Institutions and Economies
Vol. 4, No. 3, October 2012, pp. 21-40

China's Clothing Industry in World Textile Value Chains

Jean Ruffier
CNRS, Sun Yat Sen University, Guangzhou
Email: jean.ruffier@univ-lyon3.fr

***Abstract*:** This paper analyses the expansion of China's clothing industry in world textile value chains. Using data from interviews and observations throughout factory visits in China and other countries we show how private Guangdong entrepreneurs started China's clothing manufacturing. Lacking experience in consumer markets and designing, original equipment manufacturing was the route Chinese firms took to expand into garment manufacturing. Low wages and low margins of profits became their original source of competitiveness and rising shares in global market sales. These beginnings saw little direct support from both national and local government policies, though few barriers were erected to restrict the growth of these firms. However, although China has managed to secure a huge slice of the world market in garment sales, it continues to specialize in the low value-added segments of value chains. The paper concludes by considering options Chinese entrepreneurs have for exploring upgrades within garment value chains.

Keywords: China, clothing, Global Value Chains, labour conditions

JEL Classifications: F14, J61, L26, L67

1. Introduction

China's industrial take-off surprised economists, but it has lasted now for twenty years with growth rates still recording higher than 10 per cent annually. China has changed scales, becoming richer along with the rest of the world (Farrell *et al*., 2005). Yet pollution has also increased both in China and globally. Is it possible to take stock of this growth that has transformed the global industrial landscape? The size of the country, one-fifth of world population, the force, the variety and the dynamism of its economy make an appraisal difficult. There are nevertheless, winners and losers. Perhaps losers are amongst the first of all forecasters, for no-one had anticipated China's take-off while researchers have been perplexed to see an under-developed country achieve such an autonomous industrial take-off. It is abundantly clear to all first, that fortunes have risen in

China and that second, factories have been closed in Europe apparently due to competition from China. Does China's happiness build on our unhappiness? It is true that there are connections, but the links are more complex than they seem. My review of the situation begins with a consideration of the clothing industry.

This industry is primarily labour-intensive in nature. A substantial proportion of the workforce in most countries of the world would have begun work during the past twenty years. However, in that time period, jobs have largely migrated away from the high-wage countries. This phenomenon has accelerated following a tendency for Western brands to relocate their own factories.

Chinese clothing industries are therefore seen as a threat to others. This threat appears less in countries like Northern Europe, Japan or the United States, where a more 'mature' manufacturing technology enables an ease in learning and manufacturing clothes of medium quality, resulting in the production of virtually no more cheap clothes. China has built a niche for itself in this game because it has the lowest labour costs, and has no difficulties increasing production quickly if necessary.

Thus a substantial proportion of the world's clothing is manufactured in China. The rise in productivity of Chinese clothing has been so great that the most developed countries have requested an introduction of protectionist measures to protect their employees, or at least to give some time to convert. Protectionism was expressed through various measures such as prosecution for dumping, higher customs taxes or the establishment of quotas on certain products for some years. Quotas were the most effective even when Chinese manufacturers succeeded in exporting more than the allowed quantity. Taking advantage of Chinese difficulties in applying the rules of the World Trade Organization (WTO), quotas were extended several times before disappearing. Yet if Europe and the United States were protected against imports of Chinese clothing, this does not mean that China was worse off. In fact, it was often the European and American companies who were responsible for imports of Chinese clothing in their own countries.

However, we began to realize that the prices paid to Chinese enterprises were very low. Western companies are making much larger margins than those of their suppliers who always struggle to cover costs after accepting the lowest price. Design seems the main problem. You have to know the desired design to sell on the western market and Chinese companies apparently are unable to find designs that will enable them to increase their margins.

To sum up, European and American workforces lost their jobs because Chinese products sold at lower prices to the same European and American countries. Yet the same Chinese plants have also seen their jobs threatened by neighbouring countries with even lower wages. Even before the financial crisis, from August 2008, we found that Chinese clothing production by many manufacturers slowed sharply and their workers were laid off for lack of orders. What was happening?

2. Chinese Clothing Industry Challenge

The Chinese clothing industry is facing a double challenge. First, should it remain a *low cost* base in the international value chain, thus sustaining its low wage advantages in labour-intensive textile industries? This however possesses a double disadvantage. On the one hand, Western companies linked to final consumers retain strong decision-making power concerning orders, quality, volume and prices. On the other hand, Western companies can look for other low cost advantage Asian countries or favour near shore strategies by relocating businesses to closer locations such as North Africa and Central East Europe.

The second challenge relates to their domestic value chain. Chinese companies that became *more capital intensive* and accessed *more qualified labourers* could give them an advantage in controlling quality, adding *more value* to the products and changing their position in the value chain, but with the obligation to find new markets, to set up new distribution channels and to keep their new competitive advantage (productivity, quality) both on domestic and international markets.

