Growing together with China’s fashion industry: Production and Sales
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Thesis commissioned by the Hong Kong Chamber of Commerce in the Netherlands.
“Ni Hao” (meaning Hello in Mandarin Chinese ) During my studies which included two years of International Fashion & Design and two years of International Fashion & Management I have learned that the fashion industry is a very diverse industry. After finalizing my minor in Buying I was selected for the Honours Programme International Production in Hong Kong. During my stay in Hong Kong I worked on a Quality Assignment for a Dutch clothing Company, this included visiting the factories in Southern China and assisting in Quality Control. This Honours programme increased my interest in China and its developments. Due to the Honours programme I decided to focus my final thesis on the developments in China and the Chinese fashion industry in the current market.

There are several people that I would like to thank for their guidance during the process of this thesis:

A special thanks to Marije Hovestad who introduced me to George Ammerlaan and Ling Hu from The Hong Kong Chamber of Commerce in the Netherlands who are commissioning this thesis. Another Special thanks to my process coach Henny Jordaan for supporting my thesis and assisting me in finalizing my report.

I would like to thank Ling Hu, George Ammerlaan and Jochem Manus van der Jagt for giving me the chance to write this thesis, for sharing their contacts and also for helping me in getting the best result in this topic.

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I would not have been able to finalize this final thesis without the support of my parents encouraging throughout with constructive feedback.
Summary

This report discusses the developments that China is currently going through and emphasis that China is continuously changing. Quantitative and the qualitative - research methods have been applied during the preparation of this report. To inventorise the reasons for expanding - and practical problems, a questionnaire was sent out to small- and medium- sized enterprises within the Dutch fashion industry. Also, several interviews were conducted with experts from the fashion industry in the Netherlands, Hong Kong and Shanghai among others. A number of books discuss several topics that are mentioned in this report. Overall, a variety of sources were consulted in order to thoroughly conduct the research.

To provide a complete picture, the report is built up in steps which point out historical facts and the way to do business in the Chinese culture. The most important developments are mentioned first, followed by more in-depth developments in the Chinese manufacturing industry and the Chinese domestic market. These steps are organized in this way to let the reader understand the complete picture of the history and leading up to current major developments. Especially when wanting to expand to a country such as China, it is important to have basic knowledge of the Chinese history and business rituals.

Chapter one provides information about the relationship between China and the Netherlands, looking into history and the current situation. The Netherlands started trading goods such as tea and cloth with China around 1602 when the Dutch East India Company (VOC) was established and quickly gained the monopoly on trade in Asia.

Chapter two explains the cultural differences between China and the Netherlands. This chapter also explains the way of doing business with China. Companies that are considering expansion to China should be aware that this is not an easy step and will need 100% commitment. It requires a basic knowledge about the country and its culture. China is very different from the Netherlands, not only in geographically, but also when value and norms are concerned, for example, in giving presents and when conducting negotiations. Something that is very important in the Chinese culture is the concept of ‘face’ and the building of relationships, also referred to as ‘Guanxi’. In order to build up ‘Guanxi’ you will need invest in time in the beginning, but there will some rewards later in the process.

Chapter three discusses the current development in the Chinese industry. The labour shortage and wage rise are becoming more severe, and several reasons and explanations are mentioned. The Chinese textile industry is an example of this, with the extreme price growth of the raw material cotton and the lack of these resources. The government, however, has released the Adjustment and Revitalization Plan for the Textile industry 2009-2011, in April 2009. The RMB currency has been stable and the inflation is now up to 5.1%. The RMB is increasing in value and that makes export more expensive. The rise in China’s domestic market is becoming an international phenomena and has increasingly attracted the interest of foreign brands.
Chapter four illustrates in a SWOT-analysis the developments in the Chinese industry and the degree to which it can affect future developments and trade difficulties.

Chapter five discusses the production in the Chinese garment manufacturing industry. China is at this moment still known as the factory or workshop of the world. The benefits of China is the complete supply chain which is shifting currently to the value chain. Companies with a high profit margin such as C&A and H&M are shifting production to other Asian countries or even back to Europe. In order to maintain its position in the garment industry, China is working its way up towards value added upgrading. This includes offering companies more possibilities in high-tech garment manufacturing. To be able to keep the prices low, the suppliers are relocating themselves more into the western part or northern part of China, which still needs to be developed in terms of labour, wealth and infrastructure. China is also moving into outsourcing production into countries such as Vietnam, Korea and the Philippines, but outsourcing is a relative small percentage of the manufacturing industry in China.

Chapter six discusses the expansion into sales in China, because is the world’s fastest and largest growing consumer market in the world. China counts a population estimated roughly around 1.3 billion people. The growing Chinese consumers are very interested in western fashion. Therefore there is an opportunity for Dutch brands and Dutch fashion designers. The Chinese consumer market is not easy to enter, and therefore it is important to have a well-established company (brand) in the Netherlands. This chapter mentions the possibilities on retail concepts and entry mode strategies.

Chapter seven explains the Intellectual property right (IPR) in China as well as the problems with copycats and copyright. It describes IPR which is something difficult to control even when a country such as China has an IPR legislation. China is one of the countries which makes counterfeit products. The buyers of these fake goods are people who do not want to pay the full price for the real deal or are not concerned with the image of buying fakes. In some cases, the fake goods are made in such a way that they cannot be distinguished from the genuine product.

Chapter eight discusses the position of Hong Kong as the gateway to mainland China. Hong Kong was handed over by the British to China in 1997. China is Hong Kong’s largest trading partner and has served for more than 150 years as the trade gateway. Hong Kong is described as a point of rendezvous between East and West. With this knowledge, Hong Kong can offer a lot of expertise, information and facilities created and collected over the years.
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Introduction

The fashion industry is undergoing a significant change at this moment. There are a lot of developments taking place not only within the industry but also in different parts of the world. Europe is developing a manufacturing industry in countries that would not originally have been chosen as manufacturing countries. China is rapidly growing economically and many experts are questioning whether China can hold its power as ‘Factory of the world’. The fashion industry is one of the major labour intensive industries operating in China. The Chinese economy relies on the manufacturing industry which is a labour intensive industry. Geographically China is a large country, therefore the government established ‘special economic zones’ (SEZ). These can be found in the Eastern and Southern part of China which are the best regions for the overseas transport, because of its well established infrastructure. Although, the importance of the SEZ seem to be diminishing. China has been building its manufacturing industry for the overseas export for many years now resulting in rapid changes not only in production but also in sales. These developments which are mentioned in this thesis are subject to change and will continue to change and therefore this thesis is a snap-shot moment of the Chinese developments.

The Dutch fashion Industry, especially small and medium-sized enterprises (SME) are still interested in expanding to China. To conclude if expansion if feasible, this research is taking a closer look in the developments in China’s garment and textile industry.

That leads to the main question:

What are the problems and practical aspects for Dutch Fashion SME when they want to expand and do business with Hong Kong/ Mainland China?

The research will not only investigate the problems and practical aspects such as business and current developments but will also indicate if there is (still) space for Dutch fashion SME companies in Hong Kong/Mainland China.

This report has been written to investigate and research, the importance of China and its fashion industry. This will not change overnight. The global financial crisis which started in 2007 has had a huge impact in the world and the economy is still suffering from the effects thereof. Due to the market share in production China will need to undergo changes to be able to sustain its market share and this thesis will show that China is changing. To support the findings of this research a combination of qualitative and quantitative research methods have been used. A question list functioned to inventorise the practical and problem aspects. Together with the interviews held with different experts from within the industry. To really understand the change in the industry a business trip to Hong Kong was necessary to meet up with experts to discuss the topic with them and share experiences and knowledge. This final thesis can be regarded as a manual for companies which want to expand their business to China providing the necessary information about Business culture, Production and Sales.
Chapter 1: What is the relationship between China and The Netherlands?

China and the Netherlands’s relationship dates back to the 17th century. This 400 hundred year old history does not necessarily reflect the same relations between these two countries within the 21st century, but plays an important part in understanding the link between both countries. Knowledge about the historical facts between the countries makes the association more straightforward.

The relation between the countries can be traced back when the Dutch East India Company (VOC) was established in 1602. The goal of the VOC and its British counterpart the East India Trading Company was to develop trade links. During the 17th century the VOC had established its own trading ports by replacing local trading networks. The VOC traded for and brought back exotic goods such as textiles, silk and cotton from China, spices from India, coffee, tea, tobacco, opium, copper, silver, gold, porcelain, dyes, shells to the Dutch Warehouses. By 1750 the VOC was trading and doing business with 10 Asian countries. Due to corruption and poor management the VOC went bankrupt in 1799, although it is said that this period of time is where trading found its origin and is to be considered an important part of Asian-European trade history over the last two centuries. (Rodrigue, 1998)¹

1.1 China before and after the open door policy in 1978
One of the difficulties between the East and the West is general communication and understanding each other’s culture. China has gone through a dark spot in Chinese history when the middle kingdom (China) was lead by Mao Zedong into the Cultural revolution who had an repulsion for the capitalist lifestyle. Youth were mobilized as red guards and followed Mao Zedong and his red book to change the social class by destroying everything that was regarded as useful for capitalism such as books, antiques, historical sites and culture. Due to the cultural revolution the economy nearly collapsed. In 1978 the open door policy and the reform of the economy were used to give the economy a boost for the positive growth of the country. Deng Xiaoping enforced the new capitalist inclined system that promoted foreign trade and economic investment. During the cultural revolution the Chinese people were separated from the rest of the world. Damages of the cultural revolution are still visible today. Also in Chinese current society there is a curiosity and interest in western people and their appearance, clothing style and manners.

1.2 China today

It has been over 30 years since the ‘Open Door Policy’ was instated rapidly. It is hard to imagine that 30 years ago walking around in the major Chinese cities was not possible for a foreigner. Although, nowadays foreigners are accepted in the major cities, the situation might be quite different when visiting smaller cities or travelling inland. Many Chinese people who are living in the countryside and have not been to major Chinese cities, will in many cases refer to a foreigner as ‘white spirit’ when they encounter them for the first time. It is an amazing accomplishment for a country in which the economy was failing three decades ago to develop itself into the 2nd largest world economy, leaving Japan behind but short of exceeding the United States.

China is not only a growing popular tourist destination but is growing rapidly resulting from foreign investments. This due to the fact that companies are increasingly interested in doing business with China. After the opening up and to stimulate the economy and the foreign trade ‘special economic zones’ (SEZ) were established. Although, the importance of the SEZ seem to be diminishing. The government gives SEZ, special economic policies and flexible governmental measures. Other zones are for example free-trade zones, economic and technological development zones. Refer to Appendix 1 ‘China’s zones and bonded areas’.

China has been focusing its core business around the labour-intensive industries in which textiles and garment manufacturing play a major part but also electronics, metal and other industries. Looking back in history China has rapidly evolved a lot over the last decades. In the 1990s The Netherlands tried to stimulate the economical relations between the Netherlands and the Far East, but at that moment China was not ready to take this step. (van der Schoot & Brand, 2010)2 China nowadays is a major player in the world economy not only does the Chinese government want to boost their domestic economy but the Chinese have been acquiring foreign companies. China has a money reserve of billions, is part of the World Trade Organisation (WTO) since 2001 and has an active government policy. By acquiring foreign companies Chinese companies are satisfying their need for technology and knowledge which will benefit Chinese industries.

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1.3 China and The Netherlands
Currently China and the Netherlands are enjoying a stable relationship. Within China there are several Dutch diplomatic posts and also the Netherlands Business support offices. (Minbuza, 2010)³ The Chinese authorities have only given a license to operate to the Benelux Chamber of Commerce (BenCham) which is formed by the Belgium and Dutch Chamber of Commerce (Dutchcham). (Minbuza, 2010)⁴ China and the Netherlands have established Bilateral trade relations. Due to the long tradition as a trading nation the Netherlands is regarded as the gateway to Europe.

The Dutch trade with China has been growing faster than the Chinese economy for the past 10 years, but do not forget that Rotterdam is the biggest harbour in Europe and is used as a port to surrounding countries. The Netherlands can be considered as the distributor between Asia and Europe. Another connection between the countries is that Rotterdam and Shanghai are sister cities and in July 2010 the start of building the European China Centre in Rotterdam began. The worldwide economic recession had an effect in the whole world. Despite this recession the Netherlands (within the European union) was the second trading partner of China.

Chapter 2: Doing business in China?

There is still a growing interest in doing business in China which became apparent during the start of this research paper and during the first meeting with Marije Hovestad, advisor at Syntens for Small and medium sized enterprises (SME). A questionnaire put into perspective that many companies who are in business with China or are willing to start doing business have a clear opinion about the difficulty of communication with this country.

Knowledge about the country in which one wants to do business is essential. There needs to be a good basic understanding about the differences between the home country and that of the business country. When starting to do business with China it is important to keep the financial aspects in mind. In many cases down payments are requested by suppliers and Dutch companies should be aware of this. A down payment is a payment that is made to start the process of the purchase. Please refer to chapter 5 for more information about financial aspects.

In this case we are looking at the differences between the Netherlands and China. China includes the People’s Republic of China (PRC or Mainland China), Hong Kong (HKSAR) and Taiwan.

<table>
<thead>
<tr>
<th>Country</th>
<th>The Netherlands (PRC)</th>
<th>Mainland China (PRC)</th>
<th>Hong Kong (HKSAR)*</th>
<th>Taiwan (ROC)**</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population</td>
<td>16.6 million</td>
<td>Estimated 1.3 billion</td>
<td>7.06 million</td>
<td>22.6 million</td>
</tr>
<tr>
<td>Land mass</td>
<td>41.526 km²</td>
<td>9.597.00 km²</td>
<td>1.104 m²</td>
<td>35,980 km²</td>
</tr>
<tr>
<td>Language</td>
<td>Dutch</td>
<td>Mandarin</td>
<td>Cantonese English</td>
<td>Mandarin</td>
</tr>
<tr>
<td>Currency</td>
<td>Euro (EUR)</td>
<td>Renminbi (RMB or Yuan)</td>
<td>Hong Kong Dollar (HKD)</td>
<td>Taiwanese Dollar (TWD)</td>
</tr>
</tbody>
</table>

* Hong Kong was given back to China in 1997. China turned it into the Hong Kong Special Administrative Region of the people’s republic of China and therefore has its own flag and currency.

** Taiwan is part of the Republic of China since 1950s, although Taiwan considers themselves as a free country.
2.1 Is a cultural difference an obstacle?
To understand a country will help to overcome any cultural difference. As soon as you go outside your home country there will always be a cultural difference. When starting to do business with a foreign country the cultural difference can be seen as an obstacle but acquiring knowledge about a country and wanting to understand another culture is necessary and will soften the obstacle. This is important not only out of curiosity but from a business point of view. To know how to deal with aspects such as communication, negotiation and respect. Especially due to the fact that the Asian cultures in general want to establish a long-term relationship with foreign companies. Business practices reflect the religion and philosophy of a local culture; this is believed to be especially true for China due to its rich cultural heritage.\(^5\)

In table 1 on this page it clearly shows the differences between an eastern culture (China) and a western culture (The Netherlands).

<table>
<thead>
<tr>
<th>World Views</th>
<th>Eastern culture</th>
<th>Western culture</th>
</tr>
</thead>
<tbody>
<tr>
<td>Thinking pattern</td>
<td>Spiral (holistic)</td>
<td>Linear</td>
</tr>
<tr>
<td>Communication</td>
<td>Implied and Subtle</td>
<td>Explicit and Direct</td>
</tr>
<tr>
<td>Goals/Success</td>
<td>We-us Oriented; meeting group goals and working for a group success</td>
<td>I/me oriented; focusing on individual achievement</td>
</tr>
<tr>
<td>Self-expression</td>
<td>Subtle and nonverbal</td>
<td>Overt; People are asked to ‘Speak their mind’</td>
</tr>
<tr>
<td>Time sense for meetings</td>
<td>Appointments less driven by exact start and end times</td>
<td>Be on time and end on time</td>
</tr>
<tr>
<td>Business relationship</td>
<td>Taking time to develop relationships; hard to form but usually long-lasting</td>
<td>Written agreement is important; Easy to establish, but not necessarily long-lasting.</td>
</tr>
</tbody>
</table>

Table 1: Eastern vs. Western Views
Source: www.udel.edu/fiber/issue3/researchbriefs/#2

A current occurrence in Hong Kong and major cities in Mainland China (Beijing, Shanghai) is that many of the Chinese people have an experience in the western culture or have had the chance to work with a the west and are adapting to this culture. Therefore they are adjusting their viewpoints of the west. However, generally the Chinese are very traditional and will always have certain norms and will not fully bend to western behaviour or habits.

