Whoever thinks China is an emerging economy in the world is wrong:
China is simply having their comeback.
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中国

荷兰

CHINA

THE NETHERLANDS
DECLARATION OF AUTHORSHIP

I hereby confirm that I have worked on this Final Thesis without forbidden help.

Shanti Rossa, Amsterdam 25 May 2011
these days all eyes are on China

‘CHINA IS SIMPLY HAVING THEIR COMEBACK....
Preface

This Thesis is the final assignment to complete my Bachelor course in Fashion & Technology, specialising in the study Fashion & Management. The final Thesis contains information which has been used to address a practical problem. During my study at the Amsterdam Fashion Institute I learnt all the ins and outs of the profession of a fashion manager. These days all eyes are on China. The interest for this country is great. Terracotta Warriors from the army of the emperor are successfully shown by European museums. The Olympics in 2008 and the World Expo in 2010 were great Chinese events. Chinese language and cultural institutions are opening worldwide. Half of the world’s population is wearing the clothing and footwear from the People’s Republic. China is attracting many tourists.

Although the human rights situation gives causes for commotion. The economic catch-up of the giant country gives global surprise all over. Is that justified? History has taught us that China for centuries had a superior technologically compared to the rest of the world. Inventions like paper, gunpowder, printing, products of jade, silk and porcelain found their way from China to the west. In the eighteenth century the Chinese imperial functioned as a sort of model for Europe. After many decades of regime change, civil war, chaos and failed experiments in China. The last thirty years a substantial recovery has taken place.

Whoever thinks China is an emerging economy in the world is wrong: China is simply having their comeback.
Acknowledgement

I want to thank everyone at BeConnected for sharing their experience, knowledge and opinions.

Especially I would like to thank my parents for their support and feedback.

Many thanks to Joop Smit, my supervisor from the AMFI for being such a kind and flexible supervisor.

25 May 2011, Amsterdam, Shanti Rossa
My personal fascination with China began in my third year of AMFI during the minor Individuals. Together with some of the students from Individuals we went to Shenzhen to see the production. There I saw that China was very different than I imagined. From then on I realised that I wanted to go and do my internship in China. To learn more about their production process and to see how Chinese interpret the European regulations in their production process. Another important reason to choose to go to China is that China is now one of the most important countries for the production in the fashion industry.

I did my internship at the company BeConnected Shanghai Ltd. During the internship I experienced that the prices of the production process were rising every day and that the Chinese domestic market kept growing and growing. This caught my attention and I was inspired by both these subjects. Therefore, I chose to write a final thesis about these developments.
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Executive Summary

In this thesis the consequences for China and Europe regarding the Chinese growing domestic market and the rising production costs in China are discussed. The garment prices have increased with at least 15% compared to the previous year. The market is shifting. The buyer market is shifting to a supplier market and the Chinese production market from a quantity market to a quality market. The main goal of this thesis is to find a solution for the lack of production capacity in China, with regards to the growing domestic market and the rising costs in China.

Does the garment manufacturing still has a future in China? This question was explored by interviews and a study of literature. The first six sub-questions are exploring this question further. Sub-question 5 partly and 7 and 8 are possible solutions for the problem.

What is the trade history of China? China used to be totally not interested in the rest of the world and was completely self sufficient. Now it takes care of the rest of the world by producing many things. It is very keen to learn and to become more powerful and to increase their own standard of living.
When Europe started to buy in China the quality was bad and the prices were cheap. Later on the Chinese developed their knowledge about textile and clothing production which lead to the result that their product became good quality in combination with cheap prices. Nowadays China is delivering good quality but for higher prices.

**What is the current situation of the domestic market?**

The Chinese market is enormous and the purchasing power of people is increasing. Therefore the domestic market is demanding growth in the textile production of China on top of that the export is also increasing. China’s market is shifting from a production market to a consumer market.

**How has and is the One Child policy influencing the economy?**

The One Child Policy has caused for 400 million less birth since the law was established in 1978. These unborn cannot partake in the economy as they do not exist, nor in the production nor in the buying. Now China has a population of 1.3 billion, in 2050 this will approximately be 1.4 billion and from then on will start to slink with about 20 million people every five years.
What are the causes of the rising prices in China?
The costs of raw materials are rising; wages are becoming higher and the rise of the Yuan against the US dollar all of these causes for the prices to rise. But these are not the only causes, pollution and audits are becoming more and more important. Although production costs are still low, China can no longer be considered the cheapest country and on top of that the lead-time is becoming longer. European companies have to decide if it is still worth it to go to China instead of staying near their own continent.

What are the consequences of the rising prices for China?
They are losing export because they are becoming too expensive. They are gaining because their quality is increasing. For the basic garments they are outsourcing. They are cutting down on manpower by improving their machines.

How is the European market responding to these price increases?
Consumer prices almost didn’t rise. So the rising of the purchasing prices leads to less profit for the brands. Decreasing the margin is a temporary solution but not a definitive solution. In the end the prices will go up and the consumer will probably buy less.

Where lay the chances for European companies?
With the domestic market of China coming up and the middle class becoming more and more interested in quality clothes, the European fashion should take a chance on the Chinese market right now.

Will China choose to produce for the domestic market instead of Europe?
It will not change overnight, some will keep producing as they are either for domestic or export and some will choose to change. There will be factories that will upgrade their products.
Some non Chinese will start to produce for the domestic market in China.

China is the main producer of garments in the world. This will not change suddenly; as the production prices are increasing a shift in production has begun. Companies are looking for new opportunities for cheaper production, but there is no other country that has the production capacity of China. Their working population is reducing and also people willing to do menial labour because they are better educated. Slowly the production market will have to adapt. Menial work will be outsourced or people from for instance India will come to China to do this work.

The more educated Chinese will manufacture more quality more profitable cloths for whomever they can either for their own domestic market or for export. This means they are shifting from a quantity market to a quality market. Educated Chinese will also be able to develop newer fabrics and newer more profitable ways of manufacturing and in this way they will still be the most important producing country in the world.

For now we can continue to move production to low wage countries and in some cases moving inland, but in the future it will no longer be possible to keep moving the production because the cost ultimately will be the same everywhere. In theory all the cost will end up the same. And then obviously manufacturing nearby will be far more interesting. The changes have an effect on China as a manufacturing country, but also on Western countries which are currently producing in China. The growing economic market and the change in quality will give opportunities for European brands.
Whoever thinks China is an emerging economy in the world is wrong: China is simply having their comeback.

Introduction

As mentioned before I discovered in Shanghai that the production prices were rising. The prices were increasing with at least 15% compared to the previous year. The impact of the price increment gave cause for a lot of commotion. Buyers, product managers, merchandisers and suppliers were sourcing for new opportunities in the fashion supply chain.
Two important things that caught my eye during my internship:

1. **The market is shifting**
   The times that buyers are determining what is happening are over. The factories are starting to determine what the prices and delivery times are. The buyer market has shifted to a supplier market. This shifting of the market is a complex problem. For all involved. This problem is confirmed by BeConnected and by other companies in the fashion industry.

2. **To get a better grasp of the fast growing Chinese domestic market**
   The internship company BeConnected has done professional research in cooperation with an American based private equity & portfolio firm named ”Alaris”. Based on this research BeConnected asked me to manage a webpage with European Bestsellers for the Chinese domestic market.
RESEARCH QUESTION

China’s garment industry is getting more and more expensive every day, partly because there economy is growing rapidly. The definition of this problem is based on the findings in China, articles I read and professionals I interviewed. This leads to the following question:

Does the garment manufacturing still has a future in China?

The Final Thesis will explore new opportunities for the fashion production in China mainly focusing on the Chinese perspective and partly on the European.

Based on this research there will be an advice report which will function as a guide for Chinese and Dutch buyers, buying associations, product managers, merchandisers, suppliers but also wholesalers and retailers. This report contains theories that might be relevant and inspiring for anybody working in the fashion industry.