It is therefore obvious that the Chinese clothing industry cannot count on revenues that have enabled a dramatic take-off, to maintain a competitive industry. If Chinese wages and costs begin to mount, this can be considered evidence of success, but to be maintained this success must rely on new measures. As researchers, we have an opportunity to visit many owners of Chinese plants who have opened their doors and their accounts in order to obtain our suggestions for maintaining their growth. We saw factories operating and being managed by the same families who had created them. If these plants have more than a thousand employees, their machines are often old and the premises do not usually belong to them. The result is that despite the appearance of a facility, the investment capacity is low. Managers are used to neglecting organizational improvement and the management of human resources. They are focused on profits and appear to find no difficulty in expanding their factory or hiring new workers, or even managers.

Considering each business, we know that the factory often has very little direct contact with customers. External agents or intermediaries who are beyond the control of the plant often approach these. Foreign customers often send a garment designed and manufactured by them and ask the factory to achieve the most accurate copy possible, and then decrease in various sizes. If the copy is good, the customer submits orders with very little discussion on the price, because they know the factory's competitors.

Several local authorities in Cantonese districts have found a way to encourage the take-off of an export industrial centre that we call “same-same clusters”. This is done by identifying manufacturers having some success, then encouraging any manufacturer who is willing to follow their model, to relocate next to them and copy to the finest detail possible, their formula. A few years later, these same authorities have established a “B-2-B” market of all producers in the same place. This has an attractive effect on customers who soon realize that in these markets, they could be sure of buying all the products they want at the lowest prices. This staging of a competition between local producers facilitated the industrial take-off, because it reduces the cost and difficulty of entry. But it came at the expense of investment capacity of these same companies. Therefore, there is now a crisis in China’s industry workforce. It must find new ways if it wants to continue its climb, or even sustain the levels reached. We propose a specific analysis of the Chinese clothing industry to understand the existing situation and possible options as ways forward.

3. Methodology

For this article, the groundwork is constituted by our systematic observation of the Pearl River delta (in China’s Guangdong province) in the context of researching the region’s industrial development. For this purpose I have benefited from the support of a team of Chinese, as well as French and Latin American researchers, a team that finally established in 2000 a laboratory at the Sun Yatsen University in Canton, where I took up a role in the capacity of French management. This management of a Chinese university laboratory by a European researcher is unique. It constitutes a remarkable basis of support for studying the local economy. Thus, I benefit from the work of French and Chinese academics that has led to my accumulating information on the Canton industrial environment. Since 1989, I have travelled through the delta visiting the factories that have multiplied there. I regularly meet Chinese private entrepreneurs either during investigations or for consulting operations. Each time I request information on their origin and their training, then integrate this information with what I obtain through research reading.

Unfortunately it is not possible to find reliable statistics, the category of “private industrial owners” not appearing clearly in the Chinese statistics that mix without restraint the forms of ownership. Over these past two years, I managed a research project on innovation abilities of Chinese factories involving researchers from Lyon3, IRD, Paris5, IRD, Euromed Marseille, Guangzhou SUN Yatsen University, Beijing Social Science Academy and Beijing Ministry of Science and Technology.

At the concrete level, analysis of the clothing value chain started from identifying Chinese factories producing these products. We traced the process of each product from upstream (idea, market research, product decision, design, R&D, etc.) to downstream (manufacturing, distribution, retailing and services, etc.). We focused on the interactions and relations among the designers, multinationals, local producers and final users around the circulation of each specific product. For each actor, including the Chinese companies (which are often only factories) we tried to find out which other actors (i.e. other factories or companies) could replace it and how to understand how these actors are included in the value chain. We then calculated some alternative value chains for the product.

This kind of value chain tracing can bring the following results:

- A clear cartography of value chains in textile industries across European, American and Chinese companies.
- Alternative value chains of automobile and textile industries across China and Europe, which means the value-added activities in which both Chinese and European companies can enter, but avoid for the moment.
- An evaluation of the distribution of gains of every product sold to final users, among different actors and different companies that engage in value-added activities in relation to it.
- A description of coordination linkages among different actors along each value chain.
- A summary description of labour conditions of each actor along a particular value chain.
- An evaluation of sustainability of different forms of value chain as industrial solutions within modern production. For this purpose we used the diagnostic method of productive effectiveness developed by Ruffier (1996, 2006, 2008).

How did the Chinese clothing industry become a threat to others across the world? We interviewed textiles clusters, regional authorities and scientists to answer this question. We discussed the issues with textile professionals worldwide (EC authorities, Chinese, French, North African and Latin American owners). We also interviewed distributors (e.g. Carrefour and Decathlon traders).

The clothing industry has played an important role in China's industrial take-off and in securing a very positive trade balance. Guangdong has probably developed the fastest amongst China's provinces.

This development is due to private initiatives by men engaged in business, people who generally created their factories themselves and have devoted a large part of their gains to make them profitable. It is no secret that local industry is not very profitable, it being much better to invest money in real estate, thus ensuring good incomes with little effort compared to industry. The latter requires from employers an investment of all of their energy for a level of profitability that is generally considerably smaller. Furthermore, this is not specific to Guangdong, the factories of developing countries generally having very small profit margins. Private industrialists there exploit their workers but at the same time have a plan, often to become the largest firm of their sector.

