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## China Textile in Global Value Chain

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After being a worldwide threat, Chinese apparel industry is facing a double challenge:

1 - Either to remain a **low cost** base in the international value chain using low wage advantages with a double threat: not being able to control apparel world value chains and depend strongly on Western companies good will. On the other hand, Western companies can look for other low cost advantage Asian countries or favor near shoring strategies by relocating businesses in closer locations (as North Africa and Central East Europe).

2 – or going on the value chain at home, with **more capital intensive and more qualified labors** could give an advantage to Chinese companies, controlling the quality, adding **more value** to the products, changing its position in the value chain but with the obligation to find new markets, to set up new distribution channels and to keep its new competitive advantage (productivity, quality) both on domestic and international markets.

The paper describe Chinese apparel private companies facing that challenge, making a typology of different strategies. We will describe the different actors who are shaping the new world value chains: Chinese bosses, local governments, traders and westerns companies.

China's industrial take-off surprised economists, but it now lasted for twenty years with the industrial growth rate still higher than 10%. China has changed scales. China has become richer, and the world as well. But is it possible to take stock of this growth that has transformed the industrial landscape of the world as a whole. Its size, one-fifth of the world population, makes difficult an appraisal of its economy. No one had anticipated China's take-off which happened while researchers were driven to despair to see an under-developed country win an autonomous industrial take-off. It is widely known that fortunes appear in China. Factories close in Europe apparently due to competitions from China. Does China's happiness build on our unhappiness? It is true that things are connected, but the links are more complex than they seem. I'll set out to make a review of the situation by taking apparel industry.

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The clothing industry is primarily a labor-intensive industry. Twenty years ago, it represented a substantial proportion of the workforce in most countries of the world. Now, these jobs went largely from the high-wage countries. Many Western brands preferred to relocate their own factories, focusing on design and marketing.

The Chinese clothing industry is therefore seen as a threat to other clothing industries mostly in the emerging world. Northern Europe, Japan or the United States, produce virtually no more cheap clothes. Such a manufacturing technology reached a stage that economists call mature; that means every country can easily learn and manufacture clothes of medium quality. Thanks to its lower labor costs, and its ability to increase production quickly if necessary, China manages to get a strong part of world apparel exports.

Thus a substantial part of the clothing in the world is manufactured in China. The rise of Chinese clothing exports was so abrupt that most developed countries have requested the introduction of protectionist measures to protect their employees, or at least to give a little time to convert. Measures were prosecution for dumping, higher customs taxes or the establishment of quotas on certain products for some years. Quotas turned out to be the most effective even if the Chinese manufacturers managed to export more than allowed. Taking advantage of Chinese difficulties in applying the rules of the World Trade Organization (WTO), quotas have been extended several times before disappearing.

But prices paid to Chinese companies are very low. Companies from Western countries are making much larger margins than those of their Chinese suppliers. Design seems the main problem. Chinese companies apparently are unable to find designs that will enable them to increase their margins.

To sum up, European and American countries lost their jobs because of Chinese products paid less by the same European and American countries. And even the same Chinese plants have seen their jobs threatened by neighboring countries with even lower wages. Even before the financial crisis, from August 2008, we found that Chinese clothing of many manufacturers slowed sharply and cut their workers for lack of order. What happens?

### **Chinese Apparel Industry Challenge**

It is therefore obvious that the Chinese clothing export industry margins went down, so it becomes harder to find the necessary funds to maintain a competitive industry. The rising of China wages and costs could be seen as proof of success. Maintain this success must rely on new means. We visited many owners of Chinese plants who opened their doors and their accounts in order to get our suggestions to maintain their growth. Most of these factories are managed by the same family who created them. If these plants often have more than a thousand employees, their machines are usually old; the premises do not usually belong to them. As a result, the investment capacity is

low. So organization and management of human resources often are neglected by employers. Employers appear to find no difficulty whether they have to expand their factory or hire new workers, or managers.

