

De-Industrialisation- Re-Industrialisation in the Fashion Industry

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The current economic crisis has had the unexpected effect of reaffirming the importance of industry in the economy. Countries like Germany, having chosen the industry-based growth model¹ are doing much better than the countries that went down the service industry road.

Despite popular belief, Western economies are in fact industrial: the consumption and production of industrial goods has never stopped growing, by about 50% over the past twenty years. While we are indeed seeing a structural decrease in industry's share of national wealth, this is for the most part due to the drop in relative prices for industrial products and the externalisation of a huge number of services provided to industrial businesses.

A dynamic industry is, on the one hand, the key to innovation, to research and development not to mention to productivity gains and, on the other hand the engine behind exports taking advantage of growth abroad, particularly emerging markets.

What happened in textile and garments is emblematic of the de-industrialisation that has affected the French economy as a whole. A veritable economic laboratory, the industrial implosion that occurred in the sector in the eighties and nineties, prefigured what was to happen in industry as a whole in the noughties. De-industrialisation is the result of the combination of globalisation accompanied by the emergence of new industrial competitors and the fragmentation of the value chain that makes the externalisation and internationalisation of industrial activity in developed countries possible². Since the summer of 2010, the context has changed. Supplies came under a certain amount of pressure price-wise due to an increase in the cost of raw materials and higher wages in emerging countries, to the extent that they began to lose their competitive advantage. Re-industrialisation is now an issue, where before it wasn't even a school case study. A sign of the times: the *Wall Street Journal* now has a regular column about factories returning to the United States entitled "*Remade in America*"³. After having analysed the reasons for the de-industrialisation of the fashion and textile sectors, the issue now is whether or not the re-industrialisation of the sector is indeed possible.

At the start of the eighties, the textile-garment industries employed approximately 600 000 people in France. In 2011, industrial statistics showed that this figure had dropped to under 100 000⁴. European countries have undergone massive de-industrialisation in recent years, while emerging countries, top of the list being China, became the world's manufacturing centre. How did this change occur? The textile sector is the only one present in almost every country in the world, regardless of their level of development. Clothes manufacturing, with its intrinsically limited possibilities for mechanisation, remains a manual industry that only requires a low level of investment to

begin with, which means there are no barriers at entry level. This specific point has encouraged the expansion of the industry in lesser developed countries. Clothing now totals 80% of exports from Bangladesh and 55% from Pakistan but also 20% from the countries in the Mediterranean basin⁵ (Tunisia, Morocco, and Turkey). The fact that textiles are present on every continent has contributed to the exacerbation of international competition levels. Manufacturers in developed countries have found themselves under pressure due to the lower costs of developing countries thanks to their low salaries. So the out-sourcing of clothing production began in the seventies in Germany and in the eighties in France. Germany was thus one of the first countries to outsource its clothes production to Eastern Europe where the skill base came from years of making uniforms for the Soviet army. Outsourcing began in France later on, and while it did lead to a certain level of de-industrialisation nationwide, the organisation of the industry remained in French hands, in as much as the markets remained for the most part supplied by products and brands made by manufacturers in France or in Northern Africa. The latter had a low level of integration of retail downstream and depended on independent multi-brand stores and department stores to ensure the distribution of their products. First of all, the transformations in retail were at the origin of a real paradigm change. The concentration of retail, firstly through hypermarkets, mail order and cheap clothes shops, accelerated with the development of specialist chains. Professionals in the clothing industry found themselves with a drastic reduction in their sales options: as it was constantly searching for lower prices, concentrated retail went into international trade by playing on the competitive advantages offered by the emerging producers; in doing so, it forced independent multi-brand stores, the traditional client of industry, into decline⁶.

After having been run by industry, the whole business was now run by retail, thus the new paradigm. Without any means of production, concentrated retail then spread its grip on the markets by importing on a massive scale. Industrial clothing companies (Indreco and Devanlay, Bidermann) reacted by outsourcing, but later than in Germany, from the mid nineteen eighties continuing on into the nineties, first of all toward Northern Africa, then to Central an Eastern Europe (Romania, Bulgaria).

So the fashion sector thus started tending toward a certain dematerialisation characterised by the externalisation of manufacturing activities. Retail, due to the huge size of its orders, became the most powerful client: it had access to the biggest profit margins (in retail) and the power to negotiate. Brands progressively came round to this dematerialized model, shifting their added value on to design and for a number of them, selling off their manufacturing base.

