Chapter 5

The Facts: UK Apparel Trade – The Current Trade Position

A. Imports and exports

As will be explained below, the use of the overseas trade statistics to illuminate trends in the UK apparel sector is fraught with difficulties. Nevertheless, it is important that a clear and comprehensive picture of the trends is obtained because, as Winterton (1996, p. 58) observes:

> 'growth in international trade has had a dramatic impact on the UK clothing industry. Imports from developing and developed countries account for a large proportion of the domestic market and this is steadily increasing'

and because, furthermore, the trade situation is itself a powerful engine for strategic change on the part of UK-based manufacturers.

As is often the case when dealing with business statistics – and particularly when trying to establish trends over time – the facts are far more difficult to establish than would initially be expected. Industry definitions in official statistics, for example, frequently change and established sources either disappear or are modified. These problems are particularly severe in the case of statistics of the external trade of the UK, especially if a comparison is sought between pre- and post-1992 data. The completion of the Single European Market brought with it a very severe disruption of UK external trade statistics as trade with the other member states of the EU ceased to be regarded as 'foreign'.

In time, a new statistical series for trade between the UK and the other EU partners emerged, but this is based on VAT returns rather than customs data so is not directly comparable with the pre-Single European Market data. Unfortunately, when the series breaks, a seismic reversal of UK-EU trade balance occurs and it is difficult to know how to interpret this. The Office for

National Statistics has set up a working party to examine this issue and is due to report towards the end of 2002. In addition some data – such as the *Business Monitor* series on import penetration – has been discontinued. In addition, SIC (1980) has been replaced by SIC (1982) and the PRODCOM system of data classification (see Appendix A for an explanation of these classification systems).

Finally, as will be seen later, the picture on import figures depends greatly on whether or not hosiery is included as part of the apparel sector. Therefore, as with all economic statistics, the 'facts' depend partly on definitions adopted. The basic data is to be found in H M Customs and Excise (1999) and is classified according to the SITC Division 84. However, the data on trade in 'clothing' also appears in a variety of other publications which often utilise marginally different definitions often based on the PRODCOM system which itself relates to SIC (1992). It is clearly a debatable point as to whether or not 'the clothing industry' should include or exclude leather, fur, footwear and hosiery. In addition, data can be in terms of value, volume or even weight. The SITC system was described in Fig. 3.3.

The best starting point is with Tables 5.1 and 5.2, which cover 1995 to 1999. This enables the basic trading position in apparel as defined by SITC Division 84 to be stated. The very close links to the EU market are immediately apparent. Nearly 70% of UK garment exports are destined for the EU member states. In addition, a further 10% go to other developed countries in Western Europe and North America. This pattern of trade between developed countries is entirely consistent with the global pattern described in Chapter 3. In Table 5.1 it is revealed that some 37% of UK apparel imports originate in developed areas, while some 53% come from the so-called developing world.

Table 5.1 UK apparel imports and arrivals (£000): SITC Division 84.

Source	1995	1996	1997	1998	1999	% 1999
EU	1,572,295	1,900,816	2,125,792	2,489,523	2,411,200	31.1
Rest of Europe	258,799	291,467	352,858	403,759	494,568	6.4
Eastern Europe	185,780	231,444	282,355	361,281	401,247	5.2
North America	104,087	132,683	154,456	136,009	130,130	1.7
Other Americas	19,231	22,431	23,831	18,387	21,898	0.3
Middle East and North Africa	347,991	415,035	477,279	501,113	600,128	7.7
Sub-Saharan Africa	142,597	158,841	183,123	175,740	178,391	2.7
Asia and Oceania	2,660,407	3,044,960	3,229,892	3,135,848	3,507,761	45.3
Total	5,291,186	6,197,677	6,829,587	7,221,660	7,745,323	

Source: HM Customs & Excise, Tariff and Statistics Office, Overseas Trade Statistics, UK Trade with EC and the World (ex BMMA 20).
This is now known as OTS (A).

Note: Imports are goods coming in from outside the EU while arrivals is the term used to describe goods coming from the EU member states. This distinction follows from the date of the start of the Single European Market.

Table 5.2 UK apparel exports and dispatches (£000): SITC Division 84.

Destination	1995	1996	1997	1998	1999	% 1999
EU	2,100,626	2,283,088	2,192,559	1,991,751	1,874,200	67.6
Other W. Europe	147,588	146,542	150,330	140,722	126,508	4.6
Eastern Europe	93,366	104,128	93,682	90,554	104,354	3.8
North America	135,260	158,765	185,256	181,526	156,980	5.7
Other Americas	15,709	13,895	13,269	13,141	9,849	0.3
Middle East and North Africa	208,517	235,512	289,743	331,329	284,270	10.2
Sub-Saharan Africa	23,294	25,019	24,479	18,137	16,268	0.6
Asia & Oceania	274,502	300,914	304,858	221,103	199,807	7.2
Total	2,998,892	3,267,864	3,254,176	2,988,259	2,772,236	

Source: HM Customs & Excise, Tariff & Statistics Office, Overseas Trade Statistics, UK Trade with EC and the World (ex BMMA 20).
This is now known as OTS (A).

Note: Exports are goods sent to non-EU destinations. Dispatches are goods sent to other EU member states.

B. Trade balances

Table 5.3 shows the trade balances by area and in total and is derived from Tables 5.1 and 5.2. These three tables illustrate the well established trade deficit in the clothing sector, i.e. that imports greatly exceed exports and by an ever increasing amount. These figures are in value terms. Table 5.4 shows the trade balances by main category of clothing. Trading balances with individual trading partners (countries) are shown in Table 5.5. There are few surprises in these tables, other than, perhaps, the fact that in Table 5.3 the UK is shown to have a large positive apparel trade balance with the EU up to 1997 prior to a

Table 5.3 Trade balances by region (£000).

Region	1995	1996	1997	1998	1999
EU	+528,331	+382,272	+66,767	−497,772	−537,000
Rest of Western Europe	−111,211	−144,925	−202,528	−263,037	−368,060
Eastern Europe	−92,414	−127,316	−188,673	−270,727	−296,893
N. America	+31,173	+26,082	+30,800	+45,517	+26,850
Other Americas	−3,522	−8,536	−10,562	−5,246	−12,049
Middle East and North Africa	−139,474	−179,523	−187,536	−169,784	−315,858
Sub-Saharan Africa	−119,303	−133,822	−158,644	−157,603	−162,123
Asia and Oceania	−2,385,905	−2,744,046	−2,925,034	−2,914,745	−3,307,954
Total	−2,292,294	−2,929,813	−3,575,411	−4,233,401	−4,973,087

Source: HM Customs & Excise, Tariff & Statistics Office, Overseas Trade Statistics, UK Trade with EC and the World (ex BMMA 20).

Notes: (1) A negative figure indicates that imports exceed exports.
(2) The negative balance on apparel trade has more than doubled between 1995 and 1999.
(3) The negative balance with Europe taken as a whole is 24.2 per cent of the total negative balance as against 14.2 per cent in 1995.

Table 5.4 Trade balances by garment type (£ millions).

	1997	1998	1999
Leather clothes	−84	−85	−82
Workwear	−4	−4	−7
Outerwear	−1,267	−1,600	−1,860
Underwear	−1,230	−1,385	−1,575
Other apparel	−158	−219	−260

Source: Business Monitor MQ10 (Second Quarter, 2000).

Notes: (1) MQ10 gives balances by category going back to 1970 but earlier data is given by SIC (1980) and is, therefore, not strictly comparable with later data (see Appendix A). However, the data for 1970–1988, for example, reveals that balances were usually negative for all garment categories with the occasional exception of hats.

(2) Data on balances by sub-sections of SITC Division 84 can also be obtained from BM OTS (A) [ex SMMA20].
Balances are normally negative with the exception of clothing accessories.

dramatic reversal in 1998 and 1999. The latter movement probably reflects the strength of the pound relative to the euro (Jones, 2001).

The apparel trade balance between the UK and the rest of the EU has undergone some dramatic changes since the formation of the Single European Market, at which time the basis upon which trade data within the EU was assessed diverged from that employed to measure trade with the rest of the world outside the EU. Table 5.6 contains the relevant data. It can be seen that prior to the opening of the Single European Market in 1992 the balance of trade in apparel was consistently negative, reaching some £250m in 1991. In 1997 this had been transformed into a surplus of some £67m, having reached £382m in 1996. This transformation was quite untypical of trade between the UK and the EU in general – as can be seen from Table 5.6.