I note that few specialists are interested in the question of profitability of investment in the industry of developing countries. It is much better to invest in that of industrialized countries, the profit margins there are much higher, and normal investors do not turn toward developing countries. If they did do it, the question of industrial development would be resolved. It may be considered, from a capitalist viewpoint, that these industrialists of development make a bad calculation. Their underlying motivations must be questioned, because strong motivations are needed to embark on primitive industrialization.

A characteristic common to a number of private employers in Guangdong is surprising to the analyst who supposes that it is necessary to have evident assets in order to succeed, for most of them have not completed secondary studies. But, actually, it is the contrary that should surprise. To be a member of the Communist Party or to take a complete secondary cycle in China of the seventies meant that people needed a training instilling respect for public planning more than adaptation to the market. In some ways the envelope that was given to secondary students, as to members of the Party, did not familiarize them with the hard laws of the market. Private employers having escaped this conditioning were able to develop aptitudes and opinions more adapted to ownership activities than those stemming from a formatting by the Party. Being an owner is to claim for himself most of the value created by his employees' work. This is not to defend a just distribution among all of the workers. If the owner is Communist, he has little chance to succeed in establishing capital. And he cannot count on his heritage, since everyone was poor in 1980. Nor can he count on the financial system since it is reserved for public enterprises, or to those held by members of the ruling class. To progress, Chinese private employers had to act outside of socialist standards. They had everything to fear from a government that defends a philosophy opposed to theirs.

That is why they acted by hiding themselves to the utmost. Having had to manage all alone, Chinese private employers learned on the job how to succeed in establishing commercial relations, a field in which they excel. They all show great aptitude in taking advantage of market opportunities. Commercial aptitude is probably one of the keys to explaining the industrial take-off in the Delta. Chinese private industrialists are first of all people who have created business networks by relationships of trust between actors of production. In a world dominated by bureaucrats, they can only succeed if the essentials of their activity escape bureaucratic control. This is why they are adept in verbal promises more than in written commitment, in secret accounting more than analytic accounting. Actually, their success is not based on techniques learned in school but more indeed in the school of life, brawls and shrewdness.

Guangdong has been in advance of the rest of China for more than thirty years (Vogel, 1989). This gives it an attractiveness for all qualified personnel who imagine that the opportunities are greater there than elsewhere (Ruffier, 2006). Therefore, private entrepreneurs have hardly any trouble in finding graduates if they have need of them. They find them, at least they find sufficiently qualified persons to make their rather rudimentary equipment work and disassemble and copy the competition's products (Arvanitis and Jastrabsky, 2004).

Wank (1999) analyses the operation of the private sector and considers that the bureaucracy would assign a position of expedience to it. He emphasises the proliferation of administrative agencies, regulations and licenses that are the common lot of the management of the market economy and the private sector in China today. State enterprises meanwhile have access to loans in a royal manner. They have a monopoly on exports, which requires private enterprises to enter into dependent relationships with them. Sovereign predators, the foreign trade companies, take the very profitable differences that exist between international prices and domestic prices, while the private firms can only profit from minor price differences within China. Actually, everything is happening as if the government was developing a capitalist economy without authorizing the growth of a true industrial bourgeoisie. If it is known that the workers do not have the right to freely choose their unions, it is forgotten that private employers simply do not have the right to belong to an association. They may not establish lobbies that would negotiate with the government. Most bosses' associations belong to the Communist Party. Those that do not depend on the Communist Party are either mutual associations between networks from the same region (organizations that are more or less secret), or they are organizations that seem to have as their object the training of their members.

According to Porter (1999), the Chinese authorities gave the State the function of assuring establishment of competition among private enterprises. In fact, as soon as a private owner succeeds in gaining a market, the authorities facilitate the installation of competitors just next to him who are going to copy the innovator, make his margins decline and at the same time increasing the volume of production while lowering the prices of the products. The State will also construct immense specialized markets, which will become convenient places to find the best prices since all of the domestic producers will be strongly encouraged to come to propose their products in their competitors' milieu. This strategy explicitly aims to fight unemployment. It also aims to increase China's power in the world.

But if the State has the means for thinking of an advanced strategy, it takes away from private enterprises the possibility of investing, by forbidding them from really earning much money. Here is one of the reasons explaining that, despite the very great industrial growth of the Pearl River delta region, salaries have not grown greatly, with the notable exception of those specialists who are lacking and can thus sell themselves at very high prices. In his strategic work, Porter (1999) provides a key to understanding enterprises that attempt to ward off competition. Such a strategy is opposed to the imitation of others and to benchmarking. Actually, if a firm seeks to imitate another firm, it positions itself as behind the first, which already puts it in difficulty. Furthermore, if such firms come to compete with the imitated firm, they can only do it by reducing their commercial margins and therefore their profit. It is by focusing themselves on what is most appropriate for their firms that productive niches can be found where it would be difficult to be imitated. It is the inverse strategy of the one most of the Guangdong private factories are pressured to adopt (cf. Maître and Perrino, 2007; Navarro, 2006). Copying is permitted for them, facilitated by proximity and the impossibility for the entrepreneurs to group together in order to make their own law. By forbidding any grouping of private entrepreneurs, the Chinese system has maintained the bourgeois class in the bureaucrats' shadow.