This model relies on the fact that fashion offers the consumer what Olivier Bomsel⁷ refers to as “signifying goods” that are added to the search and experience goods that economists have already covered. These signifying goods do not fulfil a “specific demand, but are impulse buys suggested by a range of experiences”. Their value is contained in the message they put across thus the importance of flagging the product (in brands and advertising). The decline in the manufacturing industry had repercussions in the textile industries (weavers, finishers...), even though these sectors are less labour-intensive and more capitalistic, due to outsourcing and international trade. The consecutive disappearance of a big number of European manufacturers meant textiles lost a huge share of their clientele, while at the same time, formidable competition was appearing in Asia and in Turkey, stimulated by the development of their clothing industries.

In addition, the progressive abandonment of

sub-contracting in which the retailers buy the fabrics, often in Europe, to have clothes manufactured in regions bordering Europe, weakened the weavers. The exacerbation of the level of competition within retail led to the principals shifting back to their basic profession and removing themselves from the purchasing of raw materials (fabrics). A co-contracting system where the manufacturer is in charge of buying the fabric, thus developed progressively. As a result, countries in a position to propose a one-stop-shop (weaving and manufacturing) have a serious competitive edge (Asia, Turkey). Inversely, these changes in purchasing practices weighed heavily on European weavers who lost the advantage of proximity relative to their clientele and were obliged to approach manufacturers outside Europe.

The worldwide competitive panorama of the textile-clothing sector underwent a real sea change. Asia came to the fore over the years as the top exporter worldwide, with Japan first of all, then the famous dragons (Hong-Kong, South Korea, Taiwan) and finally, China. In 1994, China became the top exporter of clothing with almost 17% of worldwide exports. Today, China has 31% of worldwide textile exports in value and 37 % of clothing exports⁸.

The case of the textile-clothing industry highlights the very nature of the de-industrialisation phenomenon. The value chain is fragmented; the production unit is outsourced for the most part; production activities are internationalised according to the competitive edge they can bring, but also the opportunities proposed by emerging countries. The very content of the industry has been profoundly transformed: the manufacturing component is disappearing and in France all that remains is the production of small series in textiles and manufacturing.

Is the situation irreversible? Are there any brakes on the de-industrialisation shift? What about re-industrialisation?

A number of elements deserve a mention: the issue of de-industrialisation itself needs to be re-examined; certain changes that emerged in 2010 reduce the competitive differential with emerging industrial countries; the shift upmarket in industrial products for a global clientele brings the issue of production control and location to the table with the aim of obtaining high quality levels.

To begin with, certain modalities of the de-industrialisation phenomenon, associated with the global fragmentation of the value chain need to be re-examined.

One of the ways to measure de-industrialisation is to observe international trade in certain industries. This approach ignores any sharing of added value created throughout the value chain. If we take the case of smart phones, the fact that the final assembly of the product occurs in China means we consider that production happens in China as the product is imported to the U.S. for a sum that corresponds to the final value of this much sought-after product. If we reason in terms of added value, things are not the same. Less than 5% of the value of the product corresponds to the assembly operations that occur in China, the rest of the components come from Japan, Korea or Germany. If we reason in terms of the sale price of the phone, the United States takes over 60% of the value created. Inversely, Germany, whose industry is specialised in high quality products, assembles more products on its territory than its European neighbours. In terms of foreign trade, the results are there: according to the WTO, Germany was, in 2011, the number three exporter of merchandise behind China and the U.S., with an export total of 1 472 billion dollars.

If we look at things in terms of added value, the story is not the same at all. Let's take the example of the Porsche Cayenne, only 30% of the added value happens in Germany as the production of numerous components is outsourced, generally to Central and Eastern

Europe. The concept of “*made in*”, with the fragmentation of the value chain is becoming “made on earth” masking a great number of industrial participants from numerous countries, and can no longer be considered as a marker for industry⁹.

Another element that follows on from the preceding development; the concept of outsourcing masks different realities. In the garment industry, it designates both international trade and sub-contracting. In the former, all of the added value comes from the outside (thread, fabrics, manufacturing), including, for the most part, the design. In the latter, a number of components are exported to the sub-contractor who takes care of the assembly only. This is the case for clothes imported to France from Morocco and Tunisia that are for the most part manufactured using French fabrics. So Tunisia and Morocco together represented over 36% of the value of French fabric exports in 2011¹⁰.

