Promoting the Upgrading of China Industrial Clusters up the Global Value Chain

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Background

- Mfg and/or Service Sector
  - No clear boundary
- Dynamic Competition
  - No forever competitiveness
- Outsourcing
  - No do-them-all in house
- Globalization
  - No domestic company
Made in China

- Made in China (export 1 trillion $)
- Made in Chian’s SMEs
- Made in China’s industrial cluster (supply chain cities, Gary)
The type of China’s clusters

- Small scale craft industries
- Low tech, labor intensive industries
- Large scale manufacturing industries (export-oriented)
- High technology agglomerations
- Business and financial services
- Fashion and creative industries
The type of China’s clusters

- Garments
- Textiles
- Footwear
- Silk products
- Travel goods
- Housewares
- Pens and pencils
- Toys
- Cutlery
- Hardware
- Furniture
- Pianos
- Watches and clocks
- Consumer electronics
- Electronic components
- Notebook computers
- Home appliances
- Power tools
- Bicycles
- Motorcycles
- Containers
- Ships
- Cranes
- Etc., etc., etc.
The type of China’s clusters

<table>
<thead>
<tr>
<th>Type</th>
<th>Typical clusters</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ertrepreneurial clusters. (nature born)</td>
<td>Wenzhou  Leqing low-voltage electrical appliances, Zhejiang</td>
</tr>
<tr>
<td></td>
<td>Shaoxing  Datang sock clusters, Zhejiang</td>
</tr>
<tr>
<td>Export-oriented clusters.</td>
<td>Shenzhen watches and clocks, Guangdong</td>
</tr>
<tr>
<td></td>
<td>Dongguan computer and related product, Guangdong</td>
</tr>
<tr>
<td>Resource-driven clusters.</td>
<td>Quanzhou Jinjiang quarries, Fujian</td>
</tr>
<tr>
<td></td>
<td>Tangshan pottery and porcelain, Hebei</td>
</tr>
<tr>
<td>Market-driven clusters.</td>
<td>Zhengzhou apparel, Henan</td>
</tr>
<tr>
<td></td>
<td>Zhuzhou Luosong apparel, Hunan</td>
</tr>
<tr>
<td>Gradual progress form large -scale enterprise.</td>
<td>Xinxiang Changyuan crane, Henan</td>
</tr>
<tr>
<td></td>
<td>Changzhou Qishuyan cutler, Jiangsu</td>
</tr>
<tr>
<td>High-tech industrial cluster.</td>
<td>Zhongguancun information industry, Beijing</td>
</tr>
<tr>
<td></td>
<td>Zhangjiang chip manufacture, Shanghai</td>
</tr>
</tbody>
</table>
A increasing role

- An increasing role for clusters: to speed up China industrialization and urbanization process
- Fueled the growth of industrial capabilities, local industrial clusters create 50% manufacture output in east-south of China
- A growing percentage of cluster’s production is functionally integrated into global systems of supply to global market.
Textile and clothing cluster

- In textile and garments sector, 108 national textile and garment industrial clusters base city, county and town denominated by CNTAC until May, 2006 (Du yuzhou, 2006).
- China National Textile & Apparel Council (CNTAC), is the national Federation of all textile-related industries, since 2002, denominated national textile and garment industrial clusters base city, county and town, it include textile-related industries, e.g. underwear, printing, man-made fiber and so on.
Made in China, Shipped Worldwide

The factory towns on the coast of China manufacture clothing to keep America’s closets full, making everything to wear from head to toe.

<table>
<thead>
<tr>
<th>Factory orders, 2003</th>
<th>PRODUCTION</th>
<th>TOTAL SALES</th>
<th>U.S. EXPORTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>MEN’S WEAR Zhucheng</td>
<td>100 MILLION PIECES</td>
<td>$600 MILLION</td>
<td>$100 MILLION</td>
</tr>
<tr>
<td>CASUAL WEAR Haiyu, Changshu</td>
<td>160 MILLION PIECES</td>
<td>$260 MILLION</td>
<td>$58 MILLION</td>
</tr>
<tr>
<td>DOWN-FILLED PRODUCTS Xintang, Hangzhou, Xiaoshan</td>
<td>26 MILLION PIECES</td>
<td>$470 MILLION</td>
<td>$290 MILLION</td>
</tr>
<tr>
<td>TIES Shengzhou</td>
<td>300 MILLION PIECES</td>
<td>$1.21 BILLION</td>
<td>$384 MILLION</td>
</tr>
<tr>
<td>SOCKS Datang, Zhuji</td>
<td>9 billion PAIRS</td>
<td>$1.57 BILLION</td>
<td>$240 MILLION</td>
</tr>
<tr>
<td>UNDERWEAR Jinjiang, Shenhui</td>
<td>969 million PIECES</td>
<td>$360 MILLION</td>
<td>$290 MILLION</td>
</tr>
<tr>
<td>WEDDING DRESSES, EVENING GOWNS Chaozhou</td>
<td>510 million PIECES</td>
<td>$950 MILLION*</td>
<td>$640 MILLION†</td>
</tr>
<tr>
<td>JEANS Xintang, Zengcheng</td>
<td>225 million PIECES</td>
<td>$1.04 BILLION</td>
<td>$480 MILLION</td>
</tr>
</tbody>
</table>

*Includes all textiles made in the city. †Wedding dress and evening gown exports only.