We will now enter into an analysis of current strategies by Chinese clothing enterprises. In fact, we can classify the companies according to their size, the percentage of their export activity, their ability to design, their level of control of marketing (existence of a network of dedicated sales, use of advertising, etc.). This simple typology can separate companies that are doing well from those who are now in difficulty. Starting with the latter, the Chinese clothing companies with the greatest difficulties today are the big factories whose business was more than 80 per cent devoted to export. These companies are paradoxically those who fuelled the industrial take-off, so it is important to understand what has happened to them. In fact, these companies operate on the mode of Original Equipment Manufacturing (OEM), i.e. customers do not see their clothes, and the companies are pleased enough to produce according to customer instructions. This puts them in a situation of high dependency, and clearly unable to keep up with changes (Zhao, 1996).

4. OEM Clothing Global Value Chain

OEM is one of the best ways to enter the industry to export. Indeed, it requires very little initial knowledge. You must be able to operate a factory and to copy a product, but it is not necessary to know the final consumer. Nor is it necessary to have design ability since the client gives the design. Finally, it is not necessary to have financial capabilities, since customers just hesitate a little to advance raw materials, even making advance payments because of their strong financial situation and knowing that the factory obtains prices from actors who have no financial capability, or access to credit.

In contrast to a very strong dependence on customers, new entrepreneurs who are engaged in the OEM have found many benefits. Recognising their capabilities, their clients have often helped to overcome technical difficulties (Arvanitis and Jastrabsky, 2004). The Chinese clothing entrepreneurs who are still from the first generation had no model of what a successful capitalist enterprise looks like (Gao, 2007). They have to adapt and invent in many areas. They were able to immediately position themselves for export, at the same time learning a lot in manufacturing.

Their clients were not philanthropists. They agreed to train Chinese companies because that is in accordance with their interest, since these had not learned anything about design on the market. They have seen that human relations management was not very advanced in the companies, but have refrained from intervening in this area because they believed that fewer working conditions were likely to help fetch the best price. Furthermore, customers did not want their Chinese suppliers to be their competitors. In a way they have maintained the dependency, not even ensuring the companies' continuity in the relationship. As a result, they have not warned Chinese suppliers when they started to find cheaper suppliers in neighbouring countries. They began to test these new suppliers and would withdraw suddenly and sometimes without notice. Even before the onset of the financial crisis of autumn 2008, we saw that factories were suddenly realizing they had very few orders.

For these plants the shock was all the harder as their market share always seemed far too small, their clients were still in command by far and yet suddenly fell silent. The workshops of these plants were already often deserted by summer 2008.

However, a number of experts were beginning to anticipate the crisis. In order to protect their patrons from the fragility of the markets, Guangdong authorities were beginning to feel they had to change their approach. After favouring the maintenance of low wages to increase local employment and foreign exchange reserves, they had said that factories and workshops OEM would eventually cause more harm than good. In the early 2000s, margins were still good and the authorities could rely on tax revenue. But with internal and external competition, declining margins and declining tax revenues as well, Guangdong began to wonder if it was in their interests to accommodate migrants from the interior of China, since this could pose problems in the case of them losing their jobs. So a new social policy on the environment has been defined for Guangdong (The National Development and Reform Commission, 2008). Then it was announced that the Chinese laws on labour, social security contributions and the environment would not only be tightened, but compliance would be enforced. It was recognized that jobs would be lost, but those companies that could survive would do so.

Furthermore, since Guangdong had an advantage over China in terms of industrialization, it would transform from high quantitative to qualitative growth (Gu, 2005).

The arrival of the financial crisis has only given a boost to the provincial authorities. The employment of migrants within China has deteriorated to the point of creating social unrest, forcing local authorities to be very pragmatic. Thus, municipalities have begun to pay themselves salaries for missing workers whose factories were bankrupt. Finally, they turned a blind eye to the small shops sector, most of which does not respect labour laws. So many workers have seen their wages decline sharply, that their bosses have decided to unilaterally lower them. Or, more often, having lost their jobs they find work in the grey area, i.e., in workshops that are seldom reported for not paying taxes, observing labour laws or respecting the environment. Failure to report allows authorities to choose to turn a blind eye or not, to these workshops. If the authorities want to close them, it is sufficient that they are illegal. If they prefer that these workshops continue to operate, they may say they are not aware of their existence since they are not reported. Indeed, our field observations in Guangdong showed that in 2009, these small shops are rather more active than a year ago. However, their margins are reduced and any small business entrepreneurs (10 to 50 employees) have often stated that they don't want to get rich, but are happy just to survive.

