

## Chapter 11

# *Emerging Markets and the Globalisation of the UK Apparel Industry*

### ***A. Introduction***

It will be recalled (Table 5.2) that the vast majority of UK apparel exports go to other member states of the EU. Jones (1998, p. 252) studied the global reach of the UK apparel industry and concluded that in 'terms of direct exports from the UK the clothing industry's global credentials are very poor' and that there was little sign of this view being altered by investment flows which were also quite restricted geographically. The extent to which it is felt that over-concentration upon a particular market is a weakness depends upon whether or not those markets are fast growing and large.

The proportion of apparel produced in the UK which is exported is around 40%. Two-thirds of these exports go to the EU, i.e. roughly 26% of UK apparel production. Sixty per cent of apparel produced in the UK must by definition stay in the domestic market. Therefore, some 80% of apparel produced in the UK depends for a market on consumers in the EU (including UK). The industry is, therefore, heavily reliant on custom from the old, established economies in Europe. In the recent past these economies have been relatively slow growing (Walwyn, 1997). In addition it is generally accepted that apparel markets in the developed world are saturated relative to those in the less developed countries. The demand for apparel also tends to be income-inelastic (see Chapter 10). The share of total consumer expenditure devoted to apparel purchases has tended to fall over time in the richer, developed countries (Dickerson, 1995, p. 209) although this was not true of the USA between 1973-1992. Finally, demographic changes in the developed world – in particular the ageing of the population – tend to be potentially unfavourable to the evolution of apparel markets. Therefore, the fact that the UK apparel industry does not currently display a particularly impressive pattern of connections either via exports or outward investment

with non-European markets elevates the issue of the future role of new markets to one of some interest.

This seeming lack of global credentials appears strange when contrasted both with the historical role of the textile sector as one of the first manufacturing sectors to achieve a wide spread of geographic activity and with the current dispersion of apparel manufacture across the globe. A partial explanation for this apparent paradox lies in the extremely casual way in which the word 'globalisation' is used. Sometimes, for example, it is used to indicate dispersed activity; sometimes it is virtually equated with free trade; and at other times it is used by a specific group of authors in a rather specialised way as clarified in Chapter 6. It will be the aim of this chapter to consider the role of newly emerging markets for apparel in the future.

## ***B. Emerging markets***

Global patterns of consumption were reviewed in Chapter 3. The aim of this section is to consider future markets for apparel. In this context emerging markets can be defined as countries in which, due to anticipated increases in income, a substantially enlarged market for apparel can be expected to appear in the future. They tend to be of two types: former planned economies making the transition to market economies in which frustrated consumption is being released and the countries of the Pacific Rim which have experienced very rapid growth in the recent past and in which a substantial number of affluent consumers are emerging.

In a recent paper Zhang (1997) has studied apparel trade flows *from* the developed countries *into* the developing countries (which he entitles 'counter-trade'). He pointed out that some of the developing markets for clothing are quite large in that (in 1992) there were 11 developing countries which imported in excess of \$100 million worth of clothing from the developed countries. In his words 'these represent a substantial market for apparel producers in the developed countries to pay attention to'. There is a remarkably wide variation in the size of these markets as indicated by per capita imports, e.g. from \$79 in Kuwait to \$0.01 in India. Zhang used a multiple regression model to attempt to identify the factors which determine these trade flows. His conclusion was that (1997, p. 238) 'only per capita GNP has a significant impact on apparel imports and the impact is positive . . . None of the market condition variables, however, is significant. Remarkably, the index of market barriers is insignificant'. He also concluded that imports into the developing countries were income-elastic and that distance did not seem to be an issue.

In Chapters 10 and 3 the established link between the demand for apparel and levels of income was demonstrated. The present author has (Jones, 1994)

utilised this association to highlight the growth of potential future apparel markets. The results of this research are summarised in Tables 11.1 and 11.2. The figures are based on forecasts of income levels up to the year 2013 and expressed as a proportion of the figure for the USA. Table 11.1 is based on calculations of income per head (taking into account forecasted population growth) while Table 11.2 is based on forecasts of total national income. It can be seen that the choice of income indicator substantially influences the result, e.g. the small group of NIC countries appears very attractive in terms of income per head but not so interesting in terms of national income while the position of China is the reverse.

**Table 11.1** Income per head as percentage of USA in 2013.

Japan	91
NAFTA	84
EEC (12)	67
EEC <sup>1</sup>	67
EEC <sup>2</sup>	65
Pacific Rim <sup>3</sup>	44
NEC <sup>4</sup>	20
NIC <sup>5</sup>	112
E. Europe	32
Asia	21
Africa	9
Ex-USSR	43
China	24
Brazil	54

*Source:* Jones, R.M. (1994) The Identification of New Markets. *Journal of Clothing Technology and Management*, **11**, pp. 111–131.

*Key:* (1) EEC and Sweden, Finland, Norway, Austria, Switzerland.  
 (2) The above plus Turkey.  
 (3) Hong Kong, Singapore, Malaysia, South Korea, Taiwan, Indonesia, Thailand and the Philippines.  
 (4) China, Indonesia, Thailand, Malaysia, India and Pakistan.  
 (5) South Korea, Taiwan, Hong Kong and Singapore.

As with all marketing statistics careful interpretation is required so that, for example, a company selling an expensive, niche product might find Table 11.1 more useful while a company selling a basic product might utilise Table 11.2. As recent experience in South East Asia and South America has demonstrated, long-term forecasts of income growth can be rapidly rendered obsolete by events but, nevertheless, as Dicken (1998, p. 39) points out

**Table 11.2** Income as percentage of USA in 2013.

Japan	41
India	46
China	116
Ex USSR	54
NAFTA	129
EEC (12)	85
EEC <sup>1</sup>	93
EEC <sup>2</sup>	108
Pacific Rim <sup>3</sup>	85
NEC <sup>4</sup>	219
NIC <sup>5</sup>	33
E. Europe	14
All Asia	260
Brazil	38

Source: As Table 11.1.

Key: As Table 11.1.