Secondly, recent changes in the economic environment have reduced the competitive differential between Europe and emerging countries. The cost of supplies in emerging countries has risen due to the rise in the cost of raw materials and salaries. This change in trend should, by all accounts, be a long-term thing, in as much as the growth levels in emerging countries will continue to reinforce the demand for raw materials and the hike in salaries. With this new situation, elements outside of direct cost are not to be neglected. The stock constraint continues to grow, even for the most basic products, as keeping control of cash flow is of the utmost importance. International supply strategies also take these elements into account in terms of risk reduction linked to the concentration of orders and a time to market period that is too long.

The rise in the cost of raw materials, notably cotton, from the summer of 2010, was unprecedented. Demand from Chinese industry and the low level of stocks contributed to the rise

in the price of the white thread. In addition, a drop in production was experienced due to the summer’s catastrophes (flooding in Pakistan and landslides in China). These natural disasters caused a drop of 10% in Pakistani and Chinese cotton production levels. As for India, the government implemented export restrictions in order to guarantee access to cotton at better prices which contributed to a reduction in the worldwide cotton market. This explosion in the market price for white gold was also exacerbated by the high level of growth in purchases by China. Chinese businesses were afraid to be left wanting and imported massively in 2010, thus contributing to the rise in prices. In addition, this rise was maintained by speculation.

The rise in cotton prices reached its paroxysm at the start of 2011, to the point where the monthly average got to 2.30 dollars per pound in March. A substitution effect followed, as this price rise led to a rise in other textiles. Since the heady days of early 2011, the price of cotton has dropped considerably following a newly found balance between supply and demand. The rise in price in fact led certain farmers to drop their other crops in favour of cotton which led to an increase in supply. In addition, the slowing down in worldwide economic activity in the second semester of 2011 had an effect on demand. The average prices for 2011-2012 (around 1 dollar) did indeed drop in relation to those seen in 2010-2011 (1.64 dollars) but they remain nevertheless at a higher level than in the 2000s (0.60 dollars on average). Besides, the price of chemical fibres (the biggest market share in worldwide consumption of fibres) depends on oil prices. This price hike in raw materials was combined with the rise in wage costs in a number of production regions, notably in China. Chinese workers got angry, taking their lead from the Foxconn¹¹ factory that had a wave of suicides in the spring of 2010. Most of the provinces thus raised the minimum wage, while new

labour laws had already improved working conditions since 2008. In the textile-garment sector, most businesses were obliged to raise their salaries. A certain rise in the cost of the Chinese supply of textiles and garments has thus appeared recently and the comparative advantage of China has been eroded to a certain extent.

This wage increase, while it was encouraged by labour disputes, also corresponds to a new strategy of the Chinese authorities who wish to reorient growth toward the domestic market by making it more endogenous and less dependent on export to Europe and the U.S. In the context of economic crisis, the motor behind the Chinese economy constituted by exports is showing its limits. At the low point of the crisis, in 2009, Chinese exports in their entirety dropped and those of the clothing industry dropped by 11% in value relative to 2008. So it is probable that over the next few years, we will see a certain levelling off of China's textile-clothing exports, while the internal market continues to develop. With this perspective, the rise in salaries no longer appears to be a constraint but represents a factor in supporting economic development within China. As a result, the objective to raise salaries by 13% each year is part of the country's twelfth five-year plan (2011-2015). In addition, the rise in the exchange value for Chinese currency contributed to the rise in European supplies. Since the beginning of 2008, the Yuan has increased by almost 40% relative to the Euro.

This rise in wage costs is not only happening in China. It has been observed in a number of other developing countries, notably following on from worker unrest that took place in Bangladesh, Cambodia and Indonesia. In addition, after the Arab Spring, workers in Tunisia and other countries in the Mediterranean basin started demanding higher wages as was also the case recently in Egypt. This resulted in a rise in the cost of

supplies over the past few years over almost all production zones. The cartography of supply inside Asia is evolving: countries close to China (Bangladesh, Vietnam, and Indonesia) are taking over market share in EU supplies. While the recent changes have contributed to weakening the competitive levels of emerging countries, the price difference has not swung in favour of European countries. The hourly labour costs in the French textile industry (milling and weaving) are much higher than in developing countries despite the substantial wage increases that have been seen over the past few years, notably in China¹². The cost is 31.30 dollars in France, as opposed to 4.50 dollars in Turkey or 2.10 in China. In addition, while transport costs have gone up to a certain extent, they are far from acting as a deterrent to sourcing supplies in foreign countries¹³. Thus, between 2008 and 2011, imports in clothing in the European Union from Asia progressed in value by 6.5 % per year (as opposed to 4.4% for overall imports)¹⁴. So it is incorrect to think that mass consumption might be the engine behind re-industrialisation.

