Whoever thinks China is an emerging economy in the world is wrong:

China is simply having their comeback.

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25 May 2011
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DECLARATION OF AUTHORSHIP

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

Shanti Rossa, Amsterdam 25 May 2011
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Introduction

This advice report was written in response to the Final Thesis. The Final Thesis and the advice report are the final assignments for the fourth year of the study at the Amsterdam Fashion Institute, specializing in Fashion and Management.
In the Thesis the reasons why the domestic Chinese market is growing and why the production costs are rising is explained. The consequences for China and Europe regarding these subjects in China are discussed and explored. The garment prices have increased with at least 15% compared to the previous year. As a consequence the market is shifting. The buyer market is shifting to a supplier market and the Chinese production market is changing from a quantity market to a quality market.

For my final thesis, I investigated the following question: Does the garment manufacturing still has a future in China? This question was explored by taking interviews and by studying literature. For this research I refer to my final thesis. The Final Thesis explores new opportunities for the fashion production in China mainly focussing on the Chinese perspective and partly on the European. The results are included in this advice report.

This advice report 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.

This advice report should function as a suggestion.
Explanation
Final Thesis

In this chapter you can find a summary of my final thesis, in order to explain what the advice report is based on.

Problem
The Chinese growing domestic market and the rising production costs in China.

Question
Does the garment manufacturing still has a future in China?

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Objectives

1. To find a solution for the rising of the purchasing prices which leads to less profit for the European brands.

2. To find a solution for the decreasing Chinese export because they are becoming too expensive.

3. To find a solution for the lack of production capacity in China, with regards to the growing domestic market.
Conclusion

The thesis leads to the following conclusion:

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.

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.

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.

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.

The lead-times in China are increasing; the reasons for these longer lead-times are the lack of workers which results in a lower production capacity. This is not the only problem but also part of the factories are choosing to produce for the domestic market which means less capacity for the European market. Another problem in lead-times which buyers face every year in China is 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.
Advice

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**Problem** Production capacity is decreasing due to lack of workers.

"Advice for Chinese companies:
Menial work should be outsourced to countries with lower wages than China. Chinese factories should try to get workers from for instance India (because their population is growing extremely fast) to China to do menial work, to fill up the empty spaces which are existing today."

"Advice for European companies:
As China’s production for Europe decreases, European companies should look for opportunities for production in Europe."
PROBLEM the rising of the purchasing prices leads to less profit for the brands.

Advice for Chinese companies:
Companies and factories should look for new opportunities for cheaper production either in countries such as India, Bangladesh, Vietnam and Africa or by moving their production to the inland of China. The more educated Chinese have to invest in more quality production, for whoever is requiring this, either the domestic market or for export. They should invest in the development of newer fabrics and newer more profitable ways of manufacturing.

Advice for European companies:
Decreasing the margin is a temporary solution. In the end the prices will go up and the consumer will probably buy less. Do not stake your future on small margins because that can not be a definitive solution as it will end up in bankruptcy.
**Problem** the lead-times are increasing.

"**Advice for Chinese companies:**

Focus on the domestic market, the lead-times will be shorter because it is closer to home. The Chinese customers are used to the culture around the two major holidays in China which are causing that the lead-times are doubled. It is their own culture and therefore they don't even know any better and will readily except the longer lead-times during the holidays."

"**Advice for European companies:**

European companies should choose for production closer to home. The lead-times will be shorter and they will not face the two major holidays in China which are causing that the lead-times are doubled."
**PROBLEM** China is losing export because they are becoming too expensive.

"Advice for Chinese companies:
Chinese companies should invest in the quality of their production. By increasing the quality buyers are willing to pay more money for each product. For the basic garments they should outsource as this can be done much cheaper in low-wage countries. Factories should invest in cutting down on manpower by improving their machines."

"Advice for European companies:
Take a look at countries closer to home such as Turkey or Belarus in these countries the wages are low and the lead-time is much shorter."
**General advice Chinese companies**

Chinese companies should invest in gaining and obtaining in new and improved technological developments and they should develop new fibres in order to maintain their garment production position in the world.

**General advice 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.
Conclusion

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.

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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 temporarily. 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.

It will not change overnight, some manufactures 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.
these days all eyes are on China

‘CHINA IS SIMPLY HAVING THEIR COMEBACK....