Factories barely have direct contact with their clients. They use to be approached by external agents or intermediaries. Foreign clients use to send a garment designed and manufactured by them and ask the factory to make the best copy of it. If the copy is good, client orders with very little discussion on the price because everybody knows the competitors' price.

Several local government in Cantonese districts found a way to encourage the take-off of an export industry that we call the "same same clusters". When local governments identify manufacturers that have some success, they allow any manufacturer eager to do the same to settle next to the first factory and copy its formula. A few years later, these same governments establish B 2 B market to gather all producers in the same place. This is very attractive effect to clients. They soon realize that in these markets, they are sure to buy all the products they want at the lowest prices on the market. This staging of a competition between local producers facilitated the industrial take-off, because it reduces costs and difficulties of entry. But it came at the expense of investment capacity of these same companies.

## **Methodology**

For this article, the groundwork mostly is our systematic observation of industrial development of the delta of the Pearl River (China region of Guangdong). Chinese researchers and also French and Latin American researchers worked as a team that finally established in 2000 a Sun Yatsen University laboratory in Canton. The management of a Chinese university social science laboratory by a European searcher (the author) is unique; it represents a remarkable basis of support for studying the local economy. Thus, the work of French and Chinese academics led to a cumulated information on the Canton industrial environment. Since 1989, we traveled through the delta visiting the factories that have multiplied there. Regularly, Chinese private entrepreneurs are met for investigations or consulting operations. Each time, information on their origin and their training is collected.

Unfortunately it is very hard to get reliable statistics. The category of "private industrial owners" do not appears clearly in the Chinese statistics which mix the forms of ownership. During the last two years, a research project on innovation abilities of Chinese factories involved researchers from Lyon3, IRD, Paris5, IRD, Euromed Marseille, Guangzhou SUN Yatsen University, Beijing Social Science Academy, Beijing Ministry of Science and Technology and permit the collection of most of the needed data for this paper.

Basically, the analysis of apparel value chain started from identifying Chinese factories producing these products. We traced the process of each product from upstream (idea, market research, product decision, design, R&D, etc.) to downstream

(manufacturing, distribution, retailing and services, etc.). We focused on the interactions and relations among the designers, multinationals, local producers, and final users around the circulation of the specific product. For each actors, including the Chinese companies (which are often only factories), we tried to find out which other actors (i.e. other factories or companies) could replace it and how to understand how these actors are included in the value chain. We figured some alternative value chains of the product.

This kind of value chain tracing can bring the following results:

- A clear cartography of value chains in textile industries across European, American and Chinese companies. Alternative value chains of automobile and textile industries across China and Europe, which means the value added activities in which both Chinese and European companies can enter, but avoid for the moment.
- An evaluation of the distribution of gains of every product sold to final users, among different actors and different companies which engage in value-added activities of it.
- A description of coordination linkages among different actors along value chain.
- A summary description of labor conditions of each actor along the value chain.
- An evaluation of sustainability of different forms of value chain as industrial solution of modern production. For this purpose we used the diagnostic method of productive effectiveness developed by Ruffier (1996, 2006, 2008).

We interviewed textiles clusters authorities and scientists. We discuss with textile professional worldwide (EC authorities, Chinese, French, North Africa and Latin American bosses. We interviewed distributors (Carrefour, Decathlon, traders...)

#### How the Chinese apparel industry became a threat to other national apparel industries

Apparel industry played an important role in the industrial take-off of China and in securing a very positive trade balance. Guangdong probably knew the fastest development in China.

This development is due to private initiatives. Most of Apparel private bosses created their factories by themselves and have devoted a large part of their gains making them profitable. Theses bosses were not rich. If they had money, it would have be more profitable to invest their money in real estate, which ensures good incomes with little effort. Industry requires from the employers an investment of all of their energy for a level of profitability that is generally rather smaller. Private industrialists exploit their workers but at the same time have a plan, often to become the largest firm of their sector.

