



A Study on the Development Strategy of China's Clothing Industry at the After-Quota Age

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Abstract

Textile clothing is an important backbone industry in China. China is the No.1 in the production and export of clothing in the world. Its gross clothing export accounts for one fourth total global clothing trade. After a period of development, the general industrial structure is composed of the fashionable dress industry, the clothing-processing industry, and the clothing industry. In 2005, the quota for textile products was canceled for the first time. The quota system that has restricted the export of textile clothing products for a long period retreated from the history forever. World textile clothing industry enters a brand-new age. The development trend of China's clothing industry will focus on: scale, information, brand, and fashion. Confronting with favorable and unfavorable factors, we should hold five countermeasures: brand development strategy, technique talent strategy, total costs superiority strategy, supply chain advantage strategy, and standard qualification strategy.

Keywords: After-quota age, China's clothing enterprise, Development situation, Development trend, Countermeasure

1. The general introduction for the development of China's clothing industry

Textile clothing is an important backbone industry in China. China is the No.1 in the production and export of clothing in the world. Its gross clothing export accounts for one fourth total global clothing trade. After a period of development, the general industrial structure is composed of the fashionable dress industry, the clothing-processing industry, and the clothing industry. China's textile clothing has extremely powerful competence in global textile clothing industry because of its cheap labor resources and equipped industrial advantages. In recent years, the development of clothing manufacturing is faster than that of GDP and textile industry. The scale of market realizes a stable increase. China's clothing industry has these features as follow.

1.1 The business efficiency of domestic clothing enterprises is lower.

Till May, 2006, we compare the business efficiencies of different enterprises in clothing industry according to the registered type in figure 1.

According to data above, the foreign-funded enterprises have the highest business efficiency, the enterprises funded by Hongkong, Macau, and Taiwan less, and the domestic enterprises poorest. Comparing with data in 2005, the sales and profits of domestic enterprises decrease in 2006. And the decreasing speed is faster than that of total assets. The decreasing proportion of sales and profits is almost shared by foreign-funded enterprises and enterprises funded by Hongkong, Macau, and Taiwan.

1.2 The gross export increases at a higher speed and the quality of exports is better, what is a new feature of China's clothing industry in recent years.

According to new statistical data in China customs, the export price of China's clothing has kept on rising since 2002. And the average price was 2.29 dollars from Jan. to July in 2002. The number reaches 3.09 dollars from Jan. to Junly in 2007. In five years, the number increases 35 percent. Figure 2 reflects the trend of clothing export quantity and sum from Jan. to May between 2001 and 2007.

In the first season of 2005, the foreign exchange gained by export of textile and clothing products in China reached 8.428 billion dollars. The year-on-year growth was 26.78%. Thereof, the foreign exchange gained by common trade accounts for 69%, increasing 3 percent than last year. In the first season, China's export to countries with limits is 2.486 billion dollars, accounting for 29% of the total export, increasing 15% than that in same period in last year. The export to countries without limits increases less, merely 7.73%. After canceling the quota for textile exports, the potential of China textile export has been released. But this increase generated by the release is short-term and reasonable. It will finally come back to former level. See figure 3.

Therefore, confronting with the problems advanced by America and European Union, China's textile industry should

keep cool, analyzing situations objectively. If we want to achieve higher foreign exchange by exports, we should further adjust the industrial structure and improve the competence of textile products in foreign trade.

2. The situations confronted by China's textile clothing development at the after-quota age and the countermeasures.

2.1 Situations

Along with the coming of after-quota age, the global textile supply chain faces up with unimaginable changes. New-developing textile countries enter the global supply chain with lower costs. The retail channels in chief consumption countries are gradually controlled by large retail groups. Purchasers have more choices in trade in the world. Supply countries with lowest costs will gain more orders. Although China is regarded as the largest supplier at the after-quota age, developed countries has already warned that: to take China as the only supplier is extremely dangerous.

In the aspect of unfavorable or uncertain factors:

(1) After the cancel of quota for textile trade, Chinese government imposes export taxes by quantities on 148 clothing tax numbers of thirty-three types in six classes, such as skirts, shirts, trousers, pajamas, and underwear. This action will affect the clothing enterprises in these aspects as follow. Firstly, the lower the unit price of relevant products is, the more significant the influence is. At present, the export tax imposed on textile clothing is between 0.2 and 0.3 per piece. The numbers of export taxes are close. And the export taxes are determined by quantities. Therefore, the lower the unit price of relevant products is, the larger the proportion of imposed taxes to total prices. Secondly, export products with low-added values are affected significantly. Products with different added values are affected differently due to different profits. Thirdly, the export to non-quota market will be hurt. The imposed export tax means to improve the added values of export products. But it will exert more negative impacts on the export to non-quota regions. In Shandong province, 60%-70% of clothing is exported to Japan and Korea. The quantity-based taxes increase the costs of export to non-quota regions, reduce enterprises' gross interest rate, and weaken the competence of clothing.