Objective
To find a solution for the rising of the purchasing prices which leads to less profit for the European brands and to find a solution for the decreasing Chinese export because they are becoming too expensive.
Subsidiary Questions
The research question can be divided in the following subsidiary questions:
- What is the trade history of China?
- What is the current situation/ future of the domestic market?
- What are the causes of the rising prices in China?
- What are the consequences of the rising prices for China?
- How is the European market responding to these price increases?
- Where lay the chances for European companies?
- Will China choose to produce for their own market instead of Europe?

Methodology and Study Area
To get a better understanding of the problem and the consequences I decided to do a qualitative research. This was obtained by interviewing experts who deal with these problems every day.
The following people have been interviewed:

- Product Manager China at Van Der Erve NV, Buying Association, Zaventem in Belgium.
- Product Manager ladies department at Teidem Doncawear BV, Buying Association, Leiderdorp in the Netherlands.
- Junior Buyer ladies department at Teidem Doncawear BV, Buying Association, Leiderdorp in the Netherlands.
- Productgroup Manager Lingerie at Vroom & Dreesman Warenhuizen BV, Department Store, Amsterdam in the Netherlands.
- Product Manager Soho at Vroom & Dreesman Warenhuizen BV, Department Store, Amsterdam in the Netherlands.
- Buying Manager at State of art BV, Menswear Brand, Lichtenvoorde in the Netherlands.
- Product Manager at Kokkie Bighouse VOF, Halfweg in the Netherlands.
- Product Manager at Kokkie Bighouse VOF, Halfweg in the Netherlands.
- Junior Buyer at Cool Cat Fashion BV, Brand, Amsterdam in the Netherlands.
- Senior Manager at Magazijn De Bijenkorf BV, Amsterdam in the Netherlands.

In this thesis the persons are named by their function and not by their name because some of them said they didn’t want their name mentioned in their thesis.

I approached the research from different aspects, to get a realistic answer on the research questions. To trigger the conversation and to get an in-depth review I chose to use open questions. The aim of the open questions is to lead to new questions.
Which factors are the causes of the rising prices? The study and the methodology of this advise report consists of assumptions and solutions based on different methods; the primary source is the knowledge from people in the fashion branch and as secondary source literature.

**Limitation**
This report is mainly focusing on the growing domestic Chinese market and how they obtain the production for the domestic market instead of export. In this report my focus is on the garment industry.

During the interviews I found out that for the low segment there are no possibilities to move their production to Europe, simply because this is too expensive. For the middle segment however it is possible to shift to Europe.

This research gives answers in the form of recommendations to find new opportunities for the textile industry.

**Applicant**
This study is mainly applicable for Chinese and Dutch buyers, buying associations, product managers, merchandisers, suppliers but also wholesalers and retailers. This report contains theories that might be relevant and inspiring for anybody working in the fashion industry.

**Reading Instruction**
Each chapter will begin with an introduction of the sub question and will end with a conclusion of the most important findings from that chapter. This research will lead to an advice report, which will function as a guide for professionals who are working in the fashion industry.
Whoever thinks China is an emerging economy in the world is wrong: China is simply having their comeback.

In order to have an idea what the future will bring us we first have to take a look at the past. Therefore the following question is answered in this chapter:

What is the trade history of China?
China was represented in the West as a threat, this was just an excuse for our greed: to make the largest market in the world ours.

In ancient times there was a gap between the West and China, which were connected only by the narrow path of the Silk route, the road along which silk was transported. The flow of information went both directions from the west to China and vice versa. The land was part of the Chinese empire of the Han Dynasty (206 BC - 220 AD).

In the thirteenth century Marco Polo travelled to China. It took him three years to get from Italy to China he stayed there for 20 years and after that it took him another three years to come back. After his stories about the Far East more and more European went to China in 1497, most of them were traders and missionaries from southern Europe. They behaved like pirates, the Chinese were more and more convinced that the aggressive, raw, uncivilized people had no clear system of rules or politeness. The first East-West relations gradually developed the patterns of the future. The restless, greedy Westerners were studying the treasures of the rich east, China, reserved, passive and complacent, did receive them but did not sent anyone to explore the unknown West. The main motives to undertake this long, dangerous journey were trade and religion. The Chinese weren’t interested in neither trade nor religion and did not understand why these rude strangers bothered to travel so far. The Far East offered many opportunities for trade. European merchants wanted to sell their products to them, but the Chinese seemed not interested in buying their goods. You should keep in mind that the Chinese had no reason to believe that the West was really a civilization with high quality and peace-loving people, because the representatives of this civilization were all simply barbarians.

A new period began with the arrival of the Portuguese in 1511. The Dutch appeared in 1596 in the Far East and also tried to set up a trade with China.
However, they were treated as Western barbarians. The Portuguese had the monopoly on the trade between China and Europe but gradually the VOC tried to repress them. During the seventeenth century, the Portuguese lost their monopoly of the profitable trade with China. The Spaniards now appeared on the scene followed by the Dutch and later the British. Each country sent several trading expeditions, arousing a fierce competition. 1602 the VOC came to China; they brought textile, silk and cotton. The main characteristic of the sixteenth to the eighteenth century is that for the first time information was exchanged between China and the West by people who were permanently resided in China and knew the community. Their predecessors were travellers, traders and missionaries.

From 1757 all overseas trade was limited to Canton. The Chinese set up strict restrictions for foreigners. In 1784 the Americans joined the Europeans in Canton. Picture 1 shows a map of the province Guangdong were Canton is settled. Attempts by the Dutch to set up trade missions with new trade agreements to more differ with the Chinese failed.
By the end of the eighteenth century the pressure exerted by the West was increasing to expand trade. The Westerners wanted silk, porcelain and tea, the Chinese did not want anything from the West except opium. The demand for this drug increased, Chinese and English traders made fortunes and the Chinese silver stocks were depleted to pay for the opium. The Chinese authority tried to suppress the opium trade, but without success. The Dutch wanted to concur the Chinese market at the end of the 18th century. At first they submitted to the Chinese rules: there was only one harbour open, trade had to take place between October and March and learning the Chinese language was forbidden. A century and many wars later, the power relations were reversed and China was forced into humiliating treaties. In 1839 the first Opium War broke out. China lost and ended the war by making the Treaty of Nanking; five harbours in 1842 were opened to foreign trade and designated as a residence for foreigners: Canton, Fu-Chou, Shanghai, Amoy and Ning Po. The relationship between Chinese and foreigners in the trade harbours became tense after the Opium Wars. Westerners were irritated by the hostility of the Chinese and the slow expansion of trade. Anti-foreign riots arose, but the opium trade continued. In 1861 the Chinese formed the first Foreign Ministry. With this they tried to obtain accurate knowledge of the West. During the last thirty years of the nineteenth century, the foreign aggression grew and they were taking over more and more Chinese territory. In 1900 there was a revolt; anti-foreign fanatics attacked Westerners, they besieged the foreign settlements in Beijing and the anti foreign Chinese were finally defeated by an international expeditionary force. With the founding of the people’s republic of China in 1949, China became communist. The Western presence in China is limited to Hong Kong and Macau. Under the communist regime the links with Europe were subordinate to the Soviet Union and the U.S. Mao Zedong lead China into the Cultural Revolution, he was against the
capitalism. The youth from China were designated as red guards they followed Mao Zedong with his red book to change the social class. This was done by destroying everything which was associated with the capitalism as books, art, historical sites and culture. The economy almost crashed as a result of this Cultural Revolution. The Chinese were once again separated from the rest of the world.