Prof. Geert Hofstede, a Dutch social psychologist specialized in organisational psychology, has developed the research ‘Cultural Dimensions for International Business’. These ‘Cultural Dimensions’ can be applied as a tool to assist companies to be able to better understand the differences between cultures and to be able to compare each culture against the five established Cultural Dimensions which are as followed:

1. PDI: Power Distance Index, indicates the acceptance and expectation of how power is distributed.
2. IDV: Individualism, versus collectivism
3. MAS: Masculinity, versus femininity
4. UAI: Uncertainty Avoidance Index, indicated society’s tolerance for uncertainty
5. LTO: Long-Term Orientation, Long term orientation versus Short-term orientation

<table>
<thead>
<tr>
<th>Dimension</th>
<th>The Netherlands</th>
<th>China</th>
<th>Hong Kong</th>
<th>Taiwan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Power Distance</td>
<td>38</td>
<td>80</td>
<td>68</td>
<td>58</td>
</tr>
<tr>
<td>Individualism</td>
<td>80</td>
<td>20</td>
<td>25</td>
<td>17</td>
</tr>
<tr>
<td>Masculinity</td>
<td>14</td>
<td>66</td>
<td>57</td>
<td>45</td>
</tr>
<tr>
<td>Uncertainty Avoidance</td>
<td>53</td>
<td>40</td>
<td>29</td>
<td>69</td>
</tr>
<tr>
<td>Long-term Orientation</td>
<td>44</td>
<td>118</td>
<td>96</td>
<td>87</td>
</tr>
</tbody>
</table>

Table 2: Cultural Dimensions between Then Netherlands, Hong Kong, China and Taiwan
Source: www.geert-hofstede.com

Table 2 shows the differences between The Netherlands, Hong Kong, China and Taiwan. During this research a closer look within the cultural dimensions was done and the results concluded that the above table can be considered outdated and Hong Kong/China/Taiwan and therefore each dimension is changing its position compared with the Netherlands.

**Power Distance**
Compared to the Netherlands, China has an higher Power distance due to the importance of hierarchy and the level of power the government practices on the people. Although China is still known as an developing country, there is a growing gap between rich and poor. Hong Kong is especially wealthy and is known for its continuing growing economy.

**Individualism**
The Netherlands is a country with a high score on Individualism compared to China. This means that China is considered a collectivist country in which the group is more important than the individual. Everything is centered around the group such as friendships, family and work.
However, individualism is strongly emerging in China and will continue to grow with the rise in domestic market and the college opportunities that young Chinese are able to get, also due to the one-child policy many young Chinese are raised as an individual.

**Masculinity**
How much value can be placed on the masculine versus feminine qualities? The score indicates that Hong Kong and China are more masculine than feminine. A masculine society includes assertiveness, materialism/material success, self-centeredness, power, strength, and individual achievements, whereas a feminine society concerns modesty, caring, value relationships and quality of life.

**Uncertainty Avoidance Index (UAI)**
UAI stands for the level of fear for the uncertainty. The Dutch are generally not afraid of taking a risk and for this have a score of 53. The score of the Chinese is visibly lower due to the fact that Chinese take more caution when it comes to business for example.

**Long-Term Orientation**
The scores between the countries tell us that China puts a high importance on a long-term orientation and relates to the concept of ‘Guanxi’. Chinese people think ahead of time and want to build a relationship with a business partner on the other hand the Dutch people think short-term and constantly look for new and better ways to do business.

“Dutch think in terms of year, but at this moment the Chinese are thinking ahead only in three months. Chinese New Year, what will happen then?” May Kam, Manager, Buying office Hong Kong.

Due to the labour shortages in China at this moment, the long-term orientation is changing in China as well. Especially with the uncertainty after the Chinese New Year in regards to how many employees will be returning to the factories.

Being accepted at a university is an individual achievement or a family investment and is considered more and more important in China where failing is not an option. With the labour law established and the growing domestic consumerism, young people do not want to work for factories anymore. One of the reasons is because they are the only child in their family (due to the one-child policy) and were spoiled their whole lives. They feel that factory work is a demeaning job for people who have had no education. Moreover, the pay and job description is not something they can be proud of. There is a rise in working women who do not want to be a housewife. The migration to the cities have created a culture of women who want to work and in many occasions in higher positions than factory work.
2.2 Communication
In everyday life communication is very important and when doing business with a foreign country communication becomes even more important. ‘Are we on the same level’ and ‘do we understand each other’ are questions that comes to mind when talking about communication. In general the Chinese are better in writing English than speaking the language due to the difference in grammar and sounds. (Kamer van Koophandel, 2010) Verbal communication is concerning the spoken language.

China
In China the main spoken language is Mandarin ‘Putonghua’. Around 90% of the Chinese population speaks Mandarin, but in many cases also speak another dialect as there are over 400 dialects spoken in the continent of China. The people of each province have a special dialect and then the people of each city, town, village have their own dialect as well. Although there are spoken dialects which in many cases sound like different languages all together the same basic written language is used throughout China. English nowadays is important in the schools and colleges and therefore the English spoken level is growing and is a direct effect of the ‘opening up’. However, the English level depends on the person and their location.

Hong Kong
Hong Kong used to be a British colony and therefore the English level is generally good. The main language spoken in Hong Kong and surrounding areas is Cantonese. Cantonese contains nine different tones compared with Mandarin which uses four different tones, there is nothing similar about the spoken forms of Mandarin and Cantonese only the written language is similar to Mandarin. Due to its written background some Chinese are considering Cantonese to be a dialect rather than a language, but in fact Cantonese is language by itself.

Taiwan
Mandarin is the official language in Taiwan, but in addition, also includes a Taiwanese dialect. Taiwan is an important fabric supplier. Also, many Taiwanese have factories on mainland China for the supply of fabric and garment manufacturing bringing the two regions closer, reiterating the importance of good communication. Many Mainland Chinese people go to Taiwan on holiday leaving the Taiwanese people unhappy, due to the mainland Chinese’s lack of respect and manners. (Offenberg, 2011)

2.2.1 Etiquette
Etiquette can be best described as the formal rules of proper behaviour. The Chinese people rigidly conform to strict etiquette. Some of these rules of etiquette are not commonly used in a Western culture and can be experienced as rude or bad-mannered while these customs are normal for Chinese the other way around applies too.

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6 Kamer van Koophandel (KvK) Amsterdam, 2010. Seminar Starten met Import uit China. [handout] September 2010
7 Offenberg, W., 2011. Chinese toeristen ‘doen’ Taiwan, NRC Handelsblad, 4 Jan. p.20
Many business deals have fallen through due to the lack of knowledge and respect for the Chinese Etiquette, therefore it is important to have a basic understanding about the culture, etiquette and customs. (Kerling, 2010)\(^8\)

**Nonverbal communication** includes facial expression, tones of voice, gestures, posture and eye contact. Nonverbal communication has a cultural meaning and therefore is different in each culture. Understanding basic body language is very useful for Westerns when doing business with an Asian country. Chinese people are difficult to read and show no emotions. In contrast, Chinese people think that western people show too much emotion and often put themselves in a weak position by speaking their mind and by showing their emotions. Similar gestures might have a different meaning. China is one of the largest countries in the world with one of the biggest populations. Their nonverbal gestures are less expressive due to influence of Confucius. (Zhiling & Guanhui)\(^9\) Confucianism is one of the oldest and most influential philosophies within China. It lays the base to be able to create a stable social relationship within the members of a community which includes relatives and everybody within the state. (Gele Draak, 2008)\(^10\)

Examples of nonverbal communication used in China:

- The Chinese do not like being touched by strangers;
- In China never use you index finger to signal anyone;
- The Chinese do not point with the index finger, but with an open hand;
- Using both hands when offering something to a visitor or another person is considered being respectful;
- Touching or pointing to tip of one’s own nose with raised forefinger means it is me;
- When walking in public places, direct eye contact and staring is uncommon;
- During conversations, be especially careful about interrupting - Listening is a sign of politeness and of contemplation;
- Many Chinese consider winking to be rude;
- Chinese tend to smile easily when they feel difficulty or embarrassment. A westerner can interpret this as being friendly. (Expat Guide, 2007)\(^11\)

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When meeting with Chinese business people it is essential to be punctual as this is very well appreciated and leaves a good impression. Table 1 mentioned that appointments in Eastern cultures are less driven by exact start and end times. Chinese people state the start and end times of a meeting and when western people are late to that meeting this could be considered an insult and waste of the time. Chinese people are also very sensitive as to what can be discussed with western people such as the government, human rights or the capitalist development in cities. Upon meeting a small bow or a nod is generally accepted, however, most of the time a handshake is offered as the Chinese also respect Western customs. Hong Kong people tend to lower their eyes out of respect for their counter party. Business cards are then exchanged. The language makes a business meeting difficult, therefore a good translator is of great use. Doing business quickly is not accepted within the Chinese culture, business negotiations take time and are not rushed. The Chinese like to think about their decision and will leave the room first.

During negotiations:
- Do not use large hand movements, this is something from western culture and Chinese do not speak with their hands;
- Try to avoid physical contact. It is considered highly inappropriate for a man to touch a woman in public;
- Apply earlier mentioned nonverbal communication
- Hong Kong people have a preference for fast facts and more to the point conversation;
- Always stay even-tempered and friendly, patient and persistent;
- The concept of contract does not mean a thing in China, even after the contract is signed, the Chinese will often continue to press for a better deal. (Schroevers, de Bruijn, Farroque & Tjak, 2010)

Business cards
Chinese people exchange business cards each time they meet a new person. The reason for exchanging business cards is to determine who is the key decision maker from within the company therefore it is important to include your title on the card. The area of business will determine the choice of characters. The correct choice will limited the possibility of wrong understanding. Although, Most of the Chinese are able to read simplified characters and therefore commonly used. Another important aspect of the business card is to include both English and Chinese on the card.

<table>
<thead>
<tr>
<th>Area</th>
<th>Spoken</th>
<th>Written</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>Mandarin</td>
<td>Simplified</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>Cantonese</td>
<td>Traditional</td>
</tr>
</tbody>
</table>

Table 3: Spoken en written Chinese

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Here is a short description of how the business card ritual takes place:

- Present your card with two hands and make sure that the Chinese character side of the business card is facing the recipient.
- Many times presenting and receiving a business card is done in one step, it takes practice but eventually it will work and immediate respect is earned from the prospective Chinese business people.
- Always read the business card and look at it with great interest, afterwards place it into a card holder or on the table.

When meeting Chinese people this is generally done in public places and not in the people’s homes – especially when they want to entertain foreigners. Many business meetings include lunch or dinner. The food breaks through the awkwardness barrier and makes it easier to connect and create a relationship.

Rituals observed when at lunch or dinner:
- Do not start eating before the host does;
- The host will decide the seating at the table;
- Use chopsticks (or at least try);
- Try everything that is on the table;
- Never finish the complete meal or bowl this means that there was not enough food;
- Never discuss business at the table!
- In many occasions the food is offered to be put on your plate, never reject.

Gift giving is appreciated when meeting the Chinese people and is an important way of building relationships. It expresses gratitude, friendship or hospitality and is used in many cultures. When giving a gift in China thought needs to be put into the meaning of the gift and what is proper to give.

Gift Rituals:
- Chinese will never open gifts at the moment of receipt;
- Do not give expensive or large gifts this can been seen as bribery;
- Offer the gift with both hands;
- Do not give:
  - Sharp items such as Knifes or scissors, have the meaning of breaking a relationship.
  - Anything in sets of four, four is also an unlucky number and sounds like death;
  - Clocks or something to do with time, has the meaning of wishing someone death;
  - Anything solid white, especially clothing or gift wrapping, Chinese funerals are always white;
  - Red, is the colour of luck, but red pens in business have a means to end something.
- Consider giving:
  Sweets or food items, from the giver’s home region, which means wishing someone a sweet future;
  Something round, a circle is a powerful symbol in Chinese culture and shows completeness;
  Something thoughtful and with personal significance, when something can be told about the item;
  Something Dutch;
  Useful non-personal items such as pens and wine. (Baker, 2010)¹³

- Do not give a gift for one person in front of all the people this can be embarrassing for the person who receives the gift.

- A gift can be rejected two or three times this is a cultural custom.

2.2.2 The concept of ‘Face’

The concept of face is an important Chinese social etiquette. Face knows two related concepts: ‘Lian’ and ‘Mianzi’. Lian is a symbol of one’s moral character and mianzi represents one’s social reputation. (CEES, 2009)¹⁴ Face is a strategy that protects self-respect and individual identity in both personal and business relationships. Face can be compared with the western value of ‘reputation’. While for many Chinese it is important to have face and saving face. Losing face on the other hand is a serious matter which can affect the functionality within society. Losing face has to do with dignity social pride, honour, insult, shame, disgrace, trust, mistrust, respect and prestige. Therefore, the Chinese take intense measures to save face. In which they try to prove they were not wrong or their wrongdoing was very small. Lending face or giving face, in which someone is lending its own reputation (face) in order for another person to establish face. In order to restore one’s face this is usually done with the help of another person who has a good face, in most cases an announcement is made, endorsing the person who had lost face. (Melendez, 2007)¹⁵ For Western people it can be difficult to understand what the importance of the role of face is in the day-to-day lives of the Chinese people. (Middle kingdom life, 2007)¹⁶ ‘Face’ and ‘Guanxi’ go hand in hand together. Guanxi will be explained on the next page.

2.2.3 Guanxi

‘Guanxi’ translates to ‘Relationship’ or ‘Connection’. Guanxi is a Chinese cultural aspect that captures a way of doing business based on relationships, network and trust. Guanxi is the network of relationships that cooperate together and support each other. A good ‘Guanxi’ network will diminish risks, frustration, disappointments and barriers. Although such a network does not appear overnight, a lot of effort, time and resources need to be put into this. The best way to initiate and build up a good guanxi network is to be introduced by someone that is already in a well established network. By spending time and getting to understand the Chinese culture, it will become easier to establish a good guanxi. Once a good bases has been established, this new network can indirectly link the company to new acquaintances and information resources, and to help the company to develop other guanxi when that is needed.

Chinese people prefer doing business with people they know and trust. Guanxi is an ongoing process and a company has to maintain the relationship in order to do more business with them. Chinese have a difficult time saying no. In many cases, in order not to lose face, they will agree or use tentative answers such as ‘perhaps’, ‘I am not sure’, ‘I will think about it’, ‘let me get back to you on that’ and so forth. Furthermore, in many cases they will even say ‘Yes’ but actually mean ‘No’ in order to preserve the relationship.

Important facts about Guanxi:
- Trustworthiness of both company and individual important;
- Frequent contact;
- Chinese feel obligated to do business with their friends first;
- Not always about money;
- The giving of gifts is a common form of building Guanxi;
- Inviting or hosting dinners for prospective clients or business partners;
- When something goes wrong, relationships are challenged, and friendships quickly disappear;
- There is a fine line between Guanxi and bribery, as modern China is creating its own terms for capitalism and legal business transactions. (Schroevers, de Bruijn, Farroque & Tjak, 2010)\(^\text{17}\)

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Guanxi Café organized by Guanxi.nu is a monthly gathering in the city centre of Utrecht (Polmans Huis). Everybody that is doing business with China or is planning to is welcome to meet. There is a possibility to talk with China experts and to discuss issues but also hear experiences from other companies. Entrance is free.

For more information www.Guanxi.nu

Recommended reading
- “36 strategemen voor managers” Harro von Senger, 2005
- “The Wall Behind China’s Open Door” Jeanne Boden, 2008

Chapter 3: How is China continuously developing within the market?

The Chinese fashion industry is currently undergoing a lot of changes due to their current market position in the total fashion industry. Within this research one of the main reasons are the changes which are partly due to the financial crisis. The demand within the markets in the US and Europe has changed and the Chinese fashion industry has felt the effects thereof not in their economic position, but have sensed a shift within the whole manufacturing/ labour intensive industries.

“There is a constant factor present in China and that is ‘Change’, China is constantly changing and this will not change any time soon” George Ammerlaan, Hong Kong Chamber of Commerce in the Netherlands.

3.1 Rising Labour Costs & Labour Shortage

The cost of labour in China has been rising and that is why many brands are looking for other places to produce their products. China is to be considered a second world country rather than a third world country. Since January 1st 2008 the Labour contract Law (LCL) has been used to enhance the rights of mainland Chinese people. This Law aims to improve job security for workers, limits overtime, sets minimum wages and requires one month’s pay for each year worked for dismissed employees. This law will make it more difficult for companies to hire temporary workers, which is favoured because of the fluctuations in orders. (NY Times, 2008)\(^{18}\)

“Due to this Labour law many factories closed, strikes of workers followed for more rights, in other words it was a complete commercial drama” (Berling, 2010)\(^{19}\)

“Though in 2010 the minimum wages were increased by local governments, they still fall (far) short of living wages” (Fair wear foundation, 2010)\(^{20}\)

A study on wages in China has been written in August 2010 by the Fair Wear Foundation. This study gives a clear perspective of the conditions of wages in the most important regions of China. Overtime hours regularly occur in China and the workers want to work overtime as there is a substantial overtime wage, because of this factories will take in more orders. During this research it was pointed out that many Chinese factory workers have to work overtime to make ends meet. In most factories the pay is little and even below minimum wage. By working overtime factory workers can survive and are able to sent money to their families in the country side.