‘we should not forget the other side of the import penetration coin. The East and South East Asian NIEs [new industrialised economies] are not just export generators. They are increasingly important as markets for imports. In fact they make up one of the fastest growing markets in the world. In 1984 the East and South East Asian NIEs constituted less than 10% of the world market; in 1994 this had increased to 17%. In comparison, the combined market size of North America, the European Union and Japan fell from 52% to 47%. Hence, we must lose the habit of seeing East and South East Asian NIEs as merely the generators of cheap exports. Not only are the first tier NIEs producing increasingly sophisticated goods but also they and their neighbours are now major global markets’.

Emerging markets represent a considerable and expanding volume of business – both for apparel manufacturers and retailers. They are attractive by virtue of their size and because, in most cases, they represent unsaturated markets. Garten (1996) identified as Big Emerging Markets the so-called Chinese Economic Area (China, Hong Kong, Taiwan, South Korea); Indonesia and India; South Africa; Poland and Turkey and, in Latin America, Mexico, Argentina and Brazil.

It is important to recognise – before a commitment is made either to invest in a structure to supply these markets or to plan a diversion of marketing effort towards them – that very substantial problems can be encountered in new and emerging markets. As Zhang (1997, p. 236) observed, care needs to be exercised ‘as the market is relatively unstable’. In addition, the market can be very slow to develop; business infrastructures are often severely underdeveloped; rates of

inflation are frequently high and domestic currencies weak; and crime rates can be a severe problem. Coker (1997) has made forecasts of fibre consumption by country/region up to the year 2005 (see Table 11.3). These figures suggest that per capita consumption in SE Asia will, by 2005, still only amount to 15% of the EU level. This is not surprising because Jones (1994) showed that if an economy has a level of income one-third of that enjoyed by a developed country it would take 20 years for the former to catch up even if it grew at three times the speed of the latter. It must be remembered that the TOI figures do not relate to final consumption of garments but to the consumption of fibre in the textile pipeline.

**Table 11.3** World fibre consumption forecasts for 2005.

	Final consumption (000 tons)	Self sufficiency index	Consumption per head (kgs)
USA	9,575	66	32.5
EU	8,321	47	21.5
Japan	3,411	52	26.0
Total western developed and Japan	24,109	54	24.9
E. Europe and Former USSR	5,932	91	14.4
China	8,736	150	6.4
Latin America	4,407	100	7.6
S Asia	4,732	175	3.3
E. and SE Asia	4,031	190	9.0
Total developing world	26,019	145	5.2

*Source:* Coker, J. (1997) World Textile and Clothing Consumption Forecasts to 2005. *Textile Outlook International*.

The main lesson to be derived from the above statistics is that, while the new markets represent substantial potential, the old markets do remain attractive. Therefore, despite all the problems associated with the slow growth of apparel markets in the developed world it remains probable that, while the emerging markets cannot be ignored because of their potential size, the realisation of this potential does lie some way into the future and that any decision to divert resources to supplying these markets must be a long term one. Cooke (1997), for example, studied the potential for the emergence of a market for Western style apparel in Vietnam and concluded that the development of a fully evolved market was some way into the future. Zhang (1999) in a study of denim wear consumption in China forecasts that the total apparel consumption of China will exceed that of Japan by some 20% by 2020.

The time horizon for the emergence of profitable trading in the emerging markets can be extremely long and the risks correspondingly high. As Foster (1997, p. 593) noted in relation to the evolution of the Chinese market, 'over-

seas enterprises minded to join the explosive growth of the region should not underestimate the difficulties of working in an alien environment'. The current preoccupation of the UK apparel industry with the EU market may not, therefore, be quite as unexpected or as unhealthy as it initially appears with the proviso that, as was noted in Chapter 1, at least one author (Owen, 1999) has argued that the main reason for the poor performance of the UK economy during the last 50 years was a failure to participate in the fastest growing markets. Clearly it would not be desirable to repeat this (alleged) error. This point will be reconsidered in the final chapter.

It has also to be noted that the culture gap between the UK and the other member states of the EU is likely to be less pronounced than that between the UK and the developing markets. This gap is frequently described as the psychological distance between markets or the perceived similarity of potential markets relative to the decision maker's market. Lee (1999, p. 9) defines psychic distance as the 'perceived socio-cultural distance between home and target market in terms of language, business practices, legal and political systems and marketing infrastructure' and it has been argued in Chapter 6 that apparel is an example of a relatively culture-bound product. These issues will be considered in Section C below but before moving on it must be recorded that it is not being argued that income is the only factor which has to be taken into account when devising an international marketing programme – only that in identifying future apparel markets it will be one of the most crucial factors. Other important factors would include population growth and demographics; employment participation rates; unemployment; inflation; political stability; geographic distribution of the population; the tax regime; ease of entry; the extent of existing and potential competition and the structure of the distribution system. It is clearly beyond the scope of the present text to investigate these issues and they are covered in all major international marketing texts such as Onkvisit (1989) and texts on international business practice such as Daniels (1998).

### ***C. The concept of globalisation and the remaining role of culture in global marketing***

Culture can be defined as (Terpstra, 1985, p. 6) 'a learned, shared, compelling, interrelated set of symbols whose meaning provides a set of orientations for members of a society'. Cultural differences can influence international business activity in a variety of ways, e.g. acceptable ways of conducting business transactions; the role of gender in business; the acceptability of standard products; and standardisation of elements of the marketing mix such as advertising. Apparel is an important and highly visible element of a society's

cultural landscape. It is also an important cultural signifier as was demonstrated by Dodd (2000) in an exploration of fashion as a means of forming group identities.

An extreme but widely accepted view of the role of culture in determining demand has been expressed by Levitt in his seminal paper (1983) in which he argued that different 'cultural preferences, national tastes and standards . . . are vestiges of the past' and that 'accustomed differences in national or regional tastes' are gone forever so that the world's 'needs and desires have been irrevocably homogenised'. The strategic implication of this thesis is that companies should 'operate as if the world were a large market – ignoring superficial regional and national differences'. Successful global companies, it is argued, will only bow to regional variations reluctantly and as a last resort and will concentrate on 'what everyone wants rather than worrying about the details of what everyone thinks they may like'.