**In 1971** China became a member of the people republic VN.

In order to stimulate the economy and the foreign trade, special economic zones SEZ (see picture 2) were found in 1976. China is growing partly due to foreign investment; this is why joint ventures were set up together with Western companies.
With the opening of China’s doors to attract foreign trade in 1979 the country was divided into Special Economic Zones. In those days it was only possible for a foreign company to open a company in one of those areas. The Special Economic Zones are seen as the engine for the economic growth in China during the eighties, and a way in for foreign firms who wanted to start in China. Open door politics in 1978, Deng Xiaoping was tempted to return to the capitalism system to promote foreign trade and economic investments. The open door policy in 1978 and the new form of the economy were applied to give the economy a positive growth for the country.

Foreign trade, investment and technological assistance increased dramatically in 1980. Europe in 1995-1996 changed its policy towards China in a long term vision relation. This was done to promote the international community within China and the integration of China into the world economy. Through the involvement in the trading system and to promote it’s economic and social development.

Especially in 1997 the human rights played a role in the negotiations. In 1999 and 2000, special attention was focused on this subject.

China has mainly been focusing on products that are labour-intensive. Industries like textiles and clothing production are big part of this. But also electronics, metal and other industries are increasingly important. Looking back at the past, China has developed very rapidly in the recent decades.

Underwear, T-shirts and shirts were the basics of which Chinese production took off in 1990. The Chinese were able to copy clothing from basics to complex and high standard clothing products.

China currently has the second largest world economy. It is unbelievable that a country where the economy was failing three decades ago to reach the second place leaving Japan behind but getting closer and closer to the first place, the United States. China is not only investing in the domestic economy, but they are also engaged in acquiring foreign
companies. Since 2001, China is part of the World Trade Organization. Through the collaboration and investments in foreign companies they can see and learn about the foreign technology and knowledge that will benefit their industry.

China before joining the WTO was particular known for the cheap production of textiles with the additional problems related to (child) labour. But the ‘Made in China’ associations in the clothing labels are increasingly starting to fade and China is better known for its quality and superior knowledge of production. The Chinese society is becoming fashion conscious, thanks to globalization. The Chinese know brands such as Prada, Gucci and Chanel, but also designers of Dutch descent as Daryl van Wouw, Ontfront, because they have established themselves in China. Nowhere in the world there are so many Western fashion houses being opened as in China. China’s accession to the WTO has had positive effects on international trade with China. This made business easier for the investors and foreign parties. China was, and in some cases still is, known for its cheap textiles with additional poor working conditions. By the accession to the WTO heavier acts occurred for these poor working conditions. The cost of labour and raw materials has risen sharply in recent years.

On January the first 2008 the Labour Contract Law was established to improve the rights of the Chinese workers. This law is set up to reach the following goals:

- Set up minimum wages
- Puts limits to working overtime, max. is 9 hours a week
- Improves job security
- Arrangement for discharged workers for each year you worked you get a one month salary
- Make it more difficult for companies to hire temporary workers
After the introduction of the open door policy China has changed rapidly. 30 years ago it was almost impossible for a foreigner to enter China. Today, foreigners are accepted in all major cities, not only as tourists but also as a resident. Unfortunately, the acceptance of foreigners in the country is still not the same because of the little contact with whites.
The garment production of China started in Hong Kong. Hong Kong quickly became too expensive and the production was moved to a city nearby named Shenzhen. Shenzhen grew out to a production city; nowadays a lot of factories are still located over there. The production moved its way up from Shenzhen in the south along the coast to the north. Due to the high wages and the shortages of workers along the coast, production is currently moving inland to Anhui and Jiangxi province. But most of the production is still located along the coast in the Special Economic Zones. Picture 3 shows a map of China with all their provinces and which production takes place in which province.
The following question was answered in chapter 2.
What is the trade history of China?

"" China used to be totally not interested in the rest of the world and was completely self-sufficient. Now it takes care of the rest of the world by producing many things. It is very keen to learn and to become more powerful and to increase their own standard of living.

When Europe started to buy in China the quality was bad and the prices were cheap. Later on the Chinese developed their knowledge about textile and clothing production which lead to the result that their product became good quality in combination with cheap prices. Nowadays China is delivering good quality but for higher prices.""
Domestic market

To get a better understanding of the fast growing Chinese domestic market. The following questions have been answered:

What is the current situation of the domestic market?

How has and is the One Child policy influencing the economy?

Whoever thinks China is an emerging economy in the world is wrong: China is simply having their comeback.
The economic and political power is increasingly shifting to China. China has the biggest world economy after America. As Kennedy said: "In the nineteenth century, America was the fastest growing market, but when you see how that went! Boom-bust-boom-bust. It crashed its way up "So China will also have many problems to handle. But the way up seems irrevocable.

The Chinese market is enormous and the purchasing power of people is increasing. People in China are developing a better sense of taste, are paying more attention to quality and appreciate beautiful design.

The first Chinese designers, who presented themselves in the Chinese fashion week in 2010, only need time
to decide their segment of the market today. Designers will take an important place in the field of fashion because China has a great history to draw inspiration from.

Zou You, a Chinese fashion designer, tells in a report of the NOS that he thinks his generation of fashion designers should put more effort in order to become better than the fashion industry in Europe. He indicated that Chinese consumers are still obsessed with the status of foreign-known fashion houses. Therefore the Chinese designers have to fight for recognition in their own country.

The domestic market is demanding growth in the textile production of China on top of that the export is also increasing. The Chinese consumer market consists of a population of 1.3 billion. Therefore the Chinese market will be the largest consumer market of the world. China’s market is shifting from a production market to a consumer market.

According to the China Textile Industry Report 2010-2011 the total production in China 81.14% is in the textile industry, a growth of 10.38 percentage points was achieved from 2005 to now.

The Chinese population is getting more interested in luxuries goods and they are migrating from the country to the cities. Therefore an opportunity arises for Western brands to respond to this demand. The Chinese idolise foreign brands, brands as C&A, ZARA and H&M make well use of this. They have opened stores in Shanghai.
3.2 History population of China

In 1949 China consisted of half a billion Chinese people. After a century of wars and epidemics, China had a population boom. This was stimulated by better medical care and hygiene. In a few years, the growth of China’s population was taking a toll on their food supply. In the mid 50’s the Chinese government started to change their perspectives on conception, voluntary birth control programs were developed and they were supportive about abortion. From 1958 to 1961 20 to 30 million (estimated) Chinese starved to death.

In the years that followed, things became better. There was still a shortage of everything from soap to eggs, but people weren’t starving anymore.

The population continued to grow. In the early 70s China’s population passed the 800 million.
Under the motto “Late, Long, and Few,” China launched a campaign to reduce the population growth. They wanted to delay marriages, have fewer children and increasing the number of years between children. This worked, the birth number decreased between 1970 and 1976 of six births per woman to less than three (see graph 1). But this was not enough the so far voluntary program would quickly turn into a restricted one.

After Mao’s death, his leadership was passed on to Deng Xiaoping, who inherits a poor country. He was motivated to achieve something that Mao wasn’t able to achieve: a rich China. The Chinese people wanted a better life, looking at their richer neighbours Japan, Taiwan, South Korea and Singapore; they compared themselves with their neighbours and realised how much lower their standard of living was. The one-child policy was introduced in 1978 and was originally set up in the year of 1979. According to the original one-child policy, couples had to get permission from local officials to have a baby. In 2002 this law was changed, there was no longer permission required for the first born.

Drastic measures such as forced sterilization or abortion are rare nowadays. When this law was introduced it was not well received in accordance to the Chinese tradition of having large families.

According to the Chinese government, the One Child Policy has caused for 400 million less birth since the law was established in 1978. In 1950 there was a population of 550 million people in China. In 1980 when the policy was first established the population was approximately 980 million. Nowadays the total population of China consists of about 1.3 billion. Since the law was introduced, the country has an average growth of 12 million people per year. According to projections from the United Nations’ Population Division, their population will peak in 2030 at about 1.46 billion.
3.3 Current Situation population of China

How come that after thirty years of the policy of lower birth rates the population keeps growing?
There are a few reasons to explain this. The bottom line is that the growth of the Chinese population has been significantly reduced, without this policy; the population would have been much greater.

