average monthly wages have increased, providing incentives for MNE's to relocate production abroad or move to Central-Western China to reach lower cost regions, especially for their low-end apparel production (Pickles & Zhu, 2014; ILO, 2015a). As shown in Figure 4, China's average monthly wages has increased rapidly over the past decades which have led

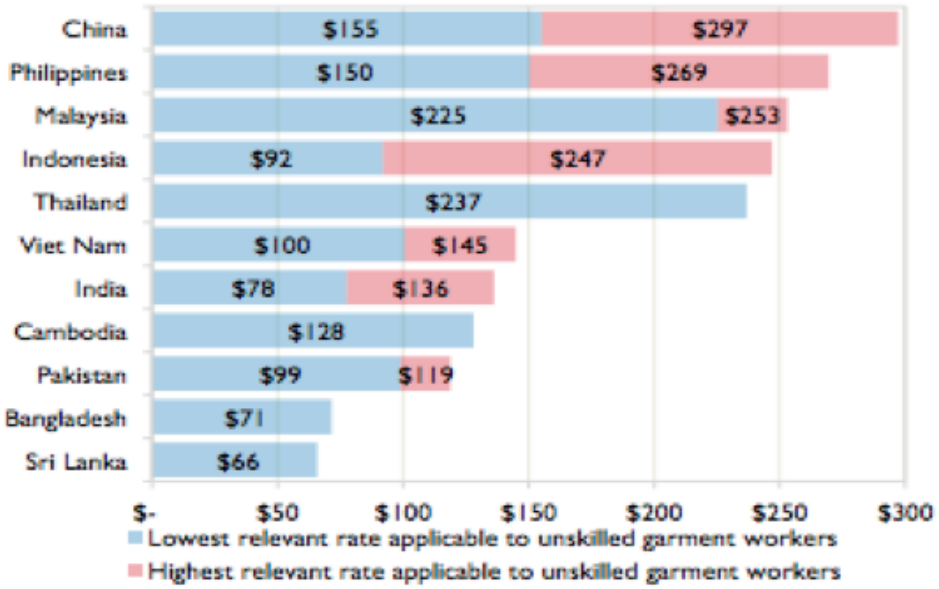
to a leveling off in their global share of clothing exports. Furthermore, Figure 5 shows that China's wages are amongst the highest out of all the compared Asian countries regarding minimum wages in the apparel sector.

Figure 4. China's share of global exports & average monthly wages in China



Source: Economist, 2015

Figure 5. The apparel sector's minimum wages in USD, 2015



Source: ILO, 2015a

In addition, China's ageing population is causing the country's previous advantage of massive labor surplus to diminish. According to ILO predictions, China's workforce will only grow with 0.7% between the years of 2015-2025 (ILO, 2015a). However, the difference in Chinese domestic spread of labor and monthly wages is apparent between the regions. Since FDI has been highly concentrated to the Eastern region, wages and living standards have increased there the most (Zheng & Chen, 2007; Yi, 2013).

In 2004, China issued a new minimum wage regulation. It stated that local governments had to introduce an increase in the minimum wage every two years and in addition it required extended protection for partly employed workers as well as for small business owners. The penalties for not following the regulations were raised drastically, providing incentives to the local governments to pursue the rules which in turn have been resulting in increased minimum wages (Fang & Lin, 2013).

Raw material

The cost of raw material can account for as much as 84% of the manufacturing costs in a simple polo shirt assembled in China. However, when producing in less developed Asian countries like Vietnam, raw materials can be even more expensive due to the limited availability (Dinh & Mishra, 2013). China produces almost all different sorts of natural fibers used in apparel production (Jianchun, 2009). The country is the world's largest producer of cotton (UNEP, 2002). However, its textile industry still requires large quantities of flax, wool and cotton, forcing China to import large amounts of these materials. The Chinese wool industry is the largest in the world. Wool is mostly imported from Australia, New Zealand or countries in South America. Since weather conditions play a major role in the production of natural fibers, these raw materials are highly volatile. In addition, China is the biggest producer of synthetic fibers as well as it is the largest consumer of both manmade and natural fibers (IHS, 2015).

Transportation costs

When relocating production, transportation is an obvious determinant and a potential issue since large geographical moves translates into different transportation costs as well as lead-times. Lead-times will be further discussed under section 2.3.4. PWC (2008) has identified several key trends regarding sourcing in China. One of them is that even though infrastructure is improving, transportation costs will most likely continue to rise. Energy prices are as

mentioned also a concern amongst the major actors in the apparel sector (Berg et al., 2013). Since energy services are vital to manufacturing, disruptions or unusually high prices can have serious consequences. The volatility of this sector has increased after the oil crisis in the Mideast and Northern Africa in 2011 as well as the Japanese tsunami has affected the stability of nuclear power. Over the past decades, energy consumption has been rising in Asia as a result of the more energy intensive manufacturing being shifted from the developed world to Asia with focus on China (United Nations, 2013).

Exchange rates

According to Berg & Hedrich (2014) the impact of foreign exchange rates have shown to play a major part in the final decision on where production should be situated. This statement is further supported by Goldberg and Kolstad (1994) who claim that the fluctuation in exchange rates has a considerable influence of where companies decide to perform their business. In terms of sourcing an optimal production location, high uncertainties regarding foreign exchange rates may therefore make the process of relocating difficult (Commission of the European Communities, 1995).

The RMB (Renminbi) is the official currency of China. The country has previously been known to keep its exchange rate low, which for many decades has supported their competitiveness abroad and kept its attractiveness as an exporting nation. However, since the Chinese government decided to abandon the fixed exchange rate regime in 2005 the RMB has appreciated with a total of 30 % against the dollar over the last decade (Market Watch, 2015) making it more expensive for other countries to purchase Chinese produced goods (Economist, 2015). The Chinese government has kept a close eye on the RMB exchange rate as a way to control market flows. In 2008 China decided to go back to a pegged system in order to deal with the financial crisis. This decision was however revoked in 2010 making the exchange rate floating again, allowing the currency to stay market driven. The Chinese government has resisted further appreciation claiming it could potentially damage the labor-intensive industries (Ito, 2008). This is mainly due to the fact that exports would be considered less attractive to foreign investors since the value of the currency has increased (Ito, 2008; Morris, 2015).

B. Lead-times

Lead-time in the apparel industry constitutes the time period from receiving raw material for production until it is shipped to the end customer. Total lead-time consists of the time used for processing orders, producing the item and transporting the good. The time-factor plays an important role in this industry since many orders and collections are season and weather based and need to be completed and delivered within a certain timeframe (Kader & Akter, 2014). In addition, the product life cycle of many apparel products is decreasing since they are considered being fast fashion. Consequently, apparel suppliers are forced to decrease lead-times (Asgari & Hoque, 2013).

Lead-time is one of the most competitive factors between companies within the apparel industry since quick deliveries affect exports, which in turn influences profit margins (Kader & Akter, 2014). To manage the supply chain time efficiently has become increasingly important and is considered being a competitive advantage (Croom et al., 2000). Nuruzzaman and Haque (2009) also highlight the importance of minimizing lead-times in order to stay competitive on the global apparel market. They further emphasize that areas with unusually long lead-times will face great challenges in the buyer-driven apparel sector. According to Asgari and Hoque (2013) there is large difference between lead-time for garment deliveries in Asia. China and India can deliver garments much faster than for example Bangladesh. In addition, improvements in communication technology have made it possible for retailers to get their garments from the Chinese factories to their Western Stores in only 30-45 days (Plunkett, 2008).

C. Infrastructure & Logistics

The location of a production plant and its access to well-functioning roads, ports, telephone-lines and other important physical infrastructure greatly affects MNE's lead-times as well as the amount of FDI coming into the region (Shah, 2014). Furthermore, a company deciding to relocate production needs to be able to rely on timely logistic operations in the new area. According to a survey conducted by KPMG (2007), the quality of infrastructure will most likely become increasingly important in strategic decision-making regarding sourcing in Asia. China spends about 11 % of its annual GDP on infrastructure projects, which is much more than what example the U.S spends. Since FDI historically has been concentrated along the

Eastern coastal areas that is consequently where most of the infrastructure has been centered. However, the rise in labor costs in this region has forced major manufacturers to move inland which has required a development of inland transportation. The Chinese government has encouraged the development of low-end industries towards Central-Western China for over a decade, however many MNE's have been reluctant to implement the program due to concerns about logistic challenges and insufficient infrastructure. Nowadays infrastructure is improving and combined with rising labor costs, an increasing amount of MNE's are moving operations towards inland China (Bell, 2014).

Morris (2015) argues that China has overcome some of its challenges in poor infrastructure, but at the expense of cost. For example, electricity has become much more reliable which benefits manufacturers; however it has also become increasingly expensive. Morris further argues that apparel manufacturing is fairly easy to move in order to reach the most preferential production location. It is possible to ship relatively uncomplicated machinery and set it up in new locations.

According to Dicken (2014), the logistic transformation of the clothing industry lies in "Triangle manufacturing". This is when an oversea company place an order with a NIE (Newly Industrialized Economies) manufacturer who they have sourced from in the past which then places an order for all its combined customers to affiliated offshore production plants in low cost countries. This way the NIE manufacturer has shifted the requested production to more profitable areas. The finished clothing item is then shipped from the offshore production plant straight back to the oversea buyer. This way of producing has shifted NIE's role from being established suppliers to become middlemen in the producing chain. Triangle manufacturing is heavily dependent on social networks and each of the East Asian NIE's have different countries and networks where they chose to set up factories or collaborate with already existing actors (Dicken, 2014).

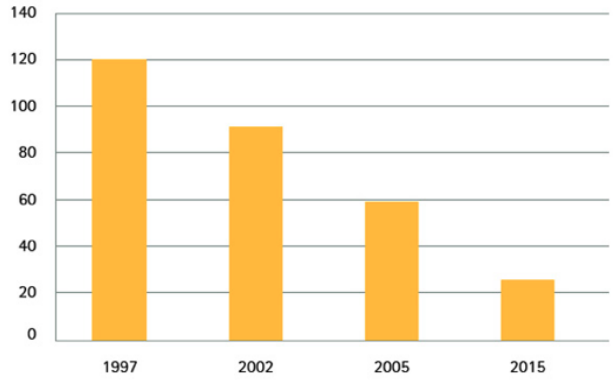
D. Capacity: Skills, Productivity & Quality

Labor productivity is important mainly because it helps increase profit margins for businesses and drives economic growth forward. Many Asian countries have managed to distinguish themselves on the global market by establishing a competitive position based on high productivity and on the development of a powerful workforce (ILO, 2015b). According to a

definition by Freeman the level of labor productivity is "the ratio of a volume measure of output to a volume measure of the labor input" (Freeman, 2008:5). Two of the most recognized measures of input are: number of people in employment and working hours (Su & Heshmati, 2011).

The possibility to maintain a leading role within the industry has been dependent on an economic development, underpinned by a seemingly endless pool of workers, streaming into the cities from the rural areas. However, China has over the past two decades experienced a decrease of rural surplus (Wildau, 2015). Figure 6 shows the decrease of the Chinese surplus of rural labor between the years 1997-2015 in millions (Alter et al., 2014).

Figure 6. China's rural labor surplus between the years of 1997-2015



Source: Alter et al., 2014

This phenomenon is used to describe a situation where a country after a period of economic growth experiences a labor shortage and as a result increases the unskilled wages in order to attract workers**.** As the flow of low-paid workers slows down in China, the employers will have to pay higher wages in order to attract rural workforce into the urban areas. The low-end manufacturers have no choice but to either raise prices or go out of business (Wildau, 2015). In addition, the rising living costs in urban areas make it less attractive for low skilled rural labor to migrate.

China's former advantage of having a large workforce is also eroded due to the fact that the Chinese population is aging. The category of population aged over 60 is set to increase with 20 % between the years of 2010-2050. The ratio of people in employment in relation to the

total population will continue to decline until China's labor surplus eventually evaporates. In addition, China's one-child policy introduced in 1979 has affected the prospects of the Chinese working force. With annual births dropping from 25 million in 1987 to 16 million in 2015 the demographic dividend, which stretched between 1980 and 2004 is turning into a deficit (Alter et al., 2014). In addition, the consumer class in China is increasing rapidly and with job seekers turning down low-paid less qualified jobs there are further strains put on the industry's ability to recruit a high-quality labor force (ILO, 2015a).

Another factor that has affected the capacity and productivity of the Chinese apparel industry is the increasing wages. The process of creating low-end garments in exchange for increasing wages has weakened China's comparative cost advantage and has further pushed for a relocation of the production (ILO, 2015a).

