

The Competitiveness of Craft Village Clusters in Ha Tay and Ninh Binh Provinces

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What is a Cluster?

- According to Harvard Business School Prof. Michael Porter:
"Clusters are geographic concentrations of interconnected companies and institutions in a particular field." (Source: "Clusters and the New Economics of Competition" by Michael Porter, Harvard Business Review, 1998)
- Clusters consist of multi-directional linkages involving suppliers, distributors, and companies producing complementary and or related products and services.
- Institutions such as government, universities, and research institutes, etc. also play an important role.

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The Cluster Approach

- Prof. Michael Porter's research has focused mostly on world class clusters located in Europe, North America and Japan (e.g. the Italian Ceramic Tile Cluster, The California Wine Cluster, the Japanese Robotics Cluster).
- Other researchers, however, have applied the cluster approach to developing countries including South-East Asia.
- Recent emphasis has been placed on cluster mapping within countries and also how to develop strategies to upgrade clusters to make them more competitive.

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Cluster Competitiveness (The Porter Diamond Model)

- According to Porter's Diamond Model, there are 4 main determinates of a cluster's competitiveness:
 - Factor Conditions (Labor, Capital, etc.)
 - Demand Conditions (esp. Domestic Demand)
 - The context for Firm Strategy and Rivalry
 - Related and Supporting Industries (Strength and quality of linkages)

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Factor Conditions

(Bamboo & Rattan Cluster: Phu Vinh Village, Ha Tay Province)

	Major Weakness	Minor Weakness	Minor Strength	Major Strength
Human Resources			 -Craftsmanship - Skilled Labor -Motivation	
Knowledge Resources		 ? -Specialized training institutes (craft) ?		
Physical Resources		 - Shortage of Raw Materials - Water Pollution		
Capital			 - Gov't loans / grants	
Infrastructure				5

Factor Conditions

(Embroidery Cluster: Van Lam Village, Ninh Binh Province)

	Major Weakness	Minor Weakness	Minor Strength	Major Strength
Human Resources			 -Craftsmanship - Skilled Labor	
Knowledge Resources		 ? -Specialized training institutes (craft) ?		
Physical Resources			 - Good Environment	
Capital				
Infrastructure			 - Restaurants, guest-houses, etc.	6

Factor Conditions: General Remarks

- ❖ The key is the existence of specialized factors:
 - Human Resources: The quality (craftsmanship), quantity and cost of labor is very good, though both clusters lack management / marketing skills.
 - Knowledge Resources: Universities and Institutes in Hanoi are not closely linked to both clusters. Specialization is limited.
 - Physical Resources: Bamboo and Rattan are in short supply locally; Prices have increased by approx. 40% over the last 2 years. Textiles used for embroidery are produced in both Vietnam and imported from abroad. Embroidery cluster has advantage with regards to location and physical environment.
 - Capital: Availability of private credit is limited, though some state funds are available for both clusters.
 - Infrastructure: Overall, very good, esp. for Embroidery cluster given its proximity to the tourism destination of Tam Coc.

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Demand Conditions

(Bamboo & Rattan Cluster)

	Major Weakness	Minor Weakness	Minor Strength	Major Strength
Domestic Market		✓ - Moderate use of B & R products among Pop. (Demand: Cost/Price)		
Foreign Tourists (direct: Village)		✓ - Small # of tourists visiting village (Demand: Quality)		
Foreign Tourists (markets: Hanoi)			✓ - Many Tourists are buying B&R products in Hanoi. (Demand: Quality)	
Export Market				✓ - Many Exporting Co. - Demand: Price/Quality

Demand Conditions (Embroidery Cluster)

	Major Weakness	Minor Weakness	Minor Strength	Major Strength
Domestic Market		✓ - Products not used in urban/rural households		
Foreign Tourists (direct: Village)			✓ - Tam Coc Tourism Zone (Demand: Quality)	
Foreign Tourists (markets: Hanoi)			✓ - Tourists are buying embroidery products in Hanoi. (Demand: Quality)	
Export Market				✓ - Many exporting enterprises Demand: Price/Quality

Demand Conditions: General Remarks

- ❖ The key is the existence of sophisticated and demanding local customers which enable companies to increase quality/differentiation which is necessary to compete globally.
- Both clusters lack demanding local customers.
- Both clusters have focused on the international market.
- Increase in foreign tourists will lead to improved product quality.
- The nature of the export demand is sensitive to both price and quality. B & R products are being exported to Japan and Germany. Embroidery products are being exported to Europe.