The labour law allows a maximum of 9 overtime hours a week, but a research provided by the China Labour Watch this is almost never followed. (Cretney, 2010)\textsuperscript{21} The factory workers have to pay the price for the demanding western market which demands products to have a very low margin. China has always been known as a low wage country producing cheap products. Fair wages and fair working conditions are two things that many companies question when sourcing in China. Especially when reporters are writing articles about poor working conditions of major fashion brands. The documentary film ‘China Blue’ demonstrated what kind of factories there are in China, where long hours, forced overtime, fines for intolerable behaviour and bad working conditions are deemed ‘normal’. However, this does not count for all the factories in China. These kind of practices from the factory owners are loathed by the Labour Contract Law (LCL). The LCL can improve the working conditions if the factory owner follows suit and adhere to these regulations and inform the workers of their rights. Some things are difficult to enforce though such as not exceeding the 40 hour working week, but in the garment manufacturing industry deadlines are very important and if necessary the worker needs to work 72 to 100 hours per week. (EFF, 2010)\textsuperscript{22} Overtime hours are roughly between 30 to 60 hours a week. Thankfully with the implementation of the new LCL, workers are paid for doing overtime and while the law states that 40 hours regular and 9 hours overtime are not to be exceeded many workers want to work overtime. Current labour disputes indicate that the rising of wages and the improvement of working conditions was vital for the human rights of present and future workers working in the factories. “The goal of the former generations was merely to support their families, while the younger generation focuses on individual prospects. If manufacturers continue to squeeze labour benefits, young workers will no longer be willing to accept it,” said Luo Mingzhong, Professor at the South China Agricultural University in Guangzhou. (China Daily, 2010)\textsuperscript{23}

The capacity of workers in the south of China is estimated 30-40% capacity free. That means that there is a shortage of workers within these factories. Sewing machines kept unoccupied after the Chinese New Year. The Chinese New Year is the chance for workers to go home to their families which in many cases is very far from the place that they work. Many of the workers do not return to their job but this is only one of the explanations of the reason why there is a labour shortage. Factories are more and more concerned that the young and new generation of Chinese people entering the labour market is not willing to take labour intensive jobs. (Hong, 2010)\textsuperscript{24} The Chinese government is boosting the development in agriculture where the rural population is its top priority. The income of farmers is growing due to the favourable policies, resulting in more and more Chinese people choosing to go back to agriculture. For many it has become more rewarding than working in the urban cities.

\textsuperscript{23} China Daily, 2010, Cheap labor has limits in manufacturing industry [online] (last updated 2 June 2010) available at: <http://www2.chinadaily.com.cn/bizchina/2010-06/02/content_9923229.htm> [accessed on 15 October 2010]
Urbanization is also shifting from the first-tier cities (key cities; Shanghai, Beijing, Guanzhou and Shenzhen) to second (secondary provincial capitals) and third-tier cities (country level city capitals). There has been an economic boost in these second and third-tier cities. Many Chinese people migrate to cities and with the development in the second and third tier cities Chinese can earn similar wages and work closer to home and family which is very important for Chinese. The one-child policy is also an important issue when discussing the labour shortage that China will have to face in the next few decades. The young generation has been able to live a more decadent life style than their parents could. Educational opportunities in China are rising and more and more young Chinese attend a university. Due to the one-child policy and the exposure to modern and western cultures, many young Chinese strive for these ideals and want to avoid working in a factory. China is currently turning into an aging society with an increase of older people in society. Experts are suggesting that the government should rethink and adjust the family planning policy to counteract the aging trend.

3.2 Chinese Textile Industry
China has a well established Textile industry and has gone through eight years of rapid development: textile fibre processing volume rose from 2000 to 13.6 million tons to an incredible reached in 2008 about 36 million tons, accounting for 40% of the world of the industry worldwide. (My efficient planet, 2010) Considerable progress has taken place in the beginning of 2010 due to the strong domestic demand and global economic recovery. Despite this, the textile industry is under pressure due to a shortage in raw materials, the rising of raw material prices, the Yuan’s instability, but also the debt crisis in Europe, US and the credit risk of developing economies.

Currently the prices of cotton are rising owing to the shortage of cotton. The major producers of cotton are China, India, Pakistan and the US, together these countries produce two-thirds of the worlds cotton. The US is the largest exporter of cotton while China is the world’s top producer and consumer of cotton products, producing around 33% of the total world cotton production. India produces an estimated 20% of the world cotton production. Cotton is 15% to 20% of the textile component of what people are wearing. (Atkinson, 2010)

The reasons for the shortage of cotton are as followed:
1. Due to the Heavy rains and general bad weather conditions many cotton producers stopped producing cotton and began producing other agriculture products.

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26 Atkinson, D., 2010, this is money, Cheap clothes era at an end as the cotton price soars [online] (last updated 23 May 2010) available at: <http://www.thisismoney.co.uk/bargains-and-rip-offs/article.html?in_article_id=505002&in_page_id=5> [accessed on 6 October 2010]
2. To produce cotton requires different equipment than other crops to plant, maintain and harvest. Farmers have changed and moved into other more economically feasible crops. This was encouraged by the grants which were given by the Chinese government to move into agriculture. The low prices and small profit in cotton production over many years further contributed to the shift to other crops.

3. Rising domestic demand of cotton.
4. China cannot cope with the demand for cotton from their own production, therefore the American cotton is bought to cope with the domestic demand. Cotton bought form the US for this purpose has rising in 2010 with 24%.
5. Flooding devastated the cotton fields of Pakistan which is another major cotton producer providing 8% of the total world cotton production.
6. Rebuilding the cotton plantations will not be able to be rebuild within a year. (Murdoch, 2010)

The supply shortages are diminished by selling more cotton from government stockpiles in order to satisfy the rising domestic demand State stockpiles have already releasing up to 400,000 tons of cotton. This action will decrease the demand briefly, but the demand for cotton will still exceed the supply and the price will probably continue to rise. (Bi, 2010) In April 2009 the China’s State Council released the Adjustment and Revitalization Plan for the Textile industry 2009-2011, in which eight adjustments are mentioned:

1. Stabilize the domestic and foreign markets
2. Improve the independent innovation capacity
3. Speed up the technical reconstruction
4. Eliminate the outdated production capacity
5. Optimise the regional layout
6. Perfect the public service system
7. Accelerate the construction of independent brands
8. Enhance the competence of enterprises

These eight adjustments and revitalization tasks were set into place to support the Chinese textile industry and to ensure it remains a strong industry; to overcome the effects of the financial crisis and to encourage the structure adjustment and industrial upgrading within the Chinese Textile industry. (CRI, 2010)

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3.3 Rise in Domestic market
China is developing rapidly into a major consumer market as affluence increases. Another cause is the shift from Rural to Urban surroundings. The rise in the domestic market creates space for international brands to settle in China. The Chinese consumer is very interested and willing to buy western brands and looks up to brands which have a certain image. This is visible in first-tier cites such as Shanghai where Gap and the Dutch retail brand We are opening new stores. Other European brands which are already well established in China are Only, Jack & Jones, Esprit, H&M and Zara, to name a few.

3.4 Renminbi (RMB) currency
China does not have a free economy and the currency exchange rate is arranged politically. The Chinese are able to keep the products for export cheap due to the exchange rate of the RMB. The Chinese government is using the strategy of devaluation to create a cheaper exchange rate and create a larger export profit. A stronger RMB would make exports more expensive. The situation with the RMB today can be compared to the Great Depression which started in 1929. During this period many industrial countries devaluated their currency to create cheaper products for a competitor profit within the world market. Other countries formed trade barriers to keep the cheap import products out of their country.

A higher RMB will play a part in the economic growth of China and will have an effect on the growing consumer market for international companies. The inflation at this moment is now at the official rate of 5.1% on an annual basis. A monetary mechanism could be a consequence, which means that the value of other currencies will wear down at a faster rate than is implied by official exchange rates. When prices and wages in China rise, the purchasing power of the US Dollar (and other currencies) falls. After all, a currency is only worth its purchasing power. (Kritzer, 2010)30 By price controls and increasing money supply, the Chinese government tries to minimize inflation. The monetary policy currently is relatively loose but will be shifted to sensible. It is expected that China will tighten its monetary policy in 2011 in which case interest rates could be possible. (BBC, 2010)32 It is also important to monitor the currency development of the Euro compared to the US Dollar. Export will be more difficult when the value of the EUR decreases or remains stable.

3.5 China fighting against pollution
China causes some of the world’s worst water and air pollution as a result of the rapid industrialization over the last 30 years leading to widespread environmental damage. It will be a challenge for China to reduce pollution especially since recovering from the financial crisis is a priority for the Chinese manufacturing and textile industry.

31 Monetary policy: The regulation of money supply and interest rates by a central bank, in order to control inflation and stabilize currency.
As the economy is starting to recover, more construction and industrial projects have started up and the air pollution has been on the increase again. During the World Expo in Shanghai in 2010 many factories in the surrounding area were shut down for the extent of the Expo and the air pollution index diminished. Of course, as soon as the Expo came to an end, the factories started up and the air pollution index increased again. Due to the pollution more than a quarter of China’s lakes, rivers and streams are contaminated. (Jacobs, 2010)\textsuperscript{33} It can no longer be used for drinking water, fishing or agricultural purposes only for industrial use.

3.6 Conclusion
These major developments are currently being discussed within the industry. Rising oil prices is also a returning subject and point of concern. These developments are all linked to China’s rapid growth and the recovery of the global financial crisis.

“Due to the recovering of the crisis in the US and Europe it is important to let the Chinese market stabilize and rest before making a conclusion about what will happen within China” (Muisers, 2010)\textsuperscript{34}

China also released its 12th 5 year plan (2011 -2015) in which the economic growth and domestic development take priority. China needs to be able to re-establish itself within the market. Although the importance for overseas production are diminishing in this plan, the economy still has an important place in global production. The primary goals for 2011-2015 is to transform the pattern of economic development in China. The Chinese government will strengthen its efforts to adjust China’s economic structure, promote scientific and technological innovation, secure and improve people’s livelihood, build a resource-saving and environmentally friendly society, deepen reform and opening-up in the next five year.(Li & Fung, 2010)\textsuperscript{35}


\textsuperscript{34} Muisers, J., Buying office Shanghai, Discussion developments Chinese manufacturing industry [conversation] (phone call via Skype, 2 December 2010)

### Chapter 4: SWOT Analysis China

#### Strengths
- Full supply Chain
- Experience with Western market
- Growing Domestic Market
- Growing Luxury Consumers
- Value added products rising

#### Weaknesses
- Structural changes in Asia (external)
- Labour shortages and costs
- The gap between rich and poor grows
- Capitalism
- Copyright
- Rising lead times

#### Opportunities
- Value Chain, value added service
- Research & Development
- Going Green
- Economic development
- From manufacturing-based to knowledge-based production.

#### Threats
- Pollution (internal)
- RMB currency developments
- Raw material resources
- Production moving to neighbouring countries
- Rising oil prices
Chapter 5: Made in China?

China entered the World trade organization (WTO) in 2001, after about 15 years of negotiations. This gave multinational corporations (MNC’s) the confidence to base some of its production in China. (Li, 2010)36

2001 China enters the WTO
2005 Quota 37 established 38
2009 January, quotas discarded 39

The two major export countries/continents for China are the United States and Europe. Consumer awareness towards the heritage of a product is growing. At the end of December 2009 the Chinese government in collaboration with several organizations launched the advertising campaign ´Made in China, Made with the World´. This 33 second clip is meant to boost the image of China and provide information that the goods made in China are high quality, innovative and made in collaboration with the world. (Ate, 2010)40 This advertising campaign was mainly used to coax western companies into doing business with China. The campaign however, was not entirely successful due to the fact that the export market is changing and more focus is put on domestic market. According to Antonio Barberi from Modint, this was evident in 2010 when the export driven economy in China went down from 80% to 60%.

China is going through a lot of developments at the moment in which some will be long term and others will be short term. It will be hard to imagine that China will fully focus on the domestic market and not on the export at all. After all, China is currently still producing 2/3 of the world’s clothing production. There are speculations within the fashion industry that certain companies are leaving China for production due to its current developments. These companies are looking at producing in neighbouring countries. Companies leaving China have a high profit margin and are looking for the lowest production costs such as C&A and H&M. Although, not only China but the Asian continent is going through a structural change. The brand pyramid on the following page shows the division level of brands/companies which are producing in China and the current development on the bottom level of the pyramid.

37 Quota is a trade restriction protection that states a limitation on the quantity of certain category goods imported into a country.
38 Later in 2005, Washington and Beijing negotiated a broad pact that re-established 21 quotas covering 34 categories of textiles and clothing through the end of 2008
39 the Ministry of Commerce terminated supervision over quotas on 21 categories of textile exports to the United States and licenses on eight categories to the European Union.)
The competition with China is growing, one of the main reasons is the rise of the wages in China as previously explained in chapter 3. Another reason is the rise of the oil prices which occurs now and then. China is the fourth largest user of oil. During the crisis, people spent less to preserve capital. Now the economy is improving and the demand for overseas products is rising again. This in turn will also increase demand for oil and the supply will fall thus creating inflated prices. The Global sourcing reference (KSA, 2009)\textsuperscript{41}, provides information on production countries and its developments. In the following table (which is taken from this report) the apparel products are divided by product groups, followed by the top three sourcing countries for each product.

<table>
<thead>
<tr>
<th>Product Group</th>
<th>First</th>
<th>Second</th>
<th>Third</th>
</tr>
</thead>
<tbody>
<tr>
<td>Denim</td>
<td>Turkey</td>
<td>China</td>
<td>Tunisia</td>
</tr>
<tr>
<td>Pullovers</td>
<td>China</td>
<td>Bangladesh</td>
<td>Hong Kong</td>
</tr>
<tr>
<td>T-shirts</td>
<td>Turkey</td>
<td>Bangladesh</td>
<td>China</td>
</tr>
<tr>
<td>Suits/blazers/coats</td>
<td>China</td>
<td>Turkey</td>
<td>Romania</td>
</tr>
<tr>
<td>Shirts/blouses</td>
<td>China</td>
<td>Turkey</td>
<td>India</td>
</tr>
<tr>
<td>Skirts/dresses</td>
<td>China</td>
<td>Turkey</td>
<td>India</td>
</tr>
<tr>
<td>Jackets</td>
<td>China</td>
<td>Vietnam</td>
<td>Turkey</td>
</tr>
<tr>
<td>Trousers</td>
<td>China</td>
<td>Turkey</td>
<td>Bangladesh</td>
</tr>
</tbody>
</table>

Table 4: top three sourcing countries per product

Source: Global sourcing reference

\textsuperscript{41} Kurt Salmon Associates (KSA), 2009, Global Sourcing reference, 9th edition, Kurt Salmon Associates
Table 4 shows that China is still one of the most important sourcing countries, but Turkey is a strong competitor to be reckoned with. China has been evolving its manufacturing industry rapidly within 30 years and due to the structural changes in Asia, China’s apparel industry is entering a stage of restructuring and consolidation. In the 1990s China started with the manufacturing trade of underwear, T-shirts and shirts. Through the process of product upgrading, China has the resources and knowledge to manufacture nearly any complicated high-end apparel products or apparel products that require more advanced and complicated technology. (Pan & Evenett, 2010)\textsuperscript{42} Sourcing can be done via the mainland (e.g. Shanghai) or via Hong Kong. The location depends on the approach of production, what is to be produced (sourced) and the volume. When wanting to expand to China, it could be a strategy to source 60\% via Hong Kong and 40\% via the Mainland. Following is a summary given by May Kam, buying office manager in Hong Kong, on the differences between sourcing via mainland China and Hong Kong:

<table>
<thead>
<tr>
<th>Via Hong Kong (HK)</th>
<th>Via Shanghai (mainland China)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Western mind-set</td>
<td>Money mind-set</td>
</tr>
<tr>
<td>Better Quality</td>
<td>Lower Quality</td>
</tr>
<tr>
<td>Better Sourcing</td>
<td>Price minded</td>
</tr>
<tr>
<td>Higher prices</td>
<td>Getting close to Hong Kong</td>
</tr>
<tr>
<td>Loyal</td>
<td>Not Loyal</td>
</tr>
<tr>
<td>International mentality</td>
<td>Chinese mentality</td>
</tr>
</tbody>
</table>

Tristan Reeves, buyer at Li& Fung mentions in his questionnaire, the following steps that could be followed when sourcing via Hong Kong:

1) Go through a HK trading or manufacturing company, contracts will be protected by the commercial laws in Hong Kong. Commercial laws in China are in their infancy and are not currently designed to protect foreign buyers.

2) Start with a trial order as not to risk to much, but do not make the order too small otherwise the factories will not take the trial order seriously.

3) Get advice from nonprofit organizations such as the HKTDC, InvestHK, Dutch Chamber of Commerce in Hong Kong and the Hong Kong Chamber of Commerce in the Netherlands. Collect as much information and advice as possible in advance.