In recent years different policies regarding working hours, paid parental leave and overtime has changed the Chinese working climate (Russell, 2008). According to new regulations an employee should not work more than 40 hours per week. However, there are exceptions. The employers may apply a so called “Flexible Working Hour” system where upon governmental approval the employees are required to work longer hours without paid overtime as long as the employer does not exceed a certain periodic limit of hours (Baker & McKenzie, 2013). Many migrants working in the rural-urban areas are estimated to work the longest hours in China with an average of 60 hours per week (Mishra & Smyth, 2012). These sorts of long working hours are in direct violation to both ILO´s “decent working time‟ policy framework and China's Labor Laws (Lee, 2007).

KPMG (2007) argues that quality remains one of the major reasons to why MNEs decide to source from a specific country or region. It is also important when selecting suppliers for future sourcing operations. Sourcing is considered by many MNEs as a way to reduce and manage costs. However, as concerns regarding quality are becoming more important due to rising market transparency and increasing demands, MNEs seek to get closer by controlling their suppliers through applying quality assurance in different ways. This has become increasingly important since MNEs are presented with an opportunity to derive further value from their activities (KPMG, 2007).

China's apparel industry is based on the foundation of creating garments in a timely and consistent manner. With an extensive experience in production the Chinese garment industry has managed to develop in several aspects concerning technology application, industrial structure and quality control to mention a few (CNGA, 2013). However, China has reached a level where the catching-up process no longer can be solely dependent on investments and as China continues to develop its competencies on a technological front, less room is left for low-level incremental innovations and imitations (Ernst, 2016). Compared to other East Asian countries, China still has a reputation of being able to deliver products that are meeting MNEs' standards. It is harder for less developed countries to meet up to MNEs' demands when it comes to quantity and quality compared to China (Dinh & Mishra, 2013).

E. Tariffs and trade agreements.

To be active in a global context also means having to deal with trade related factors including quotas, tariffs and trade agreements. These factors tend to put a lot of pressure on the export oriented apparel sector, which is dependent on the ability to move products between markets (Wang, 2013).

China has experienced major reforms affecting the apparel sector since the 1980´s, which were further enhanced by China's entrance into the WTO in 2001 (Rumbaugh & Blancher, 2004; WTO, 2016b). By joining the WTO, the country managed to enter new markets as well as lower their transaction costs, which in the long run would profit both China and their corresponding trading partners. The entrance would also result in lower prices for imports and in an improved competitive position. However, the accession presented new challenges. Investments which presumably would have been invested in one of the other member countries would now go to China, and as a result lead to increased protectionism. China's entrance provided increased competition for countries producing similar products (Ianchovichina & Walmsley, 2003)

In 2005, the final restrictions on clothing and textile products regulated by the MFA, were removed (Brambilla et al., 2010). The MFA, which regulated the world trade in textiles through imposing quotas and other non-tariff barriers on the amount of textile products developing countries could export to developed countries, consequently lead to an substantial relocation of textile production across the world (Ernst et al., 2005; Dicken, 2014) The

removal of the MFA resulted in additional transparency and lower tariffs within the textile industry. The ending of the MFA changed the international trade and enabled the growing manufacturing sectors in China and the rest of Asia to expand (Dicken, 2014).
From 2005 and forward, garment custom duties in China have decreased from 22-25% to 14-16%, which has been a result of the entrance into WTO in 2001. In addition, the removal of the MFA did not only affect China but all developing countries interested in exporting to the U.S and Europe (HKTDC, 2015).

F. Spreading risks

An important objective for firms operating in the global market is to spread risks through diversification. Risk reduction and diversification can take place in all segments of the supply chain, including choosing different suppliers in order to avoid unnecessary and unforeseen risks (Keillor, 2013). Berg et al. (2013) further states that risk reduction for a long time has been one of the apparel buyers' main criteria's when finding an optimal sourcing location.

Sodhi and Chopra (2014), argue that the most obvious solutions to reduce supply chain risks are to increase inventory, having multiple suppliers and adding capacity at different locations. However, they also state that many managers and organizations forget to weigh these solutions against supply chain cost efficiency. They further argue that moving production and supply chains to low cost locations may be cost efficient, but can make supply chains increasingly vulnerable to disruptions. The risk is that low-cost suppliers abroad may have long lead-times making it difficult for companies relying on functioning transportation if something happens with the important transportation routes or if the specific location experience issues (Sodhi & Chopra, 2014). Finally, A.T Kearney (2011) argues that a portfolio approach should be used when sourcing suppliers and countries, meaning that apparel companies need to spread risks throughout their production base. That way, the apparel company can maintain an optimal sourcing mix.

G. Relationships

The suppliers are crucial to apparel and sportswear production, making relationships between the firm and its suppliers important (Albayrakoglu & Koprulu, 2007). The importance of choosing a trustworthy supplier is key since the supplier's' operations and ability to perform on time and with the required quality affects the company's lead-times and therefore its

profitability. Previous research suggests that trust between business partners improves market performance, increases the level of commitment and supply chain responsiveness and reduces the chance of opportunistic behavior (Aulakh et al., 1996; Handfield and Bechtel, 2002). According to Kumar (1996), having a trusting relationship with your supplier does not only increase the level of commitment but also strongly enhances the chances of a successful collaboration. These findings have been supported by several scholars emphasizing the positive connections between mutually beneficial relationships and successful business (Mörec and Rašković, 2013).

A quote from CIO (2008) demonstrates the importance of relationships within the Chinese business culture, *"Determining who gets the last freight slot on a crowded ship in a Chinese port depends not on who gets there first, but on who you know and how well-connected they are with port authorities"* (CIO, 2008:52). This could be further related to the Chinese term Guanxi, which translate into "relationship". In Chinese influenced Asian societies, people use the word Guanxi when speaking of someone who can get things done and is well connected but perhaps through other channels than the formal ones (Ai, 2006). Brennan & Wilson (2008) argue that companies being successful in China usually have a firm understanding of Guanxi.

Kumar (1996) argues that even if companies manage to find the "right" supplier, it may not on its own be enough to relocate production since other risks may be too influential. One way to respond to these insecurities is to develop a stable and effective relationship with the supplier in order to reduce some of the uncertainty. Therefore, relationship and trust building measures can be seen as an important determinant since it aids companies in the struggle of becoming more stable and flexible. Furthermore, the key to achieve superior sourcing is to build strong relationships all throughout the supply chain (Supply Chain Quarterly, 2009).
In regards to communication, Griffith (2002) argues that international business partners need effective communication skills in order to be successful. Furthermore, he argues that underlying cultural differences can hinder company performance since it requires effective communication between international business organizations.

H. CSR

CSR is referring to corporations' initiatives to take responsibility for social and environmental effects as a result of their operations. Over the past two decades, clothing companies and apparel retailers have gained attention in media for not taking responsibility regarding social obligations (Mujtaba et al., 2005; KPMG, 2007). The public became aware of the fact that many giant apparel retailers practiced unethical HRM (Human Resource Management), either in their own factories or through their suppliers which have increased pressure on clothing companies (Bartley, 2007; KPMG, 2007).

Suppliers within this industry are both squeezed by clothing retailers since the sector is buyer-driver and receive a lot of external pressure focusing on improving labor condition and stop labor exploitation from NGO's (Non-governmental organization) such as Oxfam. As a result of this pressure, major clothing retailers have introduced Codes of Conduct and have started to monitor their subcontractors in order to ensure good working conditions. However, many subcontractors have multiple factories which they work with and may also have homeworkers involved in the production, which makes it very hard to monitor efficiently. Since many of the countries where production is taking place are lacking proper implementation of employment laws, it becomes increasingly hard to impose codes of conducts on factory workers and subcontractors (Dickens, 2014). Unlike laws, Codes of Conducts are not enforceable (Brown, 2012).

According to Mujtaba et al. (2005), companies must set operational standards that please the expectations from both the home country and the host countries in order to be successful. Further, he argues that companies can no longer solely rely on financial measurements regarding profitability, but must also have ethical and social standards for their operations.

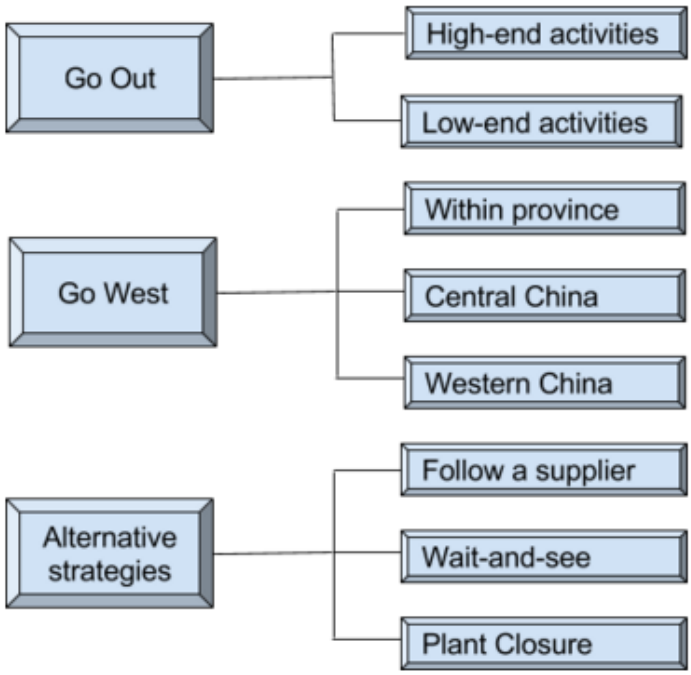
KPMG (2007) conducted a survey showing that safety issues are a main concern for MNE's sourcing in Asia. Furthermore, they concluded that the term CSR is broadening and including wider health and environmental aspects than what it has done previously. An increasing amount of companies have also started to survey and monitor parts of the supply chain they previously were not involved in, such as ethical and environmentally friendly disposal of byproducts of their production processes. CSR is now an important part of brand strategies and KPMG's research shows that CSR is a well-established concern for sourcing

professionals and that a majority believes that sustainability and health matters will increase in importance. In addition, an increasing amount of Western consumers have become aware of environmental and health issue when purchasing clothing, which has resulted in increased demand for organic products. Many leading retailers are only using organic products such as cotton for their products, in spite the fact that organic cotton costs 40% more to produce which will affect retail prices, since they believe customers are willing to pay the higher prices (KPMG, 2007). In addition, certain CSR strategies have proven to enable companies to reduce lead-times. Nike is one of the MNE's that has moved to lean manufacturing which reduces wasted materials and time in the production process, and in turn they have been able to speed up the process (Leach, 2012).

2.3 Model: Geographical relocation strategies

The model *Geographical relocation strategies* (Figure 7) attempts to explain different relocation strategies adopted by apparel MNE's based in Eastern China. The model consists of three categories; Go Out, Go West and Alternative strategies. Go Out describes a MNE moving production outside of Eastern China and further explains which type of production is being relocated. Go West explains how MNE's geographically move within the province or to Central-Western China in order to reach lower cost regions. The final category, Alternative strategies, refers to three different strategies MNE's can adopt when relocating. The first one being relocating production by following a supplier abroad, the second one describing a more cautious approach where MNE's wait and see what their competitors do and the third one explaining the approach of closing down a plant. The model is modified and assembled by the authors and based on Pickle and Zhus model *Restructuring strategies adopted by export-oriented apparel firms* (Pickles & Zhu, 2014). For more information about the original model, see Appendix 1.

Figure 7. Geographical relocation strategies



Source: Compiled by authors

2.3.1 Go Out

This strategy describes firms relocating their operations from China to countries abroad. It is divided into the following sub-categories: High-end activities and Low-end activities. The High-end activities strategy emphasizes the relocation of high-end activities such as R&D, designing activities, marketing to locations abroad. The Low-end activities strategy on the other hand describes the relocation and outsourcing of low-wage assembly activities to other low-cost production locations such as south-east Asia (Pickles & Zhu, 2014).

Measurements to open up the Chinese market to international influences and expand its market operations was first introduced in 1978, with the introduction of the "Bring in policy". The Bring in policy primarily advocates the encouragement of inward investments into China. It also constitutes the foundation, which the three state policies Go Up, Go West and Go Out is built upon. With MNE´s active in China increasing their investments in countries abroad as well as exploring alternative ways to lower their risks, the Go Out Policy has in many ways

catered to the needs of both MNE´s and the government (Lan & Pickles, 2011; Pickles & Zhu, 2014).