Too few specialists are interested in the question of profitability of investment in the industry of developing countries. It is much more profitable to invest in the industry of industrialized countries. Average investors do not turn toward the industry of developing countries. If they did so, the question of industrial development would be resolved. It may be considered that these industrialists of development make a bad calculation. Their underlying motivations must be questioned, because strong motivations are needed to embark on primitive industrialization.

A characteristic common to a number of private employers of Guangdong is surprising to the analyst who supposes that it was necessary to have evident assets in order to succeed: most of them have not done complete secondary studies. But, actually, it is the contrary that should surprise. To be a member of the Communist Party or to take a complete secondary cycle, in China means a training fulfilling respect for public planning more than adaptation to the market. In some way, the envelope that was given to secondary students and Party members did not familiarize them with the hard laws of the market. Private employers having escaped this conditioning were able to develop aptitudes and opinions more adapted to ownership activities than those that stem from a formatting by the Party. Being an owner is to claim for yourself most of the value created by employees' work. This is not communist philosophy. If the owner is Communist, he has little chance to succeed in establishing capital. And he cannot count on the heritage, since everyone was poor in 1980. Nor can he count on the financial system since it is reserved for public enterprises. To progress, Chinese private employers had to act outside of socialist standards. They had everything to fear from a government that defends a philosophy opposed to theirs.

They acted by hiding themselves at a maximum. Chinese private employers learned on the job how to succeed in establishing commercial relations, a field in which they excel. They all show great ability in taking advantage of market opportunities. Selling ability is probably one of the keys for the explanation of the industrial takeoff of the Delta. Chinese private industrialists are first of all people who have created business networks by trust relationships between production actors. In a world dominated by bureaucrats, they can only succeed if the essentials of their activity escape their control. This is why they prefer verbal promises more than written commitment, secret accounting more than analytic accounting. Actually, their success is not based on techniques learned in school but more indeed on the school of life, brawls and shrewdness.

For more than 30 years, Guangdong has been in advance of the rest of China (Vogel, 1989). This gives it an attractiveness for all qualified personnel who imagine that the opportunities are greater there than elsewhere. Therefore, private entrepreneurs hardly have any trouble in finding graduates if they have need of them. They find them, at least they find sufficiently qualified persons to make their rather rudimentary equipment work and disassemble and copy the competition's products.

In a work written in 1999, Wang analyzes the operation of the private sector. Wang considers that the bureaucracy would assign a position of expedient to the private sector. He rightly stresses the proliferation of administrative agencies, regulations and licenses that are the common lot of the management of the market economy and the private sector in China today. The state enterprises have access to loans in a royal manner; they have the monopoly of exports, which requires private enterprises to enter into dependent relationships with them. Sovereign predators, the foreign trade companies take the very profitable differences that exist between international prices and domestic prices, while the private firms can only profit from minor price differences within China. Actually, everything is happening as if the government was developing a capitalist economy without authorizing the growth of a true industrial bourgeoisie. If it is known that the workers do not have the right to freely choose their unions, it is forgotten that private employers simply do not have the right to belong to an association. They may not establish lobbies that would negotiate with the government. Most of bosses associations belong to Communist Party. Those that do not depend on the Communist Party are either mutual associations between patterns from the same region (organizations that are more or less secret), or they are organizations that seem to have as its object the training of their members.

Having read Porter, the Chinese authorities gave the State the function of assuring establishment of competition among private companies. And in fact, as soon as a private owner succeeds in gaining a market, the authorities facilitate the installation of competitors just next to him who are going to copy the innovator, make his margins decline and at the same time are going to increase the volume of production while lowering the prices of the products. The State will also construct immense specialized markets which will become convenient places to find the best prices since all of the domestic producers will be strongly encouraged to come to offer their products in their competitors' milieu. This strategy explicitly aims at fighting unemployment. It also aims at increasing China's power in the world.