5.1 From Supply Chain towards Value Chain

China is one of the few countries which provides a total Supply Chain. A total supply chain covers everything from raw material to distribution. However, in order for China to keep manufacturing within its country and competitors at bay, it has to move up the Value Chain. As stated above, China is working its way from a complete ‘Supply Chain’ towards becoming a ‘Value Chain’.

\textsuperscript{42} Pan, Y., Evenett, J., 2010 IISD publication, Moving up the Value Chain: Upgrading China’s Manufacturing Sector.
In the value chain a detailed assessment of each step in the supply chain is taken under a loop with a viewpoint in mind that will maximize value at the least possible total cost. Michael Porter’s model of the value chain is generally used and can be found in appendix 3. According to Lysons & Farrington (2006) in their book ‘Purchasing and Supply Chain Management’ the value chain can be best described as “a linear map of the way in which value is added by means of a process from raw materials to finished delivered product (including server after delivery)”. Figure 2 shows an example of the value chain in textiles.

Supply chain:

5.1.1 Raw materials
China is rich in raw materials such as Silk, Cotton and Wool. Although the cotton prices has reached its highest point since 15 years. Although analysts cannot determine when exactly the rising of the prices will diminish this also due to the continuous cotton shortage, but there are good hopes that the cotton industry will restructure. China also produces and exports about two thirds of all silk and is the world’s leading wool processing base. The development of new textile fibres are supported by the Chinese government. The government is funding research on fabrics made from by products of major crops like peanuts and rapeseed. Due to the government support China will be able to stay on the forefront of fibre production such as the development of high performance fibres. China is also the most important country and biggest producer of these green fibres such as:

- Soy
- Hemp
- Organic cotton
- Bamboo
- Milk fibres (protein fibres)
- Linen
5.1.2 Yarn manufacturing
The majority of yarn produced in China is shifting to high quality yarn and is attributable to expanding knowledge on textiles and state-of-the-art machinery such as control systems for yarn bleaching and dyeing.

Yarn Expo:

| China International Trade Fair for Fibres and Yarns, Beijing | 31 March - 2 April 2011 |

5.1.3 Fabric manufacturers - Fabric sourcing
China has become a global textile manufacturing centre, based on the development of new fibre technology and the high grade functional fabric. Therefore the Chinese prove not only to be good at remaking textiles but also creating new textiles. China is taking huge steps into becoming a wealthy country and therefore can invest a great deal of resources in developing its industries. The latest machinery can be afforded especially when it comes to state owned enterprises. China has demonstrated major progress in processing and weaving technologies for natural hemp, bamboo and true silk fibres and initiated steps into the production of green fabric. In order to acquire knowledge Chinese have been taking over and establishing fabric companies in Prato, Italy. Prato, one of the most important cities in Italy for textiles and fabrics, nowadays home to one of the largest concentrations of Chinese in Europe (ca. 45,000). The streets of Prato have been changing and Chinese characters can be found all over the city. (Donadio, 2010)³³ The Prato Chinese will grow in knowledge about the fabric manufacturing and are able to share this information with their Chinese partners in China for the further development of the Chinese industries.

The following table is an overview of the Fabric fairs in China.

Hong Kong:

| Interstoff Asia Essential | 16 March - 18 March 2011 |

Mainland China:

| China Dongguan Textile and Clothing industry fair | 28 March - 31 March 2011 |
| Intertextile Beijing Apparel fabrics | 30 March - 1 April 2011 |
| Premier Vision China, Shanghai | 31 March - 1 April 2011 |
| China Interdye, Shanghai | 8 April - 10 April 2011 |
| China Shanghai International textile fabrics & accessories Exhibition | 14 June - 16 June 2011 |

Table 6: fabric fairs in China
Source: www.biztradeshows.com

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Taiwan is developing industries which are beneficial toward mainland China, but Taiwan is also investing in the mainland, especially in coastal areas. There is a growing number of companies originating from Taiwan setting up factories on the mainland. Taiwan is a keen seller of textiles (89%) while the Mainland mainly exports apparel (64%). (Chieh,2010) 44 Taiwanese fabrics are well received in China. Additionally, Taiwanese yarns and fibres are increasing popularity within the Chinese textile industry. Taiwan ranked in the top three in the world within the state of cluster development. The following table indicates the main areas and their developed cluster industries.

<table>
<thead>
<tr>
<th>Four Taiwanese areas</th>
<th>Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taoyuan</td>
<td>Dyeing, finishing and knitting industries</td>
</tr>
<tr>
<td>Changhua</td>
<td>Woven fabric and sock knitting industries</td>
</tr>
<tr>
<td>Yunlin</td>
<td>Towel and knitted pullover industries</td>
</tr>
<tr>
<td>Tainan</td>
<td>Stable fibre industry</td>
</tr>
</tbody>
</table>

Table: 5 Taiwanese main areas and their developed cluster industries
Source: ATA Textile online

5.1.4 Garment manufacturing – Garment sourcing
China has been known as the ´workshop of the world´ for the past decade. This phenomena can be explained with the help of a questionnaire sent to multiple Dutch brands and SME companies: most of the respondents said the main reason for doing production with China is for its price. However, with the wages rising as explained in chapter 3, it is uncertain how long China will remain the 1st choice for production.

When looking back at the history of China and its manufacturing, China has never been pushed into innovative-based activities. According to analysts, the Chinese government has been supportive in the rising of the labour wages to stimulate the economical growth by domestic consumption and to make the country less dependent on the low priced exports. (Barboza,2010) 45 The Labour Intensive industries are playing an important role in maintaining the steady growth of the national economy and social stability. The biggest competitor is the Chinese Domestic market which has a huge potential and growth prospective. Although the domestic market is growing rapidly and the export production is slowing pace due to the decrease in demand internationally, China will face a new era of manufacturing. The government’s ambition is that the move will force export-oriented companies to invest in innovative and higher-value goods. China is a versatile production country with a lot of opportunities and is attempting to become a more service-oriented economy.

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45 Barboza, D., 2010, The New York times, As China’s Wages Rise, Export prices could follow, [online] (last updated 7 June 2010)
The five major characteristics of the Chinese textile and garment industry at this moment:

1. Large and powerful
2. Complete Supply Chain
3. Industrial agglomeration
4. Excellent facilities and advanced technology
5. Fully functional Network

China is currently the biggest player in textile and garment production, although many companies are diverting to neighbouring countries such as Bangladesh and Vietnam. These emerging Asian production bases are growing, yet their relative share in the world trade lags far behind that of China. Another aspect to keep in mind is that wages are not only rising in China, but all over the Asian region and also in Europe. Next to Asian competitors, Eastern Europe is emerging as a competitive manufacturing area. Many competitor brands are looking for sourcing countries other than China, in the hope that they will create cost benefits. When companies are doing business or want to do business with China this should be out of an strategic point of view. Especially in the textile and garment industry there are several factors that need be taken into consideration such as quality, supplier capabilities and time-to-market.

“The Chinese are quite versatile in qualities and ways of producing, which makes China a better choice of a production country compared to India for instance.” Yvette Klumper, Just B (C I International)

<table>
<thead>
<tr>
<th>China</th>
<th>Surrounding countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Good infrastructure</td>
<td>Underdeveloped infrastructure</td>
</tr>
<tr>
<td>(made 20 years ago)</td>
<td>(suffers blackouts 6 to 7 hours a day)</td>
</tr>
<tr>
<td>Wages increase</td>
<td>Wages increase</td>
</tr>
<tr>
<td>92% literacy (education boost)</td>
<td>55% literacy e.g. Bangladesh (little to no education)</td>
</tr>
<tr>
<td>3 to 4 times more productive</td>
<td></td>
</tr>
<tr>
<td>Efficient transport system</td>
<td>No efficient transport system</td>
</tr>
</tbody>
</table>

Source: May Kam, Buying office Hong Kong

The comparison given above is looking at China and surrounding Asian countries. Also mentioned is the growing competition with European countries such as Turkey. Turkey is to be considered the China of the west. The textile and garment industry is competitive to China as Turkey also has a total supply chain available. The workers in Turkey are from an older generation than the workers in China and these Turkish workers are skilled and know how to produce garments especially made to measure. Turkish companies are also learning better skills in dyeing and washings.
According to Monique Maissan from Vision Textiles in Shanghai (2010)^46, Turkey can be seen as a great alternative for T-shirts and Casual items. On the other hand, the quality of products which include silk, flat knitting, down padded jackets etc, is - when comparing them to Chinese production - not as good. The Dutch brand ‘Vanilia’ for example has set up its own factory in Turkey, thus there are many possibilities in the production facilities and its quality. Cut, make and trim (CMT) production is much cheaper in European factories than in China. Basic garments can easily be produced in European factories especially when brands offer a Never out of stock basic collection. (NOOS collection). Ready-made (RM) and high end products on the other hand, are very good to source in China. China has the ability to produce almost any type of garment of textile and apparel product at any quality level which meets world market specifications. Nowadays, brands/companies are not producing in one country, they spread their sourcing e.g a combination of India, Turkey and China.

Initially China was known as a low cost / low quality manufacturing country. Consumers still have their own opinion about products made in China, but with the knowledge that most of all the luxury brands are producing in China such as Louis Vuitton, Stella McCartney, Marni, Gucci, Tsumori Chisato and others are producing in China, they might change their minds. China has been moving away from the low cost image and has been shifting towards high quality manufacturing. Another important aspect is that the barriers of entry are largely reduced due to the rise of the quality level of Chinese products and the importance of the Chinese manufacturing industry in the world. Roberto Riccio states that “China is getting closer to Italy in Quality”(CEN,2010)^47, which proves that China has well-established industrial clusters, a highly efficient labour force and infrastructure which are able to offset the disadvantage of the rising costs. Moreover, the rising of costs will be beneficial to the working conditions and cleaning up the environment when closing cost driven factories. Industrial development will create product structure, technological structure and profit structure. An industrial revolution is closing in on China which did not have a real industrial impact since the invention of the compass many decades ago. Japan is considered the equivalent of China about 50 years ago which has undergone an industrial revolution and therefore could balance the development. Many factories had to close due to the impact of the financial world crisis and the shortage of labour as previously discussed. According to an article in the China Daily 66% of Chinese enterprises state that developing new products and business will help their companies survive.(Xihua, 2010)^48

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^46 Maissan, M., Development Chinese manufacturing [E-mail] (written communication, 2 December 2010)
Dr. Dyer at AT Kearney mentioned a critical remark when he said “We can keep on moving production to the lowest cost place, but is not really the future of manufacturing. In theory there will be eventually nowhere lower cost to move and costs will be equal everywhere.” He also predicts that manufacturing in future markets would take place where the goods where intended to be sold. (Moody, 2010) With the growing domestic market it is logical that many brands want to enter this huge and profitable market. More about the expansion via sales is explained in Chapter 6. Maurice Groenteman from Modint mentions a critical point, production of a Dutch Brand in China and sold within the domestic Chinese market can be regarded by the Chinese as a non-western brand, but also as a domestic product. Taco Ubbink, production manager for the Dutch fashion designer and brand ‘Hans Ubbink’ that there are a couple of reasons not to produce in China. One is that they find it important not to shift all the expertise to China and have no industry left in Europe. Another reason is that they want to reduce logistical movement and reduce CO². China would mean more or longer logistic movement. Taco points out that they would produce in China if they would have enough sales in China itself. With sufficient sales volume in China, they would shift part of the production to China.

China is moving into Value Added upgrading which will be changing the image of China from quantity to quality. China has the convenience of sourcing (applications, washings, accessories) - aspects that make a garment more fun and special. Value added upgrading will help with efficiency growth and fundamental change. Figure 3 shows the growing value added ratio between 1998 and 2005. Notice the upward trend in 2006 and 2007. This is a direct result of increasing production costs. The figure shows the optimistic prospect for the upgrading of Chinese processing trade.

Figure 3: Value-added ratio of the Chinese processing trade
Source: International institute for sustainable development.

Bringing western tutors to China will be very helpful for young designers to understand western, European fashion, which in turn will help the Chinese garment industry more quickly in their upgrading. Chinese manufacturing has begun to shift from a base of processing and assembly to a base of production, procurement and research and development (R&D). The developments are pushing the Chinese manufacturers into a focus on the short term gain, which include competing on volumes and prices where the profit margin is very thin. (Wang, 2010)\(^5\) In order to offer a good value added service China needs to change the way they are working to their role as a major garment manufacturing industry. It needs to focus on quality, volume minimizing, handwork and other precision techniques, dyeing techniques, special techniques, washings etc.

Most of the textile and garment manufacturing is mainly based along the east coast around the Yangtze River Delta (YRD) and in the South of China in the Pearl River Delta (PRD) near Hong Kong in the five provinces: ShanDong, JiangSu, ZheJiang, Fujian and GuangDong. Most factories are located within the ‘special economic zones’ (SEZ). Table 5 shows a sample overview of cities and their production.

<table>
<thead>
<tr>
<th>City</th>
<th>Producing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shanghai</td>
<td>Agency</td>
</tr>
<tr>
<td>Guangzhou</td>
<td>woven garment factory, fabric market</td>
</tr>
<tr>
<td>Shenzhen</td>
<td>mannequin factory</td>
</tr>
<tr>
<td>Tianjin</td>
<td>Mass production</td>
</tr>
<tr>
<td>Chongqing</td>
<td>textiles, garment manufacturing</td>
</tr>
<tr>
<td>Shantou</td>
<td>Silk products</td>
</tr>
<tr>
<td>Foshan</td>
<td>Woven garment factories</td>
</tr>
<tr>
<td>Nanjing</td>
<td>Basic and Bottoms</td>
</tr>
<tr>
<td>Hangzhou</td>
<td>Silk products, padded jackets</td>
</tr>
<tr>
<td>Xiamen</td>
<td>Heavy industry</td>
</tr>
<tr>
<td>Dongguan</td>
<td>Knitwear</td>
</tr>
<tr>
<td>Zhongshan</td>
<td>Denim</td>
</tr>
<tr>
<td>Zuhai</td>
<td>Denim &amp; T-shirts</td>
</tr>
<tr>
<td>Wuxi</td>
<td>Fabric</td>
</tr>
<tr>
<td>Suzhou</td>
<td>Fabric</td>
</tr>
<tr>
<td>Ningbo</td>
<td>Outerwear and T-shirt</td>
</tr>
<tr>
<td>Harbin</td>
<td>Linen</td>
</tr>
</tbody>
</table>

Table 5: Sample overview cities and their production
Source: May Kam, Buying office Hong Kong

Tristan Reeves, buyer at Li & Fung, mentioned in his questionnaire that they produce small orders and branded goods in southern China and the large and bulk orders in northern China in the Tian Jin area, south of Beijing. Suppliers from mainland China are already starting to compete with one another. The coastal regions are growing in prosperity which cannot be said about the inland of China where there is a huge difference between rich and poor. In an effort to lessen this gap, factory workers’ wages have increased. The higher end production will stay in the Delta regions and the south of China. The low cost manufacturing will be moving inland, away from the Pearl river delta and towards rural western China. The government is supportive of the manufacturing moving more inland. This in order to reduce costs for companies due to cheaper labour. Chinese companies are getting an allowance from the government to support opening factories in the countryside.

The downfall of this government plan is that there is either no infrastructure at all or a poorly developed infrastructure. Although many suppliers are currently based in the east of China, they are looking at the options about moving more inland considering the lack of infrastructure in more remote areas. If other (component) suppliers continue to shift their manufacturing to the interior regions, then a new manufacturing hub will be created in which an interesting manufacturing mix will start to evolve. Integrating manufacturing bases will be established in neighbouring provinces in the south of China. The exploration into different parts of China is mentioned down below and is compared with each other. China can provide quantity and quality at speed. Another advantage is the manufacturing-friendly infrastructure (including highways, ports, industrial parks and internet due to the government ownership of lands and banks).

<table>
<thead>
<tr>
<th>North China</th>
<th>East China (at River)</th>
<th>West China</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less restriction/pollution</td>
<td>More flexible</td>
<td>Government is exploring</td>
</tr>
<tr>
<td>Less educated (poor people)</td>
<td>Able to educate people</td>
<td>Less educated (poor people)</td>
</tr>
<tr>
<td>Increasing production</td>
<td>Mid/high end production</td>
<td>Increasing production</td>
</tr>
</tbody>
</table>

“China is generally regarded as the ‘supplier of choice’ for most overseas apparel buyers” - Kin fan Au, Professor Hong Kong Polytechnic University. (Au, 2009)51

There are several ways to source and find a suitable supplier or manufacturer in China. (KvK, 2010)52
- Via Internet: Alibaba, HKTDC: Hong Kong trade and development council, Made in China and Baidu, to name a few;
- Via Fairs: The Canton Fair in Guangzhou or China Sourcing Fair in Hong Kong;
- Via Network/Relations (getting introduced);
- Via Specialized intermediary such as a buying office.

“The problem with sourcing via internet or fairs and even through a specialized intermediary, is that we do not know where the products are produced and in what kind of facility. Therefore, spending money on a business trip and visiting the factory is worth it to avoid any surprises.”