This thesis has, as was seen in Chapter 6, been built into the wider theory of globalisation but has not gone unchallenged. It is clearly sensible to accept the argument that (Levitt, 1983, p. 92) everyone wants 'the most advanced things the world makes and sells – goods of the best quality and reliability at the lowest price'. It is a large leap of faith from this position to the statement that cultural variations can more often than not be ignored. The application of the positivist approach to the search for evidence on these issues leads to the uncovering of a mass of research which contradicts the globalisation/homogenisation thesis. A thorough review of this research is to be found in Usunier (1993) who concludes that while competition has been globalised, markets have not. An important distinction must be made between culture-free products and culture-bound products. The former represent cultural universalities and need not be modified to suit local tastes, while the latter are products the demand for which is still greatly influenced by local traditions and culture.

It has been suggested in Chapter 6 that apparel is an example of a culture-bound product. Onkvisit (1989, p. 221) argues that 'consumption patterns, living styles and the priority of needs are all dictated by culture. Culture prescribes the manner in which people satisfy their desires'. Selvanathan's (1993) study of consumption patterns revealed quite substantial differences between countries and concluded that the thesis that 'tastes are the same across countries' was not supported by the data. A later paper by Whitelock (1997, p. 45) did uncover 'evidence to support the growing trend towards product and brand standardisation' from the point of view of achieving economies of scale but also observed, importantly, that it is 'difficult to find evidence that traditional barriers are breaking down; cultural influences on the purchasing process seem to be persistent'. Shoham (1996a, p. 101) also concluded an extensive review of the literature with the opinion that 'the empirical evidence suggests that mar-

kets are not homogeneous at this time . . . Furthermore they indicate that over time markets are diverging rather than converging’.

The impact of culture upon consumer demand can be expressed in a number of ways within the marketing mix. First, and most importantly, the product may have to be modified to suit local tastes. In the context of the apparel industry this would include anthropometric, colour and climatic variations. In the case of women’s apparel these may be religious barriers to the wearing of certain types of garments. Garments may need to be modified in respect of fabric type, size, colour, fit and features to take account of variations in body size, skin colour, climate and cultural preferences.

The argument for standardisation relies mainly, but not exclusively, upon cost considerations (Usunier, 1993, p. 224) although in the case of products, such as apparel, which have significant symbolic attributes, globalisation can introduce other dimensions – Usunier (1993, p. 231) argues that ‘ethnocentrism is instinctive in all symbolic thought . . . The inappropriate (or even just poor) use of backgrounds that diffuse symbolic images which are not adapted to the local consumer is a danger for international marketers’. Secondly, and strongly related to the last issue, promotional activities can be severely compromised in their effectiveness by cultural barriers, e.g. certain promotional activities are illegal in some countries; much advertising relies on language and there are numerous examples in the literature of slogans and brand names which did not translate successfully from one language to another. As Usunier (1993) makes clear, different cultures have different attitudes to comparative, informative and persuasive advertising and strongly contrasting attitudes to such issues as the portrayal of gender roles and the use of nudity in advertising messages.

Media availability varies greatly from country to country. A major study of international advertising by Onkvisit (1987) found little support for the argument that standardised advertising programmes were successful or that consumers were homogeneous. The conclusion drawn was (1987, p. 53) that the key ‘is to determine when and where a limited measure of homogeneity exists for some level of standardised advertising’. Similarly, Alden (1996, p. 140) studying advertising in Japan, while concluding that similar humour structures to the West were observed there remained quite substantial though subtle differences, so that it was ‘crucial that global managers remain sensitive to subtle cultural differences’.

Thirdly, in relation to distribution the suitability of a particular channel can vary from country to country. In the UK, for example (see Table 10.9), very little apparel is sold through supermarkets. In France the proportion is far higher. Fourthly, pricing strategies may have to be adapted upon entry into new markets. The special problems introduced by the existence of different currencies have been addressed in Chapter 9. In addition, however, acceptable or normal price levels vary for the same product from country to country. As



Usunier (1993, p. 283) observes 'price is a significant element of communication between buyer and seller'. In some societies haggling is considered usual. The relationship of price to perceived value is influenced (Usunier, 1993, p. 291) by cultural attitudes to ostentatious or conspicuous consumption. Shoham (1996b, p. 67), while conceding that some aspects of the market mix can be standardised in certain regions, drew the conclusion that 'the data mostly supports the positive effect of adaptation of the 4Ps on performance'. It has to be reaffirmed that, on the basis of accumulated evidence, the support for the global standardisation thesis is not (as was indicated in Chapter 6) particularly strong.

Two general market related issues have also to be taken into account when considering culturally diverse markets. First, and particularly in relation to the fashion sector, the speed at which new ideas spread throughout society varies between countries, as may the identity of opinion leaders. Onkvisit (1993, p. 300) argues that rather than simply recognising that consumer behaviour is affected by culture it is

'more important to specifically list the cultural norms in a country and to understand why those norms vary from country to country. It is thus important to appreciate how these norms are shaped by reference groups, social class, family, opinion leadership, and the diffusion process of innovation'.

As was seen in the previous chapter, a widely accepted and tested model of the fashion process has yet to be developed which renders this task quite difficult.

Secondly, the entire question of conducting market research across cultures is fraught with difficulties. It is usually argued that the formulation of research objectives must take into account cultural contexts – the so-called 'emic' approach (Usunier, 1993). Among the main problems identified are a reluctance to answer questions because of variations in attitudes to privacy and the existence of 'courtesy bias' in some cultures. Flynn (2000, p. 118), in relation to fashion research, did, on the other hand, find that some techniques 'could be used in cross-cultural fashion research with the same confidence' in both Korea and the USA.