One of the factors that gave rise to population growth is the drastic improvement in living standards. This improvement has caused for a longer life expectancy. Between the beginning of the 50s and the 70s the Chinese life expectancy increased by an average of 1.5 years per year. This means that the life expectancy has risen from less than 40 years to nearly 70 years old.
According to The U.N. Population Division China will have approximately 1.4 billion citizens in 2050 and from then on will start to slink with about 20 million people every five years. This is one of the reasons why the era of cheap Chinese labour will come to an end. China notes that there is a decline in terms of primary school pupils. According to estimates, the total size of the population of China between 20 and 24 years of age will slink the coming 10 years with 50%. The recent years show that factories are announcing a shortage of young workers and this will become worse.

The average age of China will continue to grow; in 2005 the average age was 32. In 2050 this age will grow to 45; with one quarter of the population over 65 years. In 2007, China had 6 adults working towards 1 pensioner in 2040 this ratio is expected to fall to 2 working towards 1 pensioner.

In September 2010, the government announced that the policy would stay. The China Daily newspaper quoted Li Bin, head of the National Population and Family Planning Commission, as saying: “We will continue the one-child policy until at least 2015.”

↑ Graph 3: Adult Population 15+ by Age Group: China, 1970-2030 (estimated and projected, thousands)
A negative effect of the One Child Law is the deliberate abortion of female foetuses and even in some cases babies. Traditionally the Chinese culture has a preference for boys. They carry on the family name. When a daughter got married she would go along with her husband and would be responsible for his family. Most of the rural residents of Chinese have little or no savings nor do they have a pension and must therefore rely on the care of their children. Since the entering of the One Child policy, China has an abnormal ratio between men and women. The ratio is about 120 boys for every 100 girls compared to an average of about 105 boys to 100 girls in the rest of the world. The availability of ultrasound in 1980 caused this imbalance. From 1994 it was forbidden to do a prenatal sex screening.

[Picture 4: Males per 100 females
Source: BMJ 2009 adjusted by Shanti Rossa]
Because of the ratio between men and wife in China is out of balance. They have started ‘markets’ in Shanghai for men to find wives. On these advertisement things are mentioned like age, length and financial status. Picture 5 and 6 show these ‘markets’.
It looks like these preferences are changing in favour of girls. A prospective survey in 2009 were 3500 prospective parents were questioned in Shanghai pointed out that 12% wanted a boy and 15% a daughter, the Other 73% said that they did not have a preference. The reason for this change is that women are getting more education and therefore have better careers than they had before.

The children who have grown up without sisters or brothers have married and have had only one offspring as well. Now this offspring thinks it is superior. Two adults and four grandparents adore him or her. These parents are devoting all their time and money to this child. But there is also a lot of pressure on this child. This is the only one and this child has to make it in life. Therefore English lessons are started at an age of one year old. The parents work hard to pay for the extravagant wages the teachers ask for.

Youngsters are already getting used to western food, clothing and ways. They adore the West and all the famous brand names. But they are critical of quality price ratio. They are nicknamed ‘Banana’s’ yellow (Chinese) from the outside and white (Western) from the inside. Another name for this group is ACC American Chinese Consumers or BCC British Chinese Consumers. Some Chinese have a more individualistic taste but they will still follow Western brands. These youngsters narrow the gap between the East and the West. Some of them were born outside China to then return to the motherland with a complete understanding of the outside world they can make good use of that when they set up their businesses in export.

The government has realised in other to maintain the current production for Western countries it has to upgrade the quality in order to compensate the rising of prices. China is changing from
a low production market to a high production market. Also these middleclass consumers have chosen to live in small villages rather than in the major cities like Beijing and Shanghai. These small villages are surrounded around these major cities. In this way they can save up some money as the way of living is a lot cheaper in those villages. With the money that has been saved up in this way they like to buy luxurious item.  

The Chinese have a completely different kind of figure than the Westerners. They are smaller but also the women have smaller breasts and smaller backside. In general their bodies are longer and the legs shorter than Westerners. Therefore the group of non Chinese living in China, mainly consisting of expats have a hard time finding any clothing that fits them. This gives opportunities which some companies like H&M and ZARA already have adapted to. 

The taste of the Chinese is not completely the same as the rest of the world. It various from a childlike style to a modern style. The Chinese are proud of the fact that they are able to save up enough money to buy the ‘real’ product instead of a fake.  

As China manufactures over three quarters of the worlds clothing it can not make any sudden changes and for it to just drop out of export would be near impossible. Some companies are already leaving the ones which have a large profit margin and need to keep the cost of labour as low as possible they move to other countries were the wages are still low. 

China ones was an export production machine well oiled to meet all the desires of the Western world. Now however it might well change to meet the desires of its own people while their consumption hunger is growing.
The following question was answered in chapter 3.
What is the current situation of the domestic market?

The Chinese market is enormous and the purchasing power of people is increasing. Therefore the domestic market is demanding growth in the textile production of China on top of that the export is also increasing. China’s market is shifting from a production market to a consumer market.

How has and is the One Child policy influencing the economy?

The One Child Policy has caused for 400 million less birth since the law was established in 1978. These unborn can not partake in the economy as they do not exist, nor in the production nor in the buying. Now China has a population of 1.3 billion, in 2050 this will approximately be 1.4 billion and from then on will start to slink with about 20 million people every five years.
Rising prices

The production prices are rising, with at least 15% compared to the previous year. The impact of the price increment causes for a lot of commotion. Therefore the following question is answered in this chapter:

What are the causes of the rising prices in China?

Whoever thinks China is an emerging economy in the world is wrong: China is simply having their comeback.
For a long time China was known for their low wages and cheap products. This is coming to an end. ‘Thousands of manufacturers have shut down or moved out of China because the costs of raw materials are rising, higher wages and the rise of the Yuan against the US dollar’ tells John Chen in an article on the World Socialist Website.

Most people find it logical that a number of crop failures are the cause of the rising price of bread, clothing prices are rising but we are not longer used to this fact. Yet the price of clothing is for a substantial part determined by natural resources, or the price of synthetic raw materials which is depending on oil prices. An important part of the increase of the cotton price is determined by nature. Pakistan a major cotton country saw his harvest almost entirely fail because of the floods. And also in China the cotton harvest was bad.
It’s hard to imagine that the country with the largest population of the world is talking about a shortage of workers.

The reason of the former generations to migrate to a production city was mainly to support their families. Chinese would leave their villages behind to live and work in the factories. The new generation is not willing to work in the factories. With the Chinese New Year all the workers go home. Their hometowns are very far away from the production cities. When it was time for the sewing machines to start working again, the Chinese had not returned but stayed in their hometowns. So the factories were empty and could not produce (see picture 5).
Some Chinese decided to take their chances on farming again the warmer weather is better nowadays because the government is subsidising farming. Now the villages surrounding the major cities are getting wealthier. It’s much nicer for the Chinese to be able to live and work nears their family they much prefer that. Now the young generation as we said before are more used to a more luxurious life. And they are also very well educated because of the one child only agreement. There will be a shortage of workers soon. The government is now thinking of changing the one child policy in order to be able to maintain some kind of production.

**Raising wages**

Costs of labour are rising, the costs of unskilled labour has risen from 800 Yuan two years ago to 1200 Yuan a month. Skilled workers must now be paid around 1500-2000 Yuan. This is a rise of 50%.

As the inflation is much lower in surrounding countries it is very interesting for Chinese manufacturers to outsource their production.