Sources: China National Textile Council; Shenhui Underwear Association; Datang Town Government

The New York Times
### Major wholesale markets in China

<table>
<thead>
<tr>
<th>Market Name</th>
<th>Location</th>
<th>Cargo Volume (Million Tons)</th>
</tr>
</thead>
<tbody>
<tr>
<td>West Guomao Wholesale Market</td>
<td>Shanghai</td>
<td>16.778</td>
</tr>
<tr>
<td>Xlibao Apparel Market</td>
<td>Hefei</td>
<td>25.000</td>
</tr>
<tr>
<td>Hepe Market</td>
<td>Guangzhou</td>
<td>25.000</td>
</tr>
<tr>
<td>Nanshan Market</td>
<td>Shanghai</td>
<td>31.000</td>
</tr>
<tr>
<td>Xiamen Trading Center Market</td>
<td>Xiamen</td>
<td>23.333</td>
</tr>
<tr>
<td>Changshu Wholesale Market</td>
<td>Changshu</td>
<td>28.000</td>
</tr>
<tr>
<td>Qianhao Market</td>
<td>Hangzhou</td>
<td>18.000</td>
</tr>
</tbody>
</table>

**Note:** The table lists some of the major wholesale markets in China, along with their respective locations and cargo volumes. The data is approximate and subject to change.
Shaoxing Textile Enterprise Industry is One typical

Hangzhou

Jiaxin

Shaoxing City

Ningbo

China Textile City

Quzhou

Jinhua

Taizhou

Lishui
Production Chains of Shaoxing Textile Small Enterprise

- Printing and Dyeing Material
- Chemical Additives
- Dyestuff
- Printing Design
- Information Service
- Fabric

- Chemical Fiber
- Chemical Fiber Spinning
- Fabric Weaving
- Cloth Printing and Dyeing
- Garment Manufacture
- Cloth

- Machinery and Parts
- Polyester Chips
- Machinery
- Material and Semi-products, Logistics Service
- Garment
Increase of Enterprise Number in Shaoxing County

(Number)

- Fiber
- Spinning, Weaving, Knitting
- Printing & Dyeing
- Clothes
- Total

Year

84 85 86 87 88 89 90 91 92 93 94 95 96 97 98 99 0 1 2 3

0 500 1000 1500 2000 2500 3000 3500 4000 4500 5000
Shaoxing Textile Small Enterprise Innovative Network is Within Zhejiang Textile Network
Present Situation of Development in Chinese Cotton Textile Industry

10年来纱、布产量变化图
Transnational structural forces at the global-level

- an increasing domination of few giant corporations & retailers
- Giant corporations and retailers dictate the production, trade and finance, and shipment rhythm of supplying manufacturers at the low-end
- Worker rights?

A manager of a big garment factory in Dongguan, Guangdong province

“We are under enormous stress, customers place late orders, they change their orders part way through manufacturing and they pay their bills late. At the same time they ask us to provide better training for our staff, better health and safety and better accommodation. We just cannot do it all.”
<table>
<thead>
<tr>
<th>store</th>
<th>Revenues rank</th>
<th>store</th>
<th>Revenues rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wal-mart</td>
<td>2</td>
<td>J.C. Penney</td>
<td>118</td>
</tr>
<tr>
<td>Target</td>
<td>29</td>
<td>KoH’s</td>
<td>166</td>
</tr>
<tr>
<td>Sears holdings</td>
<td>33</td>
<td>Dollar General</td>
<td>268</td>
</tr>
<tr>
<td>Federated dept</td>
<td>87</td>
<td>NORDSTR OM</td>
<td>293</td>
</tr>
</tbody>
</table>
Where do the profits go?

For a typical garment retailing for $100:

• the retailer would take $50
• the manufacturer would take $35
• the contractor would take $9

And the garment workers who sewed this dress?

She, and all the other garment workers who worked on the dress, would each take a share of the remaining $6!

CA
What percentage of retail price is labor cost?

- Cost of labor is typically 2-5% of the retail price.
- While the example is in terms of Hong Kong dollars, similar ratios of labor to retail cost exist for garments sold in U.S.

Source: "Turning the Garment Industry Inside Out - Purchasing Practices and Workers' Lives" by Oxfam Hong Kong, April 2004
Innovation Capacity Shortage

DESIGN

value

assembly

Globe value chain distributing

Distribution

process
US Apparel Imports (value) by Main Sources

![Bar chart showing US Apparel Imports (value) by Main Sources from 1999 to 2005. The chart compares China, CAFTA-DR, and Mexico.](chart.png)
Have Chinese exports to the US reached their peak?

- US clothing imports from China were 14.6% lower in volume during the first six months of 2006 than in the corresponding period of the previous year. So does this mean the Chinese export boom may be over – at least in the US market?
For the 11th Five-Year Plan (from 2006-2010), China's textile industry will be focused on technical innovations, development of Chinese own brands and increase of the added value of our products.
Upgrading Strategy (national)

- Go abroad
- Go west
- Independent innovation
- Independent brand
Local clusters upgrading from

- assembly of imported components
- taking care of the entire production process (including the sourcing of inputs)
- design of their own products
- sale of their own branded products in national and global markets.
Branding and signaling

- National brand
- Sector brand
- Regional brand
- Firm brand
- Product brand
Branding and signaling

- Collective brand
- Exhibition center
- International fair
- Cluster advertisement
- Fostering national and international brands.
Innovation

- R&D
- Design
- Platform (service center)
- Business model (e-commerce, direct-sale and so on)
Domestic-led market

Push initiative domestic-led development strategy. China industrial clusters should target own market and upgrading the value chain. Retail sales in China surpassed $827 billion in 2005, and will continue to increase. So upgrading of China industrial clusters up the GVC, first of all, should focus the potential domestic market.
The question

- Promoting the Upgrading of China Industrial Clusters up the Global Value Chain
- Strategy
- Approach
- Policy