We understand better the situation of Chinese clothing OEM when analysing the value chains in which they operate. For example, we were able to study in depth a pair of jeans manufactured in a Chinese factory. The customer of the plant is a French brand that has provided the design and will market across the world. We were able to know or estimate with a margin of error acceptable to us, the costs and benefits of each link in the chain starting from the idea of making this item to its purchase by an end user. We are not guaranteeing in Table 1 that the gains (in some cases, the employer's estimated margins) are precisely from the estimated expenditure within the corresponding link. What is purchased at €3.2 from a Chinese factory is sold at €50 to European consumers (the final sale price is allowed to be slightly higher in Chinese shops).

The purchase price of cotton by Chinese manufacturers of jeans seems amongst the lowest in the world. The cost of manufacturing the jeans is around three to four times lower than it would be in France, but only slightly lower than in Eastern Europe, higher than in neighbouring countries such as Vietnam, Burma or Laos, and significantly higher than in Central Africa. On the

Table 1: Great Brand Relocating Production: Distribution of Gains of Jeans Sold for €50 (2006)

Company	Function	Cost in €	Cumulating	Commentaries
Chinese textile factory	Raw material	1	1	
Chinese sewing factory	Manufacturing costs	2	3	
Chinese factory owner	Owner margin	0.2	3.2	
French Brand	Design	0.1	3.3	
	Boat	0.2	3.5	
	Customs	0.5	4	Less than 15%
Chinese State Plant	Quotas	0 - 0.5		Next presence or not and depending on direct purchase or on the black market (estimate)
French Brand	Distribution	20	24	
French Brand	Market research	5	29	
French Brand	Advertising	15	44	In fact the sale price is a function of the volume of advertising. Jeans can be sold with €75 to €40 ad
French Brand	Margins	6	50	Estimation without warranty

Source: Guangzhou (2006).

contrary, when business margins are integrated, China is becoming competitive in Africa and Eastern Europe (Pliez, 2007). Indeed, one of the biggest surprises of this survey was that the Chinese management earnings were lower than those of employers in North Africa or South America. There is an acceptance for them to take the entrepreneurial risk for less gain than in most countries.

The design cost is small compared with each pair of jeans. That is to say that this cost does not preclude a Chinese design.

Transport costs and customs do not weigh heavily in the value chain. They could double and it would still not alter the balance between manufacturers of jeans in different countries of the world. It must be said that jeans can pile up in large numbers in shipping containers. Quotas have a variable price because of the role of market officials and black market quotas in China. The Chinese bureaucracy has a tendency to allocate quotas to enterprises, but with minimal authority and therefore the enterprises tend to sell directly or indirectly to private manufacturers. It seems that these are being lost.

Distribution costs are often reduced in the minds of people who participate in value chains. When jeans are sold it is at fifteen times the total production costs, since for many, what counts is how the jeans look in a shop in an expensive neighbourhood. Working time devoted to the sale is also much greater than that spent in manufacturing and this is also reflected in the price distribution.

Once all these costs are taken into account, we realize there remain two important things to consider. The first is "market research", seeking out what type of jeans buyers prefer. This includes surveys which are very costly since they involve the end customers, who are mainly in countries where labour is expensive. The final cost is that of advertising, which tends to be higher the more expensive the jeans sold. One might even see a cause effect. With more advertising, more consumers want to buy the jeans and are willing to pay more for it. The advertising phase is probably the most risky, reaching amounts generally outside the scope of the grant of Chinese bosses. It is probably also the most profitable, it being the investment capacity which structures the link of domination in the global value brand jeans. Large foreign trade derives most of its gains from its investments in advertising.

OEM bosses are aware that most of the market value of the product escapes them. They wonder how to increase their share. We worked with the Chinese operator corresponding to Table 1 above. He is a realistic and inventive man who can if necessary count on political support. He tried everything to improve his situation. He sold surplus jeans products with the logo of the French company. It was very profitable but if apprehended, he could lose at once all these customers. He also sold jeans with the same form, but without the logo. In this case, the prices he gets are more diverse, but there still being a risk of detection by clients, he has abandoned any work in this direction.

We have advised him rather to develop his own models in China and sell them within his own networks. He had already established a brand and opened shops. But having failed to invest enough money in the transaction and the network, it has proved to be a financial failure for him. So he began to seek ways to sell directly abroad. With officials in his district and other contractors we organized a mission of discovery in France in the spring of 2008. We encouraged the district and its patrons to invest together in a commercial office in France, but the bosses were not prepared to contribute commercially, so they chose to embark on their own. From January 2009, most of their plants had stopped or slowed right down.

These then are two options facing Guangdong enterprises, to either sell inland or to explore whatever steps might be necessary to sell much further away. The rest of this section examines these options.

