

# The Textile and Apparel Industry of China

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The textile and apparel industry is one pillar of China's economy. Since the late 1970s the industry has grown rapidly, and is now the largest producer of many categories of products and largest exporter in the world. The recent financial crisis has had serious impact on the industry, but may also give it an opportunity for upgrading and further growth. In this paper, the current situation in production and exports, the growth path, and challenges and opportunities of the industry will be discussed.

## 1. Economic Significance

The importance of the industry can be illustrated by its contributions to the total economy and to the country's employment. In 2009 the total output of the industry amounted to nearly RMB 3.8 trillion (about US\$560 billion), which accounts for more than 7% of the country's total manufacturing output. With about 200 to 300 thousands firms of various sizes, at least 20 million people are employed in the industry, which accounted for about 10% of the manufacturing total.

The textile and apparel industry of China is now the largest one in the world. In 2007, China had about 99 million yarn ring-spindles (47% of the world total) and more than 2 million open-end spindles (25% of the world total); 690 thousand shuttle looms (45% of the world total) and 475 thousand shuttleless looms (43% of the world total). China processed more than 35 million tons of fibers that year, accounting for about 40% of the world total. Man-made fiber production capacity of China was about half of the world total. These have been increasing both in absolute number and in percentage.

Total exports reached US\$167 billion in 2009. This was lower than the exports of 2008, due to the decrease in demand caused by the financial crisis. Yet this still accounted for about 30% of the total exports of the world. China is the largest supplier of textiles and apparel in the importing markets of many countries. For example, China accounts for about 40% of the textile and apparel imports of the US, and nearly 80% of imports of Japan.

## 2. Historical Development of the Industry

Development of the industry can be divided into a few stages. Modern textile and apparel industry was first established more than 100 years ago, but in the first few decades there was little growth. After the foundation of the new China, the industry entered a new era of growth, but under the system of planned economy, the development was much constrained. Outputs could hardly meet domestic demand, as textiles and clothing were rationed, and there was little exports.

It was only after the economic reforms and the adoption of open door policy which were started in the late 1970s, the industry truly took off, and experienced rapid growth. From the very beginning, there have been dual objectives: to meet the domestic demand, and to increase exports. Over the years, exports have assumed ever larger importance.

Up to about 2000 before China joined WTO, textile and apparel exports of China to the developed countries were constrained by quota limitations, which not only caused many trade frictions, but even political tensions between China and the importing countries, particularly the US and the EU. Nevertheless exports still grew rapidly and China became the largest exporter in the middle 1990s.

After China joined WTO in 2001, most of the limitations have been lifted, even though there are still the constraints of the safeguard mechanism. China's exports surged, and China has become a dominant force in the international markets. Yet China still faces many challenges and difficulties.

## 3. Sources of Competitive Advantages

The textile and apparel industry of China enjoys many good conditions which contribute to its competitive advantages. Some of the advantages are discussed in this section.

China maintains relative social stability, which provides a good environment for businesses. Besides, the government emphasizes the importance of the industry to the economy, particularly in terms of

meeting the basic demand and providing jobs for millions of unskilled and semi-skilled labor, thus has established policies which are conducive to the development of the industry. The most recent example was the raise of export tax rebate, which helps relieve the difficulties the firms encounter and stimulate exports.

As everybody knows, low labor cost is one of the biggest advantages of China. As a developing country, China has a huge rural population and hence almost endless supply of cheap labor. As textile production and particularly apparel production are relatively labor intensive, labor cost is a large component of the total cost. As wage rate in China is only a fraction of that in the developed countries, this gives China a decisive competitive advantage. In recent years, the skill level of labor employed by the industry has been enhanced. Numerous universities and technical schools educate large number of students, who after graduation work for the industry. Now there is a relatively large percentage of people as technicians and managers. Adopting many of the new ideas prevailing in the developed countries, now the management level has also been improved.

Along with economic development, the infrastructure of China has been enormously improved. Over the years, China has built up its highway system. The ports and airports have also been developed and modernized. Modern communication systems have also been established, particularly the internet system, which has become the prerequisite for the growth of the industry, particularly in terms of exports.

China has developed a whole chain of the entire soft-goods industry, including every sector and every link. The complementary nature of these sectors gives the industry competitiveness. Thus there is good supply of various materials and services at relatively low costs.

In the course of development, numerous industrial clusters of various sizes and types have emerged. These clusters help enhance productivity significantly. They facilitate the dissemination of information in manufacturing and marketing, in technology, management and products, and thus help improve efficiency. They also facilitate the formation of new enterprises. Thus, the emergence of the clusters has become a source of competitiveness.

It has to be noticed that some of the advantages may be further strengthened, such as the development of infrastructure, since China is investing heavily on the various aspects of infrastructure after the financial crisis. Some of the advantages, however, may be weakened, such as its labor cost, since the wage rates have arisen substantially and are now considerably higher than those of many of its competitors.

#### **4. Challenges Faced by the Industry**

In recent years, the textile and apparel industry has faced with many challenges, both internally and externally. Some of the challenges are analysed in this section.