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>INFLATION PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>20-50%</td>
</tr>
<tr>
<td>Vietnam</td>
<td>20%</td>
</tr>
<tr>
<td>India</td>
<td>12%</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>8%</td>
</tr>
<tr>
<td>Philippines</td>
<td>6%</td>
</tr>
</tbody>
</table>

*Table 1: Inflation per country in 2010*

*Source: Info gathered from Index mundi; table made by Shanti Rossa*
Cotton

Of all the textiles worn over the world 15 till 20% is made from cotton. There are is a top ten of producers of cotton, the top 3 produces for over 70% of the total production.

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>BALES</th>
<th>PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>25.5 million</td>
<td>32.7%</td>
</tr>
<tr>
<td>United States</td>
<td>17.6 million</td>
<td>22.6%</td>
</tr>
<tr>
<td>India</td>
<td>12.5 million</td>
<td>16%</td>
</tr>
<tr>
<td>Pakistan</td>
<td>8.5 million</td>
<td>10.7%</td>
</tr>
<tr>
<td>Brazil</td>
<td>4.4 million</td>
<td>5.7%</td>
</tr>
<tr>
<td>Turkey</td>
<td>4.2 million</td>
<td>5.4%</td>
</tr>
<tr>
<td>Greece</td>
<td>1.7 million</td>
<td>2.2%</td>
</tr>
<tr>
<td>Australia</td>
<td>1.3 million</td>
<td>1.7%</td>
</tr>
<tr>
<td>Syria</td>
<td>1.3 million</td>
<td>1.7%</td>
</tr>
<tr>
<td>Mali</td>
<td>1.1 million</td>
<td>1.4%</td>
</tr>
</tbody>
</table>

Table 2: Top ten of producers of cotton
“China is the largest consumer of cotton of all countries.”

While over the last decade prices of any goods have inflated. Textiles have remained the same. But the winter season 2011-2012 a sharp rise will happen due to the expensive cotton. The CBS Central Bureau of Statistics has published that the price for clothing has increased with 0.3 percent. But the price of cotton has risen with a staggering percentage of 150. The clothes prices have not been affected as yet because they were produced before the raise of the cotton price. And also factories have cut down on their profit marges and they have move to place where to cost of labour is cheaper.

The prices of cotton have gone up because of the following reasons:
- Bad crop results caused by heavy rain and bad weather some farmes have started to plant something else instead of cotton.
- Cotton is a complex product to harvest. So the farmers have changed over to products which are a lot easier to produce and obtain.
- There were grants given from the government to encourage farmers to change crops.
- Increasing of demands from the domestic market.
- America produced cotton is imported because the Chinese did not produce enough themselves. This made the price of cotton increase with 24%.
- The cotton fields in Pakistan were ruined when they were flooded it will take more than a year to replace them.

The Chinese have stored away a lot of cotton in case of emergencies. Now they are using this supply and they have released around 400.000 tons but the demand for cotton keeps increasing.

Never has the price of cotton been so high. Even the analysts are reluctant to predict how long these prices are going to be so high because the shortage of cotton is going to remain for quite a while. The increase in demand is simply too big for new plantings to keep up. Sometimes farmers can earn more in
other agricultural products, other problems are new crop failures from drought and flooding.

How long will these rising of prices continue? John Flanagan, Director of Flanagan Trading Corp, a company specialized in ‘futures’ cotton trade believes that: “the next 12 months will continue to be tumultuous and that cotton prices will remain high.”

The International Cotton Advisory Committee (ICAC) announced at the beginning of March from this year that the area where cotton is growing will increase with 7% until the end of July 2011.

Suppliers are substituting cotton, silk and wool with polyester and rayon to save on costs, even in upscale models. Structure and embellishments remain the same to uphold value. Designs in synthetic fabrics will therefore dominate the collections the coming seasons.

Other raw materials
But not only are the cotton prices going up. Besides cotton China also produces and exports two third of the world’s silk and they are world leaders in the technique of processing wool.

The wool price in the South African wool fair has increased by 38% since summer 2010. The price of silk has risen with 88% in the same period. In China the average polyester price increased with more than 30% between half October last year and January this year.

The government give grants for developing new fibres. China is trying to stay ahead of the rest of the world. They are developing fibres with products as:

- Bamboo
- Soy
- Organic fibres
- Protein fibres
- Hemp

Oil
People use up less oil during the crisis in order to save money. With the economy recovery the demand of importing oil is rising again. As the demand of oil will rise and the supply will fall. This will result in the oil price to rise. Oil for sewing machine was 60 Yuan last year and is now up to 75 Yuan a barrel.
4.3 Fluctuation of the dollar

Since 2008 the rate of the Yuan was set to the dollar this was to protect Chinese exporters against international recession. By keeping the Yuan artificially low exporters have an advantage over their American competitors. This is why China exports more than it imports.

China for a long time did everything to keep the Yuan low against the dollar, to the frustration of the Americans. In this way, exports to the U.S. and Europe are encouraged. The Chinese government released the Yuan from the U.S. dollar in July 2005. Especially in the U.S. politicians are keen on China upgrading their currency. They have been saying for a long time that the Chinese are keeping the Yuan 40% too cheap. Because of the releasing of the U.S. dollar the Yuan will become more expensive with as a consequence that Chinese products become more expensive. Because of this decision of the Chinese central bank the Chinese citizens will also con-
sume more, because their currency has a greater value. Investor experts claim that this is good for the recovery of the world economy. “The Chinese have a higher consumption and the Americans have a low one. A more expensive Yuan will contribute to this” outlines investment analyst Michel van der Stee from Van Lanschot Bankiers.

The value or the Yuan is politically determined, adept to a value which is positive for their export. It artificially keeps all the goods in China cheap and therefore the rest of the world wants to import from China.

With the great depression in 1929 a lot of countries did the same thing. As a result a lot of other countries started a trade embargo. The rising of the Yuan will help the global crisis and the Chinese themselves will be able to afford more.
When European companies are sourcing for factories in China, one important factor that should be taken into account is fair labour. Audits are becoming more and more important. China uses up a lot of water to get their industry going. For example to get a special washed look on jeans. The pollution in China is tremendous not only the water but also the air pollution. The air pollution is being caused by the increase of industry and also the more buying and using of cars. As the Chinese become richer they all want their own car. China also uses a lot of coal which also adds to the pollution. By decreasing the manufacturing and therefore using up less energy they are able to decrease the pollution.

The government has started with the dying factories. Instead of working seven days a week they are now only allowed to work three or four days a week. Because the water is so heavily polluted by these dying factories this has affects the soil and therefore anything which grows on the soil. Quite a lot of these polluting industries are moving their factories more inward, to avoid heavy controls. We can see that
the same is happening in China as it happened in the West. First there is a little care about pollution but this will have to change. China has started to invest into green energy and production which are less aggressive to the environment. It is late to start but not too late and the Chinese government is fully aware of this. The working condition for the workers needed and still needs improvement. First child labour was abandoned, also partly because of the One Child policy. But secondly the conditions concerning the health, safety and fundamental rights of the workers need improvement. China knows that to Europe and America it is important that working conditions in China are of a good level. That the media is keeping an eye on China to show the rest of the world how China is performing. Below you can find a short description of the most used audits.

**REACH**
Reach stands for Registration, Evaluation, Authorisation and Restriction of Chemical substances. It is the European Community Regulation on chemicals and their safe use. The aim is to improve the protection of human health and the environment through the better and earlier identification of the intrinsic properties of chemical substances. More and more substances are placed on the REACH list.

**BSCI**
BCSI stands for Business Social Compliance Initiative. Due to globalization and competition higher transparency of suppliers and modern communication technology has made comparison and relocation easier. The production of labour-intensive goods is often made in developing countries and newly industrialized countries because salaries are low. In these countries there is often not held to the labour standards as set by the International Labour Organization. The BSCI was founded in 2002 by the Foreign Trade Association (FTA) in order to set clear rules for businesses which want to improve social compliance in the supply chain. Here are codes of conduct for European companies, control systems and the basis for a common system for monitoring the
social compliance created. The deve-
lopment of the system was reached in 2004 and the system is now used worldwide.