Thirdly, the shift upmarket has led to a change in the value chain and to a reconsideration of the question of the location of manufacturing relative to skills. The luxury sector in France has become a veritable industry. There are two main issues that need to be covered. On the one hand, the success of this industry in France enables it to support the industrial activity of a number of sub-contractor manufacturers. Indeed, certain companies go beyond their role of simple sub-contractor by integrating other links of the value chain (patterning, grading, fabric purchasing...). In doing so, they improve their own financial situation and become more competitive. On the other hand, luxury firms tend also to internalise (to make rather than buy) production. This has meant an important change in their value chain.

The example of leather goods illustrates the success of a vertical integration strategy that

encourages the location of the production base in France. In addition to sub-contracting, the development of in-house production sites has a favourable effect in terms of production and jobs. This is notably the case for Hermès and Louis Vuitton, who control their own leather goods production. Louis Vuitton has developed a network of twelve production units in France, the latest of which was inaugurated in the Drôme in 2011. The Hermès group also own ten leather goods manufacturing sites in France¹⁵. These two players are also progressively integrating the tanneries they use for their leathers: TCIM, Gordon-Choisy have been taken over by Hermès while Louis Vuitton acquired a tannery in 2010 in Estaimbourg for the vegetable tanning of high-end leathers. But this vertical integration of the manufacturing base is not limited to the big groups. Goyard set up a workshop in Carcassonne, to deal with special orders¹⁶. Thus, we can see that French production has stabilised over the past ten years. The number of employees in the branch reached 16 700 in 2011, so that is up on 2002, by about 700 jobs¹⁷.

The quality image associated with French-made products is a competitive advantage in international and emerging markets for the big luxury players. Consumers are attached to the idea of *made in France*. It is one of the advantages in France that must be highlighted even more as emerging markets are an essential growth area in a context of economic crisis on the old continent. In France, consumers are starting to pay more attention to the place products are manufactured. In 2010, 64% of French consumers declared they were prepared to pay more for a product that was made in France as opposed to 44% in 2005¹⁸. Just like a number of countries in Europe, consumer behaviour has been seriously impacted by the crisis. Consumers are looking for higher quality products and are interested in where things are made, even though purchases in many homes are determined by economic

constraints. In the long-term, this new context could lead to more development in French industry.

What are the consequences of these changes in terms of re-industrialisation? This question can be dealt with from two angles: that of the notion of industry in terms of its content and that of the localisation of manufacturing activities.

First of all, there is the question of content. This is important as the notion of industry has evolved. Industry is not only about factories, it is also about design, research, development, innovation, industrial development platforms, logistics and all kinds of services. This broader approach corresponds better to the term industry in English, which for the Anglo-Saxons means the entire production sphere whether it be primary, secondary or tertiary activities. But the issue at stake in re-industrialisation is a manufacturing base that makes goods (intermediary, equipment and consumer) by a process of transforming raw materials.

Factory-less industry does not enable re-industrialisation through the absence of the creation of production jobs, but this path penalises the export capacity, research and development and design¹⁹. One cannot deny that globalisation, characterised by the rise in emerging industrial countries, located mainly in Asia, is making the task difficult. This makes choosing the right niche essential. The shift upmarket of industrial products enables them to be manufactured in France.

If we take the example of fashion and luxury, French production is at an advantage in terms of quality and image. The offer cannot be limited to “designed in France” as the manufacturing skills are essential to get to a high level of quality which must also be perfectly homogeneous. The “Made in France” label is one of the keys to success for the strategy

for international development of French businesses in the luxury sector. The clientele from emerging economies is notably very attached to products that are made in France, as this guarantees a level of quality which is incompatible with out-sourced production in their eyes.

As for the question of locating manufacturing activity in France in the fashion sector, there are two scenarios, that of re-localisation and that of the localisation of the growing high-end activities due to global demand.

A massive production re-localisation process that involves keenly priced “mass-market” products seems to be out of the question. It would take a technological revolution on a huge scale to automate clothes manufacturing²⁰ and obtain a massive reduction in unit production costs. Nevertheless, the question of comparing production costs according to country is very much an issue and a complete approach is needed to avoid making the wrong economic calculation. The option of landed cost that takes into account all costs involved (transport, customs, quality control if needed) until the product is on the shelf is infinitely preferable to only taking into account the cost of the product as it leaves the factory without adding on the additional charges²¹.