The financial crisis, which started in 2008 and has not been over yet, has caused tremendous difficulties for the industry. Due to the economic hardships in countries all over the world, demands for textile and apparel products had been substantially lowered. As a result, China's textile and apparel exports to each major market reduced considerably. For example, in January to April of 2009 China's textile exports to EU fell by 21%, apparel exports by 16%; textile exports to South Korea fell by 34%, apparel exports by 37%. Many of the firms hardly received any orders at all, and numerous companies had closed down. Millions of workers had to be dismissed. It was reported that in Pearl River delta area alone more than 10,000 firms were closed. Related to this, product prices have also been lower, which had serious impacts on profitability.

With the elimination of MFA (Multi-Fiber Arrangement) and the access of China to WTO, the general environment for China's exports has become much more favorable than before. However, China still faces many hurdles in the international markets. The safeguard mechanism, which allows the US and EU to set limitations when China's exports are deemed disruptive, still haunts to deter the growth. In addition, there are always the threats of protectionism, both real and potential. Many times these appear in the form of various technical barriers. Many of them are related to requirements in social responsibility, including standards in environment protection, consumer protection, and labor protection. Further more, antidumping and countervailing measures taken by many countries have become a major threat to China exports. In recent years, there have been increasing uses of such measures by more countries. It is expected that such cases will further increase.

With great pressure from abroad, the currency of China, the Renminbi (RMB), has been revalued. Though still very much controlled by the government, in the past 5 years the value of RMB has increased by about 20%. This has tremendous impacts on the competitiveness of the industry and on the profitability of many companies. It has been expected that the RMB will further strengthen, which will further reduce the competitiveness of the industry.

Domestically, the industry is faced with increased costs. Prices of various materials and inputs have been increasing. Supply of these inputs have not been stable. For example, from time to time, shortage of electricity causes disruption of production in many places.

Labor shortage and increased labor costs erode the competitiveness of the industry. The industry to a large degree has been sustained by migrant workers coming from the countryside. Now the younger generation of the workers dislike the hard work and are dissatisfied with the low wage rates, and reluctant to work in the industry. There is intense competition for workers with other industries. Many companies have found it difficult to recruit not only skilled workers but also unskilled workers. The governments have raised the lowest wage standard several times. As a result, the wage rate has increased by about 70% in the past few years. In particular, the government established Labor Contract Law in 2008, which requires employers to provide social insurance and provides other measures to protect the workers. It is estimated that this alone will increase labor cost by about 10%.

The industry is also faced with pressure to reduce energy consumption and to reduce emission and pollution to the environment. Over-competition among the companies, both in domestic markets and international markets, and over-capacity of the industry as a whole also need to be solved.

## 5. Strategies for Future Development

In April of 2009, the State Council of China released the textile industry adjustment and revitalization plan. The plan lists 5 main objectives, 8 main tasks, and 10 key policy measures. These can be regarded as the strategies for the future development of the textile and apparel industry of China. Here only the tasks are introduced, which are:

1. Stabilize and expand export demand: Encourage large textile companies to explore new international markets and develop international famous brands; build logistics centers; implement a flexible export-tax policy (while not in violation of WTO rules); and respond to trade conflicts. Increase domestic textile demand by exploring new products, promoting electronic-commerce business models, and expanding rural markets.
2. Improve indigenous innovation capability: Promote industrialization of high-tech fibers; explore new materials, high value-added products, and non-woven and industrial textiles; advance textile-

equipment innovation efforts to raise the proportion of equipment that is manufactured domestically from 60 to 70 percent; and establish industry-specific textile standards.

3. Accelerate technological reforms: Reform spinning and weaving, printing and dyeing, and chemical fibers sectors to increase productivity and efficiency in the textile industry.
4. Eliminate obsolete production capacity: Remove outdated processing technologies and equipment that consume high amounts of energy and pollute large amounts of waste.
5. Optimize the textile industry across regions: Improve coordination so that the textile industry in eastern and central and western regions complement each other; encourage vertical intergration of the textile industry across regions; and strengthen cooperation between Xinjiang and the interior, and establish these areas as international trade centers for textile exports to Central Asia and Europe.
6. Perfect public services for the textile industry: Institute quality tracking and supervising systems, a platform for information exchange, improved technical regulations and standards, and a service system for managing textile exports.
7. Accelerate indigenous famous brand creation: Implement famous brand development and increase exports of famous brand textiles; support domestic famous brands and select roughly 100 enterprises that have indigenous intellectual property rights to strengthen their technological progress and quality standards; and construct technical research and development and brand-promotion centers.
8. Improve competitiveness of textile enterprises: Adjust and revitalize the textile industry; deepen enterprise reforms; and quicken the pace of constructing a modern enterprise system.

These can be seen as the roadmap for development of the industry for a few years to come.

## 6. Implications for the Korean Industry

In the process of China's textile industry development, the Korean industry has played a positive role, including direct investment in China, technology transfer, and sourcing. While China exports a large amount of textiles and apparel to Korea, Korea also exports a substantial amount to China. Korea designs are favored by many Chinese, particularly the young. The relationship between the industries in the two countries is thus both cooperative and competitive. Much like that between Mainland China and Hong Kong, the relationship may remain that way for a

long time to come.

It is likely that China will remain a manufacturing base for many Korean firms. That is, many Korean companies will invest in China. For the three stages of textile and apparel business: design and product development, manufacturing, and marketing, Korean firms need to focus on the two ends, that is, design and marketing, and probably has to give up manufacturing to a large degree. Activities in design and marketing have higher added value, and can still provide a large number of highly paid jobs. Both companies and universities may have to pay more attention to research and development in these two areas. This may provide a win-win situation for both countries.

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