Finally, in view of the global changes taking place in the role of developing regions in the textile-apparel supply chain (as revealed in Chapter 3) it will be appropriate to briefly consider the role of culture upon design influences in the context of moves on the part of Asian suppliers to achieve a role in the supply chain other than simply acting as a low cost production centre. In the words of Au (1997, p. 190), 'Hong Kong clothing manufacturers are seeking to engage in more value-added activities within the clothing pipeline . . . many of the leading manufacturers have developed their own brands and this will be an accelerating

trend in the future'. Au (2000) contends that Eastern and Western designers think differently and have different design theories and inspirations: while Western designers rely 'on historical resurrection' and hold to a 'strong sense of Western culture and sexuality', in contrast, Eastern designers are motivated by a different sense of aesthetics and femininity. Au concluded that 'Japanese design theory hardly exists in Western terms . . . Japanese designers have never worked on the same basis as Western designers (and) . . . do not have an endless appetite for change in the Western sense'. They have a more evolutionary attitude to design, rooted in deep-seated philosophical, cultural and religious values. It remains to be seen whether or not these ideas and design concepts will be permanently assimilated into apparel design for global markets. Therefore, it can be concluded that it is likely that, over time, as income levels rise in emerging markets a large market for apparel will develop.

Supplying these markets profitably will, however, present a substantial challenge. As Anson (1999, p. 4) notes, countries such as India 'do appear to offer substantial market potential . . . for Western producers of relatively low volume, high added value products'. Zhang (1999) found that young Chinese consumers of denim wear would pay a 50% price premium for imported goods and that brands were becoming more important. Fit, comfort, style, colour and workmanship were all important attributes in the consumer purchasing decision. Moore (1999) also noticed a trend for UK-based apparel manufacturers to supply products from 'units which they may own in Asia . . . They may supply the design and the material according to the location. But since some of the fastest growing markets are in Asia, they now appear to be willing to locate clothing production in a developing country provided that they gain in return some access for their upmarket products into that country'. This may be true but as yet, as was seen in Chapter 7, the investment flow statistics do not reflect this. The possible link between attitudes to trade liberalisation (Chapter 9) and access to, and interest in, emerging markets is also of interest.

Clearly, it is not possible to give a review of apparel markets in a wide range of countries but it is possible to note that a great deal can be learned about foreign apparel markets from secondary sources. Fong (1999), for example, studied the market for men's suits in Hong Kong; Uppal (1999) reported on the opportunities for apparel retailing in the massive Indian market, pointing in particular to the rather special nature of the 'middle class in India'; Goveia (1999) likewise considered the apparel market in Brazil, highlighting anthropometric variations and the need for garments to be capable of frequent washing because of the climatic conditions. Grasson (1997) found that African-American mothers had some unique needs in relation to fit, colour and fabric in regard to children's clothing in the USA while Liu (1999, p. 265), in a study of the market for business wear in Taiwan, found that based 'on their unique cultural background, Taiwanese male consumers . . . emphasised fit, colour and

price over ease of care, fibre content and brand . . . for their business apparel purchases’.

The magazines *Textile Outlook International*, *Bobbin*, *World Clothing Manufacturer* and *Apparel Industry Magazine* regularly produce reports on the textile and apparel industry and market in different countries. *Textiles Eastern Europe* produces regular reports on the emerging markets of Central and Eastern Europe and the former Soviet Union. Finally, a wide range of market research agencies produce reports on the market for consumer goods in countries and regions around the world. The volume and quality of this information does, it must be recorded, tend to be in inverse proportion to the state of economic development of the countries concerned.

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## Chapter 12

# *Conclusions and Lessons for the Future*

### *A. Summary of UK experience*

- The apparel production cell within the textile-apparel pipeline is not and probably never was the dominant player.
- In the UK – as in most developed economies – the contribution to national output and trade currently made by apparel manufacture is very small. It is not regarded as a strategic industry, nor as a knowledge-based industry, at a point in the development of mature economies when the non-manufacturing, and particularly the knowledge-based service sector, is emerging as the engine of growth.
- The apparel manufacturing industry's industrial structure is almost uniquely disadvantageous to the generation of large profits and/or market power in that the level of seller concentration is extremely low; the degree of capital investment is low; the degree of labour intensity is abnormally high; there is little diversity; barriers to entry are low and the size distribution of companies is (by some measures) biased towards the small end of the spectrum.
- The structure of the textile-apparel pipeline is also inimical to the possibility of the apparel manufacturing cell capturing any significant proportion of the profits generated by the pipeline as a whole – in particular the buyer power faced by the sector is very high. The pipeline is retail led. There is little prospect that this will change.
- In the UK – over a very long period of time – relationships within the pipeline have been adversarial rather than co-operative in nature.
- The forces of global shift in the sector are extremely powerful, reflecting a natural tendency for apparel manufacture to act as an engine of development in newly industrialising nations
- The industry at the assembly stage has remained stubbornly labour-intensive. The labour cost gap between the developed and developing world remains large and there is no sign of any immediate technological breakthrough which could mitigate the impact of this gap upon costs. In the

words of Byrne (1995) ‘the philosophy of total automation has been shelved for the foreseeable future’. There is no possibility of a large scale relocation of the industry to developed, high labour cost centres. Anson’s (1995) observation that an ‘intensification of UK industry’s delocalisation may be needed if manufacturing firms are to survive’ has proven all too prophetic.

- The UK apparel industry has performed reasonably well as an exporter (by prevailing UK standards) but this has not prevented the emergence of a high negative trade balance on apparel trade. Import penetration of the domestic market has risen rapidly to around 66%. The removal of the system of managed trade embodied in the MFA by the year 2005 will increase the pressure on the domestic industry. Price competition is severe – consumer demands are, in a sense, the real problem.
- The global spread of the UK industry is extremely limited – nearly 70% of direct exports are destined for other EU member states while, until very recently, the use made of outward processing arrangements has been low. The UK domestic market is large but extremely competitive and dominated by a small number of large retailers who have traditionally been dominant partners in any quasi-supply chain agreements which have existed. At the end of the 1990s a sea change appears to be taking place in their commitment to domestic sourcing. It is not improbable to suggest that by 2005 employment in the UK might have fallen to some 75 000.
- In the period after 1995 the trend in UK output and employment appears to have entered a new phase in that both data series have turned down together. This represents a significant break with the experience of the last two decades – within the textile pipeline the apparel manufacturing industry in the UK continued to prosper, or at least to survive, long after the decline in the primary textile sector but this very survival may now be under threat.