(2) After the cancel of quota, the price of China export to countries with limits has been decreased in a short period. And the amount of export has been increased. The market shares have been enlarged. The international trade environment becomes more severe. Main importing countries set up barriers by special protection terms and anti-dumping measures. The international trade barrier will become an important way for developed countries limiting textile clothing export after canceling quota for textile. Technology barrier, green barrier, anti-dumping measure, and anti-subsidy measure will affect the clothing industry heavily.

(3) Along with the speeded-up globalization of economy, the flow of production factors is more evident. Developed countries dominate the high value-added clothing market by right of their advantages in strong capitals, perfect market net, brands, and high technologies.

(4) The deficiency of coal, electric power, and transportation will harm the enterprises' production and operation.

In the aspect of favorable factors: firstly, the domestic economy in China will keep a stable and fast growth, what will generate a strong demand for clothing and will drive the development of clothing industry. Secondly, the world economy shows a resuming growth, what will benefit China's clothing enterprises in the fields of exploring market and enlarging export. Thirdly, the cotton price in Chinese market decreases further and becomes near to the price in world market, what will generate positive effects on the operation of clothing economy and the improvement of benefit. In prediction, the whole industry's production benefit will increase 20%.

We should notice that the increase of export quantity is normal because of the return from the quota system to the free trade system. The former quota system distorted world textile trade heavily and restrained China's clothing export. World economy will sustain its stable growth. China economy will stay in its stable and fast growing way. The desire for export in China is still strong. Although America and European countries have set up limits for China's export, the products that have been affected merely account for a small proportion of total clothing export. It does not hurt the general export to a great degree. Therefore, China's clothing export will still sustain a stable and faster growth.

2.2 Countermeasures

It is an urgent affair to analyze rationally China clothing industry's competitive advantages in the reengineering of global textile supply chain, adjust timely China's textile trade policy and industrial policy, and enhance the implementation. Considering the favorable and unfavorable factors confronted by clothing industry at the after-quota age, we put forward five countermeasures as follow.

(1) Brand development strategy

Brand competition has already become a main part of market competition. It does not merely mean to improve the famousness of name. Enterprises should endow their brands with rich cultural meanings and develop multiple brand

strategies. As clothing designers are engaged in their designs, the essential idea is to give prominence to characteristics of local culture and national culture, mining China's humanism resources as much as possible. Only by making best use of the carrier, namely the clothing, and displaying Chinese culture, can we establish the position of "Chinese clothing".

According to the "three-less three-more" feature of China clothing industry, we should take brands as the impetus in development. Integrate the advantage powers and provide with support for a few of head enterprises that can drive the development of surrounding regions. Amounts of small industrial clusters will finally form a national industrial cluster. In the process of supporting a few of head enterprises to form different industrial clusters, we should pay more attention on the conformity of resources and brands. By this way, a group advantage will come into being.

(2) Total costs superiority strategy

In the macro aspect, China's clothing industry possesses a unique position in world clothing trade. It has a bright prospect in the field of export. However, China clothing's competitive advantage chiefly focuses on the price aspect. It does not have a predominant advantage concerning with the production costs. Therefore, Chinese enterprises should make up plans as a whole and choose the operation mode that can help to realize maximum profits at lowest costs. By this way, China's clothing industry will be strong.

Enterprises must try to gain essential advantages in prices of labors, costs of materials, productive efficiency, and countermeasures for sorts of non-tariff barriers in order to enlarge their exports further guarantee their sustainable development. "To decrease costs" is one of lifelong strategies for any enterprise. Under the new world clothing trade situation, it is urgent and important for China's clothing enterprises to apply the total costs superiority strategy.

(3) Technique talent strategy

For any modern enterprise, talent is one of core competences. Technological innovation is the root for enterprises improving their competence. Especially at the knowledge economy times, innovation relates with enterprises' survival and development closely. Enterprises have an increasing demand for talents. They lay more stresses on the exploration and cultivation of talents. On the other hand, talents with potentials have to experience a period of growth and adaptation as they become mature. The most important responsibility of leaders in enterprises is to pick up talents and cultivate them to do what they can do and sustain long-term enthusiasm for work.