But if the State has the means to think of an advanced strategy, it takes away from private enterprises the possibility of investing, by forbidding them from really earning much money. Here is one of the reasons that explain it: despite the very great industrial growth of the region of the Pearl River delta, salaries have not grown greatly, with the notable exception of those of specialists who are lacking and can thus sell themselves at very high prices. In his strategic works, Michael Porter (1999) gives keys to enterprises who attempt to fight against the entry into competition. This strategy is opposed to the imitation of the others and to benchmarking. Actually, if the firms seek to imitate another firm, they position themselves as behind the first, which already puts them in difficulty. Furthermore, if they come to compete with the imitated firm, they can only do it by reducing the commercial margins and therefore their profit. It is by focusing themselves on what is most appropriate for their firms that productive niches can be found where it would be difficult to be imitated. It is the opposite strategy most of the Guangdong private factories are pushed to. Copying

is permitted to them, facilitated by proximity and the impossibility for the entrepreneurs to group together in order to make their own law. By forbidding any grouping of private entrepreneurs, the Chinese system has maintained the bourgeois class in the bureaucrats' shadow.

We will now get into the analysis of current strategies of Chinese clothing enterprises. In fact, we can classify the companies according to their size, the percentage of their export activity, their ability to design, and market (existence of a network of dedicated sales, use of advertising, etc). This simple typology can separate companies that are doing well from those who are now in difficulty. Starting by them: the Chinese clothing companies who experiment the greatest difficulties today are the big factories whose business was more than 80% devoted to export. These companies are paradoxically those who carried the industrial take-off. Trying to understand what happens to them. In fact, these companies operate on the mode of the OEM, ie do not design their clothes: they produce according to client instructions. This puts them in a situation of high dependency, and clearly make them unable to grasp the changes.

### **OEM Apparel Global Value Chain**

OEM is one of the best ways to enter the industry to export. Indeed, it requires very little initial knowledge. You must be able to operate a factory and to copy a product. But it is not necessary to know the final consumer as the client is responsible for marketing. It is not necessary to have design ability since the design is given by the client. Finally, it is not necessary to have financial capabilities, customers just hesitate little to advance raw materials, even make advance payments because it has good financial situation and knows that we obtain prices from actors who have no financial, or access to credit.

OEM do make things easier for Chinese bosses. Their clients teach them the quality; they often help to overcome technical difficulties. As Chinese entrepreneurs of clothing mostly are first generation entrepreneurs, they had very few knowledge of what is a capitalist enterprise that works. They have to adapt and invent in many areas. A client who tell them exactly how to fit the requirements of the market is a great opportunity for them.

Clients are not philanthropists. They train Chinese companies in accordance with their interest. They are not teaching anything about design, or market analysis. Clients do not want their Chinese suppliers to be their competitors. Most of them do not look for continuity in the relationship. As a result, they have not warned Chinese suppliers when they started to find cheaper suppliers in neighboring countries. They began to test these new suppliers and disappeared sometimes without notice. Even before the onset of the financial crisis of autumn 2008, we saw many factories suddenly finding themselves with very few orders.



For these plants the shock was all the harder: they always seemed far too small, their clients made larger and larger commands and suddenly fell silent. Often, the workshops of these plants were already deserted in summer 2008.

Guangdong authorities were aware of the fragility of their markets, they tried to change the model. After rather favored the maintenance of low wages to increase local employment and foreign exchange reserves, they switched strategy, looking to improve social harmony by better wages, better social benefits and better environment protection. In the early 2000s, margins were still good and the authorities could rely on high tax revenues. But with internal and external competition, margins and tax revenues both declined. A new social policy on the environment has been defined for Guangdong. Now it was announced that the Chinese laws on labor, social security contributions and the environment would not only be tightened, but their compliance will be insured. Companies with low margins, low wages and low environmental laws compliance will have to move into less developed parts of China, or disappear. Guangdong will keep only the strong and good companies, as Germany seems to do.