In summary it would be difficult to devise a more daunting scenario than the one faced by UK-based apparel manufacturers. In many respects these problems are common to all developed (high labour cost) locations. However, there have been variations in experience as between developed nations. Structure and external environmental forces are not the sole determinants of success or failure – there is a role for strategy.

### ***B. The role of strategy in the evolution of an industry***

The literature makes it clear that the industry in different countries did react in a variety of ways to what were relatively common external pressures. In brief, the Italian industry followed a path of relying on supply chain collaboration and networking partnerships between very small firms to generate the competitive advantages of flexibility and rapid responsiveness to changes in fash-

ion. This has been extensively documented by Belussi (1997, p.129) who stresses the ability of the industry to fight back against low cost competition: 'through differentiation, time to market, flexibility and fashion'.

The German apparel manufacturing industry, while suffering a severe fall in employment between 1974 and 1994 of some 270 000 (Alder, 1997, p. 131) used Outward Processed Trade (OPT) to compensate for the loss in domestic production. In Alder's words (1997, p. 137) the

'generic strategy appears to be one of using outward processing for non-fashionable garments, while continuing to use domestic production for garments of high quality and client-oriented, just-in-time production lines'.

In contrast, the approach adopted in the UK was to rely on the construction (usually by merger) of relatively large vertically integrated textile-apparel producers and to concentrate on relatively long production runs, domestically produced, for the large retailer. This system was then buttressed by a mild system of protection. In smaller companies, de-skilling and attempts to reduce costs traditionally prevailed – especially in the ethnic sector which was the main source of increasing employment in the UK. Unfortunately this policy has proven over time to be singularly out of step with the demands of the evolving apparel market place. The dominant feature of the market has been its increasingly volatile and multi-faceted nature.

Obviously, it is easy to be wise after the event and there is no way of telling whether or not this should or could have been anticipated at the time, but a system which stressed long runs for a middle of the road market turned out to be virtually the opposite of what was required, which was flexibility, increasing short runs, more frequent and rapid change and quick response.

This point was neatly captured by Nolan (1997, p. 279) when he wrote that the Italian system (my emphasis) '*appears to match* the needs of the business environment, allowing flexibility, responsiveness and control of quality to co-exist in a most efficient way' and that in the Italian case the 'constant drive to de-integrate where in other parts of the world companies were actually becoming larger ... suggests that a *different mind set* existed across the Italian industry'.

As Anson (1998a) put it, the fashion in the UK in the 1960s and 1970s

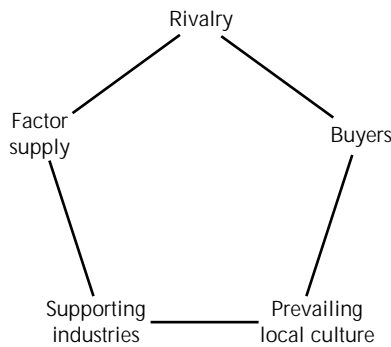
'was to build large vertical firms through merger and acquisition in the belief that companies would benefit from economies of scale and would therefore be better able to withstand the threatening tide of import competition ... but two or three decades on, big companies are no longer in fashion'.

It can, therefore, be argued that the business culture prevailing in the UK at the time when adjustment was needed was, unfortunately, not conducive to the selection of the best strategies. Landes (1998) has examined the role of culture

in the evolution of national economies and argues that (1998, p. 175) the ‘inner beliefs that inspire populations in their daily lives are intimately linked to worldly success’ and that if any lesson is to be learned from ‘the history of economic development it is that culture makes all the difference’.

This may make it difficult to transfer a successful strategy from one culture to another – if cultures vary in their degree of openness or respect for co-operative work, for example. Bull (1993) highlighted this aspect of the evolution of entrepreneurial textile communities in Italy and the UK: in the latter it was found that success was identified with self sufficiency and there was a deep seated reluctance to co-operate with other local firms. This made it unlikely that policies which had worked in Italy could be transported successfully to the UK.

On a more global scale the reluctance in the past of China to accept and embrace foreign ideas has been identified by Jay (2000) as a major reason behind the historical inability of that country to assume world economic leadership. In effect, therefore, the Porter Diamond may need to be turned into a pentagon (Fig. 12.1) with prevailing business culture being the additional factor. It may simply not be possible for a country to copy the policies adopted elsewhere. If a country’s prevailing business culture is in line with the demands of the optimum strategy it will succeed. Alternatively, if a country is conservative and resistant to change while the market demands continuous change then problems will occur. In Taplin’s (2000, p.17) words it is likely that ‘institutional factors . . . predispose firms in certain countries to pursue certain types of strategies’.



**Fig. 12.1** A Pentagon Framework showing the effect of culture.

This possibility was recognised by Porter (1998a, p. 129) although it was not built into the classic Diamond framework:

‘cultural factors are important as they shape the environment facing firms . . . social and political history and values create persistent differences among nations that plan a role in competitive advantage in many industries’.



### ***C. Potential survival strategies***

Initially, it will be assumed that the supply chain remains largely as outlined in Fig. 1.1. What conclusions can be drawn about the future of the apparel manufacturer based in developed countries? First, there appears to be no evidence to suggest that power relationships within the supply chain are likely to change in favour of the apparel manufacturer. Second, while there is a little evidence that the traditional adversarial links are being replaced by more co-operative ones in the context of evolving supply chain management, it is clear that there is still a long way to go to achieve the levels secured in other sectors. Third, it was shown in Chapter 2 that the structure of the apparel manufacturing sector was almost uniquely unfavourable to its ability to capture a large part of the profit generated by the supply chain – there is no evidence that this situation is about to change drastically. Fourth, there seems to be (Chapter 4) little chance of any revolutionary breakthrough which will reduce the labour intensive nature of the assembly operation. Fifth, it seems unlikely that (Chapter 9) trade barriers will be re-erected after 2005.