(4) Standard qualification strategy

In recent years, a new international trade standard ----- SA8000 social responsibility standard is in front of China's export enterprises. SA8000 is new barrier for some export enterprises. As the first "social moral responsibility attestation standard" in the world, SA8000 requires that enterprises should shoulder social responsibilities as they earn money. It sets up lowest requirements for work environment, employees' health and safety, professional training, wages, rights of labor unions, and other specific issues. It chiefly includes nice factors, namely child labors, compulsory labors, health and safety, freedom of organizing labor unions and collective negotiation rights, punishment measures, work schedule, wages, and management system. More than 40 enterprises have passed the SA8000 attestation in China. And one fourth belongs to the clothing industry. They chiefly locate in the provinces with relatively developed trade along south-east seaside. No clothing enterprise has passed this attestation in Shandong province.

However, in recent years this attestation has become one of requirements listed in multi-national companies' orders more and more. It has already served as a technology barrier for China's export. The up-spring of SA8000 is originated from the imbalanced competitive relation in the world market. It is a kind of adjustment of competition between developing countries and developed countries in the world market. Considering this trend, China's clothing enterprises and Chinese government should take action, escaping from a negative position. In the long run, the SA8000 standard can bring about more values in many aspects for enterprises.

(5) Supply chain advantage strategy

Supply chain management has already gained more and more attentions from enterprises. It has gradually become an option for the development strategy of modern enterprises. In contrast with the traditional vertical management mode, the supply chain management has enormous competitive advantages. As a cooperative strategy for enterprises, the supply chain management can provide with not only a system but also an organizational form in resource allocation.

For China, the key point is to make best use of present opportunity to enlarge the market, build up more marketing channels, and gain certain controlling right in the world supply chain instead of allowing more enterprises to enter the list of international suppliers. It is a long-term and systematic project to construct a complete and effective supply chain for Chinese products. Therefore, it is necessary to motive and use the strengths at the official, industrial, and corporate levels to realize this goal.

3. Conclusion

China is an enormous market. Chinese have their unique characteristics in aspects of culture, history, and aesthetics.

China's enterprises can grasp these characteristics easily. Besides, China is a giant in clothing production field in the world. It has rich industrial resources. These facts serve as preconditions for the birth of world famous brand in a sense. Therefore, as long as Chinese enterprises begin from the features of clothing industry, master the key rings, namely product (design, cloth), market, terminal (channel), production (craft), and brand, make integrated innovation based on national elements and international elements, they can make up changeable market and brand strategies and step into a way to success.

Facing up with opportunities and challenges, clothing enterprises should meet the trend of international economy and the norm of international operation, take immediate and positive action, combine with world-famous enterprises, and explore market together. The combination is an integrating and learning process instead of losing themselves, which can help to gain more spaces and bring about a win-win result. Therefore, persisting in brand strategy and innovation will be the best way for China's clothing enterprises or even all Chinese enterprises to realize the complete prosperity.