China has since the introduction of the Bring in policy managed to create a strong international profile. In addition, the country has created and maintained a stable domestic market as well as attracted new foreign investments. The Go Out policy was first introduced around the middle of the 1990´s as a way to boost China's international participation further (Pickles & Zhu, 2014). The idea of the Go Out policy was partly created as an alternative to the strategies encouraging enterprises to relocate within China. The central government and the coastal administrations started to show their support towards outsourcing low-wage and labor-intensive activities as a way to deal with the social and financial issues facing low-value industries. The proposed policy consisted of different key components suggesting how local governments and administrations could support and encourage the relocation of low-end activities to locations abroad (Lan and Pickles, 2011; Pickles & Zhu, 2014).

2.3.2 Go West

This approach focuses on firms relocating their operations towards the Western parts of China and was implemented around the turn of the millennium. It is divided into the following sub-categories: Within Province, Central China and Western China.

The coastal regions have expanded their production capacities mainly through an export-oriented industrialization, which has contributed to a competitive advantage over the Western and Central regions (Li & Fung Research Centre, 2008). In order to reduce this gap authorities have implemented a series of actions. One example of this is the List of Restricted Commodities in Processing Trade released in 2007, by Chinese Customs and China's Ministry of Commerce. The list contains a distinction between industries that are restricted in the East regions in China and labor-intensive processes that are allowed inland. The restricted areas has mainly affected the apparel and textile industries and has as a result forced enterprises in the coastal regions to relocate or alternatively upgrade their products and services as an attempt to avoid the restrictions. In addition, efforts of relocating and restructuring the Chinese apparel industry have further been stimulated by the financial crisis, which struck the global economy in 2008. While a continued decline of growth rates of new apparel projects has been observed in the Central and Eastern regions, the Western region’s growth rate has increased (Pickles & Zhu, 2014).

Another reform which altered the circumstances was the Guideline on "Pushing Forward Relocation of Textile and Apparel Industry" released in 2010, by the ministry of Industry and Information Technology. According to the Guideline, there are several tasks the apparel industry must confront in order for the relocation strategies to be implemented successfully. While the development towards more high-end activities involves upgrading current industries to contain more qualified operations such as R&D, brand development, design, and other market related capacities the accelerated industrial upgrading refers to the process of creating better products more efficiently. Low-tech and labor-intensive activities should, according to the Guideline, be relocated to the central, Western and Northwestern parts of China. The central regions should in addition work as a "transition phase" and aim to strengthen the manufacturing system by facilitating the shift of low and high-end activities between east and west (Ministry of Industry and Information Technology of China, 2010).

The Go West strategy can sometimes be perceived as more accessible mainly due to the many advantages the strategy offer. The Go West approach provides companies the advantage to maintain production within the same country. This facilitates the daily operations since regions located within the same country are more likely to share similar cultures, values and traditions. Furthermore, this also applies to more practical aspects such as legal concerns. On the contrary, the Go Out strategy generally requires a higher operational input from MNE's to become familiar with local standards. In addition, the Go West strategy also provides firms with the opportunity of reducing production costs while continuing to capture additional market shares. This, however, is only beneficial as long as the importance of the domestic Chinese market continues to grow (Pickles & Zhu, 2014).

2.3.3 Alternative strategies

This strategy includes three options: Follow the Supplier, Wait-and-see and Plant Closure. These alternatives approach the reconstructions in a slightly different way than the previous strategies by not solely depending on geographical movements.

By following a supplier abroad, MNE´s can relocate production and at the same time eliminate certain risks associated with sourcing in new locations. It facilitates the sourcing process by not having to do all of the sourcing yourself as well as being able to utilize a supplier's network and relations in order to gain access to new markets. Suppliers are highly

important to apparel MNE's and the relationships between the two players are crucial (Albayrakoglu & Koprulu, 2007). Therefore, this strategy saves the MNE a lot of time and effort.

Many MNE's find the governmental incentives insufficient to relocate production. As a result, many MNE's adopt a Wait-and-see approach to see if the final result of other firms actions are profitable. Relocating to an underdeveloped region may not be economically justifiable unless the entire supply chain is moved. For other enterprises, a relocation strategy would only be possible if enough governmental funding's and incentives were offered in exchange for cooperation. Plant Closure is the process of shutting down the activities of a plant entirely. It is no longer feasible to keep the plant open since the disadvantages outweigh the advantages (Li & Fung Research Centre 2008).

3. Methodology

The methodology-section aims to give the reader an understanding over the used research approach, research method and scientific approach as well as an insight into how the interviews presented in section four were conducted and assembled. Furthermore, this section motivates all the methodology used in this thesis. It also provides a background for the theoretical framework collection and how it was analyzed and presented.

3.1 Research approach- Qualitative approach

Different research methods give the researchers access to different types of knowledge (Ebrahim, 1995). To choose the most appropriate research method, there are different factors that need to be taken into consideration, for example the complexity of the research problem (Bryman & Bell, 2013). Since this thesis is a case study aiming to provide insight into an MNE's decision making process when relocating production to Myanmar, the primary focus is to provide a detailed and complete description over the topic through conducted interviews in combination with desk research. A qualitative method has therefore been utilized since it uses open-ended questions for interviews in order to achieve complete answers and apprehend nuances in the answers (Creswell, 2014). Qualitative research is the method of choice when aiming to provide in-depth description of a complex and contextual phenomenon (Ebrahim, 1995). Griffin (2004) also emphasizes the use of qualitative research when the aim is to understand social processes in greater depth. These are additional reasons to justify the

qualitative research approach since this thesis is highly contextual and aims to understand the studied phenomenon through in-depth interviews. Furthermore, the study is dealing with non-ordinal information, which according to Creswell (2014) defines a qualitative approach since it utilizes non-ordinal information in the research conducting process.

3.2 Research Method- Qualitative, single case study

As a form of qualitative research, this thesis uses single case study methodology. Case study design is a very flexible research design, which enables the researcher to study contextual phenomena through analysis of different conditions and events (Zainal, 2007). According to Yin (2003:23), a case study "*investigates a contemporary phenomenon within its real-life context: when the boundaries between phenomenon and context are not clearly evident; and in which multiple sources of evidence are used*". A similar definition to Yin's is made by Harling (2002:1) who defines case study design as "*A holistic inquiry that investigates a contemporary phenomenon within its natural setting*". Holistic in this case refers to the complex and in-depth information collected through interviews, reports, journals and documents about our selected Scandinavian MNE and their motivations and determinants when moving production out of Eastern China.

Single case study is a variant of case study approach using one case study in order to gain increased knowledge about a phenomenon, which is what has been used in this thesis. A disadvantage of the single case study is that it does not have the same potential of generalizability as the multiple case study design (Miles and Huberman, 1994). However, regarding the validity of single case study research, Flyvbjerg (2006) argues that although many believe a single case study does not provide enough information to make generalized statements from, he emphasizes that a single case contributes to science and that large sample generalizations are overrated (Flyvbjerg, 2006). Also, by choosing to conduct a single case study, the thesis' aim to provide in-depth analysis over a current phenomenon is enhanced since multiple case studies would have given more and broader information, but would not have been able to go as deep due to limited time.

This single case study is of explanatory nature since it aims to explain and analyze the motives behind company A's relocation from Eastern China to Myanmar. In line with Fisher and Zivani (2004), the posed research question is starting with "Why" and it is therefore appropriate to take an explanatory approach to the matter. In addition, Zainal (2007) stresses

that explanatory case studies interprets and analyze the data both in-depth and at a surface in order to explain a phenomenon, which is analogous to the complex situation this case study provides where the studied subject has been analyzed both through in-depth interviews and through a more perspicuous theoretical framework.

3.3 Scientific approach

There are three types of approaches which can be used for reasoning which are; abductive, deductive and inductive approach (Heit and Rotello, 2010). As argued by Bryman and Bell (2013) an abductive approach is derived from both the inductive and deductive approach. It is based on logical inference, which aims to seek the most logical explanation for a studied phenomenon. According to Schvaneveldt and Cohen (2009) the abductive research approach is a method used to explain evidence through reasoning with already well known facts, while working towards an explanation. Since the purpose of this study is to examine MNEs located in Eastern China relocating parts of their production to more preferential locations and examine how this decision has been affected by underlying key determinants, through exploring already existing material, an abductive approach has been applied (Bryman and Bell, 2013).

According to Alvesson and Sköldberg (2008) the aim of an abductive approach is to develop a deeper understanding in order to provide a holistic interpretation, which is consistent with Harling´s (2002) ideas of a case study where a complex phenomenon is investigated in its natural settings. By applying an abductive approach onto the case it is possible to reach holistic results, which is in line with the set out purpose of this thesis. By comparing theory with empirical results it is possible to see whether the theory holds up when compared to reality or if it needs to be supplemented. As a result, the theory can be seen as a way to extend the understanding of the empirical results (Alvesson & Sköldberg 2008).

3.4 Theoretical framework collection

The initial step of the research process was to gather theoretical information and review relevant literature which provided the basis for the theoretical framework. The framework constituted the basis for the interview questions and the empirical material section. There are generally three types of sources which can be used when developing a theoretical framework; primary, secondary, and tertiary sources (Malone et al., 2012). Primary sources are original research, mainly consisting of case studies, research studies and editorials. DVC Library

(2015:1) describes primary sources as "*Sources that contain raw, original, uninterpreted and unevaluated information*" and primarily consists of newspaper articles and interviews. Further, secondary sources are described as sources which interpret and analyze the information given in primary sources such as articles in scholarly journals and books analyzing primary literature. Tertiary sources on the other hand are sources which analyze and compile secondary sources (DVC Library, 2015; Malone et al. 2012).

The theoretical framework section has mainly been developed through desk research which Hauge (2006:59) defines as "*secondary data or that which can be collected without fieldwork*." Primary and secondary sources have mainly been used in this section in the form of academic books and journals combined with consultancy reports and current newspaper articles. By using updated research and news articles in the area, the thesis has been able to maintain higher credibility and quality when aiming to investigate a current phenomenon and trend, which otherwise could have been a limitation if the research used would have been too old.

3.5 Empirical material collection

The empirical material collection was executed through Skype and telephone interviews with the top management of the selected sportswear company in Shanghai. All sections of the empirical evidence have been gathered through the interviews apart from section *4.3 Myanmar's textile industry*, was added to the empirical material section through desk research after conducting the interviews in order to provide the reader with a better understanding of the apparel industry in Myanmar before analyzing the matter.

Before conducting the interviews, there were many aspects to take into consideration. Interviews are referred to as primary data (DVC Library, 2015). Primary data has a disadvantage regarding the great costs that can arise when collecting the data since it usually is both time consuming and requires financial resources (Saunders, et al., 2009). Therefore, it is of highest importance to do extensive research in the subject before conducting interviews. In this case, the theoretical framework was developed before the empirical interview questions were assembled in order to provide the respondents with relevant questions and facilitate the empirical evidence collecting process. To solve the problem of great costs when assembling primary data, both financially and in regards to time, the conducted interviews were held over Skype and the respondents were well prepared having seen the material in

advance in order to avoid spending valuable time on unnecessary fact collection during the interview. The interviews took about one hour each. About a week after the three Skype interviews were held, follow up interviews were conducted over telephone with two of the respondents in order to supplement the empirical material. The interviews took approximately 30 minutes each. It provided a chance to clear out any potential uncertainties and also to gain deeper knowledge in areas which we believed needed to be added onto as a result of obtaining interesting material during the first interviews. To use follow up questions is a great way of reducing uncertainty as well as obtain a fuller understanding of the investigated phenomenon (Legard et al., 2003).

3.5.1 Interviews as an empirical research method

Since this thesis aims to get an in-depth understanding of the selected area through a qualitative research approach, interviews were conducted in line with Adam et al. (2007), who stress that interviews provide detailed information relevant for qualitative research. Interviews can be conducted in many ways and there are both advantages and disadvantages with the respective methods. Jacobsen (2002) argues that interviews where both parts are able to see each other is preferential since they have the potential of providing more complex answers than interviews by telephone. Furthermore, he stresses that interviews containing a large amount of open-ended questions preferably should be conducted face to face when possible since it enables the interviewer to apprehend nuances in the respondent's body language and register facial expression which determines how to interpret the answers and how far the interviewer can take follow-up questions. Body language and other social cues can provide the interviewer with valuable extra information (Opdenakker, 2006). Due to the large geographical distance between Sweden where this thesis is produced and Shanghai where the top management of company A is located, this issue was resolved by conducting the interviews over Skype. This enabled video communication where both parts were able to see each other in order to make it as similar as possible to face to face interviews. According to Amirav and Higginbottom (2014) and Weller (2015), Skype is a preferential alternative to face to face interviews since it reduces the geographical distance but keeps crucial elements related to face to face interaction intact.