2008 financial crisis deteriorated employment to the point of creating social unrest, forcing local authorities to be very pragmatic. Thus, municipalities begun to pay themselves salaries for missing workers whose factories were bankrupt. They finally turned a blind eye to the area of small shops, most of which do not respect the labor law. So that, in some companies, workers suffered sharp wages declines. Or, more often, having lost their jobs, they accepted a wage reduction in more or less unregistered workshops. Failure to report allows authorities to choose to see or not these workshops. If the authorities want to close these workshops, it is sufficient that they are illegal. If they prefer that these workshops continue to operate, they may say they are not aware of their existence since they are not reported. Indeed, our field observations in Guangdong showed that in 2009, these small shops are rather more active than a year ago. However, their margins are reduced and interviewed bosses often stated that they don't get rich but just survive.

Next coming is the analyses of the value chains in which Chinese clothing OEM. For example, a pair of jeans manufactured in a Chinese factory that we were able to study in depth. The client of the plant is a French brand that provided the design and will market in the world. We were able to know or estimate the costs and benefits of each link in the chain that goes from the idea of making this jean to its purchase by consumer. Let us see how a pair of jeans paid 3.2 € to a Chinese factory is sold € 50 to European consumers (the final sale price is a little higher in the allowed Chinese shops).

## Great brand relocating its production (if shown)

### Distribution of gains jeans sold for 50 €

Company	function	Cost in €	Cumulated cost	comments
Chinese textile factory	Raw material	1	1	
Chinese sewing factory	Manufacturing costs	2	3	
Chinese factory boss	Margin boss	0,2	3.2	
French Brand	design	0,1	3.3	
	Boat	0,2	3.5	
	Customs	0,5	4	Less than 15%
Chinese State Plant	quotas	0 à 0,5		Quotas could be paid directly to state plant or bought on black market
French Brand	distribution	20	24	
French Brand	Market studies	5	29	
French Brand	Advertising	15	44	Sale price is a function of the volume of advertising.
French Brand	Marges	6	50	Estimated

The purchase price of cotton by Chinese manufacturers of jeans seems among the lowest in the world. The cost of manufacturing it is around three to four times lower than it would be in France, but little lower than in Eastern Europe and higher than in neighboring countries such as Vietnam, Burma or Laos, significantly higher than in Central Africa. When margins are integrated, China is becoming competitive in Africa and Eastern Europe. Indeed, one of the biggest surprises of this survey was that Chinese bosses earnings are lower than those of bosses in North Africa or South America. There is an acceptance of them taking the entrepreneurial risk for less gain than in most countries.

The design cost is relatively small. That is to say that it is not design cost that preclude a Chinese design.

Jeans can pile up in large numbers in shipping containers, so transport costs and customs do not weigh heavily in the value chain. They could double it would not alter the balance between manufacturers of jeans in different countries of the world. Quotas have a variable price because there was a market official and black market quotas in China. The Chinese office has a tendency to allocate quotas to inefficient states enterprises which tend to sell directly or indirectly to private manufacturers.

Distribution costs are too often underestimated. Selling a pair of jeans cost many times more than producing it. Luxurious shops are expensive. Working time devoted to the sale is also much greater than that spent in the manufacture and this is also reflected in the price distribution.

Once all these costs taken into account, it remains two important things to consider. The first is "market studies" which aim to know what type of jeans consumers will want to buy. This includes very costly surveys on consumers who live mainly in countries where labor is expensive. The last and not the least cost is that of advertising. The more advertising, the more consumers want to buy jeans and are willing to pay more for it. The advertising is probably the most risky link in value chains: he reaches amounts generally outside the scope of Chinese bosses. It is probably also the most profitable. It is the investment capacity which structures the domination in the global value brand jeans. Large western brands derive most of its gains and domination power from their investments in advertising.