– Hans Blankenburgh, Zigfreda

The value added upgrading is necessary to keep and to establish new trade especially with foreign countries. In order to acquire new manufactures always start with a trial order. In many cases a supplier can introduce a new supplier from his own network. Next to the value added upgrading in the manufacturing industry, is the development of industrial clusters where small size manufacturers are relying on one another.

52 Kamer van Koophandel (KvK) Seminar: Starten met import uit China [handout] 30 September 2010
In ZheJiang Province for example, industrial clusters are common. These clusters are small textile and clothing manufacturers and supporting companies who are in many cases private enterprises. Located near to one another, these clusters form a production chain: one manufacturer produces the unfinished textile, one does the dyeing and printing and across the street there is another manufacturer making the garments. Refer to appendix 4 for an overview of the top 100 industrial clusters in China. There is also the format of textile industry parks, which are a group of manufacturers with a planning structure, more advanced methods, skilled management and can produce on a larger scale. These modern parks are relying on the support of private textile and garment enterprises to be able to absorb foreign capital. They offer technology, high standards, comprehensive development of principles and optimization of the conditions for the development of the Chinese textile and garment industry. There are several kind of parks near the cities of Nantong, Wuxi, Shenzhen and Changzhou.(Shen, 2009)\(^5\)

To further reduce costs, consider relocation or outsourcing garment manufacturing to surrounding countries such as Cambodia, Vietnam, Korea and the Philippines. Governments are making it easier for foreign investors to enter their countries which will attracts foreign manufacturers. Chinese enterprises are not only starting to outsource to lower the costs, but also for location of investments, such as setting up factories as foreign direct investments in the outsourcing country. This includes the possibility of the promotion of Chinese brands in the country. Chinese garment manufacturers are looking at the beneficial aspects of outsourcing. When looking for an outsourcing country there are several aspects that are necessary when outsourcing apparel production.

- Skilled Workers
- Infrastructure
- Fast turnaround delivery
- Flexibility in production
- Design capabilities
- Labour Inflation

Labour inflation is growing 20 to 50 percent in China, wages go up to $500 a month compared to $300 in the Philippines. Vietnam is growing 20 percent every year and India has seen consistent growth of 11 to 12 percent every year which is expended to double in the coming five years. The Philippines is also quite effective in controlling labour inflation at 5 to 6 percent over a three-year period making it quite stable. (Magkilat, 2011)\(^6\)

Therefore, it is very interesting for Chinese manufacturers to look into outsourcing its production.


An concern in the Chinese manufacturing industry is **volumes**, or in other words the quantity for each order. According to independent trader Rob Berling, there is no such thing as a volume problem, the problem lies in the minimum fabric quantity or meters. It is possible to produce minimums orders of 200 pieces in China. As a result of a drop in orders, Chinese companies are willing to take smaller orders. With the current developments it will be even more important for Chinese manufacturers to lower minimum volume requirements to attract the mid level brands. Although the quality is rising because of the value added service, the Chinese way of doing business will definitely not change quickly. Any Chinese manufacturer will be happier when an order volume increases instead of decreases. Should an order volume decrease, the importance of the production of that order will diminish in importance, because the manufacturer will earn less money than when an order volume increases. As they say ‘Money makes the world go round’. A garments time ‘to’ market and the time ‘in’ market are changing rapidly. The following figure shows the product life cycle. Especially in the clothing industry with the growing number of trends, the time ‘in’ market is in many cases shorter. Consumers have become more fickle, thus the product life cycle is shorter in the current market. Stock levels are lessening due to the erratic fashion trends and the average volume per order is decreasing. (Otto,2009)\textsuperscript{55}

“China used to be identical to mass production or volumes and there are still factories who do not produce less than a 1000 pieces, but there are many factories that are getting more aware and see that one of these value – added services is creating money”. Hans Blankenburgh – Zigfreda

“The bigger the volume, the faster and better they work for you”.
- Marije Hoff, Yarn unit.

The sampling process can be expensive and therefore it is important to be as precise as possible. Include worked out drawings and technical information. In this technical information everything needs to be written down in clear and simple language. As previously explained and due to their culture, Chinese have a difficulty in expressing themselves when they do not understand something. Therefore, when a quotation for a product is much higher than expected, we must assume that the manufacturer does not know what to do and in this way is not loosing face. It is also important to know that the Chinese body differs from the Western body and that fit problems can occur, therefore by using a western body mannequin these problems can be prevented.

\textsuperscript{55} Powerpoint, Otto International, 2009, Linking Supply Management with Finance
Chinese garment factories receive a huge quantity of ‘Request for Quote’ (RFQ). An RFQ is asked by different overseas companies who want to produce in China. Therefore, proving the factory with clear and comprehensive information will be a good base for initial contact. Take into consideration that requesting samples is getting more difficult, a product which was done previously in 2 weeks now can possibly take up to 4 weeks. It is important not to make any major changes to a design, because there is always a chance that the manufacturer will not understand the design changes. In spite of the value added upgrading, the level of competence depends on the manufacturer. A way to check if a manufacturer understands the requests is by asking everything in two different ways. The cost to make a sample is quite expensive, but in many cases the Chinese manufacturers will charge a small amount or nothing for the sample in order to keep the company to agree to production at their factory. Before starting production, on request the factory should make a pre-production sample this should resemble the production order. When problems occur this sample can be used as a reference. Due to the lead time rising and the uncertainty of worker capacity, it is getting more difficult to determine prices.

Lead times in China are also increasing, one of the reasons is the sustainable development in the country and the lack of worker capacity which is now 30/40% capacity free. However, the development of the industrial clusters and the textile industrial parks are enhancing the efficiency and should shorten the delivery lead times. Subcontracting is often used to keep the order and to reduce lead times. Another way to shorten lead times, is to have a close relationship with the supplier. Relationships are considered as a priority for a supplier. Organisational capabilities are necessary for time-to-market. Chinese work very efficiently and orderly and is something that dates back in the history of China, during the cultural revolution. Chinese are dedicated, but in many cases everything is done last minute, a complete different working method than Europeans. The general lead time for the garment production will be 45 days after fitting has been approved. However, if this period falls over for example the Chinese new year holiday, it will add an extra 40 days to the lead time. The Chinese factories take two significant holidays each year: Chinese New year in February and China week in October. The vessel sailing time from Hong Kong to Amsterdam will be around 23 days for express vessel and 29 days for a regular vessel.

The Quality of delivery (QOF) can be divided into Quality Assurance and Vendor management. Quality of delivery goes hand in hand with the Value added upgrading. The garment specifications must be checked carefully by the buyer before production starts and by the Quality control manager during production. A worker in China might think that something is of commercial standard, but the buyer would certainly not feel that. Problems that could occur are workers not following garment specifications causing fit issues, changing fabric/trims to a cheaper quality, late deliveries or communication issues. In terms of quality levels, problems that occur include colour deviation in fabric or stitch hole marks on the fabric. Therefore, it can occur that the goods are of substandard quality. It is always a constant effort involving several checks and inspections to make sure the goods are produced as ordered. Remember that by the time the goods are finished, in many cases it is too late to change anything.
An aspect in the quality of delivery is the Quality Assurance (QA), which is taking a step further than the generally used Quality Control. Figure 6 visualizes the QA which is monitoring the process from sample to final shipment to ensure the quality level of the production as per the buyer’s requirements. Quality assurance can be arranged by a third party quality inspection company, such as such as TÜV.

![Figure 6: Quality Assurance in China](source: TÜV Rheinland)

There are several inspection steps that are used in QA:
- During the product assembly (in line inspection)
- Product & shipping packaging, specify outer cartons to inner packaging, to detailed packaging
- Pre-shipment inspection
- Final random inspection of the produced goods according to AQL standards, AQL meaning acceptable quality level. (figure 7) (Petersen, 2010)\(^{56}\)

![Figure 7: AQL system](source: TÜV Rheinland)

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\(^{56}\) Powerpoint, Petersen, J., TÜV Rheinland, QA in China, Qualitätsmanagement fuer den Handel mit Produkten
Another aspect of QOD is Vendor Management which assists in building a working relationship with the suppliers that are working for the brand or buyer; to come to agreements that are beneficial for both companies. Therefore to give a factory comprehensive feedback after an production will help for the continuous growth in the relationship between vendor and buyer. Vendor management can be accompanied by a Vendor Rating System that will give a clear perspective on the suppliers output and its scores. A well managed vendor relation will increase customer satisfaction, improve price-quality ratio and will improve overall the service of the vendor.

There are strategies to strengthen the vendor relationship such as:
- Share information and Priorities
- Balance commitment and Competition
- Allow key vendors to help strategize
- Build partnerships for the long term
- Seek to understand vendor’s its business
- Negotiate to win-win situation
- Come together on value (Bucki, 2010)\(^57\)

China is still known as an manufacturing/ copying country rather than a creative country. Momentarily they are still in fact a copying country for 99.99%. The level of creativity is growing among Chinese people, but due to the lack of art institutions and appreciation for innovation it could take some time to integrate into the Chinese Culture. ‘Necessity is the mother of invention’ so as China produces more for its domestic market and less under instruction from foreign buyers they will start to listen to their own customers, spot the niches in the market and create new and original products. China’s creativity is suppressed by an educational system which believes that ‘the book is king’ and encourages learning and repeating as opposed to thinking out-of-the-box. Guangdong for example has a design college, but many of its designers are copying ideas from other designers rather that creating, because this how they were taught during their studies. (Blankenburgh and Wille 2010)\(^58\) Fortunately, there is a gradual emergence of home-grown Chinese luxury brands who are looking into the heritage culture of China for inspiration and are using traditional elements in their designs. We can say that art is upcoming in China, but only when the Chinese really start creating their own designs and products they will start to enforce copyright.

“Something is definitely happening in cities such as Beijing: creative, young people, artists, musicians, etc. Sadly, this initial artist evolution has not yet translated into actual product development and sales in the apparel market on a grand scale”. – Arjan Andreas, Regional Product Manager Levi's, Hong Kong


WGSN, greater China fashion report 2009 mentioned that the government support for Chinese designers is growing, but is still more focused on the crucial manufacturing and retail sectors than on the creatives which are feeding those sectors. China will gradually move from ‘Imitation to Creation’ and working from ‘made in China’ towards ‘created in China’. Chinese fashion designers that are upcoming according to WGSN report 2009 are names such as Ma Ke, Liang Zi, He Yan, Xie “Frankie” Feng, Li Xiao-yan.

China will take the same steps as Japan 40 years ago, copying western products, improving and later an own brand/design market will establish itself – Pieter Remstedt.

The Chinese lack knowledge and ability in marketing and branding. This is something that needs to be taught. Thus, many manufacturers are aspiring in the development of their own label or brand and are establishing relationships with foreign brands to be able to learn the basics of marketing and branding and how they can incorporate it into their own market. There is also a visible growth in the heritage of Chinese fashion by western designers or brands. This visible growth is due to the establishment of the economical growth and prosperity that China is going through right now. Expected is that the amount of tourist visits will increase rapidly the coming years. China’s profile as an influence of style is rising in the fashion industry. For example Marc Jacobs incorporated Chinese design elements in the Spring/Summer collection 2011 for Louis Vuitton. (Jing daily, 2010)

Activity based costing (ABC) is a method for controlling costs, according to activities. It is an aspect of activity – based management. Within the manufacturing industry it can determine the cost drivers and the activities creating cost drivers in a company which are the resource and activity drivers.

According to Johansson and Reischl’s master thesis (2009), “the establishment of a flow of information needs to be created in order to synchronize the demand forecast to the supply chain manufacturing capabilities. The supplier therefore needs information about the demand and the customer needs information about the supply”. (Johansson & Reischl, 2009) With the ABC method activities can be separated into Value added and Non value added.

- Value added: Activities that increase the value of a product. Such as designing, assembly and QA.
- Non value added: Activities that increases the time spent on a product and not the value of the product. The non value activities do not increase the value of the product and in many cases increase the costs.

The ABC model is an continuous improvement process in which the non-value added activities should be diminished. See appendix 5 for an example of the activity based costing model. (Lysons & Farrington, 2006)

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5.1.5 Distribution - Logistics
The speed of growth in China is causing one of the biggest challenges in terms of logistics in China – an efficient distribution of good and finished products. There are two ways that are used to transfer the goods from China to the Netherlands: either by boat or by airplane (in logistical terms it is called Container freight or Airfreight) Although Airfreight is faster the price is rather high and is in many cases used when the products need to be as soon as possible in the shops.

There are two ways to ship via container:
- FCL = Full Container Load
- LCL = Less Container Load

With a LCL shipment the freight company has to do more work as LCL’s contain multiple companies’ goods and can in some cases even be more expensive than a FCL.

Here is an approximation of container costs (Schooneveld, 2010)^62
20 Foot container - 1600 US Dollar
40 Foot container - 3100 US Dollar
40 Foot High tube container - 3150 US Dollar
incl. surcharges.
* These prices are subject to change

Inco terms (international term of shipment/delivery) will determine the point of transfer of goods and the location from where the buyer needs to arrange (further) transport. When shipping by Container freight, the incoterm ‘Free On Board’ (FOB) is mostly used, and the harbour destination is Rotterdam. For further information about incoterms refer to appendix 5.

For many companies it is useful to work with a freight forwarder. A freight forwarder is an intermediary who acts on behalf of importers, exporters or other companies or persons. It organizes the safe, efficient and cost-effective transportation of goods. A freight forwarder is an independent company which handles the export shipments for compensation. Freight forwarders arrange the best means of transport, using the services of shipping lines, airlines, road and rail freight operators. The freight forwarder takes care of all documentation needed to move the shipment from origin to destination. The forwarder arranges for cargo insurance, makes the necessary overseas communications, and advises the shipper on overseas requirements of marking and labelling. For more information on Freight forwarders can be found on www.fenex.nl

“The efficient distribution of goods and finished products is one of the biggest challenges associated with China’s rapid growth – KPMG, report Logistics in China

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Financial aspects: Payment methods
With the current economic development in China, manufacturers do not want to keep too much stock and also do not want to wait for the money to show. When buying goods overseas payment methods should be negotiated. A strategy is spread payments for example 40% when product is ready, 40% during shipment and 20% upon delivery. (KVK, 2010)63

Commonly used for overseas payments is the Letter of Credit (L/C)
A L/C is used as a secure and safe payment method for domestic and international trade. The bank is acting on request of its customer. The bank deals with documents not with goods. The documents given to the bank should be in accordance with the terms and conditions of the letter of credit.

Other payment methods are open account, bills for collection, payment in advance.
A current development in financing is ‘Back-to-back factoring’. Back to back factoring optimizes the cash flow management which includes the cash flow and working capital.(Eurobank, 2007) 64 It is a form of credit allotment based on advance payment and afterwards payment of export goods, similar to an L/C. The supplier will get a full guarantee that they will be paid when the goods are approved and shipped. A quality check is an extra method to be able to guarantee the quality of the goods.

“The client receives advance payments for the assigned Accounts Receivables and pays on open account terms the Accounts Payable to one and the same counter party. The administration, monitoring of due dates and amounts of the Accounts Receivable, and their collection and payment transfers is handled by the bank, which allows the client to focus on his business and sales development” - Eurobank

5.2 Sustainable development in China
The fashion industry today is facing the very substantial concern of Pollution and Water usage. This industry is the third largest consumer of water in the world, but also contaminates the water that is used when dyeing agents and other chemicals to create a certain look on jeans for example. China is the workshop of the world. This international industrial country has, however, developed into one of the global regions that has the worst environmental pollution. The air pollution in China has been on the increase for the first time since 2005 as a result of the economic recovery leading to a rise in construction and industrial projects and the demand and usage of cars.

63 Kamer van Koophandel (KVK), Seminar: Starten met import uit China [handout] 30 September 2010
At the end of 2009 there were 4 million cars in Beijing and it was estimated that in 5 years’ time, this figure would be doubled. Although regulations are in place that cars may only be used every 2nd day (controlled by the registration number of the license plates), this measure alone is not enough to fight air pollution. China is also the largest consumers of energy sources and mineral resources, such as coal which also contributes to polluting the industry. By lowering resources and energy consumption, China might be able to realize an environmentally friendly and clean environment. Within the textile industry, the government already started to take action by limiting the use of dyeing houses. Instead of 7 days per week, they are now only allowed to operate 3 to 4 days a week. Fifty percent of the water in China cannot be used for consumption of which 25-30% is too contaminated and cannot be used for anything at all. (Metz, 2010) The water pollution is to be considered China’s biggest problem. The water is contaminating soil, crops and forms a health risk to the Chinese population.

Many polluting industries are moving more inland and the government faces the problem that many factories which are good for the economy and continuous development, are old and did not have to follow environmental rules when they first started, therefore still cause high degrees of pollution. Many foreign countries do not see the changes in the environment, because much is done internally in China. Nowadays China is investing heavily in green technology, prioritizing technologies which are energy efficient and contribute to environmental sustainability. It will take China a long time yet to be able to revive sources and to clean up its country. However, it’s not too late and Chinese officials are also seeing that this is an priority.