On the other hand, Opdenakker (2006) emphasizes that the visibility in interviews where both parts are able to see each other can cause an "interviewer effect", where the interviewer subconsciously is steering the respondent's answer in a certain direction. However, he

acknowledges that the interviewer effect can be avoided by being aware of the effect and by using a pre-set range of questions. In line with his research, the respondents in this thesis all received pre-determined questions in order to avoid the interviewer effect and both interviewers had discussed the issue in advance to raise awareness and be attentive when asking the questions.

For the study, only three people were interviewed which may question the validity of the collected material. However, since there were only a limited amount of people involved in the decision the options were restricted. Also, as the selected respondents were the main people responsible for producing the material that formed the basis for the decision, it can be argued that the respondents' answers are both highly relevant and adequate. Since the top management which we interviewed had full and complete information about the decision making process it seemed unnecessary to interview other people at the Shanghai office since they would not be able to provide any additional information. The three respondents had the positions as CEO, CFO and Production & Quality Control Manager. This further strengthen our decision to only conduct interviews with three people since they are ultimately responsible for the decision making process and have a broad insight into the sourcing process. Company A's office in Shanghai is further responsible for gathering all information which the final decision is made upon. The final decision itself is made at the headquarter in Norway, however in Company A's case the headquarter play a relatively minor role since the Shanghai office works very independently and therefore the entire sourcing process is taking place in Shanghai. The Norwegian office solely has a formal role when accepting the decision. As a result of this, no interviews were held with the Norwegian headquarters.

In addition to the three Skype interviews conducted with the top management, two telephone interviews were conducted a week after the primary interviews in order to follow up with relevant material and clear any misunderstandings. Additional information about the questions posed to the respondents can be found in Appendix 8.2. The telephone interviews were conducted over a speakerphone and recorded after once again asking for permission from the respondents. Speakerphones are preferential when interviewing over a telephone with the aim of recording (Burke & Miller, 2001). Beyond what has already been discussed about interviews as a research method, Opdenakker (2006) argues that a disadvantage of telephone interviews is that the interviewer has very limited control to view the situation the respondent is in and therefore it is harder to create a reliable ambiance. This was applicable

for both the conducted Skype-interviews and the telephone-interviews in this case. To minimize the impact of this disadvantage, the respondents were asked to pick a time for the interview that suited them over the course of a week so they could schedule time for the interview when they felt it was most appropriate. Since the follow-up questions were based on already existing material, we did not consider it as a disadvantage to only receive oral information without having the chance to perceive any social cues.

3.5.2 Background to the interview questions

After having developed the theoretical framework, the interview questions were designed with basis in the identified determinants and geographical relocation model. The questions were developed to help the authors gain an increased understanding of the observed phenomenon and thus be able to respond to the posed research question. The questions are based on a semi structured interview approach. While open interview questions are generally designed to function as a fluent conversation with no predetermined plan, structured interviews are based on clear questions which occur in a specific order (Jacobsen, 2002; Yin, 2013) Semi structured interviews are a combination of the two techniques, with questions that varies between an open and structured nature. Jacobsen (2002) argues that the open and structured interview techniques can be seen as two opposites of a spectrum with the semi structured approach being in the middle. He further emphasizes that this type of questions are explicitly looking for specific answers but do not exclude the possibility for the respondents to share information that has not directly been asked for. This approach is also in line with Blumberg et al. (2011) claiming that semi structured interviews are well fitting since the questions are designed to investigate several potentially affecting factors. In addition, Blumberg et al. stresses that the technique is appropriate to use when the researchers aim to gain valuable insight through new perspectives. It is therefore convenient to apply a semi structured interview technique in this case since it enables the researchers to ask direct questions and encourage the respondents to speak freely around the chosen subjects.

3.5.3 Recording and Transcription

After getting consensus from the respondents, all interviews were recorded for the authors' use only. When recording interviews, they reflect more accurately what has been said than from only taking notes (Opdenakker, 2006). Furthermore, it enabled the authors to listen to the answers multiple times in order to reproduce correct answers and in the most accurate way summarize replies from the respondents. However, Opdenakker (2006) highlights the danger

of not taking any notes at all during an interview since it can cause problems in the form of losing track of which questions has been asked. If the recording equipment experiences any malfunctions, it would also be devastating for the results. In order to avoid this, all interviews were recorded and parallel to this the interviewers were taking notes. To still apprehend nuances in the respondent's' answers without being disturbed or delayed in the communication process from taking notes, which Jacobsen (2002) highlights as important, one of the interviewers were assigned to prioritize asking our pre-set questions and appropriate follow-up questions while the other interviewer focused more on taking notes.

Regarding transcription, each interview was summarized within 24 hours after its execution. This was done by cross-checking the notes between the authors and by listening to the recorded interview once again. After identifying the most relevant factors needed to be brought up in the empirical evidence section they were written down in the same order as the respondents expressed them. This was conducted to maintain the respondents' way of thoughts in the empirical evidence section since they often answered to multiple of our interview questions at once by automatically elaborating on a certain topic. Finally, the answer provided by all respondents were assembled and structured.

3.6 Method for empirical material analysis

There are several approaches which can be used to analyze the empirical findings. According to Collis and Hussey (2009), the process of analyzing qualitative information is often time consuming and slow moving. In order to facilitate the process it has been necessary for the authors to reduce the large amount of data collected from the interviews and make a comprehensive compilation. One way of analyzing qualitative data is as described by King (2004) through using a template analysis. This approach is based on the researchers collecting empirical findings and rearranging them into different categories. Using template analyzing has proven efficient in this case, since the theoretical framework presented several determinants that needed to be evaluated separately. By summarizing the empirical findings into a table the transparency is increased, which facilitates the researcher's process to discover patterns and make a plausible analysis. In addition, according to Saunders et al. (2009) this approach is also appropriate to use when applying an abductive approach.

The approach contributes by creating structure and further presents the theoretical framework and the empirical findings as more approachable and "reader-friendly". In addition, the

overview created by applying the template approach also contributes to the process of creating a plausible analysis since the produced structure facilitates the possibility of discovering patterns in the investigated research area. The template analysis is also preferable to use due to its adaptive stance, which enables the possibility for future corrections. This choice was made in order to facilitate the emergence of a comprehensive analysis.

The determinants were used as headings to guide the direction of the analysis since the information gathered from the respondents could then be linked to the corresponding determinants. The process consisted of the authors going back and forth between the theoretical framework and the empirical findings in order to identify differences and similarities. When comparing the data several interesting aspects emerged that without the template approach potentially could have been overlooked. With the comparative analysis as a foundation, the next step was to determine how they had executed the move by relating to OLI and to the model of Geographical relocation strategies. Through identifying the underlying key determinants driving the company's decisions to relocate, it was possible to evaluate and discuss the outcomes of the company's decisions.

4. Empirical Evidence

This section presents the information collected through the conducted interviews and starts off by briefly presenting the company's current production facilities. Subheading 4.1- 4.8 are solely based on the respondents' responses. Secondly, the section aims to provide the reader with a comprehensive image over Company A's sourcing process when relocating production to Myanmar and which determinants they considered important. Thirdly, the interviewed top management describe their views on future trends within Chinese apparel manufacturing. This is important for MNEs long-term strategic decisions, and also helps to provide a better understanding of the investigated phenomenon. These facts are all summarized to create an overview of the most important findings. Finally, Myanmar and its conditions for apparel manufacturing are described since this provides a natural bridge to the analysis in section 5.

4.1 Current production facilities & networks

Company A is a leading Nordic supplier of premium brand sportswear to European and American retailers. The headquarter is located in Norway with a highly independent buying-

office situated in Shanghai. The buying-office conducts the vast majority of the company's sourcing processes, coordinates between suppliers and places orders from clients. There are about 30 suppliers currently working with Company A in Shanghai and due to the economic situation in East China, the company has been relocating parts of its production. All suppliers are currently Chinese owned with operations in China, except for our investigated supplier which recently started manufacturing sportswear apparel in Myanmar. The Myanmar factory employs around 1000 people and is strategically located in Yangon which is located right by the biggest port in the country and will function as a complement to the other Chinese suppliers. The Chinese supplier working in Myanmar previously had his factories located in Wuxi, Jiangsu Province and Ningbo, Zhejiang Province, both located in the increasingly expensive Eastern region of China.

Company A works directly with suppliers and not through agencies or other trading companies. The company source through East Asian suppliers and does not own any production facilities. Most production is currently taking place through suppliers in the Fujian-province in Eastern China, around the Shanghai-area as well as in Qingdao. Both Qingdao and Shanghai are strategically situated right by large ports. Most of the company's production is shipped out of Shanghai, in the Yangtze River Delta. In addition, they have current active suppliers in the Southern coastal area around Guangzhou, which is strategically located by the Pearl River Delta, enabling transportation to the rest of the world. Regarding transportation, the company uses its own forwarding agent to ship all products via Shanghai to the main warehouse in Scandinavia before they are further transported to the final retailers in Europe.

Since company A's production is in premium brand sportswear it requires slightly higher skilled labor combined with certain types of machinery in order to produce the products, even though they operate in an overall low skilled industry. Furthermore, certain provinces in China have become clusters that specializes in a certain area of sportswear which company A takes advantage of, and locate production where it is most beneficial. For example, swim and bike-wear is produced in the Fujian-province since those suppliers have the fabrics and machinery specialized for that type of clothing. Some of the suppliers which company A work with are specialized on more basic types of production and can therefore produce large quantities fairly quickly. Other areas and suppliers might be specialized towards more advanced clothing production, which requires more expensive machinery and higher skilled

labor. Especially high quality outdoor wear, such as Gore-Tex jackets, requires specific suppliers with certain equipment, limiting the range of this type of supplier.

Company A is currently looking to extend their range of suppliers in China, Myanmar and potentially Vietnam. They have had production abroad before, in Indonesia. However, since the Indonesian suppliers were unable to meet company A´s increasing demands for larger orders and often failed to meet the specified timeframes for deliveries the suppliers were dropped. A few suppliers are being dropped each year since the demanded quantities of the products will fluctuate and some suppliers have minimum requirements of how large the orders need to be to allow purchasing orders. Regarding relocation to Central-Western China, companies A has not themselves looked at moving production to those areas, but has done so indirectly by working with suppliers who have moved production to the regions. One of those suppliers has opened up a factory in the Sichuan-province in central China since they were able to find cheaper labor in that area.

4.2 Key determinants behind the relocation decision

There was a combination of reasons behind company A's decision to relocate production by following a supplier from China to Myanmar. They considered the relocation to Myanmar as a way of spreading risks, especially regarding exchange rate fluctuations. Company A is concerned about the fluctuations of the RMB in correlation to the NOK. Since the HQ which is responsible for all funding's located in Norway, large fluctuations may directly impact their financial situation. In addition it provides the company with an option for production if the retailers' orders differ in size. Since company A do not own any retail stores, alternative production gives them a way to control lead-times by always being able to place orders with other suppliers in case of high pressure or big orders from the retailers occur. It was further a way for the company to evade China's increasing production costs as a result of increasing wages.

Relocating was also a strategic decision since they have noticed a tendency in the sports apparel business to move out of China to other East Asian countries with cheaper labor and production. Another large benefit for company A when moving production to Myanmar was the reduction in tariffs. Currently, China has a tariff on 12% for sports apparel being exported to Europe while Myanmar has 0%. According to the top management, this determinant constituted the biggest monetary saving. When deciding to relocate, company A looked at

Myanmar, Vietnam and Indonesia which later narrowed down to Myanmar due to the massive advantages of being able to follow an already existing and trustworthy supplier abroad rather than having to source from scratch.

In addition, Myanmar offered lower prices for labor which is beneficial for company A since it consequently decreases the suppliers' asked prices. However, decreases in costs need to be put in perspective with potential increases in transportation costs and other similar factors since company A transport the produced good to Europe and America themselves. Other factors that played a role in the decision making were that the relocation would not change lead-times, meaning that raw material needed to be delivered easily as well as final transportation to the E.U and the U.S. In addition, the new supplier needed to offer flexibility regarding capacity and how large quantities that are required in order to purchase. All these criteria were met by the supplier in Myanmar.

4.3 Decision making process

When deciding to relocate to Myanmar, the decision making process was divided into six steps. This decision making process provides a background to the sourcing process, which is discussed in detail in the next section.