OEM bosses are aware that most of the market value of the product escapes them. They wonder how to increase their share of the value. We worked with the Chinese boss of this example. He is a realistic and inventive man who can count on political support. He tried everything to improve his situation. He sold surplus jeans products with the logo of the French company. It was very profitable but too risky, if he was caught he could lose at once all his clients. He also sold the same jeans without logo. In this case, the prices he gets are still good, but risks of losing clients are too strong, and he concluded not to go on that way.

We advised him to rather develop its own models in China and sell them in its own networks. He had already established its brand and opened shops. But it failed to invest enough money in the transaction and the network proved to be a financial shot for him. So he began to seek ways to sell directly abroad. With officials in his district and other contractors we organized a discovery mission in France in Spring 2008. We strongly suggest them to invest together in a commercial office in France, but the bosses were not prepared to put together commercial means, they chosed to embark on their own. From January 2009, most of their plants stopped or became slow.

### **Selling inland**

Anyway, some enterprises developed distribution networks inside of China and began to do some market studies in the not too far factory zone. That way, they have been able to make a design accepted by local consumers and to make their brand known. These factories, if big enough, are not enduring any crisis effect, because the progressive extension of their distribution networks increases their selling.

Half-luxury takes off in China. The time comes to sell more sophisticated products, more fun. The problem of Chinese bosses is their lack of notoriety, and notoriety is necessary to create a consumers' loyalty link. Bosses who worked on the notoriety starting with the immediate environment of their plant were soon able to make much higher margins. They use this money to gradually enlarge the area of their notoriety. The ones who reached this level are doing very well. Their numbers increase through the action of some local governments. (Particularly Humen and Xiqiao, in Guangdong). Indeed, accumulating the money through their B to B markets, some local governments started to work on marketing, making market studies, branding and design. There is no doubt that despite collapse of entrepreneurs who fail to work their markets, some areas are in the process of drawing the Chinese way of the future. They have already started to export in the border areas of southern China. However, it is never easy for local authorities to invest in marketing. A large proportion of public managers have engineers' background. They see the progress as the result of better control of nature. Marketing, market studies sound a bit unrealistic to them.

A huge consumer market is developing in China starting a race to gain the knowledge and confidence of new buyers. Foreign companies are investing heavily in market studies and advertising in China. They try to take up before local competitors will be strong enough to do equivalent market studies and equivalent advertising campaigns. No one knows how many Chinese brands will succeed.

### **Selling too far away**

Economists tend to have a national vision for businesses, while businesses, even small, cannot even think in terms of national interest, but local and global opportunities. In fact, our value chains surveys shows that there are much more varied situations we imagined at first. We said that the main difficulty to achieve capacity to generate investment in the clothing was to pay the entry ticket to be known by global consumers. According to this, it is cheaper to act nearby. But we may have a reputation locally and remotely. This is the case with this chino-Lebanese firm. The owners are Lebanese. They have always been in the clothing and had achieved certain notoriety in the Middle East. With the accumulated capital, they were able to explore other markets and by chance they made their way to several supermarket chains in Spain where they are now known.

These employers decided to leave Lebanon, where they had their main production units. The loss of their largest plant has prompted employers to try their luck elsewhere: they landed in Canton. They quickly realized they would have no difficulty for finding factories which are capable of manufacturing the models they had in their cartons. Since they were small, they preferred an alliance with a Chinese manufacturer, rather than always seeking the cheapest price. To ensure the reliability and loyalty of their supplier, they just paid twice as much as the market price. Thus, they have reconstituted their productive force. They had their brands, their models, their markets (Middle East and Spain). All they lacked is their design capacity. They

decided to create a design studio in Canton and had little difficulties in getting an Italian designer they knew. Today, they are doing fine. Let's see a value chain for oriental style apparel sold in Spain:

**Lebanese selling small business in Spain and making the design in Canton**  
**Distribution of earnings for a particular jean sold 50 €**