Ethical sourcing is also important when discussing Social Compliance. It defines the conformance to the rules of social accountability by the extended organization, including not only the organization’s own policies and practices, but also those of its supply and distribution chains. Social compliance cannot be done overnight and is a continuing process in which the involved companies keep on looking for better ways to protect health, safety and fundamental rights of their employees.

Worldwide Responsible Accredited Production (WRAP) is a non-profit organization dedicated to the certification of lawful, humane and ethical manufacturing around the world. The WRAP Certification Program is based on 12 principles focusing on local law and workplace regulations and generally accepted international workplace standards. WRAP has an office in Hong Kong and has been focusing on getting more Chinese companies WRAP Certified. They recommend the certification not only because Europe and the US demand a good and healthy working environment, but also because of the growing media attention on where products are manufactured. For more information, please visit the WRAP website: www.wrapcompliance.org

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Another aspect which is important is the Restricted Substances List (RSL) which is an Environmental compliance list used throughout the chain. The restricted substances list provides apparel and footwear companies with information relating to the regulations and laws that restrict or ban certain chemicals and substances in finished home textile, apparel and footwear products around the world. For more information refer to: http://www.apparelfootwear.org/Resources/restrictedsubstances.asp

REACH, “the European Community Regulation on chemicals and their safe use. It deals with the Registration, Evaluation, Authorization and Restriction of Chemical substances. The law entered into force on 1 June 2007.” For further information refer to: http://ec.europa.eu/environment/chemicals/reach/reach_intro.htm

Ökotex Standard 100 is a quality mark that is generally used in the textile industry. It guarantees a product or garment which will not harm the health of the consumer. Ökotex Standard 100 is not only used in the textile industry but also toys and home textiles or other materials that could harm a consumer. For further information refer to: http://www.oeko-tex.com

In the last years China had several notifications on recalls such as contaminated milk powder, toys etc. China needs to improve the checking up on the RSL and the number of notifications on RAPEX. For the image of China it is important decrease the recall notifications in all industries. RAPEX is the EU rapid alert system for all dangerous consumer products. http://ec.europa.eu/consumers/dyna/rapex/rapex_archives_en.cfm
Chapter 6: Sell in China?

The domestic market in China is rising rapidly and many foreign brands are expanding into China. One of the main reasons for expanding to China is the huge consumer market. China counts for the largest population of 1.3 billion in the world. China will outgrow the United States when talking about the consumer luxury goods market. The Chinese consumers make up around a quarter of the world’s luxury market. The second reason is that China has a huge interest in foreign brands. Since the opening up, the Chinese people have developed a keen interest in the west including their garment and fashion industry. China was always a well established buyer market but is changing swiftly into a seller’s market.

“The consumer market in China is growing 10% each year comparing to the Netherlands which is growing only 1%” – Antonio Barberi, Modint

6.1 Consumers

To understand the consumer market in China, the National Bureau of Statistics of China states that there are more than 250 million people in China between the ages 15 and 29, who were born after China set up the one-child policy and grew up in a country that was reforming its economy and opening its doors to the rest of the world. (Chen, 2009)\(^6\) This concludes that these young consumers are able to take part in the growing purchasing power that is currently expanding in China. A culture of symbolism is presented strongly within this group of young consumer, especially within their apparel preferences, the main factor being their belief that owning top brands expresses prestige and status. Their apparel preferences go out to the latest trends, but they do choose western brands with care. Quality at a good price is an important aspect of buying any brand. A word-of-mouth purchasing culture has also established itself here as it often does between young consumers. Young Chinese have cultivated an obsession with brand names on the one side. On the other, some young Chinese desire individuality and do not want to follow the larger brands. In both cases, European fashion is very popular in China. (CRI, 2010)\(^7\) These Young Chinese fashion followers are called ‘the bananas’, in other words yellow (Chinese) on the outside but Caucasian (western) on the inside. Bananas are better known as American Chinese consumers (ACC) or British Chinese consumers (BCC) and are considered trendsetters. They are also considered the bridge between Chinese Culture and the Western Culture as many of these ACC’s or BCC’s were born in a western country and found jobs in either Hong Kong or a major city on the mainland. They go back to their roots, but have the advantage of understanding the mentality of the west.


There is a rapid growth in the middle class consumer. These consumers are increasingly sophisticated and are demanding higher quality, variety and innovation from retailers. These middle class consumers with a middle income in smaller cities are expected to become the new input in China’s consumer market. They have extra money to spend on luxury items such as clothing as they can save money by living in smaller cities where living costs are much lower than in metropolitan cities such as Beijing, Shanghai and Hong Kong. Due to the option to save money as the living cost in smaller cities are much lower than cities such as Hong Kong, Shanghai and Beijing. The middle sized cities between 1 or 2 million people and province cities have the most market potential. (Bouwman, 2010)  

Another group of consumer are the western expats living in China for employment purposes. Many foreign brands are establishing shops in the major cities in China, but as the shape of people’s bodies in Asia differ from Europe, adjustments in garments are needed to attract the Asian consumer. European size 36/38 will be difficult to find as most clothes in China are too small and often too short at the arms and legs. (Shanghai Daily, 2009) Fashion in China is different than other places in Europe or the US, mainly owing to the taste of the Chinese consumer and the clothing fit. The proportions of a Chinese person’s body is very different to that of a western body. Examples include the position of the hip joints, no bum and generally small breast for Chinese women. For men, this also includes the position of the hip joints and general proportions such as length of arms and legs. This is the reason why many expats are having difficulties in finding clothing when they live in China. The expat community relies on word-of-mouth and therefore they can be seen as a niche market in China. Cairn Wu with her label Kaileeni and Dutch native Jolie van Beek with her label and shops D.I.S have successfully tapped into this niche market.

There is a big difference in taste between the West and Asia. The taste in Asia ranges from child-like into a more contemporary style. (Williams, 2010) The biggest competitor in China will be the fashion of Japan, although Korean designers are getting more popular in China too, especially in Hong Kong. The clothing taste in Hong Kong is getting more sophisticated by the presence of the bigger designer names, but in mainland China this is not the case yet. China is still consuming on ‘expensive equals image’. The reason why designers are using more logo’s is due to the Chinese consumer who wants to show off their designer clothing or accessory for which they had to save money for several months to be able to afford it.

“One time a Chinese consumer decided to wear his Louis Vuitton jacket inside out because then it would show that he was wearing a designer jacket because of the logos on the inside”. – Ilse Kerling, Kerling Consulting

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68 Bouwman, A., 2010, NRC handelsblad, Denk goed na over de Chinese consument, 13 December 2010  
6.2 Low or High: Market segments

Something that is not known in China is the middle market. Either clothing is within the low segment, a very cheap, market or clothing fall within the high segment, expensive and bought in mono brand stores. There are two known segments in China:

1. Low priced basic apparel sold under local brand names and offered in Chinese department stores;
2. Luxury brands sold either in franchised boutiques or upscale department stores. (CPL consulting)

Although the middle market segment is not known in China, whenever a foreign brand is establishing itself in China, this is considered middle segment. That happens because the brand is higher than market clothing but lower than the luxury brands and the most important aspect is that this brand is unknown for many Chinese.

European fast fashion retailers such as H&M, Zara, Esprit and We have established themselves in the growing Chinese consumer market. These fashion retailers are profiling themselves as brands within China and Hong Kong. Prices differ than those in Europe. The same counts for Gap, an American retailer, who started to profile itself in mainland China. Uniqlo, a Japanese retailer, found its way into the Chinese market by offering basic garments for a reasonably good quality for a good price. Countries especially China proves the growing industry’s influence and growing luxury market.

“Prices in China are roughly 40 percent higher than they would be for the same handbag or dress in Paris or New York”. - Cathy Horyn (Horyn, 2010)

Chinese consumerism is growing at unprecedented speed. Therefore this market is very interesting in brands and designers who want to leap forward into the Chinese market where clothing is a profile and many consumers are willing to save up money in order to afford to buying status from a brands. They are highly influenced by celebrities in commercial ads or the use of brand advertising.

Fashion Capitals: Hong Kong and Shanghai

1. New York 12. Shanghai
2. Hong Kong 14. Tokyo

These rankings are according to the luxury insider via China Daily. The above rankings clearly indicate the west’s growing interest in Asian capitals, but the most prominent fashion capital is still considered to be New York which topped Milan.

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Hong Kong is said to become the fashion capital of the world. Hong Kong is a more matured fashion destination – at least 20 to 30 years more advanced than Shanghai. (Jing daily, 2010)\textsuperscript{74} The Chinese owned luxury brands are starting up within the domestic market, created in China is starting slowly to evolve. This means that as the country’s luxury market matures, it will gradually move from imitation to creation. The market has undergone tremendous development in terms of infrastructure, consumer wealth and spending over the past 10 years and there are no signs of slowing down.

6.3 Dutch Design in China
Dutch Design is well known outside its own borders as conceptual, functional and the use of humour.

* Dutch architecture can be seen in south China. The CCTV in Beijing for example is designed by Dutch architect Rem Koolhaas;
* Product designs such as Bugaboo is an example of product designs that have been well received by the Chinese. Others include lamps by Marcel Wanders, delivery bicycle Gazelle by Caby van der Veer.

‘Design for Daily Life’ that is the theme of the two Dutch design missions in China;
1. Business of Design Week in Hong Kong;
2. Guangzhou Design Week on mainland China.

The Dutch Design Workspace is an area which is open for SME Dutch design companies in Shanghai. Although the focus is on architecture and product development, it could also be interesting for SME Dutch fashion companies. These spaces are reserved for companies who want to enter the Chinese market for the first time, but companies can also use it to establish themselves further in the Chinese market. Apart from the DDW, the Incubator is another workspace for individual Dutch designers. These individuals need strong design talent and skills to work in such a flexible environment. The incubator program allows all participants to develop individually, while enabling collaboration and benefiting from joint expertise. For more information on this program or others: www.dutchdfa.nl

The above mentioned programs are mostly directed towards architecture and product design. Dutch fashion design is starting to make its way into China not only by the establishment of mono brand stores by Dutch retailers, but also by the settlement of individual designers like Daryl van Wouw in Shanghai. Dutch Brands are not visible in New York or Tokyo, but behind the scenes the Dutch creatives are very active. Some of most renowned luxury brands such as Gucci, Louis Vuitton, Prada and Diesel all are driven by Dutch people. The Netherlands is a creative country although very modest. There are a lot of possibilities for Dutch fashion designers in China.

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Leslie Holden, Head of the Design department at the Amsterdam fashion Institute points out that The Netherlands encourages and indulges creativity, but the opportunities are very limited for young Dutch designers who want to start their own labels. The market is too small in the Netherlands to accommodate all the talent which the fashion academies produce. Therefore building a reputation abroad will be needed for Dutch fashion designers and the academies and needs to be in combination with a good reputation in the Netherlands. The project ‘Dutch Fashion Identity in a Globalized World’ was started in September 2008 and will finish in December 2013, The Dutch organization for scientific research is financing this project. The research is about the creative fashion industry in the Netherlands and how it is capitalizing a unique mix of individualism, innovation and (post)modern design. The research hopes to be able to determine and describe a Dutch fashion style and underline the cultural innovation of Dutch fashion. (NWO, 2008)\(^{75}\)

With the comments of Leslie Holden in mind, Dutch Fashion Here & Now which was held in Shanghai in October 2010, is a good initiative to build an international market for Dutch fashion design. Fashion shows by Dutch fashion designers including Daryl van Wouw, Avelon, Matthijs, and Beyond, as well as Dutch Fashion design academy graduated were part of the program. Dutch Fashion Here & Now was not only showing Dutch Fashion, but created that essential platform for designers to meet sourcing specialists from China. Daryl van Wouw used the occasion to show his Chinese production studio. (Bozon, 2010)\(^{76}\) The business of design week 2008 included fashion shows by Monique Collignon, Hans Ubbink, Mada van Gaans, Spijkers en Spijkers and Bas Kosters. Iris van Herpen receives a lot of coverage in magazines and Victor & Rolf is being sold at the retail shop IT in Hong Kong. (Dutch embassy China, 2010)\(^{77}\) The jeans brand G-star has several sales points in China and the G-star RAW gallery was brought to China in May 2010. The exhibition ‘Taking a Stance’ with nine handmade dresses from Dutch fashion designer Alexander van Slobbe has been on exhibition in several locations throughout China. China is getting acquainted with not only with Dutch architecture and product design but also Dutch fashion design.

Mattij van Bergen, the creative director behind the brand ‘Mattij’s’ was a participant in the Pitch meeting - an initiative by Syntens, KansenKanon and the Amsterdam International Fashion Week in January 2011. In his pitch, Mattij mentioned his participation at the Shanghai expo Dutch Fashion Here & Now where he received much positive feedback and CNN even mentioned that he belongs in China. He hopes to return to China soon. It is important for him to focus first on the Netherlands and the UK and maybe expand further in multi brand stores. China currently does not have its own Identity and Mattij’s design style appeals to them. Even though Mattij only wants to focus on Europe, he currently has two shops in Saudi-Arabia.

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\(^{76}\) Bozon, K., HTNK, Dutch fashion here & now Shanghai 2010 programma opent deuren voor de toekomst [online] available at: <http://www.htnk.nl/?p=440&PHPSESSID=7df5e24a871d81a5f935de7c530a3f12> [accessed on 10 December]

D.I.S. Shanghai an abbreviation for Dutch Items Shanghai, D.I.S was established by Dutch Designer Jolie van Beek in 2006. D.I.S. currently holds four locations in Shanghai offering comfortable, high quality luxury at an affordable price. The D.I.S shops sell their own label D.I.S as well as Dutch labels such as Supertrash, Sandwich and Stills. The D.I.S clothing line is made for the western fit and sizes; EU 34-46, UK 4-18, US 2-18.

Most of the female customers are expatriates living and working in Shanghai, China and who are having difficulty finding clothing that fits right on their bodies. Dutch footwear brands are also sold such as Ruby Brown, Jans Design and Maluo. D.I.S plans to open a shop in Hong Kong this year and there are also plans to open a D.I.S Kids store.

For more information refer to: www.disshanghai.com

6.4 Approaching China
With the upcoming domestic market, the growing middle class and the continuous interest in European fashion, the current market is the best time to consider and take action into bringing Dutch fashion design to China. Not only are haute couture or prêt-à-porter collections becoming popular in China, but so are retail stores. As discussed previously, the brand name is very important within Chinese culture. Many Chinese people are not able to speak a foreign language or at least not fluently. So companies have to make sure that the name of a brand can be pronounced and remembered by their targeted customers. Also be careful when translating a western name into Chinese. There are many ways of translating and by choosing the wrong translation many Chinese will not buy your clothing. Another important and essential part when wanting to sell in China is having promotional or technical information in Chinese e.g. company brochures, product information and specifications, website etc. Internet users are also on the rise in China. June 2010 counts for 420 million internet users - that is 36 million more users than at the of 2009. This shows a great interest in the World Wide Web by the Chinese people. Online retail increased with 117 % between 2007-2009, which means that more and more Chinese people are using the internet to purchase products. (Yuanyuan, 2010)\footnote{Yuanyuan, H., 2010, China post, Online shopping gaining ground in China: Nielsen [online] (last updated 2 August 2010) available at: <http://www.chinapost.com.tw/china/national-news/2010/08/02/267082/Online-shopping.htm> [accessed on 25 October 2010]}
The Chinese people are travelling abroad more and more, this also means they encounter more foreign brands than the luxury brands they are familiar with in China such as Chanel and Louis Vuitton. Due to these encounters, the Chinese will be able to understand the underlying meaning and vision of the brand. When they come back home they will want to search for these products which is a good opportunity for web shops. The barriers for buying online are the quality of the product and the after sales service. The payment method is also questioned by Chinese in regards to their financial safety. More women in China are interested and willing to buy clothing from the internet - especially women who are have a career or a wealthy background. Not only a good web shop will help the establishment of a foreign brand in China, but also the website itself. Internet can help with the marketing of a brand, particularly for the Chinese people who are so influenced by marketing as this was banned during the cultural revolution. Taobao is currently the most visited online shop which is the distinct leader for online retailing of apparel and Rayli.com.cn is one of the most important portals for the women’s beauty and fashion industry in China. (A Japanese magazine) Also popular is http://lookbook.nu/ and http://P1.cn

There are also specialized brand to consumer (B2C) websites which are popular according to Li & Fung research centre: M18.com, Menglu, Masa Maso, and La Miu.