The Context for Firm Strategy and Rivalry (Bamboo & Rattan Cluster)

	Major Weakness	Minor Weakness	Minor Strength	Major Strength
Strategy		 - Focus on Cost (lack of differentiation)		
Gov't Policies			 - Gov't Market Reform Policies	
Domestic Rivalry			 - Many small family based firms.	

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The Context for Firm Strategy and Rivalry (Embroidery Cluster)

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Domestic Rivalry			 - Many small family based firms.	

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The Context for Firm Strategy and Rivalry :General Remarks

- Producers in both clusters need to move towards strategies based on differentiation (quality, unique designs, etc.).
- Current Macro-level economic policies are quite supportive of cluster development.
- Rivalry is increasing among family based enterprises.
- Both intense rivalry and cooperation are important to overall cluster development.

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Related and Supporting Industries (Bamboo & Rattan Cluster)

	Major Weakness	Minor Weakness	Minor Strength	Major Strength
Backward Linkages		✓ - Suppliers		
Forward Linkages			✓ - Packaging, Export Companies	
Lateral Linkages			✓ -Linkage with Bat Trang Cluster	

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Related and Supporting Industries (Embroidery Cluster)

	Major Weakness	Minor Weakness	Minor Strength	Major Strength
Backward Linkages			 - Suppliers (Quality: imported textiles)	
Forward linkages			 - Packaging, Export Companies	
Lateral Linkages			 - Good linkages to Tourism sector	

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Related and Supporting Industries: General Remarks:

- Backward linkages: Suppliers for both clusters are not very sophisticated.
- Forward Linkages: They are more developed for both clusters due to the presence of import/export firms.
- Lateral linkages are few. B & R cluster does have some linkage to the Bat Trang ceramics cluster. The embroidery cluster is more directly linked with the tourism sector at Tam Coc.

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Recommendations:

- More linkages need to be developed with the universities in Hanoi (e.g. National Economics University, etc). Such faculties as Tourism, Business, and Fine Arts / Design can provide a good degree of technical support to upgrade both clusters.
- A seminar or workshop should be held on both marketing research and export marketing for producers in both clusters. During recent visits to both villages, most producers mentioned that marketing was their biggest weakness.
 - Perhaps business faculty/students from universities in Hanoi can provide some assistance with regards to marketing research.
 - With regards to Export Marketing, international organizations such as the International Trade Center (ITC) currently offer such training to the private sector in Vietnam, Laos and Cambodia.

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Recommendations:

- More linkages need to be developed with tourism agencies to make them aware of the tourism potential of the craft villages.
 - Special tours can be developed to bring tourists directly to the village, therefore providing a greater profit margin to the producers.
 - Tourists also demand higher quality standards, which will lead to the development of new and improved product designs.
- More linkages need to be developed with the Hotel industry, in terms of use of local products in the hotels and also to promote tour packages for their guests.
- A seminar or workshop should be held to promote cluster development. This should include the government sector, tourism industry, universities, and other relevant organizations.

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Recommendations:

- Special micro-finance / credit programs targeting private producers in handicraft clusters should also be developed in order to facilitate business expansion.
- The villages should establish brand names and or trade marks for their products as part of a process of differentiation. Quality standards should be monitored by local associations.
- More efforts should be made to develop the e-commerce capabilities of the craft village producers.

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Recommendations

- Greater efforts should be made to encourage the craft villages to display and cross-promote each others products.
 - For example, it was noted that in Van Lam village, one enterprise displayed products produced in other craft villages (e.g. Dong Ho Paintings, Bat Trang tea set, etc.).
- Competition and rivalry among producers should be encouraged, though cooperation, especially with regards to related sectors and institutions, is also important for upgrading the cluster.

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References:

- Porter, Michael. "Clusters and the New Economics of Competition," Harvard Business Review, 1998.
- Porter, Michael. On Competition. Harvard Business Review Book, 1998.