As Moore (1999, p. 41) observes, the general position is that the UK pays off most of her negative trade balance with the EU by what she earns from the rest of the world. Obviously, the composition of the EU has changed over time but this cannot explain the unusual reversal in apparel trade as it would have affected all trade. Furthermore, it can be seen from Table 5.7 that the balances in apparel trade with a number of individual member states has also been reversed since 1992. Given the latest figures showing a substantial decline in exports to the EU the wisdom of concentrating so high a proportion of apparel exports on one market might be questioned.

The large and remorselessly rising negative global trade balance might initially be seen to be indicative of poor trade performance by the UK apparel industry, but this would be a misleading conclusion. It can be seen from the data in Tables 5.8, 5.9 and 5.10 that the comparative export performance of the sector (measured in two ways here to cover the availability of data

Table 5.5(a) UK apparel trade by country 1996–1999 (£000): STC Division 84.

	Exports				Imports			
Country	1996	1997	1998	1999	1996	1997	1998	1999
France	399,709	353,089	308,138	267,900	187,579	216,659	268,109	265,200
Belgium/Lux	134,485	134,648	118,685	106,700	166,119	189,099	233,116	262,200
Netherlands	188,000	146,118	121,255	100,500	178,510	295,872	445,422	304,400
Germany	455,539	446,478	416,367	369,400	290,455	308,889	373,448	400,400
Italy	108,063	117,191	104,081	77,500	426,408	451,988	520,326	442,400
Irish Republic	452,318	470,856	466,513	466,300	193,600	175,230	147,698	127,300
Denmark	80,537	76,190	59,728	51,900	29,821	37,994	41,821	40,400
Greece	62,461	54,359	43,452	40,900	56,819	59,167	53,307	73,500
Portugal	42,519	32,994	27,953	23,300	270,012	257,508	279,641	245,500
Spain	161,619	137,826	115,998	102,800	23,235	19,794	21,944	19,600
Sweden	105,913	92,954	78,128	59,400	12,045	14,144	15,630	15,100
Finland	42,366	39,786	31,859	30,800	6,268	7,580	8,366	7,100
Austria	49,566	34,261	27,035	23,700	58,229	59,459	70,436	66,800
Norway	46,974	48,366	39,160	33,316	2,344	2,815	3,059	2,840
Malta	14,039	15,505	13,589	13,403	21,612	25,142	23,692	29,637
Turkey	12,110	21,859	26,108	23,008	242,610	261,647	340,790	42,694
Poland	6,744	7,152	8,539	13,162	26,604	32,132	37,049	38,934
Romania	6,001	12,780	24,659	37,757	92,086	114,096	147,838	176,235
Morocco	92,754	128,096	147,754	128,728	157,635	207,403	232,059	287,699
Tunisia	3,304	4,846	6,883	9,978	20,109	23,584	30,149	33,193
Egypt	3,313	3,307	3,366	4,103	25,504	32,559	36,666	55,837
South Africa	8,363	6,822	4,902	3,691	31,217	31,378	32,747	34,564
USA	137,528	165,493	164,567	144,459	113,750	129,952	113,333	108,920
Cyprus	16,289	18,015	22,002	24,921	43,391	35,155	32,345	29,921
Israel	19,359	19,739	12,251	8,038	101,821	110,457	98,904	112,066
Pakistan	456	503	900	620	129,103	110,665	98,415	96,767
India	4,067	6,328	9,763	9,656	314,437	272,239	229,686	259,784
Bangladesh	253	271	6,328	368	219,385	314,437	196,010	199,335
Sri Lanka	2,599	4,214	4,308	5,626	166,454	196,789	209,596	256,937
Thailand	5,581	5,850	1,253	1,351	87,874	90,244	89,685	103,612
Vietnam	85	177	95	205	21,995	28,603	33,103	37,200
Indonesia	2,574	4,285	1,662	1,213	193,542	230,329	207,516	225,784
Malaysia	4,675	3,591	5,199	3,317	142,291	137,729	113,438	120,237
Singapore	26,257	28,187	13,686	10,310	52,324	52,662	63,388	78,532
Philippines	5,492	26,257	2,690	4,968	62,073	60,647	50,405	55,968
China	1,546	3,129	5,398	5,214	341,412	408,862	402,571	447,444
South Korea	28,174	3,804	6,961	14,429	62,753	74,741	83,008	112,537
Japan	134,477	117,117	100,699	82,607	15,524	16,963	15,866	15,921
Taiwan	8,635	11,644	9,106	7,470	73,514	113,294	86,089	88,038
Hong Kong	61,274	60,405	40,213	38,769	1,078,495	1,124,623	1,166,478	1,293,641
Macau	235	393	326	1,891	38,572	59,903	44,991	34,106

Source: HM Customs & Excise, Tariff and Statistics Office, Overseas Trade Statistics, UK Trade with EC and the World (ex BMMA 20); 1999 figures for the EU are from OTS(2) and are provisional.

Notes: The figures for the Netherlands are influenced by that country's role as a world trade centre.

Table 5.5(b) UK apparel trade balances by country 1996–1999 (£000).

Country	1996	1997	1998	1999
France	+212,130	+136,430	+40,029	+2,700
Belgium/Lux	−31,634	−54,451	−114,431	−155,500
Netherlands	+9,490	−149,754	−324,167	−203,900
Germany	+165,084	+137,589	+42,919	−31,000
Italy	−318,345	−334,797	−416,245	−364,900
Irish Republic	+258,718	+295,626	+318,815	+33,900
Denmark	+50,716	+38,196	+17,907	+11,500
Greece	+5,642	−4,808	−9,855	−32,600
Portugal	−227,493	−224,514	−251,688	−222,200
Spain	+138,384	+118,032	+94,054	+83,200
Sweden	+93,868	+78,810	+62,498	+44,300
Finland	+36,098	+32,206	+23,493	+23,700
Austria	−23,968	−25,198	−43,401	−43,100
Norway	+44,630	+45,551	+36,101	+30,476
Malta	−7,573	−9,637	−10,103	−16,234
Turkey	−230,500	−269,788	−314,682	−401,686
Poland	−19,860	−24,980	−28,510	−25,772
Romania	−86,085	−101,316	−123,179	−138,478
Morocco	−64,881	−79,307	−84,305	−158,971
Tunisia	−16,805	−18,738	−23,266	−23,215
Egypt	−22,191	−29,252	−33,300	−51,734
South Africa	−24,395	−24,556	−27,845	−30,873
USA	+23,778	+35,541	+51,234	+35,539
Cyprus	−27,102	−17,140	−12,343	−5,000
Israel	−82,462	−90,718	−86,653	−21,883
Pakistan	−128,647	−110,162	−97,425	−96,147
India	−310,370	−26,591	−219,923	−250,128
Bangladesh	−219,132	−314,166	−189,682	−198,967
Sri Lanka	−163,855	−192,575	−205,288	−251,311
Thailand	−82,293	−84,394	−88,432	−102,261
Vietnam	−21,910	−28,420	−33,008	−36,995
Indonesia	−190,968	−226,044	−205,854	−224,571
Malaysia	−137,616	−134,130	−108,239	−116,920
Singapore	−26,067	−24,475	−49,705	−68,222
Philippines	−56,581	−34,390	−47,715	−51,000
China	−339,866	−405,733	−397,173	−442,230
South Korea	−34,579	−40,937	−76,047	−98,108
Japan	+118,953	+100,154	+84,833	+66,686
Taiwan	−64,861	−10,165	−76,983	−80,568
Hong Kong	−1,017,221	−1,064,218	−1,126,265	−1,254,872
Macau	−38,337	−59,510	−44,965	−32,215

Source: HM Customs & Excise, Tariff and Statistics Office, Overseas Trade Statistics, UK Trade with EC and the World (ex BMMA 20); 1999 figures for the EU are from OTS(2) and are provisional.

Notes: (1) 1999 data for countries within the EU is provisional.
(2) Data for the Netherlands is influenced by that country's role as a world trade centre.

Table 5.6 EU-UK trade balances (£ millions).

	1990	1996	1997	1998	1999
Manufacturing total	−9,930	−4,622	−4,622	−5,582	−6,362
All trade	−11,088	−4,073	−4,733	−6,250	−8,067
Apparel	−547	+383	+67	−498	−537

Sources: UK Overseas Trade Statistics (BM MA20) – various issues.
Now known as OTS (A) – see Table 5.1.

Table 5.7 Apparel trade balances with EU member states (£ millions).