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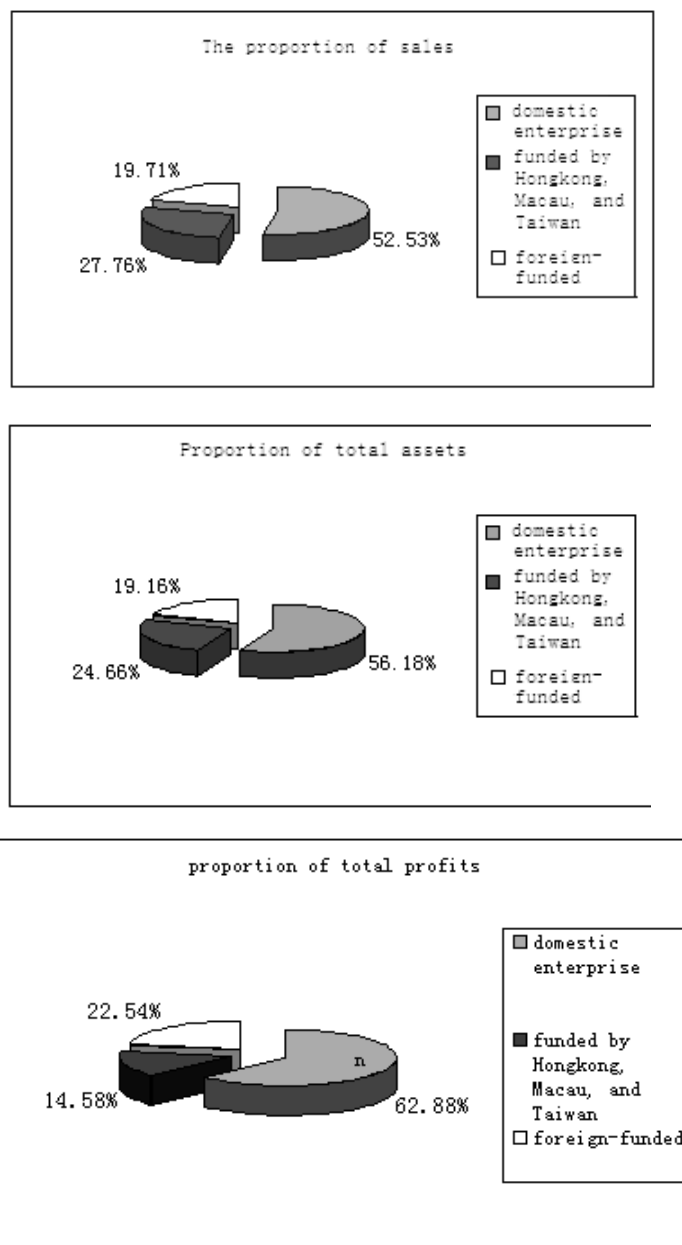


Figure 1. The Comparison of Business Efficiencies in Three kinds of Enterprises

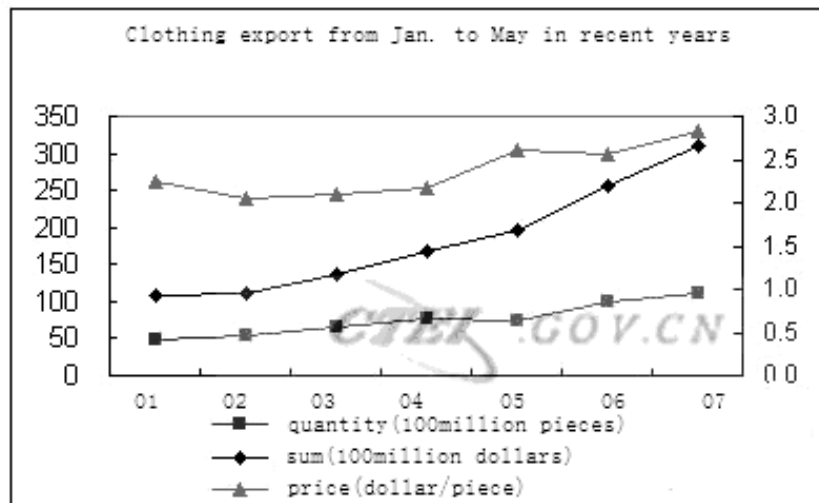


Figure 2. Clothing Export from Jan. to May in Recent Years.

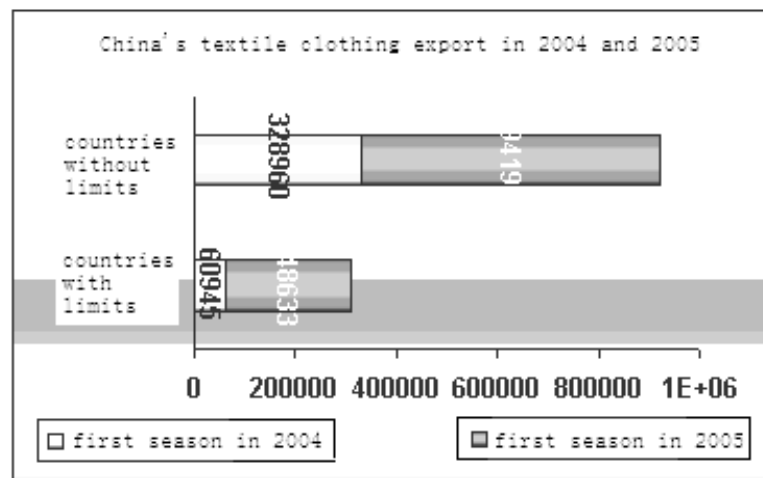


Figure 3. China's Textile Clothing Export in 2004 and 2005.