



Has China moved up the quality ladder in the clothing industry since its entry into the WTO in 2001?

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Abstract

This thesis aims at shedding some light on the extent to which Chinese companies have moved up the quality ladder since China's entered in the WTO in 2001. Currently, there is an important controversy in the literature about the quality content of the Chinese exports. The debate is particularly vivid when the question is raised for the clothing industry, a sector we will focus on throughout our practical analysis.

The paper is divided into two main parts: the first one describes the impacts that the development of global supply chains has had on China's growth and assesses the country's positioning in the global value chain. The emphasis particularly lays on the two-faced nature of the Chinese exports. The second part starts by putting the research question into the context of international trade theory. Then, three practical studies based on homogeneous data sets and coherent working assumptions are done to determine quality upgrading in the Chinese clothing sector.

We found out that global supply chains have been a major trigger of China's economic development. Processing trade and the sourcing of technically advanced intermediates from foreign companies explain to a large extent the increased sophistication of the Chinese exports. Yet, it seems that genuine Chinese companies are adding little value to the whole production process. Nevertheless, because of internal and external factors, moving up the global value chain is becoming a strategic issue for the Chinese government. The key lever that the country should play on in order to achieve this goal is the improvement of the quality of its products.

Following China's entry in the WTO in 2001, Chinese clothing firms flooded the European market with low quality clothes, putting at risk the viability of European companies in the sector. However, adapting the logic of the comparative advantage theory on quality-differentiated products, we deduced that both the EU and China can be active in the clothing industry with the EU specializing in high value added products and China in the low value added items. The theory implies that China should not be producing high quality clothes. The segmented quality analysis of the Chinese and European export bundles that we conducted together with the adaptation of the studies of Vandebussche and al (2011) on relative quality analysis and of Ito and Okubo (2011b) on intra-industry trade did not provide us with grounded evidences that China was moving up the quality ladder in the clothing industry.

Nevertheless, many factors would suggest that the situation is not that black and white. Even if China might not be currently upgrading the quality of its clothes, we think that the country will shortly be able to develop the needed capabilities to do so. Looking at the strategy pursued by Chinese clothing firms would give us further insights into the question.

Keywords

China

Clothing trade

Global Supply Chain

Global Value Chain

Quality