Company	function	Cost in €	Cumulated cost	comments
Chinese textile factory	Raw material	1	1	
Chinese sewing factory	Manufacturing costs	2	3	
Chinese factory owner	Owner margin	2	5.	
Lebanese design workshop	conception	0,1	5,1	Designers are Italian hired by the Lebanese.
	Boat	0,2	5,3	
	Customs	0,7	6	Less than 15%
Chinese State Plant	quotas	0 à 0,5		Depending on quotas market
Spanish Trader	trader margin	2	8	Traders use to cover 33% cumulated cost
Spanish Supermarket	distribution	20	28	
Lebanese Company	Market studies	10	38	Expensive as the company in a outside country
Lebanese Company	advertising	2	40	Advertising is done only in the supermarket
French Brand	Margin	10	50	Estimation

Let us start by reading the table from top to bottom. The Chinese factory enjoys exceptional prices for cotton. Manufacturing costs the same as in previous example. It gives the Chinese owner a more comfortable margin. Costs of design, transport and customs are the same as in the previous example. The Lebanese are working with a trader, which usually covers a margin of one third of the cumulative cost. Highest costs are those associated with market studies and advertising. These costs remain affordable for employers of Lebanon: their market studies are limited to niche markets they have known for a long time. Advertising is only done inside supermarkets which sell products. The cost of marketing is the relatively same as that of the French brand, but volumes are much less consistent and remain within the reach of Lebanese bosses. Here a small company manages a niche business. It maintains its market through major investments in market studies and advertising.

## Conclusion: who is winning and who is losing in Chinese apparel

### industry?

**Chinese central government** was certainly the first winner. Around 50 to 70% of the jeans made in China are exported. The Chinese government banks cash in on the currencies and transform them into local currency. This power uses one part of the profits from growth to strengthen the country's industry: it buys huge quantities of foreign technologies, it develops the country's infrastructure, it finances a real industrial policy, it makes up for a major part of unfathomable deficits of government enterprises and it makes restructuring from public to private easier. Central and local governments now have financial means to attempt the transition from a copy-based industry to an innovative industry. Indeed the relevance of some applied measures can be questioned. We do think that too much state money is dedicated to high technologies at the detriment of those which are now the most necessary to the progressive upgrade of Chinese industry. Chinese bosses are not able to compete with foreign brands because they lack money to do market studies and advertisement.

**Mingongs:** the workers also benefited from the Chinese industrial take-off. Not so much the government workers who have seen their relative position fall back and sometimes even their financial situation deteriorate when their company has been up against bankruptcy. Some of them continue to get an « iron rice bowl » that is a protected life supported by a company that ensures them bed, meals, hospital and school. But the real beneficiaries are the new workers, who have left the countryside for the cities. The figures are clear; the main part of the turnover of the factories has gone to pay the workers' wages. They are therefore the main beneficiaries. If we hesitate to concede to it, it's because their fate hardly appears enviable to us any longer. To make clothes, farmers can be hired, trained in a few weeks and given a sewing machine.

We interviewed many Chinese farm workers called Mingongs. They remind us a lot of the immigrant workers who have enabled the France to strengthen its economy after world war two. Mingongs don't work in a foreign country, but they still theoretically lack of required permits to work in cities whose language and numerous customs were unfamiliar to them. And nevertheless they came. They accept any jobs even with eight days of journey. Their fate does not seem enviable. But when they are asked if they want to return to their families inside their villages, they generally reply that they in fact wish to have their families come to the city. Actually it is enough to imagine life in their village to understand. The young people have deserted the country and the young who remain do not often find a lot of interest in remaining in villages with old, jobless, penniless people doomed with a bleak future. The city opens the doors to another younger, freer, richer and more attractive world.