Member State	1991	1997	1998	1999
France	+37,565	+136,430	+40,029	+23,700
Belgium/ Luxembourg	−4,011	−54,451	−114,431	−155,500
Netherlands	+3,652	−149,754	−324,167	−203,900
Germany	−75,954	+137,589	+42,919	−31,000
Italy	−193,045	−334,797	−416,245	−364,900
Irish Republic	+140,937	+295,626	+318,815	+339,000
Denmark	−9,178	+38,196	+17,907	+11,500
Greece	−34,757	−4,808	−9,855	−32,600
Portugal	−202,336	−224,514	−251,688	−222,200
Spain	+86,596	+118,032	+94,054	+83,200
Sweden	+95,540	+78,810	+62,498	+44,300
Finland	+5,464	+32,206	+23,493	+23,700
Austria	−30,121	−25,198	−43,401	−43,100

Sources: (1) 1991 data from Hollings Apparel Industry Review, Spring 1992, Table 39.
(2) 1997, data, BM MA20.
(3) 1999 data, OTS (2) December 1999.

Note: Trade statistics relating to the Netherlands may be influenced by that country's position as a major world trade centre.

Table 5.8 Growth of apparel exports – comparative performance (£m).

Year	Apparel	Manufacturers	All trade
1978	469	30,967	35,380
1990	1,154	90,230	103,735
1997	3,254	146,263	172,332
1998	2,988	143,263	164,845

Source: 1978, 1990 BM M10; 1997 BM MA20 – see Table 5.1.

over a long period) is quite respectable. In most time periods UK apparel exports have grown at roughly the same rate as all UK exports or all UK exports of manufactured goods; while in a number of time periods the performance of the sector has been superior to the average. Therefore, the negative trade balance should not be seen as a failure of the sector to perform in world export markets – the problem lies in the extremely rapid rate of

Table 5.9 Growth of apparel and footwear exports – comparative performance (£m).

Year	Apparel and footwear	Manufacturers	All trade
1980	938	34,811	47,357
1987	1,628	61,006	79,760
1990	1,973	84,172	103,691
1996	3,929	140,865	168,041
1998	3,530	143,263	164,845

Source: *Annual Abstract of Statistics* (various editions).

Table 5.10(a) Comparative export growth (%).

Period	Apparel	Manufacturers	All trade
1978–1990	+146	+191	+193
1978–1997	+594	+372	+387
1990–1998	+159	+59	+59

Source: Table 5.8.

Table 5.10(b) Comparative export growth (%) including footwear.

Period	Apparel*	Manufacturers	All trade
1980–1987	+74	+75	+68
1980–1996	+319	+305	+255
1987–1996	+141	+131	+111
1990–1998	+79	+70	+59

* includes footwear.
Source: Table 5.9.

growth of apparel imports. This reflects the enormous increase which has taken place in consumption expenditure over time (see Chapter 10). Abbott (1996, p. 1124) has shown that consumption expenditure is 'the main determinant of UK imports'.

Another measure of trade performance frequently utilised is the export:import ratio. According to Winterton (1996, p. 32) a close examination of the data for the UK reveals that the ratio 'has begun to recover from the low point in 1989'. The average ratio (for all apparel) fell from 0.50 in 1983 to 0.41 in 1988 and then rose to 0.45 in 1991. The data in Tables 5.1 and 5.2 indicates a ratio of 0.48 in 1997 and 0.36 in 1999. However, despite this respectable level of export performance the industry has not (Winterton, 1996, p. 33) 'managed to combat rising imports by increasing exports'.

C. Penetration ratios

The concept of import penetration is well established in the literature as an indicator of performance. It is defined as the percentage of the UK market taken by imports. It is now possible (using the PRODCOM system) to obtain data for home production, imports and exports on a consistent basis. It is, therefore, easy to obtain a figure for the net UK supply (production – exports and imports) and to express imports as a percentage of that figure. This calculation is presented for 1995, 1996 and 1997 in Table 5.11. The figures are in value terms. It can be seen that the import penetration ratio has risen steadily from 60% to nearly 66% over the three year period. In some sectors the figure is very much higher, e.g. in 1997 in men's underwear it reached 88%. It must be noted that this table is not strictly comparable with Tables 5.1 and 5.2, e.g. in the data source from which Table 5.1 was derived the figure for total 'clothing' imports for 1996 was £4 996 390 000 while in Table 5.11 it was £6 197 677 000. According to Winterton (1996, p. 27) the comparative figure for import penetration in 1983 was just under 30%.

Table 5.11 Import penetration 1995–1997 (value terms).

Category	Trade balances (£000)			Imports as % UK net supply		
	1995	1996	1997	1995	1996	1997
Workwear	−4,905	−17,666	−17,042	13.2	16.0	15.1
MO	−455,524	−514,200	−625,090	54.6	61.3	65.5
WO	−437,948	−554,800	−761,880	52.7	58.6	57.9
MU	−592,421	−784,300	−835,480	94.3	94.6	88.2
WU	−298,322	−373,500	−464,160	50.5	55.87	56.1
Hats	−9,462	−7,420	−17,699	54.5	64.3	68.9
Other apparel	−114,280	−143,700	−155,260	71.1	75.9	87.4
All	−1,910,884	−2,395,586	−2,876,611	60.0	65.3	65.8

Source: ONS (1998), PR Q9 UK Market Summary and Production Sales and Trade, HMSO, London.
Notes: MO = Men's outerwear.
MU = Men's underwear.
WO = Women's outerwear.
MU = Men's underwear.

Table 5.12 presents a final calculation of penetration ratios based on data for 1995 published by EMAP/MTI (1998/99). This chose to define 'clothing' as outerwear, underwear, workwear, foundation wear plus hosiery. It also utilised both volume and value data. It can be seen from the table that in value terms the results (with or without hosiery) are comparable with the ratios presented above, i.e. in the region of 65 per cent. However, if the data is reworked in volume terms (i.e. number of pieces) then the inclusion or exclusion of hosiery makes a very significant difference – penetration rises to a massive 80 per cent!

Table 5.12 Import penetration in value and volume terms (1995) – an alternative view.

(a) Value (£000)

	Apparent consumption	Imports	Penetration %
Outerwear	5,093,414	2,772,844	54.4
Underwear	1,608,944	1,260,597	78.3
Foundation wear	220,748	95,197	43.1
Hosiery	573,366	132,420	23.2
Total (a)	7,496,472	4,261,058	56.8
(b) Excluding hosiery	6,923,106	4,128,638	59.6

(b) Volume (000 pieces)

	Apparent consumption	Imports	Penetration %
Outerwear	732,241	496,763	67.8
Underwear	752,390	698,829	92.9
Foundation wear	59,886	43,031	71.9
Hosiery	865,685	290,632	33.6
Total (a)	7,496,472	1,529,255	63.5
(b) Excluding hosiery	6,923,106	1,238,623	80.2

Source: EMAP (1998/99), The UK Fashion Report (Appendix), EMAP, London.
Note: Hosiery is 8% of consumption by value but 36% by volume.

D. Main suppliers

Tables 5.13 and 5.14 list the main supplying countries for clothing entering the UK as imported products. This table does not contain many surprises, given the previous discussion of global shifts and the value of labour costs in Chapter 4. However, there are a number of important suppliers who would not normally be thought of as possessing an obvious cost advantage over the UK and these are shown in Table 5.14.

As Winterton (1997, p. 34) points out:

> 'Not all of the import penetration problem is created by competition from low-wage countries. For example, in 1991, Hong Kong had the largest share of UK imports and while labour costs are lower than in the UK, it was far from the cheapest of the Far East suppliers. When imports began to increase from the 1970s it is noticeable that the greatest increase was from the other EU member states and a significant volume of high quality garments continue to derive from within the EU.'

Table 5.13 The UK's leading low cost suppliers, 1996 to 1999 (£000): SITC Division 84.

Country	1996	1997	1998	1999
Turkey	242,610	291,647	340,790	424,694
Hong Kong	1,078,495	1,124,623	1,166,478	1,293,641
Malaysia	142,291	137,729	113,438	120,237
Pakistan	129,103	110,665	98,415	96,767
India	314,437	272,239	229,686	259,784
Bangladesh	219,385	314,437	196,010	199,335
China	341,412	408,862	402,571	447,444
Indonesia	193,542	230,329	207,516	225,784
Israel	101,821	110,457	98,904	112,066
Mauritius	104,450	131,300	123,043	122,196
Singapore	52,324	52,662	63,388	78,532
South Korea	62,753	74,741	83,008	112,537
Taiwan	73,514	113,294	86,089	88,038
Thailand	87,874	90,244	89,685	103,612
Sri Lanka	166,454	196,789	209,596	256,937
Morocco	157,635	207,403	232,059	287,699
Romania	92,086	114,096	147,838	176,235
Portugal	270,012	257,508	279,641	245,500
Total	3,830,198	4,239,025	4,168,155	4,651,038

Source: Business Monitor MA20 Overseas Trade Statistics with the World. HMSO, London, various issues. Now known as OTS(A).
Note: The above suppliers were responsible for 61.8 per cent of UK apparel imports in 1996; 62.1 per cent in 1997; 57.7 per cent in 1998 and 60.0 per cent in 1999.