1. *Evaluation of Myanmar* with focus on tariffs, geopolitical risks, availability of fabric and Trims, logistics and nearby ports, cost for quality control & inspections.
2. *Evaluation of the specific supplier* by looking at the Myanmar factory's capacity, their minimum order quantity, payment terms and lead-times.
3. *Comparison of pricing*.
4. *Comparison of sample.* When the pricing was approved, the supplier was asked to provide the company with a sample of the sportswear they would produce. Key factors to look for at this stage were product quality, product design and technical skills.
5. *Inspection of the factory.* Since the sample met company A's criteria regarding quality and material, they decided to visit the factory for an evaluation and make sure they followed existing rules and codes of conducts regarding ethical and social standards. In addition, the company further evaluated the size and flexibility of the production capacities.

6. *Test production.* At this point, company A tested the Myanmar factory by ordering a smaller test order before deciding to produce larger volumes. This assures that the factory has a certain standard of delivery reliability.

4.4 The sourcing process

Company A does much of their own sourcing, and they source by nominating suppliers and manufacturers of fabrics and Trims. They use synthetic raw materials as well as natural fibers such as cotton, silk and flax from China. The wool used originates from either Australia or South Africa. Furthermore, the company maintains a library of materials, fabrics and Trims which their own designers choose from for their products. Afterwards, they assign the manufacturers creating the desired Trims and Fabrics with reference numbers before they inform their apparel suppliers that they need to use the referenced material coming from the sourced manufacturers. The supplier then receive a template from company A regarding how to order the specific material from the nominated manufacturer. Prices are already set and negotiated between company A and the manufacturer, which is a way for the company to manage costs and assure equal material and quality for all products no matter which supplier that has been used. This is a common way for bigger sportswear companies to function since they usually work with specific materials. The company uses the same nominated Chinese factories to provide fabrics to all suppliers. For the Myanmar factory, the supplier import all fabrics and Trims from the nominated Chinese suppliers and pay for the shipping. It is all a part of the negotiated price between company A and the Myanmar factory.

Switching a supplier or sourcing a new supplier usually takes between a couple of months up to six months before company A can place an initial order. However, in this case sourcing went unusually quickly since it was through an already existing Chinese supplier which company A had had a long cooperation with. Many of the company's suppliers have been sourced through reputation, fairs or through the help of their Chinese employees. There was no use of external parts such as Chambers of Commerce. In this particular case, the company did not even have to attend fairs or listen to rumors since they already had an existing collaboration with the supplier.

The sourcing process starts with checking on the supplier to ensure that they are of interest. In this case the sourcing process was conducted for the specific factory in Myanmar and whether

to follow the existing supplier abroad or not. If they seem like a good match, the company follows up by ensuring that the supplier has access to the right skilled labor, enough capacity and the right machinery and knowledge about the type of product they would like to produce. In this case, it is workout clothing production that has been moved. Regarding transportation and logistics for the assembled product being shipped out to Europe and the U.S., company A looks at the FOB (Free On Board Shipping Point) that the factory uses. If the new factory is located somewhere where company A has not been sourcing before, they need to research the port's shipping plan in advance in order to find out how long the transportation will take. The third step is to ask the supplier for a sample of the item they are looking to order. This allows the supplier to try out how much fabric and Trims they need for the product and how much the assembly will cost. Since the fabrics and Trims need to come from manufacturers nominated by the company, there are further regulations for the suppliers on how to inspect the nominated material when it arrives. Company A has guidelines for how the inspection of fabrics and Trims should be conducted which the suppliers need to follow. The sample is then sent to company A in Shanghai for evaluation and comparison between other suppliers that have been in the process and have produced samples. The best and most affordable sample will be selected. However, sometimes company A decides to make strategic choices by using a supplier which might have higher prices, but where they see the potential for a profitable future relationship or where they benefit from lower tariffs, better lead-times, cheaper transportation costs or avoid Chinese exchange rate fluctuations.

4.5 Quality assurance & Inspections

Regarding quality assurance when switching suppliers, company A has a Quality Assurance role, which together with the Production & Quality Control manager ensures quality throughout production. This is mainly done by being active and present in the entire process from nominating fabrics to shipping the finished product to Europe or America. By only using nominated fabrics, equal quality of fabrics and Trims is assured in their production. To keep track of the fabrics and the suppliers work, company A check the produced items when the supplier has assembled about 20 % of the entire order with the aim of discovering potential delays and be able to correct them in advance. Finally, when the order is completed, company A open up a package of the entire order and inspect the final products. Thereafter, the products are transported out of Asia.

Furthermore, the company also do random inspections where the Production Manager and Merchandiser looks at the sewing processes, the machinery and everything else that is going on in the factory at that time. This allows the company to see which tendencies are trending in production, for example if a certain product is assembled unusually slowly. Being present throughout the entire production process in this manner enables company A to influence lead-times since they account for the transportation of the final good. If they at any point during the process encounter difficulties, it allows them to rearrange the production process or place extra orders elsewhere in order to deliver the final items on time. They are also closely integrated in the planning process, which ensures that the suppliers set reasonable deadlines. In this case, the company finds no extra difficulties by being present and making quality assurances in the new Myanmar factory, since they follow the same guidelines for all factories and the only slightly trickier factor in Myanmar is the geographical distance they need to cover in order to do the inspections.

4.6 The new factory in Myanmar

Since company A decided to follow an existing Chinese supplier abroad, much of the risks involved in the move have been absorbed and evaluated by the supplier. Company A's sourcing process has, according to the top management, been facilitated since they only have had to focus on inspections and evaluations of the move to Myanmar and still being able to keep the existing buying structure with the Chinese supplier. For example, company A has standard conditions in Purchasing Order, which is independent on which country they are operating in. Therefore, the move did not change anything in regards to the supplier's responsibility towards company A concerning delayed orders and indemnity etc. In addition, the new factory has the same Chinese management as the previous Chinese factory had, which allows all of Company A's communication to go through the supplier's headquarter in Wuxi, China.

The Myanmar factory offers very similar prices and transport costs as the manufacturing did when located in China. However, tariffs are lowered to the EU since Myanmar offers a tariff break. Lead-times are slightly increased with the transportation of the finished goods taking a week extra compared to what it did from the previous Chinese factory. The transportation from the Myanmar factory to Europe goes through Singapore and takes 35 days compared to 30 days from Shanghai, China. However, the supplier is flexible in their orders so company A

can avoid the additional 5 extra days for transportation by placing the order five days in advance. When comparing skills and productivity, the Chinese workers are about twice as effective for basic styled clothing items as the Myanmar workers. For more complicated apparel production, the difference is even higher with the Chinese workers being 2,5 times more efficient. However, this will change according to the respondents as the workers are improving their skills and getting more experience with the certain types of product they are producing.

4.7 Trends within the sportswear industry according to respondents

According to the top management of company A, the trend of relocating production out of Eastern China will continue. They have noticed a tendency amongst Chinese suppliers in the sportswear and apparel industry to look outside of China to find cheaper labor to be able to keep taking advantage of low skilled labor and consequently low wages. Especially popular destinations for locating production within their industry are Vietnam, Myanmar and Bangladesh according to observations. They believe one of the main reasons behind their suppliers' decision to move abroad or stay in Eastern China rather than moving to less developed provinces inland China is due to the fact that the apparel production they work with is fairly complicated and advanced and the suppliers therefore tend to stay within areas which already have skilled labor. They further believe that even more emphasis will be put on relationships and trust when sourcing in the future. However, China's dominance on the world market as the largest supplier of manufactured goods will continue according to the management, mainly since China offers higher quality supply chains than any other East Asian country. Combined with the large amount of lower skilled labor in the more Western areas of China, they believe China will be able to maintain its position.
Furthermore, they have noticed China is becoming more of a consumption economy than simply the production economy it has been thus far. The Chinese market for high quality products is increasing. However, company A are not looking to sell to the Chinese market right now. Since they recently started to explore the U.S. as a destination for their products, they do not see China being one of their targeted markets in a long time. They acknowledge that there is a demand for premium sportswear products. Nonetheless, they argue that it would require re-branding and too much effort to start marketing towards Chinese consumers.

In regards to future expansion and sourcing for company A, they are currently looking to source production in Vietnam as well as additional suppliers in Myanmar. Since FTA's between Norway, the EU and the U.S. are of great importance to any future sourcing destination for the company, it is hard to keep a long-term plan since these agreements can change. Short term, Laos, Myanmar and Cambodia are also interesting sourcing destinations due to their current 0% tariff rate. Vietnam is of interest due to its product quality and the investments in weaving and spinning mills, making it a potential competitor to China since Vietnam then would be able to provide MNE's with a more developed supply chain.

4.8 Summary of empirical findings- Determinants

The main empirical findings regarding determinants behind the company's relocating decision are summarized in table 1. The table provides an overview in order to enable the analysis in section five and provide a structured discussion.

Table 2. Summary of empirical evidence as stated by interviewees

Determinants	Company A
Factor Costs	Overall highly important, especially wages. Lower wages in Myanmar compared to China. Costs for raw material will stay the same after the move. Exchange rates play an important role. Transportation cost for inbound logistics is absorbed by the supplier. Outbound logistics cost have only changed slightly.
Lead-Times	Takes 35 days to ship from Myanmar to Europe compared to 30 days from Shanghai. Have to bring forward the order dates with five days. Options for production can decrease lead-times.
Infrastructure & Logistics	Have to arrange outbound shipping from Yangon to the EU/U.S. Slightly longer lead-times but overall not more difficult to ship since Yangon is located by a large port. Strategic location was arranged by the supplier.
Capacity: Skills, Productivity &	Myanmar workers are less skilled than the previously used Chinese workers. The company is expecting that to change over time. All

Quality	training & learning of labor is provided by the supplier.
Tariffs & Trade agreements	0% tariff to Norway & the EU for their goods, compared to the Chinese tariff of 10.7% (Norway) and 12% (EU). Have not paid attention to trade agreements, which has already been done by the supplier.
Spreading risks	Very important. Especially regarding exchange rate fluctuations. Wants to reduce the importance of China being the only producer for their sportswear. Have options for production to be able to decrease lead-times when receiving unusually large/small orders.
Relationships	Very important since they put their trusts to an already existing Chinese supplier which they had worked with for a long time. Relationships and trust were central to decide to use the suppliers' new factory. Still placing orders in the same Chinese HQ.
CSR	Use the same Ethic codes as for China. Conduct inspections just like in the Chinese factories. Longer distances to travel to the Myanmar factory from the office in Shanghai but not harder to conduct the inspections.

Source: Compiled by authors.

4.9 Myanmar's textile industry

Myanmar's textile industry is the only international manufacturing industry in Myanmar, and hence constitutes the only manufactured goods the country export. The garment industry grew strongly during the late 1990's and in the beginning of the 21st century. In 2000, the U.S. was the largest importer of Myanmar garments. However, this changed in 2003 due to trade embargo sanction. After this point, Myanmar's textile industry became more focused towards Asian markets (Kudo, 2012). The country has had a history of trading restrictions with the EU and the U.S. against their military led government, which terminated in 2012 (Kent, 2012). The government is making efforts to become more transparent and democratic in order to enable the country to become a player on the international market (Economist, 2012). According to Kent (2012) a previous key determinant behind Western apparel companies'

decision to source in Myanmar was quota. This however changed in 2001 when China joined WTO and the quotas ceased. China offered a superior supply chain compared to Myanmar leading to concentration of apparel manufacturing in China which resulted in lessened exports for the textile industry in many Southeast Asian countries. Regarding tariffs, Myanmar has a 0% tariff rate for sportswear apparel to both Norway and the EU which is displayed in Figure 8. Figure 8 depicts both general and GSP tariffs. GSP is referring to Generalized System of Preferences and is a beneficial tariff system giving certain developing countries tariff exemptions in order to enable trade (Company A, 2016). With a minimum wage of $1.25 per day excluding allowances, which is the lowest in the region, predictions are that Myanmar is about to start to take over some of the region's market in manufacturing (Kent, 2012).

Figure 8. Tariff rate to the EU and Norway from Myanmar

		EU Tariff	EU Tariff	Norway Tariff	Norway Tariff
Export Country		General	GSP	General	GSP
Myanmar		12.00%	0.00%	10.70%	0.00%

Source: Company A (2016).

On the other hand, many manufacturers operating in Myanmar often suffer from power outages due to poor infrastructure and have to operate on diesel generators or similar power sources, which can cost up to four times more than regular electricity. Myanmar has no local supply of fabrics or Trims, which prolong lead-times. In addition, most raw materials are shipped from China via Singapore, which takes around three weeks (Kent, 2012).