One must not believe that the remote countryside gains as much from the urban take-off. Recent studies reveal that the migrant workers send money for about two years and afterwards they forget. The loss of jobs which mainly affects young migrants, that is to say those who last arrived, is an expression of today crisis. But older migrants can't be at rest either. They can either go back to their homeland, which many would rather avoid to do, or agree to be paid less. Governmental policies try to send them back to the countryside with social and fiscal advantages drawn to soften the shock. In fact, if the industrial growth slowed, the Chinese agricultural fourth world would take off.

**Western brands:** they are the big winners of outsourcing. When we split up the cost price of a pair of branded jeans, we see that less than 5% pays the Chinese make. The brands justify the prices paid by consumers for quality, i.e. less than 5% of the price and for the design, which rarely represents more than 1% of the price paid by the consumer. In fact, western brands take advantage of the progress of industrialization that has lowered the manufacturing and marketing prices, creating a desire in buyers to buy more expensive products. As a matter of fact, the biggest expenses incurred by a western brand are for market studies and advertising campaigns. That's convenient for salaried employees who prefer to have these jobs rather than dressmaking, especially as more attractive incomes are offered for brand manufacturing than true jeans manufacturing. But these margins earned by western brands are going to be increasingly difficult to justify. They are mainly dependant on advertising. Saviano in a currently well-known book on the camorra of Naples shows that it succeeds in obtaining the best margins from apparel trafficking than cocaine trafficking. All it does is make good copies of branded apparel and sell them, without paying anything for the brands, but in shops that sell these brands, which it controls secretly.

We can close doing the round of winners of clothes globalization by having a thought for those who have not won it. The consumers are among them because they hardly gain from the progress of industrialization, or from the lowering of the production costs brought about by outsourcing. The salaried employees of the so-called middleman countries like Mexico, Turkey or Tunisia have terribly suffered from the rise in power of the Chinese competitors. They have seen their salaries come down and their factories close down.

**Private Chinese bosses:** It is quite interesting to look into the situation of private Chinese entrepreneurs of the garment industry. The Chinese industrial take-off owes them a lot. They have registered an exceptional growth from 1982 to 2007. They have often set off without any money, without any security, dragging into their adventure salaried employees exploited at will, and themselves working without rest to earn a lot less money than their counterparts from rich or middleman countries. First generation of capitalists, they had ideas or comportments that did not tally with the communist ideology, which was part of their entire childhood. They are rebels, deviants who have

often already paid a heavy price for unconventional behaviors. For them the opening up was an opportunity to get out from the top: they were quasi delinquents, they become modern heroes. Then they had faltered before risks. A capital is not made legally in a socialist society. They have cheated, bought the complicity of civil servants, won over a maximum of friends to prevent jealousy from sending them to prison. They have accepted really low margins than in most of the other countries. It is a thing that we do not measure enough, with their Mercedes class E or S, the private Chinese bosses are often poor bosses. They are incapable of finding the required funds for a real modernization of their factories. They cannot launch good market studies. In other words, they don't stand a chance confronting western brands. They are small fry. And today they are encountering real difficulties. They are challenged by manufactures from Vietnam, Cambodia, Laos and indeed black Africa who manage to strike a lower price by paying the lowest salaries. They are overwhelmed by a new industrial policy of the central government that seeks to obligate them into paying official salaries, social security contributions, anti-pollution equipment, reducing their already low margins accordingly.

The die is not cast for all that. Chinese producers could resume their development by trying to conquer the market next door and gradually set up Chinese brands there. We see some of them embarking on such a strategy successfully. If they re-conquer only the Chinese market, they will become the big ones capable of canvassing the western countries later. And then, the model western companies that only do marketing are a delicate model. How to control quality, innovate in high-return products if we no longer know how to make them because of the delegating of this unprofitable operation? Today we see a direct relation between the sum attributed to a advertising campaign for clothes and the price that the consumer accepts to pay for such clothes. What will we do when consumers refuse to pay what André GORZ called the price of their alienation?

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