Table 5.14 Other sources of UK apparel imports, 1996 to 1999 (£000): SITC Division 84.

Country	1996	1997	1998	1999
USA	113,750	129,952	113,333	108,920
Germany	290,455	308,889	373,448	400,400
Italy	426,408	451,988	520,326	442,400
France	187,578	216,659	268,109	265,200
Netherlands	178,510	295,872	445,422	304,400
Irish Republic	193,600	175,230	147,698	127,300
(Portugal)	(270,012)	(257,508)	(279,641)	(245,500)
Total	1,660,313	1,836,098	2,147,977	1,894,120
Total excluding Portugal	1,390,301	1,578,590	1,868,336	1,648,620

Source: Business Monitor MA20 Overseas Trade Statistics with the World. HMSO, London. Now known as OTS(A).
1999 data for European countries taken from OTS(2) Dec 1999.
Note: As percentage of total imports in 1996, 1997, 1998 and 1999 respectively, the above countries accounted for 26.8%, 26.9%, 29.7% and 24.5% with Portugal and 22.4%, 23.1%, 25.9% and 21.3% without Portugal.

E. Export markets and global reach

It has been noted above that the majority of UK clothing exports (direct exports from a UK base) go to the European countries – mainly to other EU members. This is, of course, in line with the normal pattern of developed country trade. However, as can be seen from Tables 5.15 and 5.16, the reliance upon EU markets is unusually high compared with the average figure for all UK manufactured exports. On the basis of these figures, the global credentials of the UK industry must be called into question. However, as will be argued below, it is possible that as the configuration of global production systems changes over time, the simple data on direct trade flows may become less reliable. In this case further analysis of UK outward investment flows in the apparel sector (Jones, 1998,b) tends to confirm rather than challenge the picture presented by the trade data. It can be seen, for example, in Tables 5.17 and 5.18 that the global involvement of the textiles and apparel sectors (data is not available for apparel alone) is not great and that it is, in most years, centred upon North America and/or Western Europe rather than the developing countries. The conclusion drawn was that (Jones, 1998,b, p. 245):

> 'the evidence from outward investment data seems on balance to indicate a limited global involvement; a true pattern of investment somewhat out of step with the overall trend and a geographic distribution of investment which exhibits a substantial variation from the "average" UK pattern'.

Table 5.15 The global reach of UK apparel exports (1996).

	% of total		
Exports to:	Division 84 (Clothing)	All manufacturers	All trade
EU	69.8	56.2	56.9
Other western Europe	4.5	4.7	4.4
Eastern Europe	3.2	2.7	2.8
North America	4.9	13.2	13.4
Asia and Oceania	9.2	13.8	12.9

Source: Jones, R.M. (1998), 'The Global Reach of the UK Clothing Industry', *Journal of Fashion Marketing & Management*, **2**, pp. 137–53.

F. UK apparel in the Eurozone

It has been demonstrated above that the EU market is extremely important to the UK apparel sector. In relation to the eleven members of the Eurozone some 58% of all UK clothing exports were destined (in 1998) for that region (Table 5.2). The Eurozone has a population of 290 million with a total GDP

Table 5.16 Growth of trade with selected regions 1992–1996 (% change).

Region	Division 84 (Clothing)	All manufacturers	All trade
EU	+64.5	−59.5	+56.9
Other Western Europe	−48.0	−9.3	−13.6
Eastern Europe	+166.8	+225.7	+175.2
North America	+44.4	+61.6	+60.6
Asia and Oceania	+103.5	+92.1	+85.8

Source: Jones, R.M. (1998), 'The Global Reach of the UK Clothing Industry', *Journal of Fashion Marketing and Management*, **2**, pp. 137–53.

Table 5.17 Textiles and clothing outward investments in £ millions and as a percentage of all UK outward investment.

	£ millions	%
1981	77.8	1.67
1982	9.8	0.46
1983	59.6	1.70
1984	127.4	2.19
1985	122.0	1.41
1986	650.6	5.51
1987	453.8	2.37
1988	400.9	1.92
1989	699.0	3.25
1990	99.8	0.99
1991	316.2	3.50
1992	73.1	0.72
1993	139.7	0.82

Source: Jones, R.M. (1998), 'The Global Reach of the UK Clothing Industry', *Journal of Fashion Marketing and Management*, **2**, pp. 240–57.

of $6000 billion and a per capita GDP of $20 000 based on 1997 figures published by Eurostat (Jones, 1999). Therefore, the issue of whether or not the UK joins the Eurozone by signing up to economic and monetary union could be of particular interest to the clothing sector over and above the general issues that membership of the EMU would pose for all businesses. If the euro is weak in relation to the pound while the UK is outside the Eurozone (as was the case in 1996–1999) then UK exports to that zone will become more expensive and, other things being equal, UK sales into the zone will fall (see Table 5.19). On these grounds and from the very narrow perspective of selling garments by direct export from the UK, being inside the Eurozone does therefore appear to be a desirable option in that it cannot make a lot of economic sense to be outside one's major market. The growth of negative

Table 5.18 UK textiles and clothing sectors net outward investment by area as percentages 1980–93.

Year	North America	Other developed countries	Western Europe	Rest of world	EC	Other Asia	Developing countries
1980	36.0	31.4	10.1	22.5	11.1	—	22.5
1981	41.5	30.7	0.4	27.4	−0.3	4.8	27.4
1982	45.9	−5.1	−69.4	128.6	−54.1	41.2	128.6
1983	52.7	−19.3	15.1	51.5	13.8	10.9	51.5
1984	44.6	7.5	22.9	25.0	17.7	0.6	25.0
1985	7.0	27.0	21.2	44.8	18.6	−2.8	44.8
1986	80.9	2.7	13.2	3.2	9.2	0.6	3.2
1987	44.2	−3.3	41.0	18.1	39.9	8.2	18.1
1988	85.2	−25.7	15.7	24.8	14.5	14.9	24.8
1989	75.6	2.6	16.3	5.5	15.4	2.4	5.5
1990	44.9	7.3	18.7	29.1	7.8	4.9	29.1
1991	80.6	−0.7	21.8	−1.7	1.2	−2.0	−1.7
1992	45.7	−2.9	81.1	23.9	73.0	7.4	24.2
1993	88.2	−3.2	−3.5	18.6	10.7	17.8	8.4

Source: Jones, R.M. (1998), 'The Global Reach of the UK Clothing Industry', *Journal of Fashion Marketing and Management*, **2**, pp. 240–57.

Table 5.19 Changes in apparel trade with the Eurozone 1996–1999.

Country	Imports	Exports
Irish Republic	−34.2	+3.1
Finland	+13.3	−27.3
Portugal	−9.1	−45.2
Spain	−15.6	−36.4
France	+41.4	−32.9
Italy	+3.8	−28.3
Germany	+37.9	−40.9
Austria	+14.6	−52.2
Bel/Lux	+57.8	−20.7
Netherlands	+70.5	−46.5
Eurozone	+18.9	−22.9

Source: R.M. Jones (2001). Too many oeufs in one basket? *Journal of Fashion Marketing and Management*, Vol 5.2, 93–98.

Note: Over the same period UK apparel exports to the rest of the world fell by 15 per cent. Imports in total rose by 25 per cent. Therefore, it is clear that factors other than the relative value of the pound were at work, e.g. the decline in UK production and the strength of UK demand.

balances can be seen from the data in Table 5.20, which largely confirms the theoretical expectations.

There can be virtually no doubt that membership of the Single European Market is a good thing for the apparel business. In the clothing sector a negative trade balance was turned into a positive one between the birth of the Single European Market and 1997 – provided that one believes the statistics and that we discount the possibility that the change in the way the statistics are drawn up which followed from the evolution of the Single European Market did not itself cause the transformation in the trade balance. Irrespective of that issue, the Single European Market is an extremely large market which is geographically very close to the UK and it is doubtful if anyone would really question the value of membership of the free trade area by itself now. In addition, it is likely that the cultural gap between the UK and other members of the EU is relatively smaller in its impact upon fashion than, say, that between the UK and other markets in Asia or Eastern Europe.