**OEKO-TEX**
Oeko Tex Association has since 1992 engaged in testing harmful substances in the Oeko Tex Standard 100. This was introduced to different textile sorts all who all can contain risks in each sort of way for the health.

Oeko Tex offers companies in the textile and clothing industry a science-based evaluation standard for the human ecological safety of textiles. The Oeko-Tex® label indicates to the additional benefits of tested safety for skin-friendly clothing and other textiles. In this way, the test label provides an important decision-making tool when purchasing textiles. It is an international synonym for responsible textile production from the raw material to the finished product.

**WRAP**
WRAP stands for Worldwide Responsible Accredited Production it is a non profit organisation. They want to make sure that all manufacturing in China is done in a lawful, humane and ethical way. They have twelve principles to make the production environmental as pleasant as possible. The WRAP has international standards and is based in Hong Kong. The WRAP is mostly used for the American market.

**RSL**
RSL stands for Restricted Substances List it is an environmental compliance list. This lists of restrictions shows certain chemicals which are not allowed to be used in clothing, home textile and footwear. The fact that the Chinese had a recall on mild powder affects their name. But it is not only milk powder these sorts of cases are happening in China almost daily. It shows that their quality control is not up to the standards of the Western.
4.5 Pollution

As a result of the fast industrialisation China has become the world’s biggest pollution of air and water. Over the last 30 years it is giving widespread environmental damage. It will be a challenge to keep up the manufacturing but also work on the pollution caused by the textile industry.
A lot of the factories were shut down (especially dyeing units) during the EXPO 2010 which decreased the air pollution. But as soon as the EXPO was finished factories started up again and the pollution got worse again. A quarter of all the Chinese lakes, rivers and streams are polluted.

So the Chinese have a lot on their hands. The decrease in cotton, the increase of cotton prices, the increase in oil, the decrease in workers. The better work conditions, the innovation in new fibres, the technological improved products and on top of all that they have a major pollution crisis on their hands on which they need to act fast.

All these factors will have as a consequence that many factories will have to close. The Chinese government has said these factory closures are part of President Hu Jintao’s philosophy of ‘Scientific Development’ for promoting technologically-intensive industries and moving up in the value chain. Tougher labour and environmental regulations are said to be efforts to build a ‘harmonious society’. Chinese officials have commented that large corporations should wipe out small firms with low added value and backward technology. Beijing is also encouraging factories to move to inland provinces, supposedly helping to narrow the vast economic gap between rural and coastal regions.

Companies have to choose increase the price, or loose profit. H&M choose for the second option. In the first quarter of 2011 they had less profit than the year before. To continue attracting customers with low prices, the company decided not to make the consumer pay the difference of the increased price of cotton costs in clothing prices. Their profits declined by 30 percent.
The Chinese government set up the Adjustment and Revitalization Plan for the Textile industry. In this plan the following things were mentioned:

- Adjust the industry to obtain excessive growth in China’s fibre processing capacity; divide the fibre between the different categories, clothing, household and industrial. Moving 20% of the production to central and western regions in China so that these will have 20% of total production. They want to set up 100 domestic famous brands and make sure they are going to become 20% of the total export.

  **Tasks:**
  - Develop international famous brands.
  - Work on innovations.
  - Improve the coordination between eastern and western and the central of China.

- Maintain constant growth, so that the textile industry will achieve an increase of 10% in 2011 and for export achieve an increase of 8% in 2011.

  **Tasks:**
  - Increase and stabilise export demand.
  - Find new international markets.
  - Build logistics centres.
  - Take on a law with a flexible export tax without braking existing laws set by the World Trade Organisation.
By introducing new and improved technology and by using high-tech products in the textile industry they will try to achieve that 50 percent of the textile equipment will meet advanced international standards by 2011 and labour productivity will be increased by 10 percent each year.

**Tasks:**
- Exploring new products for the domestic market.
- Promote industrialisation of high tech fibres.
- Work on new materials and high value added products.
- Improve textile machines, woven and industrial textiles.
- Speed up spinning, weaving, dyeing, printing and chemical processes.

Ensure a greater efficiency and reduce emissions, so the annual energy will not grow with more than 5 percent, the consumption of water not more than 7 percent and the wastewater will not increase with more than 7 percent per year.

**Tasks:**
- Introduce specific standards for the textile industry
- This plan was set up to support the Chinese textile industry and to ensure it remains strong.

Eliminate inefficient production units.
The following question was answered in chapter 4.
What are the causes of the rising prices in China?

The costs of raw materials are rising; wages are becoming higher and the rise of the Yuan against the US dollar all of these causes for the prices to rise. But these are not the only causes, pollution and audits are becoming more and more important. Although production costs are still low, China can no longer be considered the cheapest country and on top of that the lead-time is becoming longer. European companies have to decide if it is still worth it to go to China instead of staying near their own continent.
Consequences China

The fashion industry denominated China as the producer of the world, but China is not longer just the workshop of the world. The next question is answered in this chapter:

What are the consequences of the rising prices for China?

Whoever thinks China is an emerging economy in the world is wrong: China is simply having their comeback.
In 2010, China textile and apparel export were on their way to recovery, as they were rapidly returning to its pre-crisis export level. According to China Customs, the exports value of China’s textile and garment amounted to $206.5 billion in 2010, increasing 75.72 percentage points from 2005. From January 2010 until October 2010, China exported a total of more than 62.6 billion U.S. dollars worth of textile yarns, fabrics and textile products, an increase of more than 29 percent compared with the same period of 2009. They exported a total of 105 billion U.S dollars worth of clothes increase of nearly 20 percent. Exports were able to increase despite rising prices. In exports to Europe and the U.S., the rise in costs was passed on to export prices, and the unit price increased, thus accelerating the enlargement of the export value.
5.2 Upgrading

In the China Textile Industry report is mentioned that during the 11th Five-Year Plan period (2006-2010), the industry has increased opportunities for independent innovation. An important step in restructuring the industry in China and transforming the model of development, which greatly contributed to companies across the country to invest more in technological innovation and adding more value to their product. China is one of the most important textile producers with 84%. China is capable of the total supply chain from raw material until the packaging. Moving the production to the surrounding countries such as India, Bangladesh and Vietnam and in some cases also back to Europe.

To maintain their position in the market China has to move on to more luxury market. Experts believe that in 2020, 40% of their production will be in the luxury market. It has to move to the next level and become a chain of value. They also have to improve on automation for their production. Their focus can change to the domestic market moving more inland for cheaper labour.
Many corporations are shifting production to inland provinces or countries such as Vietnam, Indonesia and India, seeking cheaper labour. Factory owners are moving factories to inland provinces such as Hunan and Henan to sidestep the labour intensive coastal areas. According to the China Textile Industry Report 2010-2011, textile investment growth in Midwestern and North-eastern regions of China has surpassed that of the eastern region during the 11th Five-Year plan period (2006-2010), which means the widening of the gap between the regions has been halted and the self-development capacity of central and western regions has increased greatly. As costs are rising in China, it is slowly losing work to countries like Bangladesh, Vietnam and Cambodia; at least for cheaper, labour-intensive goods like casual clothes.

Li & Fung, a Hong Kong company that handles sourcing and apparel manufacturing for companies like Wal-Mart and Liz Claiborne, reported that its production in Bangladesh jumped 20 percent last year, while
China, its biggest supplier, slid 5 percent.

The move to poorer countries started even before the rising prices, but now economists expect the move from China’s low-paying jobs to poorer countries to grow. And while workers in these other developing countries are demanding higher pay too they still earn much less than Chinese factory workers.

Many Chinese with a little money, who cannot achieve their dreams in their own country, are moving to Third World countries. They start their own little company that replaces the local shops. If they are working for large Chinese companies they are importing oil, copper, nickel, tropical hardwood, but also soybeans and rice into China from Africa which is necessary for the Chinese growth. Knowledge is usually not transferred, so the local population has little interest in Chinese presence, while the resources of the country are exhausted.