4.1 Selling Inland

Some enterprises developed distribution networks within China itself and began to do some market studies in factory zones not too far away. That way, they have been able to make a design accepted by local customers and make their brand known. These factories, if big enough, are not enduring any crisis effect, because the progressive extension of their distribution networks increases their selling.

Many observers have noted that the consumption of semi-luxury has escalated in China. The time has come to sell more sophisticated products. The problem of Chinese bosses is their lack of being known or having a reputation that would create a link of loyalty with customers. Some have understood the importance of making a good name for themselves within the immediate environment of their plant. Soon, such enterprises were able to make much higher margins than the OEM, and they used this money to gradually enlarge the area of their reputation and having done so, are doing very well. Their numbers increase through the action of certain local authorities (for example as in the case of Humen and Xiqiao, in Guangdong). Indeed, accumulating the money through income markets, some local authorities have started to work on marketing, working with market research, branding and design. Through such efforts, we can be optimistic about the fate of the Chinese clothing industry. There is no doubt that despite a certain degree of collapse amongst entrepreneurs who fail to work their markets, some areas are in the process of drawing the Chinese way of the future. They have already started to export to the border areas of southern China. We observed however that it was not easy for local authorities to invest in marketing, since a large proportion of managers were trained as engineers. As such, they tend to view progress as the result of better control of nature and of industrial factors. It is difficult for them to reflect on consumer behaviour.

4.2 Selling Much Further Away

The development of a consumer market within China has driven efforts to gain the knowledge and confidence of new buyers. Even foreign companies are now investing heavily in market research and advertising in China. Previously they could not create a local competition to do the same market research and the same advertising campaigns, so there is pressure on the Chinese clothing industry to invest and initiate progress in foreign countries.

Economists tend to have a national vision for businesses, while businesses, even small ones, cannot even think in terms of national interests, but do look for local and global opportunities. As we started to explore up and down value chains, there are many more varied situations than imagined at first. We anticipated that the main barrier to achieving capacity to generate investment in the clothing industry was the need to pay the entry ticket to fame. In this reasoning, it is cheaper to go local. But it is possible to develop a reputation both locally and much more remotely. Such is the case with a particular Chino-Lebanese firm. The owners are Lebanese. They have always been in the clothing industry and had achieved a certain reputation in the Middle East. With their accumulated capital, they were able to explore other markets and saw an opportunity to engage several supermarket chains in Spain where they are now known.

These employers decided to leave Lebanon, where they had their main production units. The loss of their largest plant prompted employers to try their luck elsewhere. They landed in Canton and quickly realized they would have no difficulty finding factories capable of manufacturing the models they had in their supplies. Being a small company, they preferred an alliance with a Chinese manufacturer rather than necessarily seeking the cheapest price. To ensure the accuracy and reliability of their supplier, they just paid twice the maximum price. Thus they have reconstituted their productive force. They had their brands, their models, their markets (Middle East and Spain). All they lacked was their design capacity. They decided to create a design studio in Canton and had little difficulty in securing an Italian designer they knew. Their case seems very suitable for examining as a value chain for oriental style clothing sold in Spain.

Table 2: Lebanese Selling in Spain and Making Designs in Canton Distribution of Earnings for a Particular Jean sold at €50 (2006)

Company	Function	Cost in €	Cumulating	Commentaries
Chinese textile factory	Raw material	1	1	
Chinese sewing factory	Manufacturing costs	2	3	
Chinese factory owner	Owner margin	2	5	
Lebanese design workshop	Design	0.1	5.1	Workshop belongs to Lebanese, designers are Italian.
	Boat	0.2	5.3	
	Customs	0.7	6	Less than 15%
Chinese State Plant	Quotas	0 – 0.5		Next presence or not and depending on direct purchase or on the black market (estimate)
Spanish Trader	Trader margin	2	8	Traders take an average commission of 33%
Spanish Supermarket	Distribution	20	28	
Lebanese Company	Market research	10	38	Most expansive in an outside country
Lebanese Company	Advertising	2	40	Advertising is done in the supermarket
French Brand	Margin	10	50	Estimation without warranty

Source: Guangzhou (2006).

Reading the table from top to bottom, the Chinese manufacturer enjoyed exceptional prices for cotton, while manufacturing costs are the same as for the previous example. As the price paid is double the previous, this gives the Chinese owner a more comfortable margin and we hope that the local company will invest this in improving its production. The cost of design, transport and customs are virtually the same as in the previous example. The Lebanese are working with a trader, who as usual takes a margin of one third of the cumulative cost to their level. So, the main savings are those associated with market research and advertising. These costs remain affordable for employers from Lebanon because their market research is limited to niche markets they've known for a long time. Advertising is only done in supermarkets that sell their products. The cost of marketing, as reported for the product, is the same as that of the French brand, but volumes are much less consistent and remain within the reach of small businesses within Lebanon and China. Here the small company has managed a business niche. It maintains its market through major investments in market research.