Table 5.20 UK apparel trade with the Eurozone 1996–1999: trade balances (£000).

	1996	1997	1998	1999
Irish Republic	+258,718	+295,626	+318,815	+339,000
Finland	+36,098	+32,206	+23,493	+27,700
Portugal	−277,493	−22,514	−251,688	−222,200
Spain	+138,384	+118,032	+94,054	+83,200
France	+212,130	+136,430	+40,029	+2,700
Italy	−318,345	−334,797	−416,245	−364,900
Germany	+165,084	+137,589	+42,919	−31,000
Austria	−8,663	−25,198	−43,401	−43,100
Bel/Lux	−31,634	−54,451	−114,431	−155,500
Netherlands	+9,490	−149,754	−324,167	−203,900
Total	+233,769	−68,831	−630,622	−548,800

Source: R.M. Jones (2001. Too many oeufs in one basket? *Journal of Fashion Marketing and Management*, Vol 5.2, 93–98.

Notes: (1) A positive figure indicates that exports from the UK exceed imports to the UK.

(2) The Eurozone took 58% of all UK apparel exports in 1998 as against 62.2% in 1996.

The problem is that just because membership of the Single European Market is perceived to be beneficial, it does not automatically follow that membership of economic and monetary union will be – and it is important to be clear that it is not membership of the single currency that is at stake; it is membership of EMU, of which the single currency is just one feature – albeit the feature which is receiving the greatest prominence in the UK. Unfortunately, when we move the focus of attention away from the narrow interest of UK garment exports and onto the wider implications, not of the single currency, but of EMU, the picture becomes very uncertain. There is no consensus on the impact of joining EMU on the overall health of the UK economy or on the UK consumer. It is clear that EMU has the potential to affect business policy in such areas as pricing transparency; interest rates; job creation; trade; economic growth; macroeconomic policy; regional development; savings and investment; taxation levels; pension provision; and the centralisation of financial reserves. The uncertainty lies in determining exactly how it will affect these areas of activity.

In the textile sector (widely defined) a large proportion of trade activity is conducted in US dollars. Therefore, one crucial question will be the relationship between the euro and US dollar. The final factor to be taken into account is that the UK clothing and textile sectors do not exist in a vacuum – they will be affected by the general impact of EMU membership on the UK economy as well as the narrow, specific issues mentioned at the outset – and it is in these areas of impact that the greatest uncertainty lies. What is not in question is that, as we move towards 2005, at which point tax harmonisation issues (such as VAT on children's clothing) and the removal of the final MFA quotas on sensitive items finally occur, EU issues will be increasingly important for the UK textile and apparel sectors.

G. Conclusions

What interpretation should be placed upon these statistics? The following observations seem to be justified:

(1) The negative balance and the rise in imports is to be expected given the discussion conducted in Chapter 3.
(2) The 'problem' of rising imports cannot totally be laid at the door of low cost producers – 31% of 1999 imports came from the EU.
(3) UK clothing exports demonstrate a remarkable bias towards the EU.
(4) Negative trade balances are to be seen in most trading areas and virtually all main garment categories.
(5) While it is true that some 18 low cost suppliers are responsible for over 60 per cent of UK clothing imports (Table 5.13) it must also be recognised that a range of suppliers who would not usually be thought of as possessing a cost advantage over the UK (rather the reverse) are also responsible for a significant proportion of UK clothing imports (20–27%), as was seen in Table 5.14.

These conclusions do, as it will be appreciated, depend upon the assumption that statistics of what might be called 'direct' trade (i.e. exports from a home base to a foreign market) do reflect the ability of one country to supply another with a product. There are, however, valid reasons for suspecting that the ability of the trade statistics to accurately represent this reality may be diminishing over time. As Singleton (1997) observes, 'the textile and apparel sector has many facets and these are constantly changing' and 'recent decades have witnessed an increase in the globalisation of the textile and apparel industries in so far as production units in several countries may co-operate in the production of a given item'.

Unfortunately, the form in which official trade statistics are organised does not change as quickly as do international production systems. The following situations are potentially important in assessing the relevance of the trade statistics which represent the physical transit of goods across national boundaries:

(1) If a UK garment manufacturer subcontracts production to a non-UK location and brings the goods back into the UK for sale these show up as imports despite the fact that they represent (potential) income to the UK company – but, as has been seen, rising imports are usually taken to indicate deteriorating performance.
(2) If these goods are then sold in Germany they show up simply as exports – there is no re-export data.
(3) If the same manufacturer supplies a customer in Germany directly from the offshore production location, the sales would not show up anywhere in the official UK statistics – despite the fact that it represents income to the UK-based company.
(4) The representation – as to country of origin – of imports into the UK is also somewhat more complicated than might initially be anticipated. If, by way of illustration, a German-based garment manufacturer utilised a non-German production location (e.g. Taiwan) and transported the goods back to Germany prior to exporting them (from Germany) to the UK, then these items would show up as arrivals (imports) from Germany in the UK statistics. If, however, the same goods were transported through Germany (to the UK) under EU Transit before release into free circulation in the UK, they would be recorded as an import (into the UK) from Taiwan!

Therefore, the seemingly straightforward issue of the country of origin of UK clothing imports is complicated by the existence of global sourcing. In addition, to equate imports with 'decline' or 'poor performance' on behalf of the domestic industry is wrong. Therefore, it becomes increasingly difficult to be sure that statements about the relative contribution of low cost sources to the overall negative trade balance and the implications of that negative balance are meaningful. Another way of approaching the issue might be to calculate the unit price of imports and exports – this might give further evidence of the role of low cost imports in the evolution of the trade deficit.

In conclusion, while it must be recognised that there are questions surrounding the meaningfulness or otherwise of direct trade statistics as indicators of the strength or weakness of any specific industry, there is no escaping the fact that while these statistics exist, they will be used in analysis and it is important, therefore, that students of the industry have as full and complete a picture of the trading situation as revealed in these figures as is possible. In addition, research by Makhoul (1998) has shown that trade data (in its own terms) is becoming more accurate, hence the inclusion of the data here.

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Chapter 6

The Concept of Globalisation

A. Introduction

The words 'global' and 'globalisation' have assumed some significance in previous chapters. The concept of global shift has been described in Chapter 3 while the seeming lack of global export credentials displayed by the UK-based apparel manufacturing sector has been highlighted in Chapter 5. The idea that industry has become 'globalised' has received enormous attention both in academic circles and the popular press. In the words of Usunier (1993, p. 169) 'globalisation is a single word which has achieved great success'.

Unfortunately the words are frequently used in a variety of ways, often simply appearing to describe increased interconnectedness between nations or the fact that companies have customers or operatives in more than one country. Jay (2000, p. 130) in his survey of the history of economic growth observes that interconnectedness between nations can be traced back to the period between 1450 and 1750 when 'a fundamental shift began which eventually brought almost all areas of the world into a single network of continuous and transforming economic exchange' and confirms that, in the late eighteenth and early nineteenth centuries, the cotton textile industry was in the vanguard of the surge of tradable goods which followed the industrial revolution. As Dickerson (1995, p. 4) points out, the textile and apparel industries have been recognised as among the most dispersed of all industries. However, dispersion does not necessarily equate to globalisation, which refers to a rather special way of operating. As Douglas (1987, p. 19) pointed out:

> 'globalisation has become a key theme in every discussion of international marketing strategy. Proponents of the philosophy of "global" products ... argue that in a world of growing internationalisation, the key to success is the development of global products and bands ... a focus on the marketing of standardised products and brands world-wide'.

Jay (2000) confirms that the globalisation in the twentieth century which was caused by falling barriers to trade, investment and multinational operations and drawn by technological and informational revolutions, was a unique event.

The issue of globalisation can be tackled at a variety of levels, for example:

(1) at a conceptual level – what does globalisation really mean?
(2) at a strategic level – will only truly global companies (however defined) succeed in the future? The two main authors who have advocated the benefits of global strategies have been Ohmae (1994) and Porter (1998).
(3) at a purely marketing level – has consumption been homogenised so that standard products can be sold everywhere, ignoring the role of national culture in determining demand? The main advocate of the globalised market has been Levitt (1983).
(4) at an operational level – is it necessary for business practice to take account of cultural factors?

The first two issues will be considered in this chapter while issue three will be dealt with in Chapter 11 and the final issue in Chapter 8.