Finally, it seems improbable that the sector can expect governments, in the West, to provide substantial aid. Therefore, in relation to the range of potential strategies outlined in Fig. 7.1 the first five can be virtually discounted as plausible strategies for the majority of the sector. The following options remain:

#### ***(i) Import a successful domestic strategy from elsewhere***

It is clear that choice of strategy does make a difference (Chapter 7) and that (Chapter 3) the developed world does still remain a significant producer of many types of apparel. In the case of the UK it is clear, with the benefit of hindsight, that the twin strategies of relying on a mild form of protection allied to support for domestic production of relatively long production runs were, in the long run, doomed to failure, particularly as they served to repress the utilisation of offshore production. It was unlikely, of course, that the textile sector in the UK could be divorced from the prevailing industrial mood of the times. To this extent it is probably the case that the mindset in other countries was simply more in tune with what turned out to be the requirements of the market. The classic example of this difference in approach remains the Italian model reviewed in Chapter 7. The biggest single impediment to importing such a policy into the UK is probably one of prevailing business culture, as was discussed above.

Therefore, it appears difficult to make a case for a UK solution based on local clusters of firms in line with the Italian model. It must be recalled that Porter (1990, p. 494) in his initial work on successful clusters in a range of

countries concluded that 'Britain lacks comparative advantage in ... most areas of textiles/apparel' and that, therefore, although the UK government has expressed (Buckley, 2000) an interest in focusing industrial policy upon 'clusters' and Porter (1998b) has reaffirmed his belief in the importance of such geographic concentrations of interconnected companies in promoting global success, it seems barely credible that this could result in a concentration upon the assembly of apparel.

*(ii) Niche marketing solutions*

There is (as was seen in Chapter 7) a limited amount of evidence that concentrating on high value added niche products when linked to the development of flexible and responsive manufacturing systems and the use of offshore production can enable producers in high cost centres to compete. There does not seem to be any logical impediment to UK firms adopting this strategy.

*(iii) Added value, quick response and lean manufacturing principles*

These policies were explored in Chapter 7 and, clearly, there can be little argument but that banishing waste and time from the supply chain must be seen as desirable. Therefore, it can safely be concluded that these policies offer some competitive advantage to those who can take advantage of them. This is particularly true given that, as was seen in Chapter 2, historically the level of productivity achieved in the UK apparel sector had not compared favourably with that secured elsewhere. This appears still to be the case in that Hart (1992), for example, found that, in a UK-German comparison, the biggest productivity gap out of 23 industries studied was in clothing. The downside of reliance on these policies is that, in so far as can be judged from the evidence, the adoption rate is rather low and there is virtually no direct or hard evidence on the distribution of the gains from quick response policies as between the players in the supply chain.

This conclusion would be supported, for example, by the study of BhS suppliers reported by Smith (1999) who commented on the remaining resistance to change and lack of trust within the pipeline. In this context it is possible to virtually dispose of the argument that apparel manufacturers (as a group) could seek to capture a greater share of the profits generated in the chain. There is no evidence that the balance of power will switch from the retailers back to the manufacturing branch of the supply chain. Indeed there is, in the UK, continuing evidence of the dominance of the retailer as exemplified by the decision of Marks and Spencer (Mills, 2000) to arbitrarily cut prices paid to suppliers. In addition, there are numerous examples in the literature sufficient to demonstrate the viability of offshore sourcing in a time-sensitive

environment. A number of examples can be considered here. Tait (1999) described the growth of the American company Duck Head apparel which produced 200 new styles per season on a rolling basis as an average cycle of 30–40 days, despite having only 5% of production located in the USA. Design and cutting is retained in or near to the company's headquarters in Georgia. Distribution for the US market is also handled centrally.

Black (1991) outlined the evolution of Nautica to the stage where some 500 lines are produced, mainly in the Far East and the Caribbean with a small proportion produced in the USA – all via contract manufacturing because they argue their business is design and marketing. The major American producer, MAST Industries, while taking a different stance on the organisation of off-shore production in that it utilises joint ventures, produces a turnover of over \$1 billion in some 35 countries – of which only 5% is conducted in the USA with some 70% being sourced in China, Sri Lanka, Hong Kong, Taiwan and Korea. Trust (1999) argues that the key drivers of the success of the company are migration (having the correct mix of global manufacturing capacity to meet customer demand); integration and technology (to control resources and provide efficient communication and collaboration) and talent – and that it is the latter which is the limiting factor on future growth. Therefore, it is unlikely that QR can be seen, of itself, as a route to substantial relocation of manufacturing capacity to high cost centres other than in those sections of the apparel market where retailers value locally responsive suppliers highly.

On the other hand, there do not appear to be any substantial negative aspects of these policies so that, to the extent that they can be adopted to the benefit of the apparel manufacturer as well as to the retailer, they clearly should form part of future strategies wherever possible. Therefore, the conclusion which is inexorably emerging is that – other than in small sections of the industry where either the technological input is unusually large or the need for very rapid response is paramount – the probability of a largely domestically based strategy succeeding is rather low. Attention must be focused on international solutions.

#### *(iv) External solutions*

As has been seen in Chapter 4, the labour cost gap between different countries is vast. It is likely, therefore, that apparel manufacturers worldwide will continue to take advantage of the availability of cheap labour by moving garment assembly operations to low cost regions. The argument over the desirability of utilising offshore facilities is – despite the continued protestations about hidden costs – effectively over. This can be seen from the statistics in Chapters 3 and 8. As Anson (1998, b) expressed it, companies 'will have to source overseas to remain competitive so as to preserve at least some of what remains of the UK clothing industry'.

Taplin (1999) concluded that 'if trade barriers continue to fall ... more and more of the low value added and less time sensitive products will be shifted to low cost areas of the world'.

If further proof were needed the many pronouncements in the trade press detailing decisions taken to move production offshore provide dramatic supporting evidence. Rush (2000) and Tait (1999) both document these changes.

Finally, it can be concluded that this rush offshore will occur because the major retailers demand it. The only issue is whether or not this development has to be viewed in an entirely negative light. Clearly, from an employment point of view, the short term effects are entirely negative. However, there is (as was seen in Chapter 7) some limited evidence that the industry in those countries which adopted offshore production most comprehensively did enjoy relatively greater success in world markets than those which did not. Ohmae (1994) argues that companies which won market share through a policy of exporting assembly jobs were able to employ more people in the so-called higher value added jobs – such as design, finance, marketing – retained domestically. This effect was confirmed for the USA for the period 1979–90 by Feenstra (1996) who concluded that 'outsourcing has contributed substantially to the increase in demand for non-production labour'.