China has started a special operation in the inlands of Congo. It is an operation that can change the way that is dealt with the mineral resources in the developing world.

Congo has one tenth of all copper in earth and a third of all cobalt which are high demands in the global hi-tech industry, crucial for the many factories in that industry which are currently in China. China has spent the past five years to build up a certain reputation as an international raider for raw materials to keep up with the demands of its rapidly expanding economy. The trade has quickly multiplied to over 60 billion U.S. dollars and about 750 000 Chinese workers and entrepreneurs are staying in African countries to gain raw materials, they are building roads, telephone networks and power stations. China is investing in African staff, schooling, transfer of technology and social projects. China can get a more socially responsible reputation that was lacking until now. You ask we will build it fast and cheap, that is the new Africa policy in Beijing. And we pay with the profits that we get with your resources. China’s upcoming into
the third world is not a black and white story. There is a clear positive effect: the economies of Africa have never seen such strong growth as the past few years, driven by Chinese demand for their raw materials, the weekly magazine The Economist noted recently. This growth will possibly get more people out of poverty than all the development aid from the West together. The Africans can learn much from the dynamics of the Chinese. If they can succeed in copying the Chinese according to the developing advisers then they will achieve a win-win situation.

As mentioned before the surrounding countries of China are not as fast raising in price as China, therefore China is already moving ‘basics’ to countries as Vietnam, Bangladesh and India.
5.4 Technological developments

Businesses are automating fabrication processes to ease the need for hiring workers. Computerized knitting machines have improved quality, boosted capacity and cut manpower by as much as two-thirds.
The following question was answered in Chapter 5.
What are the consequences of the rising prices for China?

"They are losing export because they are becoming too expensive. They are gaining because their quality is increasing. For the basic garments they are outsourcing. They are cutting down on manpower by improving their machines."
Whoever thinks China is an emerging economy in the world is wrong: China is simply having their comeback.

Consequences Europe

The production prices are rising. The impact of the price increment causes for a lot of commotion for buying associations and brands. Therefore the following questions are answered in this chapter:

How is the European market responding to these price increases?

Where lay the chances for European companies?
6.1 Buying associations

During the interviews with the buying associations different effects were mentioned about the price increments, negative but surprisingly also positive: A negative effect is that the budget of the buyer remains nearly the same, but the prices of the garments have increased because of that order quantities are decreasing. Another negative effect is that some customers are choosing not to buy from a buying organization anymore. These are customers who are doing most of the production themselves already. A positive effect is that the turnover of buying associations is growing. A buying organization earns a percentage over the unit price of the product. If the unit price goes up it means that the purchasing organization will earn more money per piece. The production costs in Europe are still more expensive than in China but China is catching up. The advantage to move their production to Europe is not only shorter lead-times but also a long selling period. Especially the low segment customers of the buying association are choosing to hand in on their margins to keep their consumers. But most of their customers will apply the price increments to the selling price.
During the interviews with the brands different solutions were mentioned for the price increments. Most of the brands are choosing to keep the same price levels but change the quantities per price level. ‘The mix is changing but the starting price stays the same for the consumer’s perception,’ according to the product group manager lingerie from V&D. For example, Hema is selling 300 products ‘wat krijg je nu nog voor.’ (‘what do you get at the price of..’) to draw consumers to their shops. In this way the consumer is not aware that 50 till 60% of their goods are rising in price. On a lot of products the margins are a lot lower compared to previous years. In some cases concessions on product and quality are made. To response to the quickly changing market, V&D is changing their buying ways in to short term buying, shifting their production closer to home. A lot of companies are upgrading their products to justify their higher prices, for example by adding a belt. Some companies are even choosing to change their store image. Another way to save money is to combine fabric groups. For example producing tops and dresses using the same material.
6.3 Retailers

Retailers have cut down purchase orders and in some cases even had to close their stores.

6.4 Lead-times

Besides the rising price China is facing another difficulty, lead-times are increasing. Because of this buyers are scheduling their buying trips around 2 to 3 months earlier in season compared to last year.

The reasons for the longer lead-times are as mentioned before the lack of workers what results in a lower production capacity. Not only this is a problem but also part of the factories are choosing produce for the domestic market which means less capacity for the European market. This is one of the reason why European companies are choosing for production closer to home, were the lead-times are shorter.

Another problem in lead-times which buyers face every year in China it that there are two major holidays in China which are causing that the lead-times are doubled. One is the Chinese New Year in February and the other is the October Holiday in October.
With their own market coming up and the middle class becoming more and more interested in quality clothes. The European fashion should take a chance on the Chinese market right now. Besides haute couture or prêt à porter European garments are being more of an interest also Western retailers are doing well in China.

Most Chinese can not speak another language and certainty not fluently so companies have to choose their brand name well. It has to be an easy name for the Chinese otherwise the Chinese will not buy from your store. It is also important to write promotional and technical information in Chinese.

Brands should be careful that when a name is translated it might have a total different meaning. For example 7 Up forgot to find out before they were launched what the brand name means in Chinese it meant: death seven times. The internet users grew with 36 million in 2009 to a staggering total of 420 million. Between 2007 and 2009 there was an increase of web shopping of 117%.
Because the Chinese have more money than they had in the past they are using this money to travel abroad. There they discover all kind of brands which they want to keep purchasing when they return to China. Quite often they will search for those brands on the internet. Women also are buying their garments on internet, specially career woman or woman with a wealthy background. The Chinese people are easily influenced by advertising they love web shops and websites which help new brands to get them known such as Taobao and Rayli.

If you want to start a company in China there are no longer geographic restrictions. Only in certain sectors does the government want to have control of the industry.

According to the literature and experts in China, companies can be divided into three groups:

- State Owned Enterprise
- Joint Venture
- Wholly Owned Foreign Enterprise
State Owned Enterprise:
The State Owned Enterprise (SOE) is fully owned by the Chinese State and consists of Chinese workers. These companies have their own management and Chinese management, but the state remains the owner. Is that just Chinese of foreign and Chinese combined?

Joint Venture: A joint venture is a collaboration between a Western company and Chinese company. This option is advantageous for many experts because from the start there is a link with China. The advantages of a Chinese part is that it has a huge network which the Western part can make use of. The foreign company must invest at least 25% in the Chinese company to be a joint venture. Because this kind of business forms a joint of the West and China it could be that the difference in culture problems might cause misunderstandings in the workplace. Therefore it is important that the cultures should respect each other. And not one culture overriding the other. These relationships are again made on the basis of trust: trust in China is higher than formal or contractual documents. It is also very important to build a relationship with the Chinese partner.

Wholly Owned Foreign Enterprise, the whole company is owned by foreigners, so there is not a Chinese partner. In this form, the management is foreign and the rest of the staff Chinese. This can also, just like a joint venture, give cause for cultural problems in the workplace. Therefore, these companies often have a Chinese leader appointed to prevent the cultural differences with the Chinese workers.
The following question was answered in chapter 6.
How is the European market responding to these price increases?

"Consumer prices almost didn’t rise. So the rising of the purchasing prices leads to less profit for the brands. Decreasing the margin is a temporary solution but not a definitive solution. In the end the prices will go up and the consumer will probably buy less."

Where lay the chances for European companies?

"With the domestic market of China coming up and the middle class becoming more and more interested in quality clothes, the European fashion should take a chance on the Chinese market right now."
Europe or China?

With the domestic market of China coming up people are wondering if China will continue to produce for Europe or concentrate only on the domestic market. Therefore the following question is answered in this chapter:

**Will China choose to produce for the domestic market instead of Europe?**

Whoever thinks China is an emerging economy in the world is wrong: China is simply having their comeback.
7.1 Audits

As mentioned in a previous chapter European companies are demanding for more and more audits. This is not only difficult to apply to but also very expensive. Therefore factories rather produce for companies that are not asking for these audits, the domestic market is not yet demanding these requirements. It is however a matter time before these audits will also be a requirement for the domestic market.