B. What is globalisation?

It will be useful at the outset to acknowledge that there is little argument that the degree of interconnectedness between nations and the extent of international operations conducted by businesses have both increased over time. The World Trade Organisation, WTO, for example (1998), records that trade growth has outstripped economic growth for 'at least 250 years except for a brief period from 1913 to 1950'; that foreign investment has risen by a factor of 17 between 1973 and 1996 and that trade by sea has risen by a factor of 10 between 1948 and 1993 while the unit costs of such transport have fallen by 70 per cent over the last 10 years.

Usunier (1993, p. 177) although an opponent of the globalisation thesis, accepts that there 'is little doubt about the globalisation of competition' and that 'linkage between countries and therefore competition between companies continues to grow'. Competition is becoming more global or at least intra-country activity is increasing whether it be measured by trade flows, investment flows or people flows. The problem is that although the word globalisation can be used as a simile for internationalisation, it is also used by a variety of authors in a very much more specialised and unique way so that while, from one point of view, it would be perfectly feasible for internationalisation to proceed without globalisation, from another it would not.

The volume of world trade has risen sharply over the last 50 years both in general terms and, specifically, in textile and clothing, as was seen in Chapter 3. Parker (1998, p. 466) refers to a number of 'measures of globalisation' such as the percentage of a firm's sales derived overseas or the percentage of industry revenues derived from trade and provides data to illustrate that globalisation measured in these terms has increased over time. Parker (1998, p. 6) also stresses inter-connectedness by defining globalisation 'as increased permeability of traditional boundaries' between nations.

There is little doubt that competition has globalised in this sense of the word. It is, of course, open to debate as to whether or not the result of this expansion and liberalisation of trade has been wholly beneficial. The generally accepted model of the world trade system is that on a global scale and over the long run a system of unrestricted trade produces the best results (see Chapter 9).

There is, on the other hand, a distinct possibility that, in the short run, and considering the viewpoint of small groups, negative effects of trade can be identified. In addition, it will always be possible to argue that the benefits of trade are not correctly distributed. According to the WTO (1998, p. 48) most research suggests that, in the case of developed economies experiencing problems of adjustment to changed trading situations 'factors other than trade explain most of the growing wage dispersion and unemployment in the USA and Western Europe'.

In the case of the developing countries, it was concluded that (WTO, 1998, p. 55) 'empirical studies do not provide support for the claim that trade undermines labour standards'. In Chapter 9, therefore, when the issue of trade restrictions in the textile and apparel sector is confronted it will be accepted that liberalised trade is superior to restricted trade.

A variety of terms are used in the literature to reflect the increased involvement of businesses in the international market place, e.g. multinational enterprise (MNE); international companies; transnational businesses and global companies. The latter term (and the associated concepts of the globalisation of a sector and global strategy) have come to refer to a rather special sort of player in world markets and to the emergence of a company with very special characteristics which have developed during a distinct process of evolution.

In order to avoid confusion it is useful to have a very clear idea of exactly what is meant by globalisation in this restricted sense, in particular because the process of becoming truly global implies significant changes in behaviour. In one sense it clearly does not matter what label is put upon an organisation as long as it is successful in gaining market share and generating profits – and this is really the point because some commentators argue that only truly global operators will survive in the future. As Levitt (1983, p. 92) expresses it, although:

> 'the globalisation forces are inexorable, they do not impact each market in the same way. So while a global strategy is not ... on every agenda, the consequences of globalisation must be faced ... The challenge will be to find the right balance between thinking globally while acting locally'.

It can be recognised immediately that definitions which run in terms of mere dispersion of activities do not lead very effectively towards a definition of globalisation. Kefalas (1990) defines a multinational enterprise (MNE), for example, as a company which 'owns and manages businesses in two or more countries'. The proponents of globalisation make it clear that, in their view, an MNE is not a global company. Levitt (1983, p. 92) argued that:

> 'the multinational operates in a number of countries and adjusts its products and practices in each at high cost. The global company operates with resolute constancy at low relative cost – as if the entire world were a single entity because the world's needs and desires have been homogenised. This makes the multinational corporation obsolete and the global corporation absolute'.

A global company is identified by a range of features but two key benefits are those of the co-ordination and integration of activities across national boundaries which, it is argued, are becoming less and less meaningful over time. Parker (1998, p. 6) defines globalisation as 'the increased permeability of traditional boundaries' or 'the absence of borders and barriers between nations'. Usunier (1993, p. 195) describes a global strategy as one in which there is 'the configuration and co-ordination of activities ... across national markets'. In this way a definition emerges which places less emphasis on physical presence in foreign countries and more emphasis on the way in which these markets are perceived and the way in which the company is organised to supply those markets. In the WTO's words (1998, p. 33) globalisation 'is a multi-faceted concept in so far as it describes both economic phenomena and their social, political and distributional consequences'.

Ohmae (1994) identifies five stages through which a company must move in order to become truly global. Two themes central to the evolutionary process described are that customers with similar levels of income and information will become very similar in their spending habits and that customers no longer care about the nationality of companies or where products are made.

The five stages are as follows:

(1) The export stage, in which all decisions are taken in the home base.
(2) The multi-local stage, in which branch offices are set up to take over responsibility for the marketing and sales functions.
(3) The relocation stage, in which the manufacturing base is relocated to the major markets. This requires a long term commitment and the development of local people who can be allowed to make decisions without constant reference to headquarters.
(4) The complete insideration stage, in which activities such as research and product development are transferred to other countries.
(5) The truly global stage – at which final stage a number of key functions are

pulled back to the centre, e.g. global branding. This is necessary to ensure that there is a common sense of corporate purpose and identity, and a common technology and operating philosophy must be adhered to.

A company would move from one stage to another if by so doing it would serve the customer more efficiently. Ohmae's contention is that increasingly it will become essential to move through the five stages. A company might, for example, move to stage three to overcome trade barriers or adverse currency fluctuations or because production in or near key markets is more cost effective. A firm that has globalised to stage five would be rather special and would have all (or most) of the following features which can be distilled from the writings of the authors associated with the concept:

- It would make anywhere.
- It would sell everywhere.
- It would sell a homogeneous product and only move from this in extreme situations.
- It would be nationality-less.
- Its top management would be multicultural.
- It would cross subsidise activities as between countries.
- It would see the main goal as being to maximise total returns by serving the customer best by whatever means was appropriate so that activities in all countries are integrated to this end.
- It would give a lot of freedom to the managers of operations away from head office.

The focus of the discussion up to this stage has been the 'company'. However, the term 'globalisation' is also often applied to the forces acting upon an entire sector or industry. Globalisation is seen as a process in which the entire world (for the supply of the products of the industry) comes to be regarded as one giant market. Regional or national variations in tastes can safely be ignored. This need not be taken to extremes in the sense that the existence of some variations are not admitted. Even Levitt (1983, p. 97), for example, concedes that we should not:

> 'advocate the systematic disregard of local or national differences, but a company's sensitivity to such differences does not require that it ignore the possibilities of doing things differently . . .'

The main focus of Levitt's (1983, p. 92) argument is that consumers everywhere want the same products so that the world is being driven towards 'a converging commonality . . . gone are the accustomed differences in national or regional products'. The term ethnocentric is sometimes used (Daniels, 1998) to describe a policy which assumes that what works at home will work everywhere so that differences between national markets can be safely ignored. A policy which focuses on the unique national differences between markets and, accordingly, seeks to produce unique products for each market is sometimes described as polycentric (Daniels, 1998, p. 103). This issue will be considered in greater depth in Chapter 11.

The driving force which is supposed to have produced this convergence of tastes is technology, which is seen as having had a number of effects, namely:

(1) On communications – which according to Levitt (1983, p. 92) 'proletarises communications, transport and travel. It has made isolated places and impoverished people eager for modernity's allurements. Almost everyone, everywhere, wants all the things they have heard about, seen, or experienced via the new technologies'.
(2) On technology in the sense of a more capital intensive process linked to economies of scale resulting in (Levitt, 1983, p. 92) 'the emergence of global markets for standardised products on a previously unimagined scale of magnitude. Corporations geared to this new reality benefit from enormous economies of scale'.
(3) On technology in the sense that it enables the consumer to solve old problems in new ways – providing what people want out of life and making it easier to alleviate life's burdens at the lowest cost.