Location

China has a multi-tier city system. Although China is a huge country it does not have a single market, but a series of markets. China has 30 provinces and autonomous regions, each differ in natural and cultural circumstances, economical development, purchasing power, taste and acceptance rate of western products. Where to position a fashion brand needs to be carefully chosen, but also where to locate the stores or sales points. Chinese people are deeply influenced by cultural norms and values. (Chan, 2009)\(^\text{79}\)

Due to the fact that China is a huge country with a lot of possibilities, many larger brands have already taken the step to open stores in first tier cities. The retail market in first tier cities is beginning to mature, therefore many retailers are expanding in second and third-tier cities with the attractiveness of these regions, encouraging migration from country to regional cites and the increasing urban retail. During the research of this thesis it became clear that mainland Chinese are visiting Hong Kong due to its tax free policy, the no visa requirement and although it is part of China, it’s still very different than other Chinese cities such as Shanghai, Beijing or Shenzhen. Hong Kong is chosen by companies as a location to open flagship stores ‘windows’ to mainland China and Southeast Asia.

Quality Standards
The Chinese government enforces very strict quality standards for products being sold in China that can pose a challenge for apparel companies. China daily mentions in an article that defects in the manufacturing of the luxury garments that are imported into China include poor colour fastness, unacceptable amounts of acid and high levels of formaldehyde which causes skin rashes, eye irritations and many other health problems. Improper labelling is also an fault which was revealed. Focus will be more and more on product safety. China’s quality control tests for foreign brands are much more strict than they are for domestic companies/brands. Therefore foreign brands/labels whom are exporting their products to China should be aware of the expectations of its product in China and also knowing China’s Law. (Jing Daily, 2010)

“What is considered inferior quality, would be part of the design aesthetic in developed markets such as Europe and the US. Examples are special finishes that create shade variation on garments for a unique and worn look, but fail colour fastness standards in China. Levi’s actively cooperates with the government in determining and/or setting these standards and we don’t sell any products that fail,” Arjan Andreas, Regional Product Manager Levi’s Hong Kong

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Promoting
In order to win consumer attention and boost sales fashion companies should be aware of the marketing and brand building. It is possible that Chinese do know the brand from their travel overseas but there are many Chinese whom have not. Using a celebrity is one of the most popular marketing strategies was mentioned in a report conducted by Li & Fung research Centre. Another way to create attention in the market is Event sponsorship.

6.4.1 Best approach Dutch Brands
There is a potential for Dutch Brands in China but China should not be taken lightly. Entering the Chinese consumer market could be a good expansion for the Dutch brand but many things need to be taken into consideration which will be discussed on the following pages.

A Chinese partner would be a good start when wanting to enter the Chinese market as a Dutch Fashion Brand. This Partner could be the key player in deciding the marketing strategies, promotions, the products and the fit adjustments. He/she would be taking care of all the important aspects when entering a new market and would most likely already have experience with foreign brands.

An agent or distributor have knowledge of the (fashion) market in its region. They will know the best locations within each city and know how to introduce the products in that particular region. The agent is the responsible person for setting up the entire business abroad. An agent could be a Chinese organization, state owned or private, a Hong Kong organization or foreign organization in China. This person or organization will also take care of the fluctuating import duties and taxes. It is good to know that these import duties and taxes are changing on a regular basis but Hong Kong does not have any import duty. (Hong Kong is a tax free region) An agent can also function as importer. An importer operates within the whole of China, or is specifically in certain regions. The importer operates as a distributor for the area in which they work.

Channels to find an agent, distributor or importer: China Network (embassy, consulates General, Netherlands business support offices, various organizations dealing with China (NL EVD International, NCH, Fenedex, Chamber of Commerce and the internet.

The book ‘Luxury in China’ written by Chevalier & Lu, mentions the major Hong Kong and mainland Chinese partners/distributors. For the fashion industry, the following can be considered:

- Hong Kong: Dickson Concepts, Joyce Boutique Holdings, Hembly, Imaginex, Li & Fung limited and Shenzhen World link Industry.

- Mainland China: Shanghai Brilliance Group, Guangzhou jenny trading, Run Yuan Fashion and Guangzhou Sai Yu Trading.
The Dutch brand WE opened its first store in Shanghai and its second store in Chongqing in January 2011 (Textilia, 2011). WE wants to establish 200 shops in 5 years in China. The stores will carry the whole collection consisting of WE men, women and kids and generally the same as in Europe, but is partly adjusted in collection and fit to accommodate the Chinese consumer. The partner that WE is working with is Uniquepai which is part of the Fapai group. They have a good knowledge and experience in the Chinese market and WE considers them as a good collaboration partner. The rapid growth of the middle class in China is good for the expansion strategy and preferred positioning of the WE Brand. The concept ‘Create your own style’ will suit the Chinese consumer who is becoming more self aware and individual.

The Chinese partner Uniquepai will be producing the products themselves in collaboration with the WE buying office located in China. Uniquepai is responsible for the marking activities: for example the opening campaign on January 20th, where prominent Chinese guests were. Especially in the first year the marketing activities are of major importance. (Bos, 2011)

Representative Offices (RO)
It could also be possible to open a representative office for all Dutch fashion designers in either Shanghai or Hong Kong. Due to the location of the fashion capitals, Hong Kong should be the main target. The advantage of establishing an RO is that there is no obligation to bring in any type of capital. The RO will be used as a business liaison between the parent company and the local companies. A RO office generally takes care of market research, product promotion, PR and establishes contacts with prospective partners.

Joint Venture (JV)
To establish a JV a partner in China is needed. Entering a joint venture together with a Chinese partner is a good way of entering the market. The Chinese partner would already have built up a reputation in his country and knows the best approach in penetrating the market. In case of a JV, it is not necessary to establish an own RO in China, but choosing a partner who can be relied on, remains very important. The partner of the JV is expected to boost the reputation of the foreign brand in China.

82 Bos, A., 2011, information on We opening shops in china and their partner [E-mail] (written communication, 11 January 2011)
Wholly Owned Foreign Enterprise (WOFE)
If the foreign brand also wants to manufacture the garments in China, it would be a wise consideration to set up a WOFE. The capital needed, however, should not be underestimated. Another possibility is to combine sales and production by building a Chinese/Hong Kong office or in other words a WOFE. This can be run by Chinese, Dutch or a person who knows the environment and culture of the western country. It should function as a sales and buying office combined. It would be important to decide on where to locate the designers or to choose for communication with merchandisers who are arranging the samples and production. By having people from the head office in the Netherlands present at this office, the quality of the design will be guaranteed. (Path to China, 2010)

Retail format possibilities
To open a brand store in an important or upcoming location in a major city will expose the brand to tourists and local people are interested in fashion.

“Opening a mono brand store in a good located Hotel would be one of the best ways to sell higher end fashion” - Bastiaan van Lon, McGregor NL

A Multi-brand store sells several brands in one shop which could be a chain store of shops. Many consumers believe that superstores or large mono brand stores will spoil the possibility of choice. A multi-brand store can satisfy the consumer by selling multiple brands in one shop. The current consumers are more and expect to have a choice. Diversity is needed and a multi-brand stores such as D-mop, Lane Crawford and Joyce in Hong Kong can provide this. The leading multi-brand store in Shanghai is called Three on the bund.

Shop-in-shop is a formula that is used in many department stores. It means exposure of the brand in a prominent department store that is willing to explore new foreign brands. In China this is very important. A corner in the department store will be dedicated to the brand and visual merchandisers need to optimize the brand experience in this small space. Although a shop-in-shop is a good opportunity and there is no need for a mono brand or franchise store, it will be very important to profile the brand the best way possible as there are multiple brands on each floor trying to attract the attention of their target customer.

A franchise store is still the brand store in a possible prominent location, but in hands of a Chinese franchisor. The franchisor uses the business model of the brand and is manages the shop. The franchisor needs to follow certain criteria which define the brand experience, but is entitled to change or use ideas of his own to boost sales.

84 Specialty store Lane Crawford, Hong Kong. Offering the largest assortment of international brands.
A flagship store in Hong Kong would be a good way of promoting the existence of the foreign brand in south east Asia. It can open more doors to establishing mono- or franchise stores in other locations such as Singapore. A flagship store is the core store of a brand and is presented in the most prominent shopping locations. In south east Asia that place is Hong Kong. The most important or leading stores profile themselves within this city and further. It shows what the brand stands for, who the brand is and what their ideals are. Due to the many shoppers that Hong Kong attracts, it is quite logical to locate the flagship store here, as well as for its exposure to the mainland.

Licensing is best described by Chevalier & Lu (2010) as “providing a brand and a design to a specific company to manufacture and distribute the licensed products in a specified territory”. When licensing, the Licensor (the brand) gives the Chinese manufacturer the manufacturing rights of a specific region in or even the whole of China. The licensee (manufacturer) will produce the product or design, but has to maintain its original brand concept including the image of the brand in the west. Therefore a design cannot be changed easily and in many circumstances certain essential design properties need to be sustained. With for example Disney, the characters cannot be used without a license and no characters may be changed in colour or shape unless full authorization is given by Disney. Another good example is the Dutch character by Dick Bruna, ‘Miffy’ (Dutch translation ‘Nijntje’) which is also sold under license in Asia. The Licensee in many cases has knowledge of the national or a regional distribution network. In many cases the licensee will be able to sell its products in department stores or in a flagship store. Hong Kong licensees have the resources to provide event support, organize public relation activities and advice on licensing business directions. (HKTDC, 2010)85 Bubble Mon Licensing (international) company, Animation International and AT Licensing & Merchandising are three examples of licensing companies located in Hong Kong. Hong Kong is considered the best hub in Asia for licensing business and has managed the China market from here and therefore can be considered an interesting entry mode strategy.

6.4.2 Best approach Dutch fashion designers
The financial means or capital for designers is very different than that of an established brand such as WE. These bigger SME brands are able to open 200 shops within China to profile themselves where designers cannot afford this. Before a designer decides to enter the China market, he needs to be well established within his home country. It will not be possible to run two start up businesses simultaneously. Designers can take advantage of the growing fashion capital Hong Kong which attracts many mainland Chinese going to Hong Kong just to shop.

Agent
An agent will create a portfolio of Dutch fashion designers and profile them in the window of China: Hong Kong. He should fully understand each and every one of these designers and know what they stand for.

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85 HKTDC, 2010, Research; Hong Kong as a licensing hub in Asia, published October 2010
Due to the growing interest in Dutch fashion and the publicity received around the Dutch Fashion Here & Now, it will be worthwhile to hire an agent who will profile for example 20 Dutch fashion designers. This will not be a large financial burden to the designer. It is important that the agent knows the area and the key players in the Hong Kong retail environment. The agent listens to the Chinese buyers and informs the Dutch designers with the given feedback on the collection, fit etc.

It could also be an option to set up a Representative office. Please see 6.4.1 on page 74 for further information.

Retail format possibilities
There are several possibilities for Dutch fashion designers to make a name for themselves in China. The best place to start would be Hong Kong - a well known shopping haven enjoying international recognition.

A Department store who is willing and is interested in new brands could consider Dutch Fashion. Either a Dutch Fashion. Either a Dutch fashion design shop-in-shop would be a possibility. There are many shopping malls located in China with a number of department stores either in Shanghai or Hong Kong. These shopping malls are well visited by tourists or locals who are interested in international items. Department stores such as:
- Hong Kong: Sogo, IT, Harvey Nichols, Seibu, Wing on, Lane Crawford.
- Shanghai: Da Fa Department, Dongbao, Hualian, New world, Pacific

Another way of promoting and profiling Dutch fashion design would be to establish a concept store. The first steps are made by the acknowledgement of Dutch architecture and Dutch product design by the Chinese. Combining these in a concept store would be a good initial step toward the expansion of Dutch fashion design outside its own borders. A concept store could be regarded as an image boost for Dutch design. In order to establish a good profile for Dutch design, a lot of effort needs to be put into creating an image or reputation. Although the Netherlands is a small country, it is exploding with creative talent and should be allowed the opportunity to showcase their creative talents. As stated previously, Hong Kong is the one of the most prominent shopping places in the world and therefore a good location to establish this concept store.

Possible locations, Shopping malls:
- ELEMENTS, located at Kowloon metro station. A flagship designer shopping mall. Opened in 2010 and considered the hottest and most prestigious shopping destination focusing on unique shopping & dining, entertainment and culture experiences. Many high-status brands and brands that are making a debut in Hong Kong from around the world are located at ELEMENTS.
- K11, located in Tsim Sha Tsui, Kowloon. The world’s first art mall in the world. Bringing together art, people and nature. Hong Kong K11 district has already been compared to SOHO/Tribecca in New York and will become a core of multi-cultural dimensions in Hong Kong. In Wuhan, China there is a K11 gourmet tower and in Beijing, China there is a K11 ECO Home.
- Pacific Place, Located at Admiralty, Hong Kong Island. This is to be considered one of Hong Kong’s most elegant premier lifestyle shopping destinations. Not only is there an extensive shopping mall, but also offices, hotels, car parking etc. Pacific Place is one of Asia’s most successful mixed-use developments.

There is huge potential for Dutch design outside its own borders. Some Dutch accomplishment were already mentioned in chapter 6.3 Dutch Design in China. The Dutch are not interested in buying an Image unlike the Chinese. The Chinese are attracted by new ideas and buying a reputation in means of buying an luxury or designer outfit. Although the Netherlands is a businesslike country, this needs to be reflected in the passion of establishing an reputation outside of the Netherlands.

The establishing of a reputation is possible through the high visibility of the World Boutique exhibit in Hong Kong. The Hong Kong Trade and Development Council (HKTDC) organizes the World Boutique once a year in the Hong Kong Convention Centre. The World Boutique is considered the biggest fashion event in Asia and is dedicated to promoting designers’ collections and brand labels from around the world by having an exhibit, fashion shows and trend seminars. The exhibits include fashion designers’ collections, branded fashion products and lifestyle products. The World Boutique is an opportunity to meet with buyers from the mainland and Hong Kong and perfect for finding a partner or supplier. There is one important thing to keep in mind for fashion brands and designers. Starting with sales in China or Hong Kong is expensive, especially when wanting to be situated in an A-location.

During the Pitchmeeting which took place during the Amsterdam International Fashion Week, the company ‘Fashionsway’ was present. Fashionsway is a company whom is currently working in the export business from China. Factories are located in mainland China with the head office in Shanghai. With its strong capacity of Research and Development (R&D), Fashionsway is not only a professional fabric and apparel supplier, but also a solution provider to major fashion branded companies in the United States and European markets. Carlos Shiu, the Managing Director, explained that one of the company goals was to establish good business relationships with the Netherlands and surrounding countries so as to provide quicker and better services to the European clients. He currently established a sales office in Amsterdam. Carlos also mentions that the reason of choosing its European Sales office in Amsterdam is because in China the Netherlands is known as an open culture and is very welcoming to foreign people. Besides, the Amsterdam government is encouraging fashion industry and fashion designing through various mechanisms.

According to Mr. Shiu’s introduction, the business plan of Fashionsway in the Netherlands will start from building business relationships with Dutch brands or the other brands with their European headquarters in the Netherlands. After then, with the better understanding of the Dutch culture, fashions and designs, Mr. Shiu will think of cooperating with related parties to discuss and identify if there is a potential opportunity to set up a store where the collections with both Chinese and Dutch elements designed by the designers from the Netherlands and China will be displayed and put on sale.
At the pitch meeting Carlos kept his eyes open for Dutch Designers with wearable designs that can be worn to the office for example. Carlos has strong confidence in their R&D capability and indicated that Fashionsway could provide a platform to those young designers to execute their ideas.

Recommended Reading:
Chapter 7 Intellectual Property Right in China

Intellectual property rights are a major issue when concerning the step towards China in either production or sales. The short term for Intellectual property right is IPR. The west is still considering China as a major player in the production of counterfeit products, but China is not the only country where counterfeit goods are made. Chinese manufacturers are masters in copying anything that the west wants from them. China has an IPR legislation, but unfortunately the legislation is not always taking effect and the Chinese counterfeit products still find their way to the market.

Copying can be found in Chinese history and was always seen as flattery. (Hesseling)\textsuperscript{86}
- Confucianism honoured scholars that could copy the work of a master. Gratification was the highest compliment and course to individual promotion.
- Mao Zedong and the socialist revolution then collectivized everything in the 1950’s and spent 20 years stamping out individualism.

It is generally difficult to enforce the IPR legislation on fashion design. The fashion industry has a tendency to look at one another for inspiration which is to some extend also a form of copying. The top end fashion designers who participate in the fashion weeks are closely followed, in order to decide on the latest trend development. Currently, there is a list created in China with luxury fashion brands which are actively IPR protected. Fashion design houses who’s trademarks are being copied, sometimes regards this as a homage. The explanation thereof is easy, because if a label/brand is well established in the market, it will pay off to copy it. Hans Blankenburgh, manager of the Dutch-Brazil fashion label Zigfreda is not afraid that Zigfreda will be copied in China. Zigfreda is not as well known as Louis Vuitton or other high end international labels. Also the relationship with the factory which is producing their products. (Blankenburgh and Wille, 2010)\textsuperscript{87} We can say that there are still many possibilities in the enforcement of IPR in China.