5. Analysis

This section will combine the theoretical framework with the empirical findings n order to investigate how the selected sportswear MNE has used determinants as motivation behind relocation decisions regarding production in East Asia. It will further examine how the MNE has relocated geographically according to the *Geographical relocation strategies* model.

5.1 OLI-paradigm

The OLI framework provides a useful tool to understand and analyze the determinants behind foreign direct investment decisions made by MNE's and to comprehend to which degree the company will use foreign activities. In this particular case, it aids the understanding of why company A decided to relocate parts of their production in the way they did. The trade-off between deciding which approach is most suited for the company is a complicated process consisting of many influencing variables, factors and determinants, many of which can be explained through the OLI framework. By applying the OLI framework we are able to provide a more detailed explanation to why company A decided to cooperate with an existing supplier that already had a local presence in the Myanmar market instead of building their own production facilities.

Ownership

When exploring potential ownership advantages it becomes apparent that this may not have been the strongest driving force for the company when searching for potential production locations. The company does not according to our obtained information possess intangible or tangible advantages that would indicate that a move to Myanmar would be more powerful than that to any other Asian country. On the contrary, the move was made possible primarily due to the general development of production technology which made Myanmar an attractive option for company A in the first place. According to Dunning (1997), the majority of the advantages linked to ownership are of an intangible nature. In the case of company A the advantages includes a close involvement and micromanagement of the process, where if something were to go wrong the company are prepared to intervene quickly and perform any necessary damage control. There are different ways of categorizing the advantages. In company A´s case their skills can be categorized as intangible advantages of type one where the company may have an advantage stemming from its resourceful management when it comes to efficiently dealing with productions difficulties and quickly intervene in the process to solve problems.

The third category of advantages that Dunning (1997:2000) mentions is the type of advantages linked to multinationalism and the ability to exploit markets across national borders. In this case, company A has worked with suppliers in Asia but outside of China at

three separate occasions by locating production in lower-cost countries. This could be seen as a way for the company to exploit the international markets by strategically locate production where labor is cheaper than in China. However, the respondents stated in the interview that the factors of production used to assemble the sportswear needed a certain level of quality in order to successfully produce their fairly complicated and relatively technologically advanced sportswear apparel. The second category that Dunning (1997:2000) mentions, advantages linked to being a multi-plant enterprise with access to internal resources at low costs, has not been relevant in this case since company A's buying office in Shanghai is very independent and does much of their own sourcing and decision-making. The Norwegian headquarter does not contribute with internal resources to any noticeable extent.

Location

The advantages linked to location are crucial since they give an indication if it's profitable for a company to relocate its activities (Dunning, 1977; Dunning, 1998; Neary, 2007; Filippaios & Stoian, 2008). There are many factors connected to the Myanmar market, which makes it an attractive alternative for the company's relocation production activities. Firstly, the market provides lower tariffs rates than China which according to the interviewees was essential when selecting locations for production. Secondly, the decision of finding a suitable location for their production was to a great extent enabled by the fact that their existing supplier had decided to set up its production in Myanmar at a lower cost than what they were able to produce at in China. The third crucial criterion for relocating to Myanmar was, according to the respondents, the fact that it provided the company with a way of spreading risks regarding exchange rate fluctuations of the RMB. Apart from those important factors, it could be argued that Myanmar's young workforce combined with the increasing proficiency and a more refined production technology also made it attractive for company A to relocate production.

In line with Dunning (1977:2000), the overall attractiveness of a market helps determine if a company will consider relocating its activities. One factor which according to the interviewees greatly affected the decision was the relationship the company exerted with their already existing Chinese supplier. The interviewees stated that they might not have selected Myanmar as the final option was it not for the successful relationship with the already existing supplier. Overall, the location advantages seems to mostly have been affected by the existing relationship to the supplier, spreading risks in regards to exchange rate fluctuations and take advantage of Myanmar's lower tariff rates on sportswear apparel.

Internalization

Company A is performing their entire production through outsourcing the process to other suppliers. In this case, the degree of uncertainty when entering the Myanmar market has been greatly reduced by following an existing supplier abroad. Much of the risks involved in relocating have been absorbed by the supplier. The tradeoff between relying on an existing supplier for their local knowledge and their expertise in regards to sourcing as well as the comfort of continuing purchasing products from a supplier that the company already have a well-established contact with has in this case outweighed the advantages of performing more of the sourcing process themselves.

As Dunning (2000) states, the degree to which the activities will be performed in-house depends on the uncertainty involved in entering a market. For company A, this move would have involved a much higher degree of uncertainty if they would have performed the entire sourcing process themselves. Building their own factories does not seem to have been a feasible option since they currently do not own any production facilities and have developed a strategy consisting of outsourcing the production to suppliers. This involves both lower organizational and monitoring costs since the supplier has to monitor the workers and the process themselves. However, as the respondents disclosed, they have developed a specific advantage of being highly involved in the production process in order to save money and cut costs by being able to quickly interfere if the planning process if production does not go as planned. Similar to the advantages mentioned when discussing Ownership advantages, the firm's specific advantages of outsourcing production seem to be to avoid organizational costs involved in having to conduct the entire sourcing process and find relevant information to base their decision on. In this case company A still carries the sourcing process to a certain extent since they collect samples and information from different suppliers before making a final decision. However this process is greatly enabled by relying on an existing supplier. Furthermore, deciding to go with an existing supplier has in this case also decreased transaction costs of the market since the trust and relationship that already existed between company A and the supplier has enabled the company to rely on their expertise in many regards of the sourcing. This has enabled company A to lower monitoring costs and other costs involved in searching for a sourcing partner to outsource production to.

5.2 Determinants

When comparing Company A's key determinants behind its relocation process to the general eight model determinants, it seems that there are both similarities and differences. The key determinants are discussed in the same order they are presented in the theoretical framework.

Factor costs

As argued by Salmon (2015) one of the biggest challenges for future sourcing are the increasing factor costs including exchange rate costs, labor costs, transportation costs, and increasing prices on raw materials. In the case of company A, rising factor costs have played a major role in the decision to relocate parts of the production to Myanmar. Primarily costs related to fluctuating exchange rates have proven critical in this particular case.
The importance of currencies is further supported by the statement by Goldberg and Kolstad (1994) claiming that the exchange rate has a considerable influence on where MNE´s select to place their production. In the case of company A the currently strong RMB in combination with the decreasing NOK has had a direct impact on the company's decision to relocate parts of its production to Myanmar. Since oil prices, which constitutes a large part of Norway's income have fallen and affected the NOK, further incentives have been taken by company A to relocate production in order to ensure better exchange rates. The benefits linked to having a strong Norwegian currency while having production in China and trading with the previously much less valuable currency RMB, might disappear due to exchange rate fluctuations. Since all financial funds are coming directly from the head office in Norway, extra pressure is put on the decision to relocate out of China and further highlights the importance of the exchange rates in company A´s case.

Due to the fact that the company has selected to follow a supplier abroad when relocating, certain aspects that generally would be investigated by company A itself has been taken care of by the supplier and has in turn been embedded and presented to company A in the final price. Labor costs have therefore indirectly, through the supplier's prices, affected the company's decision to relocate parts of its production to Myanmar. The overall understanding amongst the respondents were that wages were lower in Myanmar in comparison to China and that it has greatly affected the price the supplier were able to give them. This is in line with ILO's (2015a) predictions that the increasing wages in China has weakened their comparative cost advantage which has pushed for relocation of production abroad. With a minimum wage

of $1.25 per day and a young workforce Myanmar is considered to be a country on the rise as a prominent actor to set up apparel manufacturing in. China's wages on the other hand are currently amongst the highest out of all the compared Asian countries regarding minimum wages in the apparel sector (Economist, 2015). In addition, new regulations such as the one initiated in 2004 requiring local governments to introduce an increase in the minimum wage every second year has increased the incentives further towards relocating production (Fang & Lin 2013). As a result, many companies including company A have tried to avoid the increasing labor costs by relocating productions either abroad or to Central-Western China. As stated by the respondents of the interviews, the further into China you relocate the lower the estimated prices on labor will be. However, as China continues to grow, projections are that the increased prices will eventually affect the Central-Western area as well (Pickles & Zhu, 2014). This is a major incentive for company A to start looking for alternative production locations outside of China.

On the contrary to our theoretical findings, costs of raw materials has had little impact on company A's decision to relocate to Myanmar. This is due to the fact that the suppliers use the materials from the same nominated manufacturers regardless of location. Therefore, the prices on raw materials did not have a direct impact on the decision. However, inbound transportation costs have changed slightly due to the increased distance the nominated materials have to be shipped. This was also accounted for by the supplier and nothing company A was directly affected from.

Transportation costs can become a potential issue since large geographical moves of production may translate into entirely different transportation costs as well as lead-times. While the inbound transportation costs are (similar to labor costs) absorbed by the supplier's activities and presented to company A in a final price the outbound transportation costs are handled by company A themselves through agencies or trading companies. The transportation costs have increased slightly as a result of the move since the geographical distance is longer, which also has resulted in extended lead-times. The transshipment from the Myanmar factory to Europe goes through Singapore and now takes 35 days compared to the previous 30 days from Shanghai, China. However, this factor was considered of minor importance for company A since all inbound transportation is handled by the supplier and outbound transportation remains similar to what it was previously. Transportations costs are therefore not considered

to be a driving determinant behind the decision even though it is an important determinant in many other cases of relocating production.

Lead-times

Nuruzzaman and Haque (2009) highlight the importance of minimizing lead-times in order to stay competitive on the global apparel market. They further stress that areas with unusually long lead-times will face great challenges in the buyer-driven apparel sector. This is no exception for company A´s case where transportation and lead-times play a key role in the company's operations. This is especially apparent since the company works within a season-based industry that is dependent on deliveries at specific times in order to provide the retailers with the right clothing for the upcoming season. Previous suppliers in Indonesia have been dropped due to their inadequacy to meet the specified deadlines, which further highlights the importance of this determinant in company A's decision making process.

According to Asgari and Hoque (2013) there is large difference in lead-times for garment deliveries in Asia depending on which country production is set up in. Company A´s lead-times when shipping out of Shanghai, China have previously been estimated to 30 days. However, even though multiple scholars argue lead-times are increasing its importance in the global context, company A decided to move parts of its more basic productions to Myanmar, increasing its lead-times by approximately five days which goes directly against the findings of the theoretical framework. Company A decided that it was worth the increase in lead-times even though the apparel industry is extremely time-sensitive, probably due to the fact that the benefits of moving to Myanmar outweighed the disadvantages of experiencing longer lead-times. One of the main incentives behind moving production although lead-times increased seems to have been that the company fairly easily can resolve the issue by pushing back order requests corresponding to the five extra days added on by having production in Myanmar. Lead-times are therefore still an important factor that company A considers before making a decision concerning sourcing.

Infrastructure & Logistics

By following an already existing supplier abroad, it could be argued that company A has used a "light" form of Triangle manufacturing as emphasized by Dicken (2014) in the theoretical framework. Many Western MNEs decide to place manufacturing in less developed East Asian countries through already existing suppliers and networks established in countries such as

China. In this case however, the big difference is that company A has done much of the sourcing themselves and only partly relied on the expertise of the existing supplier while the typical Triangle manufacturing process looks different where the supplier on its own do the sourcing and relocate production to low-cost areas in order to stay competitive. A similarity to the typical process of triangle manufacturing in company A's case is that the final good is shipped back to the Western retailers directly from the manufacturing plant located abroad. Another similarity is that Company A still places their order with the Chinese supplier and not directly at the factory in Myanmar, which is consistent with how triangle manufacturing is conducted.

As stated by (Shah, 2014), infrastructure & logistics constitutes an important part of relocation determinants since the location of the production plant and its access to well-functioning infrastructure both affects MNE's lead-times and the amount of FDI reaching the area. Relocating production becomes impossible if the company cannot trust the logistics operations in the area, which has proven to be important in Company A case since they are working with season-based clothing. As the theoretical framework presents, China spends about 11 % of its yearly GDP on infrastructure projects and FDI has historically been concentrated along the Eastern coastal areas (Bell, 2014), which consequently is where most of the infrastructure has been developed. The infrastructure around these areas is well established which previously has simplified company A's shipments and orders. If delays were to occur in the factories around the Eastern coastal area, the company has multiple opportunities for communication between actors, which results in rapid counter actions. The counter actions are based on developed ICT infrastructure and other factors enabling the communication process since company A then quickly can enter the production process and together with the manufacturer come up with a plan of how to circumvent delays. However, it seems as if the overall benefits for company A of having this part of the production in the Eastern areas of China no longer stands against the rising costs. The company has consequently decided Myanmar was preferential even though they will have to deal with less developed infrastructure. One reason behind this could be the fact that the supplier is absorbing much of the transportation and communication required for successful manufacturing which makes this determinant less important for the company. The main logistic issue that could arise for Company A is in regards to shipment deliveries of the final assembled goods to the Western markets.