It has to be recognised that there is very little evidence – other than selected examples – to support this assertion. In the view of Douglas (1987, p. 21) what evidence there is 'suggests that the similarities in customer behaviour are restricted to a relatively limited number of target segments or product markets'. It is, therefore, important that the applicability of these ideas to the apparel sector is considered in some detail. It will be useful to make a basic distinction between 'culture free' and 'culture bound' products. The latter are products the demand for which is still affected by cultural influences so that global product standardisation will be relatively less feasible. Culture free products are those which are equally acceptable across cultural boundaries – they represent the demand for cultural universalities. The majority of examples of the latter quoted in the literature are high technological products such as mobile phones, the Sony Walkman, medicinal drugs and communication products.

This view of the world has not gone unchallenged and contrary to the impression promoted by the advocates of globalisation, there is a substantial body of research evidence on a wide variety of issues related to the impact of cultural forces upon consumer demand. It is clear, therefore, that a dispersed industry is not the same thing as a globalised one because all the activity in a dispersed sector could be carried on entirely independently of all other activity. A globalised strategy or sector must be characterised by the presence of an integrated approach to supplying customers.

As Porter (1998, p. 54) says, the fact of being 'multinational does not imply a global strategy if the multinational has free standing subsidiaries which operate (more or less) independently in each nation'.

The term globalisation is best reserved for application to an industry for whose products the world is becoming a homogeneous market place and in which it is probable that only those companies which adopt a globally integrated approach to supplying the market will survive.

In the words of Stopford (1995), while

> 'there is no single force pushing for globalisation ... a combination of technological developments (e.g. the micro-electronics revolution), cultural evolution (the homogenisation of tastes) and the breaking down of geographic and intra-industry barriers ... means that the international business environment is being irrevocably changed'.

In such industries it is becoming increasingly true that globalisation as a strategy will be more appropriate.

A global strategy, therefore, represents a specific approach to international business. Porter (1998, p. 54), for example, defines global strategy by stating that firms

> 'compete with truly global strategies involving selling worldwide, sourcing components and materials worldwide and locating activities in many nations to take advantage of low cost factors'.

Furthermore, and this is a crucial point, the acceptance of a global strategy introduces an integrated approach to selling in world markets, recognising that performance in one market can influence ability to compete elsewhere.

A global strategy will be selected by a company if it is recognised that such an approach will enhance its competitive ability.

Porter (1998, p. 578) argues that the probability that this will become an imperative is increasing because:

> 'a firm cannot rely on its national circumstances to sustain its competitive advantage. A firm must select wisely, add to its advantages or offset its home base of disadvantages through activities in other nations. This is what a global strategy is about'.

If the industry is one in which the pressures of globalisation are extremely powerful, then it would be the case that adopting a global strategy is almost essential to success:

> 'A firm's competitive position in one nation significantly affects (and is affected by) its position in other nations. Rivals compete against each other on a truly worldwide basis, drawing on competitive advantages that grow out of the entire network of worldwide activities.'

In such an industry, firms who wish to succeed

> 'are compelled to compete internationally, in order to achieve or sustain competitive advantage in the most important segments. There may be segments in such industries which are domestic because of unique national needs, in which purely domestic firms can prosper'

but these will be the exception. The key factors in the existence of a truly global strategy are the existence of sales and production in all or most of the major markets and an integrated approach to the generation of competitive advantage. A global strategy is one in which competitive advantage is sought through stategies which are interdependent across national boundaries. Activities are co-ordinated and allocated to specific localities (which Porter calls configuration) with the aim of maximising the competitive advantage of the totality of the operation. Additionally, scale economies in the supply to world markets of a (more or less) homogenous product which must be introduced in all major markets simultaneously plays a vital role.

A number of commentators argue that more and more industries are becoming global in character and that in these sectors, only companies operating global strategies will succeed. There are many differences between competing domestically and competing globally in that a whole new range of issues become important, such as quotas and exchange rate fluctuations. The main issue to be faced by companies is the possibility of gaining competitive advantage through competing globally. The advantages of a global operation (as compared to a purely domestic one) would include economies of scale; access to bigger markets; the spreading of risks; utilisation of optimum locations; early exposure to best practice; exploitation of Government assistance and the ability to cross subsidise operations in different locations and to minimise tax payments by exploiting variations in tax regimes between countries.

Alternatively, will the company be threatened by other companies which are operating a global strategy? Therefore, it is important to understand the triggers to the globalisation of a sector, the sources of global advantage and the impediments to globalisation which might allow non-global strategies to be successful. It is important not to assume that global strategies are always appropriate and have been found to be most suitable, desirable or possible. In general terms, global strategies are always appropriate when the following conditions apply:

(1) It is feasible to standardise the product.
(2) Standardisation results in significant economies of scale being realised.
(3) Costs can be reduced and efficiency increased by locating different stages of the operation in different places.

(4) Cross-subsidisation of activities between global markets is useful.
(5) Operations need to be located in specific places to by-pass trade barriers.
(6) Competitors are emerging with global strategies.

Triggers to the globalisation of a sector include the following:

(1) Convergence of tastes.
(2) Reductions in transport costs.
(3) Improvements in communications.
(4) Reduced government impediments.
(5) Technological changes leading to increased scale economies.
(6) Changes in the costs of factors of production.
(7) The emergence or recognition of common segments in many countries.
(8) Reductions in the cost of making product adaptations to national tastes.

On the other side of the coin are the impediments to globalisation which would include the following factors:

(1) Heavy transport or storage costs.
(2) Local product variation.
(3) Lack of world-wide demand.
(4) Local service important.
(5) Government barriers which cannot be by-passed.

C. The application of the concept of globalisation to the apparel industry

These factors will not impinge on all sectors with equal force or to a common time scale and this is why it cannot be said that a global strategy is the optimum in all sectors at all times. The supporters of the 'globalisation' thesis would argue that the triggers are applying more universally, while the impediments are generally falling. It could be argued, therefore, that global strategies will increasingly play a part in the consideration of strategic options and the development of Sustainable Competitive Advantage. In an increasingly competitive world marketplace for apparel, all companies will have to recognise what the basis of their competitive advantage is to be. There will be a long list of these from lowest cost to highest quality, as will be seen in Chapter 7.

Globalisation itself might be seen as a means to competitive advantage because it would lead to lower costs, the ability to reap economies of scale and to cross-subsidise activities between markets. As has been seen, globalisation in the special sense in which it is used here is not the same as mere dispersion of activity, nor is the use of global sourcing by itself an indicator of the presence of global companies. There can be little dispute about the increasingly dispersed nature of apparel production, nor about the increased use of outsourcing. There is, however, more doubt about the incidence of globalisation in the apparel sector and of its appropriateness as a winning strategy.

It has been seen that the original works on the globalisation process stressed the influence of technology and the convergence of tastes between countries as promoting globalisation. A close reading of these works suggests that the influence of technology in the process can be subdivided into three areas:

(1) Improved communications.
(2) Economies of scale – which both demand and encourage a global approach.
(3) The discovery of technologically new ways of satisfying old wants.

The first of these is common to all products, so that in practice three factors can be identified which are held to be pushing companies and industries inexorably down the path to globalisation, namely factors two and three from the above list, plus the alleged convergence of tastes. In brief, it is being argued that the pressure to globalisation will be greater if:

(1) there are extensive scale economies;
(2) there is a new solution to an old consumer desire;
(3) consumer tastes have converged.

In the literature, the vast majority of examples given of products/markets which have been globalised are what can be called 'high tech' products, most of them in the electronics sector.

It is true that Levitt (1983) does argue that globalisation is not confined to such products and quotes the examples of Coca Cola and Levi's in support of this point. Baden-Fuller (1991) also considers this issue when cautioning against taking arguments about globalisation of tastes too far when arguing that it is less clear that 'market-driven companies have as great a sense of urgency to expand globally as technologically driven ones'. Also, as has been seen in Chapter 4, Ohmae (1985) stresses the role of capitalisation in the development of the globalisation process, noting that the labour content of many operations has fallen from 25% to between 5% and 10% of total costs. This is not true in apparel manufacture.

Ohmae (1985) also places great emphasis upon the idea that industry has typically become a 'fixed cost' world. Therefore, the emphasis switches from boosting profits by finding ways to reduce marginal costs to maximising the marginal contribution towards fixed costs by increasing sales volume – which in turn implies a wide (global) market base.

In the case of the apparel industry it is normally accepted that economies of scale are relatively less important than in other sectors, and that capitalisation is still relatively low. It might also be argued (although this might be less widely accepted) that few apparel products represent new ways of doing things in a technical sense (this may be less true in textiles) unless you consider a new fashion to meet this point, and that cultural and national differences in dress are probably more entrenched than in other products.