Therefore, before entering the Chinese market, it is important to find out the if trademarks and other IPR are already being used in China. Intellectual property includes patents, trademarks, copyright and domain name. Here follows an explanation of these terms:

\textbf{Patent} gives the creator/designer the sole right to make, use and sell their invention for a set period of time. There are different forms of patents:
- Design patent protects the shape, pattern, colour or combination of a product;
- Utility patent protects the way an product functions (made and used).


\textsuperscript{87} Blankenburgh, H., Wille, K., Experiences with manufacturing and sales in China. [conversation] (personal communication, 28 October 2010)
Trademark is a name or symbol identifying a product, the owner of the trademark has exclusive right to used the mark for prescribed goods or services.

Copyright protects of plagiarism of original works including literature and art.

Domain name is an address of a computer network connection which identifies the owner. Chinese individuals cannot own a domain name. Only legally registered companies may have a domain name.

Chinese suppliers are very smart when it comes to copycat brands to name a few: Pmua, Adidos, Cnovesre, I Vike, Like, KFG, Pizza Huh, Bucksstar Coffee, ERSPTE. Not only are these copycat brands, but are guilty of copyright infringement or in other words, they sell counterfeit products. Copyright in China is seen as the right to copy. Therefore popular brands are being copied. Particularly accessories like bags, sunglasses and watches are prone this type of exploitation. For many factories producing these copycat brands is easy to do and brings in extra money. There is also the case that factories are selling factory overruns in designer clothing for example to shops for a smaller price than the actual price in the designer shops. In the city of Shenzhen near Hong Kong has become the mecca of cheap knockoffs (Litke)\(^88\), there is a entire mall dedicated to counterfeit products and in Shanghai, the fake markets are also well known. The copyright products made in China are generally not bought by the Chinese. They do not want fake products and they will save money to be able to buy the originals instead. For them, its an improvement of their social status and career. The reason that many Chinese are buying high end luxury item abroad because it is cheaper than in China. The buyers of these fake goods are people who do not want to pay the full price for the real deal or are not concerned with the image of buying fakes. In some cases, the fake goods are made in such a way that they cannot be distinguished from the genuine product. However, after having used the product, its poor quality will eventually be noticed.

Then there is difference in quality levels of fake goods. Replicas of watches for example, are graded. Each grade indicates a certain quality level which will determine the price. (Replica watch)\(^89\)

Grade 1 - These are the best and most expensive replicas on the market. Also considered as grade A or in other words high-end Swiss replicas.

Grade 2 - Considered as Swiss replicas. Good quality but in most cases still consist of poor straps or incorrect markings.

Grade 3 - Also known as Japanese replicas. This grade is commonly sold through larger internet sites.


Grade 4 - Better quality than grade 5, but easy to spot as fake. The bulk of the ‘tourist’ fakes are grade 4 replicas.
Grade 5 - Very cheap quality watches made of plastic parts, often with chrome-plating (shiny) to look expensive.

There are also cases where during failed quality control which are then discarded and sold to market shops who sell them for a fraction of the original price. Quality for the more luxurious designer goods are very important and therefore quality control check is very strict. For example when two pockets are not at the exact same level, this item cannot be sold in the designer store, but there are always people willing to overlook any small mistake and will buy these items anyway.

Currently China is working on the procedure of IPR Infringement and on cases that are brought to courts or are taken up through China’s administrative procedures. Danny Friedmann, owner and writer on the blog ipdragon.com states that China’s IPR protection looks good in book, but in reality it is not effective. Counterfeit products will dilute the brand image. The key for fashion brands is to build and communicate a strong brand message, based on absolute product truths such as pioneering design, quality etc. That will resonate with consumers. Hence they will seek out the real thing and acknowledge that it is a far superior product at a market right price. In most cases sub-standard workmanship and materials make these copies second-rate to the real original product and they tend not to last very long. It is the design itself, the creative copyright, that is being violated.

More information on IPR can be found on: www.china-iprhelpdesk.eu or contact the Intellectual Property One-stop Service Platform (IPOS)
Chapter 8: The gateway to China: Hong Kong

Hong Kong nowadays is known as a Special Administrative Region of China (SAD) since it was handed over from the British back to China in 1997. China is now Hong Kong’s largest trading partner and about one third of the booming Chinese economy’s trade is routed through Hong Kong. Hong Kong is still called Hong Kong, even though it is part of China now. Hong Kong is a member of both the World Trade Organization (as a separate customs territory) and the Asia-Pacific Economic Cooperation (APEC) Forum. Hong Kong proves to be a perfect platform for international traders wanting to access to mainland China. Hong Kong is still considered to be the trade gateway between China and the rest of the world and is also described as a point of rendez-vous between the East and West. Hong Kong has served as the gateway to China for more than a 150 years. There is nowhere better than Hong Kong to obtain the expertise, information and facilities needed to tap into the immense Chinese market. One of the reasons is that Hong Kong hosts more than 100 major exhibitions in diverse industries every year and is located near the Pearl River Delta (PRD) which is the largest manufacturing region.

The Closer Economic Partnership Arrangement (CEPA), took effect at the beginning of 2004. CEPA is a free trade arrangement that facilitates business between Hong Kong and mainland China. All products of Hong Kong origin qualifying under CEPA are exported to the mainland duty-free.

Advantages of trading with Hong Kong:
- Stable and mature legal system covering issues such as IPR, based on English common law;
- English is an official language;
- The region’s capitalist system is guaranteed until 2047 in accordance with the ‘one country, two systems’ principle;
- Hong Kong International Airport has been voted repeatedly as the best airport in the world;
- Hong Kong has a prime location and is to be considered the economic hub of Asia;
- Hong Kong’s economy has been rated the freest, enjoying free flows of information and capital;
- Double taxation treaty between the mainland and Hong Kong eases financial transactions;
- Hong Kong is the place to be when wanting to expand into mainland China and the rest of Asia;
- Hong Kong’s container port is one of the busiest and most efficient in the world;
- No barriers to trade, no tariffs, no quotas, no exceptions and no restrictions on investments inward or outward;
- Hong Kong entered into comprehensive double tax agreements with mainland China, Thailand, Vietnam and other countries.

Although Hong Kong is part of China, they uphold different immigration systems. Hong Kong is a separate travel area and therefore upon arrival visitors will be granted a 30-day visa. Mainland China on the other hand uses the system of entries: single-, double- and multiple-entry visas. Visas need to be arranged before travelling to China.
Here follows an example of how easy it is to start doing business in Hong Kong: an entrepreneur buys a shelf company which is already (part of) a private company, established/registered in advance by an investor. A shelf company is a company which is created and left with no activity. The advantage of a shelf company is that it can immediately be used to trade or enter into contracts. Hong Kong faces competition from Shanghai, the largest, fastest-growing financial hub on mainland China. Despite this development, many companies still prefer doing business via Hong Kong due to better understanding of the West and its specialized expertise.

InvestHK is the Hong Kong Special Administrative Region (HKSAR)’s government department responsible for foreign direct investment. InvestHK aims to help companies to succeed and minimize the risks of entering the Chinese market via Hong Kong. (Galpin, 2010)\textsuperscript{90} According to Simon Galpin from InvestHK, many of the Dutch leading companies in Hong Kong are looking for a secure foothold in the expanding Asian marketplace. These companies, whether large or SME, are active in diverse sectors such as financial services, transport, food, beverages and retail. In Hong Kong there is The Dutch Chamber of Commerce which is an non-profit organization that promotes commercial relations between the Netherlands, Hong Kong and China. The DutchCham on the other hand organizes seminars, and site visits for members to network and establish contacts.

Another organization which can be of great importance when wanting to start business relations with Hong Kong, is The Hong Kong Chamber of Commerce in the Netherlands. The establishment of the Hong Kong Chamber of Commerce (HKCOC) filled the gap when the Hong Kong Trade and Development Council (HKTDC) office in Amsterdam closed. The HKCOC was established in April 2010 and is an non-profit organization. They have an extensive network and becoming a member of the HKCOC will open doors to this vast network full of useful information and knowledge from several working years for the HKTDC. The HKCOC’s mission is to stimulate trade between The Netherlands and Hong Kong/China. They inform interested companies about fairs, conferences and seminars in Hong Kong. A specific activity that the Chamber of Commerce offers to companies is business matching - especially in the Chinese business environment business matching can make the difference between successful and unsuccessful business. Business matching includes creating the initial contact and finding a match with suppliers, importer, agent or partner in Hong Kong/China. The HKCOC can never guarantee success, but with the help of the HKCOC your chances will be higher than pursuing business with Hong Kong/China without their help. With many years of experience, the Hong Kong Chamber of Commerce in the Netherlands can really promote and open doors for companies pursuing business relations with Hong Kong/China or want to improve their current position in the business network.

For more specific information about becoming a member and the offered services, please visit: www.hongkongkvk.nl

\textsuperscript{90} Galpin, S., 2010 InvestHK presentation and lunch, Sea palace Amsterdam, 18 November 2010
Conclusion

This manual presents information on China’s growth, changes and developments; it can be used by SME fashion companies as a guide or a resource when considering expansion to China. The main question as mentioned in the introduction has been used as a research question that is answered throughout this manual.

Based on the research and the developments that were mentioned, the following advice could be given. China is the key manufacturer in the production of most goods all around the world and this will not change overnight, but shifts in production have already started. Although companies are looking for other surrounding countries for production it is a fact that these countries do not have the capacity for the amount of production China is exporting. Expanding of productions and sales into China should be done strategically. The value chain including the value added upgrading is a process of keeping production, although the focus by the government has been put on the development of the domestic market. From this we can conclude that the focus is shifting and that production for overseas will get more difficult.

The continuous change and developments have an effect on the future of China as a manufacturing country. This research supports the developments in China will continue to work on its value chain, although the suppliers are moving more inland or outsourcing to surrounding countries, China will focus more and more on the production of high end goods, either developed in western countries or in China. With the growing value chain in China it can be said that there is still space for Dutch fashion SME. Also, Chinese manufacturers are in search of brands that are willing to exchange knowledge due to the fact that China is does not have this knowledge on marketing and it wants to establishing its own brands.

Due to the rapid developments, we can only speculate the next major change and therefore, China needs to be closely monitored in order to determine whether or not the country is still worth going to for production or only for the focus on sales. In most cases a combination will be made for the penetration into the China market.
Useful contacts

**Hong Kong Chamber of Commerce in the Netherlands**
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**Syntens**
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Website: www.syntens.nl

**Dutch Chamber of Commerce in Hong Kong**
The DutchCham Office in Suite 5702
57/F Cheung Kong Center
2 Queen’s Road Central
Hong Kong
Website: www.dutchchamber.hk

**Modint**
Utrechtseweg 95
3702 AA Zeist
Phone: 030 - 2320900
E-mail: info@modint.nl
Website: www.modint.nl
**Literature list**

**Purchasing and Supply Chain management**, Kenneth Lysons and Brian Farrington, 7th edition, Pearson education

Made in China, a few lessons in Modesty, Mark Blaisse, Pilgrims publishing


**Competing in a Flat World: Building Enterprises for a Borderless World**, Victor K. Fung, William K. Fung and Yoram (Jerry) Wind, Wharton school publishing

**36 Strategemen voor managers**, Harro von Senger

**China Distribution & Trading, Revisting the luxury market in China**, Li & Fung Research Center, Issue 63, December 2009,

**China Distribution & Trading, An update on the transport infrastructure development in China: air transportation**, issue 74, November 2010

**China Distribution & Trading, An update on the transport infrastructure development in China: Road transportation**, issue 73, October 2010

**China Sourcing Quarterly**, Li & Fung Research Center, October 2010, issue 5

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**PMI Report on China Manufacturing**, Li & Fung research Centre, November 2010

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**China Trade Quarterly - Domestic and Foreign**, Li & Fung research centre, issue 20, October 2010
Moving up the Value Chain: Upgrading China’s Manufacturing Sector, Pan Yue and Simpn J. Evenett, July 2010, International Institute for Sustainable development (iisd)

Market Survey Hong Kong - Design, Fashion and Architecture, EVD International business and cooperation.

WGSN: Greater China Fashion Report 2009

China, Global perspectives, Council of Supply Chain Management professionals (CSCMP)

Logistics in China, KPMG

Seminar ‘Starten met Import uit China’, Kamer van Koophandel Amsterdam, 30 September 2010

Pitchmeeting Amsterdam International Fashion Week, 28 January 2011, Syntens, Amsterdam innovation Motor.

InvestHK presentation and lunch, Sea palace Amsterdam, 18 November 2010

Meetings / interviews

Meeting Yogi Laijawalla, Dept/JC rags/Men at work/ Denham – 22 November 2010
Meeting Zigfreda, Hans Blankenburgh and Katia Wille – 28 October 2010
Meeting Antonio Barberi, Modint – 29 November 2010
Meeting Maurice Groenteman, Modint – 2 December 2010
Meeting Ilse Kerling, Kerling Consulting - 2 December 2010
Interview Roos van der Kamp, Roporosa – 18 October 2010
Meeting Marije Hovestad, Syntens, creative industries - end September 2010

Meeting Rob Berling, independent trader in Hong Kong – November 2010 in Hong Kong
Meeting May Kam, Buying office – 12 November 2010 in Hong Kong
Meeting Joerg Petersen, TUV - 11 November 2010 in Hong Kong
Meeting Mr. Zhang, Hong Kong Polytechnic university - 8 November 2010 in Hong Kong

Interview by E-mail Monique Maissan, Vision textiles Shanghai - 2 December 2010
Interview by Skype, Jeroen Muisers, Buying office Shanghai - 1 December 2010
Interview by phone, Bastiaan van Lon, McGregor NL - 11 October 2010
Interview by phone, Caroline van Schooneveld, Kerry Logistics - 22 October 2010
Interview by e-mail Annelies Bos, International partnership Coordinator, WE Fashion - 11 January 2011
Appendices
Appendix 1: China’s zones and bonded areas

China has many types of zones and bonded areas (both of which offer relaxed import restrictions) at the state, provincial, city, and district level. Both foreign and Chinese companies may set up in all types of zones. National-level zones fall into seven main categories:

- **Economic and technological development zones** are areas that provide international-standard facilities and supporting services.

- **Free-trade zones (FTZs)** are specialized areas for international trade, foreign investment, bonded warehouses, and export processing.

- **High-technology industrial development zones** encourage the transformation of scientific and technological advances into marketable products.

- **Border and economic cooperation zones** encourage frontier trade and export processing, improved relations with neighbouring countries, and better economic conditions in areas populated by national minorities.

- **Export-processing zones (EPZs)** are special enclosed areas supervised by the General Administration of Customs. **Tourist and holiday resort zones** encourage foreign investment in certain resort areas.

- **Taiwan investment zones** aim to attract investment from Taiwan.

Of these various types of zones, free-trade and export-processing zones offer the incentives most attractive to a broad class of foreign investors.

For further detailed information please refer to www.chinabusinessreview.com/public/0309/walton.html
Economic and Technological Development Zones

Source: http://www.export.gov/china/exporting_to_china/developmentzones.pdf
Appendix 2: Where is what produced

Europe

upcoming manufacturing country
Eastern Bloc
manufacturing country
Italy, Portugal & Tunisia
well established manufacturing country
Turkey & Poland
Appendix 3: Value chain model Porter

Michael Porter’s Value Chain

Firm Infrastructure
Human Resource Management
Technology Development
Procurement
Inbound Logistics
Operations
Outbound Logistics
Marketing & Sales
Service

www.12manage.com
Appendix 4: Industrial Clusters

Source: Li & Fung Research Centre, Hong Kong
Top 100 industrial clusters in China, Industrial Cluster series, June 2009
http://csmot2010.tm.nthu.edu.tw/Figure.pdf
Appendix 5: Distribution in China

Inco terms:

Bill of lading: bill of lading are contracts between the owner of goods and the carrier. The customer needs an original or a copy as proof of ownership to take possession of the goods.

Cost and freight: The seller quotes a price for the goods that include the cost of transportation to the named point of debarkation. The cost of insurance is left to the buyers account.

Cost, insurance and freight (CIF): CIF to a named overseas port of import. Under this term the seller quotes a price for the goods (incl. insurance)

Ex-works: A term of sale in which for the quoted price, the seller merely makes the goods available to the buyer at the sellers ‘named place’ of business. This places the greatest responsibility on the buyer and minimum obligations on the seller. The Ex-works term is often used when making an initial quotation for the sale of goods without any costs included.

Free on Board (FOB): Common price term used in international trade. The seller is responsible for the cost of goods to the point of loading it onto the ship or aircraft. The risk of loss or damage to the goods is transferred from the seller to the buyer when the goods have been so delivered.

The 11th Five year plan (2005- 2010) key investments were made in areas for transport and infrastructure. The concept of logistics management is new in China and three major local transport and logistics players have emerged:
- China Ocean Shipping (Group) Company
- China Shipping (Group) Corporation
- China National Foreign Trade Transportation (Group) Corporation

Although the transport facilities have been improved and are currently still further improving to be able to handle consumer and high-tech goods. The quality can vary between operators.
For further information please refer to: KPMG, Logistics in China 2008