5. Conclusions: Who is Winning and Who is Losing?

The Chinese central government is certainly the primary winner. Around 50 to 70 per cent of the jeans made in China are exported. The Chinese government banks cash in foreign currencies and converts these amounts into local currency. Part of the profits from growth in this powerful reserve is used to strengthen the country's industry: it buys huge quantities of foreign technologies; it develops the country's infrastructure; it finances a substantive industrial policy; it makes up for a major part of unfathomable deficits in government enterprises; and it makes restructuring from public to private easier. Central and local governments now have financial means to attempt the transition from a copy-based industry to an innovative industry. Indeed the relevance of some applied measures can be questioned. We do think that too much state money is dedicated to high technologies to the detriment of those which are now the most necessary to the progressive upgrade of Chinese industry. Chinese bosses are not able to compete with foreign brands because they lack money to invest in market research and advertising.

Chinese farm workers called Mingongs also benefited from the Chinese industrial take-off. Not so much though, the government workers who have seen their relative position fall back and sometimes even their financial situation deteriorate when their companies go bankrupt. Some of them continue to get an "iron rice bowl" that is a protected life, supported by a company that ensures them bed, meals, hospital and school. But the real beneficiaries are the new workers, who have left the countryside for the cities. The figures are clear. The major portion of the factories' turnover has gone to pay the workers' wages. They are therefore the main beneficiaries. If we hesitate to concede to this point, it's because their fate hardly appears enviable to us any longer. To make clothes, farmers can be hired, trained in a few weeks and given a sewing machine.

The Mingongs remind us a lot of immigrant workers who have enabled France to strengthen its economy after world war two. Mingongs do not work in a foreign country, but still lack the required permits to work in cities whose language and numerous customs are unfamiliar to them. And nevertheless they came. They accept any jobs even after eight days' journey. Their fate does not seem enviable. But when asked if they want to return to their families inside their villages, they generally reply that in fact they wish to have their families come to the city. It is enough to imagine life in their village to understand. The young people have deserted the country and the young who remain do not often find a lot of interest in remaining in villages with old, jobless, penniless people doomed with a bleak future. The city opens doors to another younger, freer, richer and more attractive world.

One must not believe though, that the remote countryside gains as much from the urban take-off. Recent studies reveal that the migrant workers send money for about two years and afterwards they forget (Song *et al*., 2008). The loss of jobs which mainly affects young migrants, that is to say those most recently arrived, is an expression of today's crisis. But older migrants can't be at rest either. They can either go back to their homeland, which many would rather avoid to do, or agree to be paid less. Government policies are applied to send them back to the countryside with social and fiscal advantages to soften the shock. In fact, if industrial growth slowed to any great extent, the Chinese agricultural fourth world would take off.

Western Brands

These are the big winners of outsourcing. When we analyse the cost price of a pair of branded jeans, we see that less than 5 per cent of that price would pay for a Chinese make. The brands justify the prices paid by consumers for quality, i.e. less than 5 per cent of the price, and for the design, which rarely represents more than 1 per cent of the price paid by the consumer. In fact, western brands take advantage of the progress of industrialization that has lowered the manufacturing and marketing prices, creating a desire in buyers to buy more expensive products. As a matter of fact, the biggest expenses incurred by a western brand are for market research and advertising campaigns. That's convenient for salaried employees who prefer to have these jobs rather than dressmaking, especially as more attractive incomes are offered for brand manufacturing than true jeans manufacturing. But these margins earned by western brands are going to be increasingly difficult to justify. They are mainly dependent on advertising. Saviano (2007) in a currently well-known book on the camorra of Naples shows that it succeeds in obtaining the best margins from clothing trafficking rather than cocaine trafficking. All it does is make good copies of branded clothing and sell them, without paying anything for the brands, but in shops that sell these brands, which it controls secretly.

We can finalise doing the round of winners of clothes globalization by having a thought for those who have not won. The consumers are among them because they hardly gain from the progress of industrialization, or from the lowering of the production costs brought about by outsourcing. The salaried employees of the so-called middleman countries like Mexico, Turkey or Tunisia have suffered terribly from the rise in power of the Chinese competitors. They have seen their salaries come down and their factories close down.

Private Chinese Bosses

It is quite interesting to examine the situation of private Chinese entrepreneurs in the garment industry. The Chinese industrial take-off owes them a lot. They have registered an exceptional growth from 1982 to 2007. They have often set off without any money, without any security, dragging into their adventure salaried employees exploited at will, and themselves working without rest to earn a lot less money than their counterparts from rich or middleman countries. First generation capitalists, they had ideas or comportments that did not tally with the communist ideology, which was part of their entire childhood. They are rebels, deviants, most of them having already paid a heavy price for unconventional behaviours. For them the opening up was an opportunity to get out from the top, for from being quasi delinquents, they become modern heroes. Then they had faltered in the face of risks. A capital base is not made legally in a socialist society. They have cheated, bought the complicity of civil servants, won over a maximum of friends to prevent jealousy from sending them to prison. They have accepted really low margins compared to most other countries. It is a variable we do not measure enough, with their Mercedes class E or S, the private Chinese bosses are often poor bosses. They are incapable of finding the required funds for a real modernization of their factories. They cannot launch good market research. In other words, they don't stand a chance confronting western brands. They are small fry. And today they are encountering real difficulties. They are challenged by manufacturers from Vietnam, Cambodia, Laos and indeed black Africa who manage to strike a lower price by paying the lowest salaries. They are overwhelmed by a new industrial policy of the central government that seeks to obligate them into paying official salaries, social security contributions, anti-pollution equipment, reducing their already low margins accordingly.