Finally, while some of the authors in this area argue that global companies will almost by definition be relatively large (if only because of the resources required and the sophisticated management systems needed to run them) the apparel industry is well documented as a small firm sector. Therefore, it seems logical to conclude that in the apparel sector the imperative to adopt global as opposed to non-global strategies will also be relatively less strong. Jeans and trainers may be the exception to this point, because in the latter, there is an element of technological progress and both represent homogenised tastes. These ideas can be represented pictorially in a three dimensional graph which is based upon Table 6.1 below and reproduced as Fig. 6.1. The y-axis represents the importance of scale economies; the x-axis represents the degree of con-

Table 6.1 Globalisation by product.

	AXIS		
Product	X	Y	Z
A	8	7	9
B	8	4	6
C	3	3	3

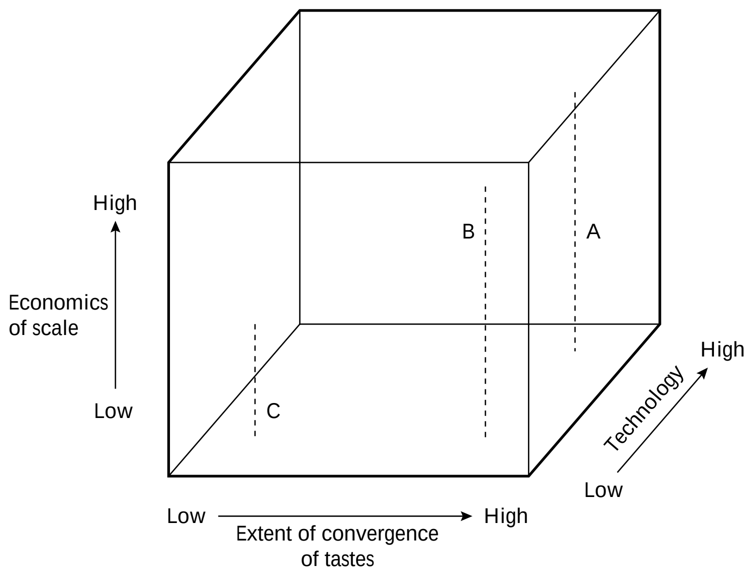

Fig. 6.1 The globalisation of markets.

vergence of tastes while the z-axis measures technological sophistication – all measured on a scale of 1 to 10.

Product A might represent an electronic product which is truly global, while Product C represents the other end of the scale, i.e. a product which does not reap scale economies, has a low technological content and for which a common worldwide taste has not evolved. Product B is in a midway position in that tastes are homogenous to a degree, so that scale factors can progress and content, e.g. trainers with air bags. The question is, to what extent is most of the clothing sector nearer to B than to C in this model? A good recent example of a product with many global characteristics would be the Ford motor car, the Mondeo. Many of the so-called high level design and development functions in its development were carried out outside the home base of the parent company, production of various component parts is widely dispersed and the car was to be sold with few modifications in all major markets.

Economies of scale are vital to success and the success of the car in any of the major markets will have a significant impact on the fortunes of rival producers. Can examples of this sort be easily found in the apparel sector? If they cannot, it does not follow that apparel manufacturers are behaving illogically by not following the global model, because there is no single strategy which will be appropriate or optimal for all sectors at all times.

Unfortunately, economics and management science go through fashion trends no less frequently than garments and 'globalisation' as a strategy is 'in' at the moment – even when the word 'dispersed' might be more appropriate. Ghoshal and Nohira (1993) distinguish between two sets of environmental forces:

- Forces promoting global integration and forces.
- Forces producing a demand for national (local) responsiveness.

They then identify four types of trading environments which emerge as a result of the variable operating strengths of these two forces:

(1) A global environment in which the first force is strong and the second weak.
(2) A multinational environment in which the reverse is the case.
(3) A transnational environment in which both forces are strong.
(4) A placid international environment in which both forces are weak.

As a result of this analysis, the authors place textiles in the 'weak-weak' category. In terms of our analysis, we are suggesting that clothing production might fall into the category in which the forces promoting global integration may be relatively weak while those promoting local product diversity might be relatively strong.

In the rest of the paper, the authors identify a variety of organisational structures for the running of the companies which will be appropriate to each environment and consider whether or not those companies with a good match outperform those with a mismatch. The conclusion drawn was that 'companies require different organisational horses to manage superior performance in different environmental courses'.

Therefore, while it is possible to point to the advance of forces encouraging globalisation and the alleged retreat of those discouraging global development, it is not possible to point to any generally accepted body of evidence which demonstrates the unchallenged superiority of global strategies at all times in all sectors. For example, a paper by Baden-Fuller (1991) shows how changed economic conditions reduced the value of global strategies (which had previously been seen as crucial to success) in the European domestic appliance industry.

Critical in these changes were factors which have been highlighted above as of importance in the apparel industry, such as increased demand for unique national tastes expressed in words which could be applied to the clothing industry:

> 'The causes of such national differences are hard to determine. They seem deeply ingrained in cultural behaviour.'

The return on capital of global companies in this sector fell significantly from 1974 to 1985 to levels well below those returned by national producers. The authors concluded that while it was clear that 'early success of the Italian major appliance industry was based on a European strategy that exploited the international decision of labour', the market has since then fragmented and purely national strategies have regained their potency.

Another study by Mitchell (1992) concluded that both increasing and decreasing international presence are risky strategies. Yet a third recent study by Carr (1993), while accepting the findings of Baden-Fuller that national rather than global strategies may yet prove superior, points out that there are (at least) two other routes to international success, such as emphasis on technological superiority or customer service.

It would be prudent at this stage to be clear that, given the emphasis on the role of strategy, there is no body of research evidence which would support the argument that only companies which use the tools of strategic analysis always, at all times, in all places and sectors outperform those which do not act in such way.

Powell (1992) argues that the employment of strategic planning techniques may not in itself be the basis for sustainable competitive advantage as it is easily copied. It is fortuitous that one of the sectors examined was clothing and the conclusion drawn was that

> 'in the apparel industry, some findings reflect the fact that in addition to ongoing market instability (resulting primarily from its fashion orientation), this industry recently endured the competitive instability of intensified foreign competition'.

In view of the consequences for competition of the dismantling of the Multi Fibre Agreement described in Chapter 9, the present emphasis on strategy is probably justified.

In summary, therefore, at the conceptual level there are a number of intertwined strands of thought. Porter (1998) has developed ideas about the selection of 'winning' strategies based on the identification of Sustainable Competitive Advantage. In some instances this winning strategy will be global; furthermore, it is likely that (in his view) there will be specific locations which favour winning strategies (the Porter Diamond) which means that activities must be dispersed and arranged on a global scale.

Levitt (1983) is more concerned with the convergence of tastes and the impact this has on the product adaptation strategy. Usunier (1993, p. 169) recognises the value of this perspective in accepting that globalisation 'means homogenisation on a worldwide scale' but contends that while globalisation strategies exist, global marketing does not. This issue will be considered in more detail in Chapter 11.

Ohmae is also concerned with identifying a broad strategic concept which leads to the adoption of winning position. A key element in his model is that of the stateless company and a world in which the consumer cares little for the origins of products.

However, he does not go as far as Levitt on the issue of homogenisation of consumer tastes, being satisfied to argue that it should be possible to develop a core model for the most important markets which could then – if this is absolutely necessary – be modified for the markets. There are, of course, common elements in the writings of the globalists: the emphasis placed on the diffusion of consumer information by new technology; the need to be customer-driven; the need to co-ordinate global activities so as to maximise benefit to the consumer, and the need to be willing to operate anywhere free of any ties to historical bases. The most important consideration is for each company to draw selectively upon these concepts in an appropriate manner given their own product, market and customer orientation. The aim of business is to win customers, gain market share and to make money while serving the customer better than rivals. In some cases this may require the adoption of a truly global strategy while in others it may not.

In conclusion, therefore, it can be stated that there is little doubt that globalisation in the sense of an increased degree of interconnectedness between nations has taken place. It is far less obvious, however, that this means that only truly global companies and strategies will be appropriate in all sectors or that all markets have been globalised in the sense of becoming virtually culture-free. The evidence for the latter is far less clear cut than that for the former trend. These are not merely academic issues because the attitude taken to such practical matters as product standardisation, the homogenisation of advertising and promotional material and the types of managerial skills recruited will depend upon the attitude a company takes to these issues of globalisation.

The UK apparel industry does not adopt a global approach to selling its product since 67% of exports are taken by one trading block (as shown in Table 5.2). Neither, until recently, has it particularly adopted a policy of utilising low cost centres on a global scale – although there are strong indications now that the latter stance is rapidly changing.

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