It would have to be recognised that in the case of apparel manufacture with its extremely high ratio (Chapter 2) of operatives to total employment this effect would probably be less pronounced than in other sectors. Therefore, it has to be concluded that, partly because of the labour cost structure in the sector and partly because other options have a limited capacity to generate solutions, the offshore option will figure prominently in most future strategies. It is true that the use of offshore sources does introduce a number of administrative obstacles to be cleared – a wide range of documentation needs to be dealt with in order to comply with regulations dealing with issues such as customs clearance, duty payments, origin rules and import licensing, but companies can relatively easily learn to deal with these issues. Guides exist (Humphrey, 1996) or the task can be outsourced.

In Porter's (1998) words:

'Companies have to spread activities globally to source inputs and gain access to markets. Failure to do so will lead to competitive disadvantage. And for stable, labour intensive industries such as assembly ... low cost factors are often decisive in driving locational choices'.

In a sense this could be regarded as an opportunity to exploit some of the clusters which were found by Porter (1990) to represent UK strengths – distribution, financial services and advertising. UK-based companies should be capable of organising and financing global operations. In the absence of a concern over assembly jobs the Diamond framework becomes more favourable.

Sewing capacity and capability is not in scarce supply – it is unlikely to form the basis of sustainable competitive advantage. Nor is it likely to be the limiting factor upon commercial success. Design capability and the possession of an understanding of the market place allied to the supply chain management, logistical and quality control capabilities to produce apparel that sells, are in far less plentiful supply. Additionally, many of these skills are in far greater supply in the developed countries. In the case of the UK, for example, Porter (1990) identified a number of successful ‘clusters’ in the general area of international financing, banking and global advertising. Therefore it would be sensible to exploit whatever favourable trends exist in the wider UK economy to support a strategy for the industry.

If companies could reorganise their structure and tasks to reflect these strengths they might have a greater chance of success. To move down this road does require a substantial change in attitude towards the importance of the assembly operations, but such a move would recognise that the assembly operation is not the main value adding operation in the garment production process. This kind of flexibility of approach is being demonstrated by countries previously associated with the sewing process.

As Au (1997) puts it, the

‘Hong Kong manufacturers are seeking to engage in more value-added activities within the clothing supply pipeline ... many of the leading manufacturers have developed their own brands and this will be an accelerating trend in the future’.

A limited number of apparel manufacturers may be able to exploit technological advances in fabric so as to produce performance garments from within a developed country base – in effect they would be overcoming the industry’s well known non-scientific nature. In addition there will probably always be the demand for some quick response capacity. For the rest (and majority) of the industry it seems clear that no survival will be possible in the absence of a move to offshore production as a basic element in overall company strategy. In effect, this solves the basic problem of high labour costs. In Porter’s (1998) words

‘companies have to spread activities globally to source inputs and gain access to markets. Failure to do so will lead to a competitive disadvantage. And for stable *labour-intensive industries such as assembly* ... low cost factors are often decisive in driving locational choices’. (Author’s emphasis.)

It does not, of course, solve any of the other problems such as relative power relationships within the pipeline, although it will call for the development and deployment of superior logistical and supply chain management skills within the evolving global supply chain. It is this belief that has driven the conclusion

drawn in Chapter 2 that the UK industry has reached a second crucial period and that in the period up to 2005 substantial losses of jobs and UK output can be anticipated.

The effect upon total employment in the apparel sector can be expected to be unusually severe because of the high ratio of operatives to total staff. Therefore, it is predicted that total employment in the sector in the UK can be expected to fall towards 75 000 by the year 2005. This prediction is based upon the rapid growth in OPT, the rising rate of import penetration, the simultaneous collapse of output and employment reported in Fig. 2.1, and the rash of closures and movements offshore reported at the end of 1998 through to the beginning of 2000 by such companies as Bairds, Dewhirst, Courtaulds, T.J. Hughes, New Look, Dawson International and, most spectacularly, Coats Viyella. This prediction is supported by the latest figures for November 2001 which indicate that employment had fallen to 95 000 (ONS, 2001).

#### ***D. Solutions involving reconfiguration of the supply chain***

If the straightjacket of the concept of the traditional textile-apparel supply chain is relaxed a wider range of options opens up and some more imaginative solutions can be envisaged. For example, in the traditional scenario a range of functions have to be carried out and companies who undertake design, cutting and assembly are labelled manufacturers. There is nothing sacrosanct about this. De Meyer (1998, p.270) argues that European manufacturers will increasingly be forced to 'break down the ways that activities were constructed around the manufacturing task' so as to allow a more service-orientated approach to business to evolve.

A company could undertake design, organisation and marketing and supply, subcontract the assembly and cutting but also undertake some of the tasks carried out by companies currently labelled as retailers. In Chazen's words (1996) the question of 'who is a manufacturer and who is a retailer is getting a little fuzzy'. The assembly stage does not necessarily contribute to the greatest proportion of value added. Therefore, it may just be that the best way forward for apparel manufacturers historically based in the high cost centres is to let go any lingering loyalty to assembly type operations and to become sourcing facilitators and merchandisers.

One of the most impressive aspects of the evolution of the Hong Kong Apparel industry has been its willingness to move on to re-invent itself as circumstances change. Au (1999), for example, describes four stages of production migration which had been made in response to such factors as changing input costs and quota availability and concluded that the current 'trend with alert Hong Kong investors is to set up production sites in countries

lying near import markets or less developed countries which have . . . large . . . potential’.

There has been, over time (Miller, 1997), a change from a manufacturing base to a fashion centre so that the future for the UK, also, may lie in the direction of having ‘very little manufacture, but lots of control of the industry, such as design, ideas, etc.’.

The value chain will be dispersed with the assembly stage normally moving to low cost locations. Magretta (1998) describes this concept of dispersed manufacturing as a new paradigm, which may be a slightly exaggerated claim, but there is no doubt that taking a view of the value chain which is not dominated by a concern over manufacturing/assembly does open up an entirely different perspective on what the successful firm actually does to create value and profit. Magretta (1998) argues that money can no longer be squeezed out of the manufacturing process so that it is becoming less important to conduct any operation in the value chain which deals with running factories. This view of the pipeline regards manufacture/assembly as the easy part of the operation. The difficult part is managing suppliers and the logistics function between suppliers and customers, so as to meet the market’s demand for flexibility and responsiveness.