The first scenario, that of adjusting production costs between French and out-sourced factories makes it possible to retain production in France, even in assembly, for middle range products and/or niche products as is proven by the example of Armor-lux that has a production site in Quimper. In these market segments, certain positions enable everything to be produced in France like Tricotage des Vosges their BleuForêt socks and tights line. In this scenario, the French manufacturing matters as it is linked to the value that is added in terms of the service provided to clients²². The immaterial content of industry becomes interwoven with the manufacturing base and the competitiveness of the entire entity makes the difference.

The second scenario, that of a serious shift upwards in range seems a more credible option to produce the majority of the product in France. Promoting competitiveness that is not linked to cost is the best strategy. French industry has positioned itself in luxury market segments unlike other industrialised countries, with the exception of Italy, but here the industry structure is more fragile as can be seen by the recent acquisitions made by French groups in Italy²³. This scenario needs an available, highly-qualified workforce, and thus brings up the question of attracting young people to manufacturing jobs, but also jobs as technicians and engineers. In order to preserve industrial skills, it is essential to attract young professionals, all the more since the average age in the production areas concerned is often quite high.

The shifting upmarket scenario brings industrial production closer to craftsmanship as it becomes more a question of workshops producing limited quantities than factories, even though when taken together the volume that comes out of all the workshops is not negligible. The place given to the intelligence of the hand in this industrial process should not be ignored.

In any case, the analysis of de-industrialisation/re-industrialisation shows that there is no best way, as underlined by Suzanne Berger in 2005²⁴. Globalisation is putting huge pressure on firms in terms of competitiveness. They need to be on top of things in terms of strategy but range of possibilities is wide. There are many successful models and no recipe is infallible.

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1. Jean-Louis Beffa, *La France doit choisir*, Paris, Seuil, 2012, for more elements on “the commercial-industrial model”.

2. This phenomenon is not limited only to manufacturing tasks as was shown by Richard Baldwin in *Globalisation: the Great Unbundling(s)*, Economic Council of Finland, 2006.
3. Article by S. Kauffmann, *Le Monde*, May 30th 2012.
4. The fashion industry in its broadest sense, brings together all of the activities that are covered by personal “finery”, it includes clothes manufacturing, leather goods, shoes and jewellery. The sector employs nearly 130 000 people. CNI report (Conférence nationale de l’industrie), 2011.
5. WTO, *International trade statistics*, 2010.
6. In 1985, independent multi-brand retail was by far the main retail circuit in France, representing 38% of textile-clothing consumption in value. The concentration levels in retail are today close to 75% (the sum of the market share of all retail circuits, not counting multi-brand independents and markets and fairs). Source: IFM consumer database.
7. Olivier Bomsel, *L’économie immatérielle. Industries et marchés d’expériences*, Paris, Gallimard, 2010.
8. WTO, *International trade statistics*, 2010.
9. WTO, IDE-JETRO, *Trade patterns and global value chains in East Asia: From trade in goods to trade in tasks*, 2011.
10. Gildas Minvielle, *Textile-habillement, les systèmes productifs des pays du Bassin méditerranéen et leurs liens avec le secteur français*, IFM, 2007.
11. Taiwanese company that manufactures Apple products notably.
12. Werner international, 2011.
13. Transport costs for a bra imported from Morocco or China don’t go over 50 cents on average: *Répartition de la création de valeur ajoutée d’un bien de consommation, filière textile-habillement et cuir*, IFM study for the Direction Générale de la Compétitivité de l’Industrie et des Services (DGCIS), 2011.
14. IFM, *Les chaînes logistiques performantes de mode*, 2011.
15. Hermès, Annual report 2011.
16. Franck Delpal: “L’intégration verticale dans le secteur du luxe : objectifs, modalités, effets”, in *Mode de Recherche* n° 16, IFM, June 2011.
17. Forthac, *Observatoire des métiers*.
18. CREDOC, *Consommation et mode de vie*, n° 239, May 2011.
19. Designers need workshops or factories in order to develop their prototypes.
20. E.M. Mouhoud in *Mondialisation et délocalisation des entreprises* (Paris, La Découverte, 2011), however, gives examples of re-localisation that followed on from the automation of production methods in other industries like electronics.
21. D. Jacomet, *Textile, mode et mondialisation*, chap. 7, Paris, Economica, 2007.
22. Most notably in delivery times.
23. For example, Gucci and Brioni were bought out by PPR and Bulgari by LVMH.
24. S. Berger, *How we Compete: What Companies Around the World are Doing to Make It in Today’s Global Economy*, Doubleday Broadway, 2005.