7.2 Cultural differences

“We never had interest in ingenious goods, nor do we need any products of your country.” Wrote the Chinese Emperor Qianlong early 19th century to the British, who were eager to set up trade relations with China. The British diplomat who was send out for that mission failed utterly, because he refused, according to the story, to do the kowtow before the emperor; which means he had to throw himself nine times on the ground, while his forehead hit the ground. Although the kowtow is now in the past, the strong hierarchy the British encountered is still true in today’s communistic market society.
Nowadays the communist state is still firmly in charge.
As in the days of Emperor Qianlong, there is still very little need for products from abroad: exports from China is many times greater than imports, and foreign entrepreneurs in China are able to grow, in exchange knowledge is demanded by the Chinese, knowledge gives power for the future.
It’s quite challenging how to behave as a European in China. For example if you do not join the karaoke, you’re a loser. If you put someone’s business card without looking at it straight into your pocket then the counterparty sees that as disrespect. You can only reject alcohol if you have a medical reason.
According to the website hollandinchina.org Chinese are masters in manipulating their opponents to obtain of them the desired results.
Eventually everyone in the business world represents his own interest not just the Chinese. Besides Chinese business people work 24 / 7 hard and expect this spirit also from their business partners. Dutch are in China often known as explicit and direct. Some Chinese find it funny, others have difficulty with this. Communication with Chinese, unlike Western is non-verbal and indirect. The Chinese will argue debate and give criticism with a smile. What is actually meant the listener should interpret by themselves. Clear goals should be set up and you have to know what their manners are to make the negotiations as pleasant as possible. You should hand over a business card with two hands. Whoever gets the card must take some time to look at this. Unlike our business cards the Chinese have a lot of information on the card. Here you can see the status of the person at the company. This is very important.
Negative messages are often given in a camouflaged way by an assistant to the person for whom it is intended. The ‘feedback’ is formulated indirectly to avoid the loss of face of the person’s feedback. When Westerners criticize the Chinese directly this can cause for unpleasant situations.
A global level in the Chinese language is important. The translation of slogans, brand names etc. into Chinese can mean completely different things than what they mean in the original langu-
age. It is also important to translate business cards for example into Chinese and/or English. Chinese interact differently with the concept of time. Firstly appointments are less driven by starting and ending times compared to western start on time and end on time. Secondly Chinese take time to develop relationships. To western a written agreement is important and not necessary long-lasting. Chinese give great value to a relationship, Dutch rely only on contracts. For a Chinese network is very important. They invest in a relationship and later expect something in return. This applies to everything organized in the society. If you have good contacts, you get a better table in a restaurant; you get a quicker appointment at the hospital and a better deal with business partners. There is even a term for this, Guanxi. In China it’s like traffic: the rules of the theory book do not resemble the reality of the street. Foreign companies often do not understand this. To function in this country flexibility is important. Appointments are remembered and later confirmed by telephone. Because the society of China is constantly in motion appointments can change at any time.
In this there is also a hierarchy, the most important appointment goes first. Because of this flexible view of time, it is difficult to make a planning and commitments for long-term. This must be taken into account by western firms. From these cultural differences you can find five key elements. Trust, hierarchy, time, style and lose of face are the most important. It is easier for the Chinese to deal with their own people, the language and culture is the same but there are also no problems with export.

7.3 Current developments

China has made enough money to be able to invest in anything what looks promising in new kind of fibres like hemp, bamboo and silk but also in new weaving techniques. Especially state owned factories are making great progresses in optimising there manufacturing. The Chinese are very clever they crave for knowledge they know knowledge is the future. That is why they invested in the town Prato in Italy. Prato is a town known for its clothing manufacturing throughout the world. Chinese are taking knowledge from all over the world and are using it for their own country.
The following question was answered in chapter 7.
Will China choose to produce for the domestic market instead of Europe?

"It will not change overnight, some will keep producing as they are either for domestic or export and some will choose to change. There will be factories that will upgrade their products. Some non Chinese will start to produce for the domestic market in China."
Conclusion

In this thesis the following question has been addressed to: Does the garment manufacturing still has a future in China? In order to answer the main question 8 sub-questions were explored. Now the sub-questions will follow with their answers and based on this the final conclusion for the main question is drawled.

Whoever thinks China is an emerging economy in the world is wrong: China is simply having their comeback.
What is the trade history of China?
China used to be totally not interested in the rest of the world and was completely self-sufficient. Now it takes care of the rest of the world by producing many things. It is very keen to learn and to become more powerful and to increase their own standard of living.

When Europe started to buy in China the quality was bad and the prices were cheap. Later on the Chinese developed their knowledge about textile and clothing production which lead to the result that their product became good quality in combination with cheap prices. Nowadays China is delivering good quality but for higher prices.

How has and is the One Child policy influencing the economy?
The One Child Policy has caused for 400 million less birth since the law was established in 1978. These unborn can not partake in the economy as they do not exist, nor in the production nor in the buying.
Now China has a population of 1.3 billion, in 2050 this will approximately be 1.4 billion and from then on will start to slink with about 20 million people every five years.

What is the current situation of the domestic market?
The Chinese market is enormous and the purchasing power of people is increasing. Therefore the domestic market is demanding growth in the textile production of China on top of that the export is also increasing. China’s market is shifting from a production market to a consumer market.

What are the causes of the rising prices in China?
The costs of raw materials are rising; wages are becoming higher and the rise of the Yuan against the US dollar all of these causes for the prices to rise.
But these are not the only causes, pollution and audits are becoming more and more important. Although production costs are still low, China can no longer be considered the cheapest country and on top of that the lead-time is becoming longer. European companies have to decide if it is still worth it to go to China instead of staying near their own continent.

What are the consequences of the rising prices for China? They are losing export because they are becoming too expensive. They are gaining because their quality is increasing. For the basic garments they are outsourcing. They are cutting down on manpower by improving their machines.

How is the European market responding to these price increases? Consumer prices almost didn’t rise. So the rising of the purchasing prices leads to less profit for the brands. Decreasing the margin is a temporary solution but not a definitive solution. In the end the prices will go up and the consumer will probably buy less.

Where lay the chances for European companies? With the domestic market of China coming up and the middle class becoming more and more interested in quality clothes, the European fashion should take a chance on the Chinese market right now.

Will China choose to produce for the domestic market instead of Europe? It will not change overnight, some will keep producing as they are either for domestic or export and some will choose to change. There will be factories that will upgrade their products. Some non Chinese will start to produce for the domestic market in China.
China is the main producer of garments in the world. This will not change suddenly; as the production prices are increasing a shift in production has begun. Companies are looking for new opportunities for cheaper production, but there is no other country that has the production capacity of China. Chinese are very hard workers. They produce 84% of all the clothes in the world. Their working population is reducing and also people willing to do menial labour because they are better educated. Slowly the production market will have to adapt. Menial work will be outsourced or people from for instance India will come to China to do this work.

The more educated Chinese will manufacture more quality more profitable cloths for whomever they can either for their own domestic market or for export. This means they are shifting from a quantity market to a quality market. Educated Chinese will also be able to develop newer fabrics and newer more profitable ways of manufacturing and in this way they will still be the most important producing country in the world.

For now we can continue to move production to low wage countries and in some cases moving inland, but in the future it will no longer be possible to keep moving the production because the cost ultimately will be the same everywhere. Moving to other places with lower costs will only work temporary. In theory in the end all the cost will end up the same. And then obviously manufacturing nearby will be far more interesting. The changes have an effect on China as a manufacturing country, but also on Western countries which are currently producing in China. The growing economic market and the change in quality will give opportunities for European brands.
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