Adherents to this view claim that dispersed manufacturing has the great advantage of being in tune with the demands of an increasingly unstable and fragmented final market place. In Magretta’s words (1998, p. 114) as Western companies strive ‘to remain competitive, supply chain management will become more important. Their need to serve smaller niche markets with more frequent change in products’ is the driving force. Fung (1998) contends that a new type of company, which religiously avoids having anything to do with assembly, but instead concentrates upon design, engineering, production planning, quality control, logistics and the management of cash flows produces a:

‘new type of value added, a truly global product. The label may say “made in Thailand” but it is not a Thai product. We dissect the manufacturing process and look for the best solution at each stage . . . We’re pulling apart the value chain and optimising each stage.’

This viewpoint does, to a degree, have some support in the evidence (reviewed in Chapter 8) that consumers appear to know or care little about either country of origin or country of manufacture when making apparel purchases.

It is true that Porter (1998, a) continues to argue that, for company head office, the existence of self-supporting clusters remains crucial and that he had already drawn the conclusion that there were few successful textile clusters in the UK. However, the point needs to be made that the UK’s Diamond framework would appear (given the UK’s recognised strengths in finance,

trade, advertising and design education) to be more supportive of the type of operation described above than of the traditional assembly-based apparel manufacturing option. In particular, good design has been stressed by Smith (1999) and by Kingswell (1998) who emphasised the role of creative design applied with intelligence and market awareness. It is difficult to predict whether or not the long-term (but now crumbling) loyalty to domestic, long-run production exhibited in the past by UK apparel manufacturers will have fatally injured the ability of the industry to reinvent itself in a new format which is sufficiently robust to encourage the development of internationally competitive apparel suppliers.

The analysis carried through in this text is fully supportive of the conclusion drawn by Bain in Miller (1997) that the UK apparel industry will have to change from a manufacturing base to a fashion centre controlling design, ideas and trade and increasingly exploiting offshore production in such (relatively near) locations as East Europe and North Africa. The best hope for the future lies in the further development of offshore locations together with a reconfiguration of activities away from an overbearing concern with assembly and towards a focus on marketing, design, sourcing and supply chain management. If these changes do occur they will have important implications for the types of skills companies need to recruit and for the activities of training and educational establishments connected to the industry.

The key skills are design, logistics and supply chain co-ordination. In particular, argues Fung (1998), good 'supply chain management strips away time and cost from product delivery cycles' and by shortening the cycle enables 'the retailer to hold off before having to commit to a fashion trend. It's all about flexibility, small production runs ... and the ability to shift direction'.

As Rabon (1999, p. 37) makes clear, recent technological developments in product information management 'facilitate global exchange of product specifications and other pertinent information within companies' and enable 'a mass customisation environment and ... global sourcing networks to be developed'.

### ***E. The role of China***

Finally, the great unknown in the equation remains China. This remains as true today as it did when Anson (1992) wrote that the 'joker in the pack is China'. Three serious questions, at least, remain unanswered. First, there is the basic statistical issue of the actual level of production discussed in Chapter 3. Second, the success of China's application to join the WTO will be crucial in respect of its impact on the ability of Western countries to retain restraints on imports from China should they so desire. Third, what will be the role of China



as a consumer of western products? The enormous Chinese population clearly represents an inviting target.

Meyerand (1996) of General Motors calculated that if only 1% of the population of China could afford cars it would give a market roughly the size of his company's total European market. As Ma (2000, p. 2) points out, GDP rose by almost five times between 1980–1997 which was 'considered a miracle by many observers' while the ratio of trade to GDP rose from 9% to 36% reflecting the increasing opening up of China to the rest of the world. In effect China is in an almost unique position of trying to achieve two transformations – from command to market economy and from rural to urban society – in an extremely short space of time. However, supplying the market represents an enormous business and cultural challenge.

The normal relationship between consumption and income highlighted in Chapter 10 does, according to Song (2000), exist in China but it is unstable and 'highly sensitive to policy changes and structural breaks' over time. Cook (2000) argues that the transformation of Chinese big business stands at a crossroad and that 'the future pattern of the relationship between multinational business and emerging big business in China will be powerfully shaped by international relationships, especially that between China and the USA'.

Landes (1991) points to the fact that, in the past, Chinese cultural inhibitions – such as a rejection of outside ideas – have hindered development. Jay (2000) quotes the opinion of the Chinese Emperor in 1793 that China 'had no need to import the manufactures of outside barbarians' so that although China was, in the eighteenth century, probably the most powerful society in the world, it contributed little to the global network of sea routes pioneered by others and in the nineteenth century 'did not industrialise, turning its back for a second time on the opportunity to seize an unchallengeable world leadership... The reasons for this apparent reluctance... lie... partly in the structure of Chinese society'.

Finally, Jay describes the period 1958–60 in which 20–30 million people died from starvation as another example of a disastrous downturn created by 'the absolutely worst [political decision] ever made'. The country has (Jay, 2000, p. 311) a long history of 'centrally orchestrated rejection... of economic opportunities'. Will it do so again?

Similarly, it is possible that the demand for constant change in the apparel market may not be in tune with Eastern values – in Russell's (1994) words, while the 'typical Westerner wishes to be the cause of as much change as possible, the typical Chinese wishes to enjoy as much and as delicately as possible'.

The differences between design inspirations as between Western and Eastern cultures have been explored in Chapter 11. Therefore, it is not possible to determine with any great degree of exactitude whether the future role of China

in the global apparel industry will be predominantly benign – as a major new market and source of cost efficient production – or will assume the role, in Walden’s (1999) rather colourful words, of ‘an imported Mercedes driven by a demented peasant . . . (so that) anyone who gets in its path would be crushed under its wheels’.

What is not in doubt is that the first five years of the twenty-first century will be crucial ones for the apparel manufacturing industries of the developed countries.

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