Company A has historically been placing its operations in the Fujian-province in East China around the Shanghai-area as well as in Qingdao in order to utilize the (in comparison) well-established infrastructure. In addition, they have other active suppliers in the Southern coastal parts located by the Pearl River Delta. They have strategically chosen to place their operations close to major ports to facilitate the shipment of products and merchandise to their primary markets. The location in Myanmar is consistent with the previous location strategies of working with production plants close to ports to ease shipping. The Myanmar factory is located by Yangon which is situated right by a massive port.

In the theoretical framework, Bell (2014) argues that an increasing amount of MNE's are moving their manufacturing operations inland China since the infrastructure in the Central-Western regions is improving. However, the trend identified amongst the top management of company A is that many Chinese suppliers are moving their apparel manufacturing abroad. This could potentially have to do with the fact that company A are working with a specific type of apparel production in regards to their nominated fabrics and quality standards. Consequently, the trends they see amongst their suppliers might therefore only be true for that specific type of production. It could also be in line with Kanak's (Morris, 2015) arguments that China has overcome infrastructural challenges but at the expense of costs, making it more attractive to relocate this type of production abroad rather than Central-Western China.

Capacity: Skills, Productivity & Quality

Capacity related to skills, productivity and quality is of major concern for almost every company and the possibility to maintain a leading role within the industry is dependent on the function of this determinant (Su & Heshmati, 2011; Wildau, 2015; Baker & McKenzie, 2013). In contrary to our findings in the theoretical framework, company A did not have a clear view of how skills, productivity and quality were handled in Myanmar. For instance there was no template that exhibited the difference in working hours or specific information concerning the gender and age of the employees since this has been left for the Chinese supplier to evaluate. This directly contradicts our theoretical findings since the company did not emphasize this factor to any larger extent. However, it could be argued that company A indirectly has been focusing on this factor but through the supplier instead of doing the comparisons themselves. Since they have worked with the Chinese supplier for a longer time and know that it provides good quality products from the company's nominated manufacturers, they trust that this will be the case in Myanmar as well.

In regards to this determinant, the only comparable piece of information the respondents were able to provide us with was the effectiveness of the Myanmar workers in the new factory compared to the previous Chinese workers. The Chinese workers are about twice as effective as the Myanmar workers for the basic styled clothing items which they have relocated. However, as the workers skills increase more advanced production may be performed in Myanmar which reveals that the company has a long term view on their cooperation with the supplier. The reasons behind their long term perspective could also be due to ILO (2015a) predictions that Chinese job-seekers increasingly are turning down low-paid jobs which makes it less attractive to maintain and invest in low-cost manufacturing in China, especially in the Eastern region.

According to KPMG (2007), quality assurance remains one of the major reasons behind MNE's decision to source from a specific country. Company A performs extensive Quality assurance inspections on all their production facilities, independent of their location. Consistent with this research, quality assurance seems to play an important role throughout the production of sportswear for company A. The theoretical framework emphasizes that China has a reputation of meeting MNE's quality demands better than less developed countries (Dinh & Mishra, 2013; CNGA, 2013). However, the empirical evidence shows that this does not seem to be the case. Since company A nominates manufacturers of fabrics and Trims and uses them regardless of location of the supplier, the geographical aspect of the theoretical quality reasoning has no impact in this case. The only difference mentioned by the respondents were the fact that Myanmar is located further away from the buying office in Shanghai meaning that travels to and from the factory will be longer when conducting the inspections. However, China is a very large country so travels are fairly long and time-consuming even when domestic.

Since Company A is dependent on a large work force, Myanmar with its young labor force represents an attractive option for sourcing (PWC, 2015). In comparison to China, which consists of a large, however aging population, Myanmar can be seen as a prosperous alternative for future activities, especially if China's annual birth rates continues to drop (Alter et al., 2014; Dicken, 2014). In addition, since the workforce in Myanmar is less skilled than labor force in China, it is logical for company A to start by moving only the more simple production to Myanmar. As the workers skills increase more advanced production may be

performed there as well. This will further be dependent on the technical expertise that the factory can present. The selected producer in Myanmar must have certain types of machines in order to make the company's relatively complex garments even though it involves basic products. The company is therefore still reliant on the advanced machines and technology which according to the theoretical framework can be found in China (CNGA, 2013).

Tariffs & Trade agreements

When comparing the theoretical framework with the empirical evidence, it becomes apparent that tariff rates have played a major role in the company's relocation process. All respondents mentioned tariffs as one of the first and main factors behind relocating production. Myanmar has a 0% tariff rate for sportswear apparel to both Norway and the EU, which is of great importance for the company since those are their primary markets. China currently has a tariff of 12 % for sportswear exports to Europe which subsequently affects company A's costs negatively when exporting. HKTDC (2015) acknowledge that China has had a decrease in garment custom duties of approximately 8 percentage points down from 22-25% from 2005 and forward. Nonetheless, as the respondents of the case study reveals, this decrease has not been sufficient to keep the company from sourcing abroad. Since the tariff difference between Myanmar and China is so distinct, company A has regarded this determinant to be of utter importance.

Company A states that trade agreements have not had a direct impact on their sourcing decision since these aspects primarily have been taken care of by the supplier. Nonetheless, we believe that trade agreements have had an indirect impact on the sourcing decision since a previous key determinant behind Western apparel companies' decision to source in Myanmar was quota (Kent, 2012). This however changed in 2001 when China joined WTO and the quotas ceased. China's entrance into WTO in 2001 in combination with the removal of the MFA in 2005 changed the prospects of global apparel trade and opened up developing countries exports to the EU and the U.S (Brambilla et al., 2010; HKTDC, 2015; Ernst et al., 2005; Dicken, 2014). Myanmar has also had a history of trade restrictions with the EU and the U.S. against its military led government, which terminated in 2012 and the government is making efforts to become more transparent and democratic in order to enable the country to become a player on the international market (Economist, 2012; Kent, 2012). All of these circumstances have affected the outcome of Myanmar's increased potential as an alternative sourcing location to China.

Furthermore, this determinant has also proven to be highly integrated with determinant F, *Spreading risks*, since part of the company's motivation behind placing major importance on the tariff aspect was that they wanted to spread risks by not having all parts of the production processes located in China due to the uncertain nature of tariff and trade policies. This aspect will be further analyzed under the following section.

Spreading risks

The factor cost that played the most important role regarding risk management in this case was exchange rate fluctuations. Since the NOK (Norway is where the company's HQ is located) recently has experienced a decrease in value and the RMB has increased in value, China is becoming less profitable for the Norwegian owned company. All respondents emphasized this factor as one of the key determinants behind the decision to look for sourcing outside of China.

Spreading risks have affected our investigated company's sourcing decision in more ways than the theoretical background disclosed. According to Salmon (2015), sourcing production in new areas can be a way a spreading risks regarding volatile factor costs. However, the respondents revealed that in addition to factor costs, tariff rates and lead-times have been key determinants in regards to risk management. Firstly, company A are highly dependent on the Chinese government's actions and plans concerning tariff rates for sportswear export when having all of their production in China. Since the Chinese government previously have altered the economic terms depending on their own interests it becomes increasingly important for company A to look at other options. Secondly, the company viewed lead-times as a risk management action since it provides them with additional options for placing orders. This will aid the production process when the company receives unusually large/small orders from retailers to have the possibility to place it at several different factories. This will be possible since they know there are multiple suppliers that have the knowledge required for that specific production which is in line with Keillor's (2013) ideas of risk reduction in order to avoid unforeseen risks.

Finally, the approach of spreading risks adopted by company A has been consistent to (Keillor, 2013; Berg et al., 2013; A.T Kearney, 2011; Sodhi & Chopra, 2014) views on risk management through diversification throughout the supply chain and to use a portfolio

approach when sourcing locations and countries. In particular, Sodhi and Chopra (2014) stresses that multiple suppliers at different locations is the most obvious solution to reduce risks, which is exactly the strategy and solution company A has used.

Relationships

The relocation of production in company A's case have been highly dependent relationship and trust since many aspects of the sourcing process has been absorbed by the existing supplier. Consistent with the theoretical framework which emphasizes the importance of the firm-supplier relationship and how selecting a trustworthy supplier is crucial for the company's profitability (Albayrakoglu & Koprulu, 2007; Aulakh et al., 1996; Handfield and Bechtel, 2002; Supply Chain Quarterly, 2009), company A has placed much trust in the hands of their Chinese supplier which they have used for many years. In order to do this, relationship and trust have functioned as keystones. This could further be related to the Chinese term Guanxi (relationship) which according to Brennan and Wilson (2008) is a factor companies active in China need a firm understanding of in order to be successful. Company A have not themselves discussed or mentioned Guanxi in any of the interviews, however it could be argued that they indirectly seem to have an understanding of this concept since their relationship with the supplier has been going on for multiple years and has been considered being successful.

A thoroughgoing theme in the empirical evidence section has been that the sourcing process to some extent has been handled more by the supplier and less by the company themselves than what could have been expected if the company had not relocated production through a supplier. Consequently, this has led to many of the identified determinants being greatly affected by relationship, trust and communication. This determinant could therefore be seen more as an umbrella over the other seven determinants rather than seeing them all as equally important and integrated.

CSR

According to the theoretical framework, aspects concerning the activities of MNEs in regards to ethical and moral obligations have increased in importance over the last few decades (Mujtaba et al., 2005; KPMG, 2007). Increased transparency has subsequently resulted in increased awareness amongst clothing companies and apparel retailers (Bartley, 2007; KPMG, 2007). However, this determinant has to a large extent been left to the supplier to

manage since the company has limited insight into the factory's daily operations. This again stresses the importance of determinant *G "Relationships"*. Company A has an ethical code they follow for all their production plants independent of where they are located, which is consistent with the theoretical framework that points at the importance of clothing companies ethical duties (Mujtaba et al., 2005; KPMG, 2007;; Bartley, 2007). Nonetheless, this aspect is neither more or less emphasized for the company when relocating to Myanmar compared to any other country or factory so therefore it seems as if it has been of less value than many other determinants.

The inspections the company conducts to ensure ethical quality throughout their processes are, just like their ethical codes, identical independent of where the factory is located. The only difference for company A when conducting inspections in Myanmar is the increased geographical distance since they will have to travel to Yangon from Shanghai. However, the respondents claim that the inspection itself will not be any harder to conduct. Especially in regards to the fact that they will still be operating through the same Chinese supplier as previously which anew points at the significance of determinant *G "Relationships"* We have not been able to see any signs of increased importance for this factor for company A, neither have we been able to see that it is an important part of company A's brand strategy as KPMG (2007) argues when stating that CSR is now becoming an important part of brand strategies.

5.3 Geographical relocation strategies

When analyzing company A's operations through the model *Geographical relocation strategies* we can conclude that Company A falls under the category "Alternative strategies" and has decided to relocate production by following a supplier. In this particular case, they have followed the supplier abroad, to Myanmar. With basis in the previously analyzed determinants; trust to the existing supplier, spreading risks and avoiding exchange rate fluctuations appears to have been the main reasons behind the move.

Historically, it could be argued that the Company has chosen a "Wait and see" approach through working with already existing suppliers that are primarily located within the Eastern areas of China. However, by following a supplier to the Sichuan-province, the company has indirect applied the Go West strategy by heading towards central China. Nonetheless, since

this was executed through following an already existing supplier the move consequently falls under the category Alternative strategies, following a supplier.

The company has previously relocated production to Indonesia, which normally would fall under Go Out, Low-end activities (sourcing of low-end activities). However, since the company, similar to the decision of following a supplier to Sichuan-province in central China, chose to work with an already existing supplier this decision too falls under Alternative strategies, following a supplier. Due to shortcomings from the supplier, company A however decided to terminate this cooperation.

Even if company A indirectly has decided to go west by following an existing supplier to central China, it is evident that the Go West strategy has not been of great importance since the company has decided to follow only one out of the 30 existing suppliers to Central-Western China.
One reason for this may be that the development of increased costs and competition, which took place in the eastern regions, will also take place in Central-Western China.