The die is not cast for all that. Chinese producers could resume their development by trying to conquer the market next door and gradually setting up Chinese brands there. We see some of them embarking on such a strategy successfully. If they re-conquer only the Chinese market, they will become the big ones capable of canvassing the western countries later. And then, western companies that only do marketing could endure worse times. How to control quality or innovate in high-return products if they no longer know how, because they have long ago left these unprofitable operations to others? Today we see a direct relation between the sum attributed to an advertising campaign for clothes and the price that the consumer accepts paying for such clothes. What will we do when consumers refuse to pay what André Gorz (2003) called "the price of their alienation"?

References

Arvanitis, R. and Jastrabsky, E. (2004) "A System of Regional Innovation in Gestation: The Example of Guangdong", offset CFCSIT, Canton.

Fu, X.L. (2008) "Foreign Direct Investment, Absorptive Capacity and Regional Innovation Capabilities in China", Oxford Development Studies, 36(1): 89-110.

Farrell, D., Laboissiére, M., Pascal, R., de Segundo, C., Rosenfeld, J., Stürze, S. and Umezawa, F. (2005) "The Emerging Global Labor Market", McKinsey Global Institute, 49 pp.

Gao, C. (2007) "The Making of Migrant Entrepreneurs in Contemporary China: An Ethnographic Study of Garment Producers in Suburban Guangzhou", Mémoire de Thèse de Sociologie de l'University of Hong Kong, Soutenu le 30 Avril 2006, 305 pp.

Gorz, A. (2003) *L'immatériel: Connaissance, Valeur et Capital*, Paris: Editions Galilée.

GuangZhou (2006) "Unpublished Data", Sun Yatsen Sino-French Research Centre, GuangZhou.

Gu, S.L. and Lundvall, B-A. (2005) "China's Innovation System and the Move Toward Harmonious Growth and Endogenous Innovation", *Innovation: Management, Policy and Practice*, 8(1/2): 1- 26.

Levine S.B. and Kawada H. (1980) *Human resources in Japanese Industrial development*, Princeton, Princeton University Press.

Maître, P. and Perrino, M. (2007) "Contrefaçon et Ostentation", *Revue d'Economie Industrielle*, 117: 75-92.

National Development and Reform Commission (NDRC) (2008) "The Outline of the Plan for the Reform and Development of the Pearl River Delta (2008-2020)", National Development and Reform Commission, China, 122 pp.

Navarro, F. (2006) "L'avantage Concurrentiel Chinois – Entre Pratiques Déloyales et Avantages Comparatifs", *Perspectives Chinoises*, 97: 13-29.

Pliez, O. (2007) "Des Jeans Chinois dans les Rues du Caire, ou les Espaces Discrets de la Mondialisation", *Mappemonde*, 88 (4-2007), downloaded from
http://mappemonde.mgm.fr/num16/articles/art07404.html

Porter, M. (1999) *La Concurrence Selon Porter*, Paris: Editions Village Mondial.

Ruffier, J. (1996) *L'efficience Productive - Comment Marchent les Usines, Paris*: Editions du CNRS.

Ruffier, J. (2006) *Faut-il Avoir Peur des Usines Chinoises? Compétitivité Et Pérennité de « L'atelier du Monde »*, Paris: L'harmattan.

Ruffier, J. (2008) 中国工广 :生⊠效率与管理社会学, , (Les Usines Chinoises: Sociologie et Gestion de L'efficience Productive), 341 pp.

Saviano, R. (2007) "Gomorra. Dans L'empire de la Camorra", trad de l'italien par Vincent Raynaud (2006) Paris: Gallimard, 363 pp.

Song, S.F., Wang, C.S. and Zheng, J.H. (2008) "Industrial Upgrade, Employment Shock and Land Centralization in China", Working Papers No 08-006, University of Nevada, Reno, Department of Economics.

Vogel, E.F. (1989) *One Step Ahead in China – Guangdong Under Reform*, Cambridge, MA: Harvard University Press.

Wank, D.L. (1999) *Commodifying Communism – Business, Trust and Politics in a Chinese City*, Cambridge: Cambridge University Press.

Zhao, W. (2006) "Economie de L'innovation et Développement des Capacités Technologiques en Chine: L'apprentissage Technologique dans les Industries Automobile et Électronique en Chine", Thèse de Doctorat en Économie, Paris: Université Paris 3, 450 pp.