Although efforts have been made by the government to move the more labor intensive low-end activities towards Central-Western China the overall trend in the sports apparel sector as stated by the respondents indicate that an increasing number of apparel companies are choosing to source from neighboring countries instead. One possibility for this could be that there exist different time horizons. The apparel sector uses machines and labor which can be moved relatively easily unlike other sectors such as mining. As a result the time horizon within the apparel sector is fairly short. In contrast, the government's plans to reconstruct the economic outlook between different regions of China may take several years before being successfully implemented and providing the desired results (Pickles & Zhu, 2014).

According to the respondents it would not matter how attractive the Central-Western area was when being in the process of relocating since company A wanted to achieve benefits that were directly linked to sourcing outside of China. By placing a small part of their production in another country, the company would primarily achieve benefits associated with spreading risks.

6. Conclusion

This section will conclude the study and answer the posed research questions and purpose. In addition, it will discuss suggestions for future research and implications for practitioners.

6.1 Conclusions of the thesis

This thesis has provided additional information in regards to how MNE's operating in China relocate production as a result of the current situation where some areas of China, and especially Eastern Coastal China, are becoming increasingly expensive for apparel manufacturing. The findings show that the investigated MNE has relocated production to Myanmar by following an already existing supplier abroad.

By applying the OLI model onto the case it becomes apparent that there are several advantages, which has encouraged the company's decision to relocate to Myanmar. First are the ownership advantages, which can be separated into three categories. The company are primarily in possession of advantages linked to type one - close involvement and micromanagement and three - working with suppliers in Asia by locating production in lower-cost countries. Advantages linked to the second category - being a multi-plant enterprise has however have not been relevant in this case since A's buying office in Shanghai is very independent. When exploring the advantages linked to location it becomes apparent that there have been certain advantages such as lower tariffs, a younger workforce, lower costs etc, which has made the Myanmar market more appealing to the company. In addition, the relationship that the company exerted with their already existing Chinese supplier has also affected the decision to relocate greatly. The strong collaboration between the two actors can be connected to the advantages linked to Internationalization. According to management it would not have been feasible for Company A to maintain an approach where they preform the whole sourcing process by themselves. The company does, however, collect samples and information from different suppliers before making a final decision which involves them in the process to some extent.

Furthermore, according to the developed model Geographical relocation strategies, company A falls under the category Alternative strategies, Follow a supplier. They have however used other types of relocation strategies before. First of all it could be argued that they have adopted a wait and see approach by waiting for the suppliers to initiate the relocation process

since company A do not own any factories themselves. A few years ago they also indirectly adopted a "go west" approach by following a supplier from Eastern China to the Sichuan-province located in central China. The company has to a large extent relied on the suppliers' knowledge and networks in order to facilitate the sourcing process. Therefore, some of the key determinants which the theoretical framework identifies as important in a relocation decision have played minor roles in this case.

The key determinants behind relocating production have in this case been identified as the following factors from the determinant model:

- *A- Exchange rates,* which fall under the determinant "factor costs".
- *E- Tariffs.* Trade agreements have however not been of major importance.
- *F- Spreading risks.*
- *G- Relationships*

Exchange rates was an important factor since the Chinese currency RMB is particularly high and in regards to NOK (Norway is where company A's HQ is located) right now. Therefore, the exchange rate between the two is unfavorable. Since exchange rates also are a volatile factor, the company saw the move to Myanmar as a strategically motivated move since they already have 29 suppliers operating in China and this could be considered poor risk management in regards to exchange rate fluctuations. Furthermore, the company spread risks through more ways than exchange rates. They consider spreading risks as being a way of controlling lead times. Lead times can be controlled and manage in a better way since the company, by sourcing new locations, have multiple options of production plants if they receive an unusually large/small order from a retailer. Tariffs has in the investigated case played a large role since the tariffs in Myanmar for sportswear apparel shipped to the EU and Norway are 0%, compared to China's rates of 10.7% respectively 12%. Relationships can for company A be seen more as an umbrella over the other factors than what has been portrayed in the theoretical framework. The case study showed that relationships has played a role in almost every other determinant since the selected MNE has placed much trust in the hands of the supplier when sourcing rather than doing all of the sourcing themselves. For example, CSR, certain parts of the factor costs and logistics have to a large extent not influenced company A's decision to relocate at all since they have been confident that the Chinese supplier have absorbed these factors.

6.2 Suggestions for future research

Fundamentally, this thesis contributes to the understanding of the current phenomenon of apparel MNE's relocating production out of Eastern China. However, as section 3.2 *Research Method- Qualitative, single case study* discusses, this is a single case study consequently only conducted on one company which limits the generalizability of potential conclusions in regards to the current situation. As Alvesson and Sköldberg (2008) emphasizes, existing case studies should be compared against new case studies in order to continuing develop the investigated field. Therefore, insights into the relocation and sourcing decision when comparing and investigate multiple cases would be of great interest in this field. In addition, multiple case studies conducted on MNE's relocating production out of Eastern China would make it possible to compare the determinants against each other and subsequently be able to see clearer patterns and trends.

Moreover, studies conducted on Chinese apparel companies relocating production out of Eastern China would provide additional important insight to the subject, since the Chinese perspective of the matter would be further enhanced. It would be interesting to see if Chinese companies follow the same patterns as foreign MNE's or if they have larger incentives and motives to relocate differently, for example within China.

Finally, the selected case study has been conducted on a sportswear MNE. Therefore, it limits the perspectives of other textile and apparel manufacturers and their perspectives on the matter. For example, companies conducting more basic style clothing might have different incentives for sourcing and relocating production. As this thesis has slightly touched upon, companies relocate production to different areas depending on what type of production that is being moved. To get a better understanding of this situation through comparing different sectors of the garment industry could help understand the future trends in textile production in East Asia.

6.3. Implications for practitioners

The increased understanding of what motivates MNE's when relocating production out of Eastern China and with which strategy they relocate, has mainly two interesting perspectives which can be of use for practitioners. Firstly, it is of importance for multinational corporations within the sportswear apparel sector to get a better understanding of what the key determinants are when making strategic decisions regarding sourcing. Increased information

about this aspect can enhance the effectiveness of the sourcing process and facilitate sourcing strategies.

Secondly, an increased understanding of what motivates MNE's to relocate production out of Eastern China and subsequently also relocate FDI from these regions, could be of interest for the Chinese government since they construct strategies and implement plans of how to develop the country and the different regions. Improved knowledge about the motivation behind relocation decisions could help the Chinese government to respond to these trends in order to achieve economic development throughout regions.

7. Reference List

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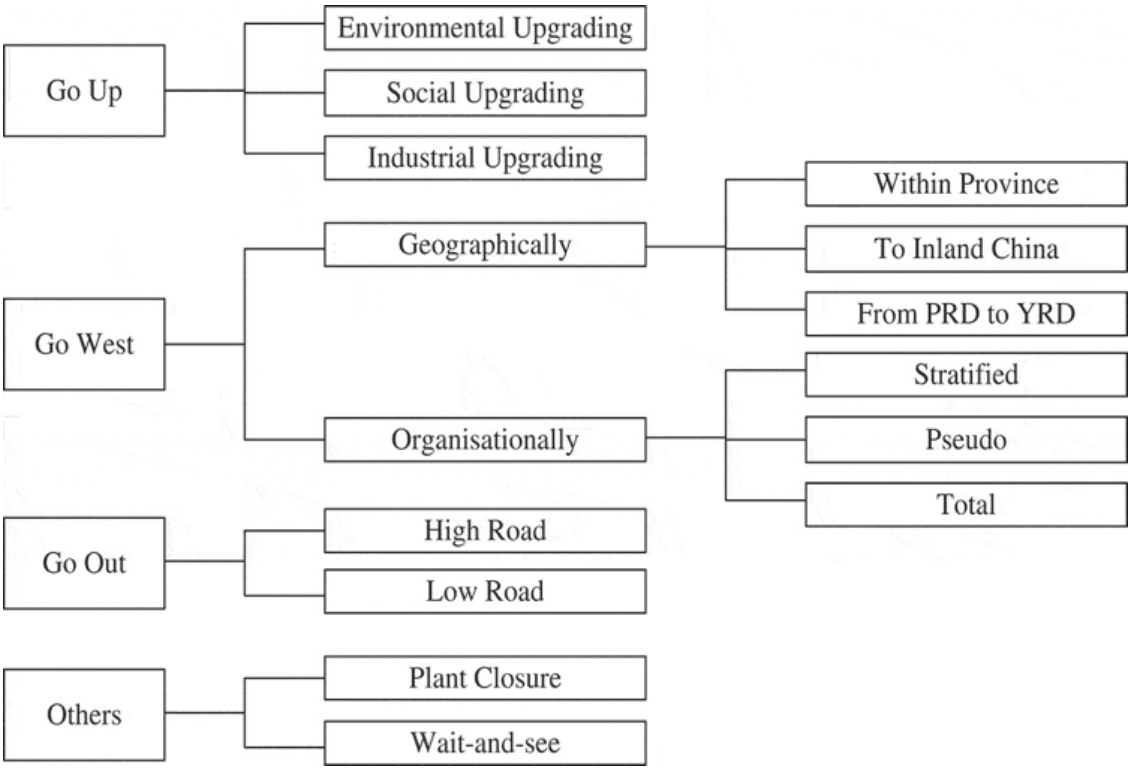
8. Appendix

8.1 Original Model: Restructuring strategies adopted by the export-oriented apparel firms. Pearl River Delta, PRD; Yangtze River Delta, YRD



8.2 Interview questions

Person 1. (Skype interview)

Specific questions concerning production

- What initiated the process to expand/relocate production to Myanmar?
- Which suppliers were considered as alternatives and why? Did the decision have anything to do with their geographical location?
- What did the decision-making process look like when you decided to follow the existing supplier to Myanmar?
- Have there been any particular obstacles or difficulties that have affected or changed the decision during the process?
- Are you presently looking for other suppliers to work with outside of China?

Trends and future

- What does the long-term perspective look like when it comes to sourcing activities?
- Where will future production be located?
- What trends in production do you see in the future for East Asia?
- What do you think of China's future as "the world's factory"?
- Do you think you will sell your products on the Chinese market in the future?

Supplementary questions interview person 1 (Telephone interview)

- What obligations do the suppliers in Myanmar have towards the company? Is this different depending on which country the supplier is located in?
- To what extent have you performed a background check to the factory located in Myanmar?
- How important were the following key determinants behind the decision to relocate Company As production to Myanmar and why were they important?

  Factor costs

  Lead-Times

  Infrastructure & Logistics

  Capacity: Skills, Productivity & Quality

  Tariffs & Trade agreements

  Spreading risks

  Relationships

Person 2. (Skype interview)

Specific questions concerning production

- What current production facilities and networks do you have?
- What initiated the process to relocate production to Myanmar?
- Please describe the factory in Myanmar- Where is it located (near a harbor, etc.) How large is it?
- Which suppliers were considered as alternatives and why? Did the decision have anything to do with their geographical location?
- Did you ever consider relocating production to Central or Western China?
- How long is the phasing in/out process when you change supplier? And what does the process look like?
- How are the logistics of the finished products handled? Who is responsible for this?
- Where do the raw materials come from? (Assuming that this has not been absorbed by the suppliers responsibilities)
- To what extent do you use external parties when sourcing such as a Chambers of Commerce?
- What measurements do you take to ensure high quality and safe delivery of the products?
- Where do you produce different products? How complex are these products?

Supplementary questions interview person 2 (Telephone interviews)

- What obligations do the suppliers in Myanmar have towards you? Is this different depending on which country the supplier is located in?
- Where in China was the production located before? (referring to the part that was moved to Myanmar)
- Does the productivity differ between the employees in Myanmar and China?
- Clarify the transportation of finished products from Myanmar to Europe/U.S. and compare this with the transportation from China to Europe/U.S.
- Which factors are important when handling the transportation of the finished product?
- Have you noticed any cultural differences between the countries?
- Why did you decide to end the cooperation with the supplier in Indonesia?

Person 3. (Skype Interview)

Specific questions concerning production

- What obligations do the suppliers in Myanmar have towards you? Is this different depending on which country the supplier is located in?
- Have you seen any financial changes/results related to the move to Myanmar?
- How important were the following key determinants behind the decision to relocate Company As production to Myanmar and why were they important?

  Factor costs

  Lead-Times

  Infrastructure & Logistics

  Capacity: Skills, Productivity & Quality

  Tariffs & Trade agreements

  Spreading risks

  Relationships

  CSR

Trends and future

- What does the long-term perspective look like when it comes to sourcing activities?
- Where will future production be located?
- What trends in production do you see in the future for East Asia?
- What do you think of China's future as "the world's factory"?
- Do you think you will sell your products on the Chinese market in the future?