

Can there be a "Next China"? Comparative Advantage Analysis of Top Apparel Exporters

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China has been the world's largest apparel manufacturer and exporter for over a decade (Lu, 2022). China benefitted from the abolishment of the World Trade Organization's quota system, and its clothing exports boomed after the turn of the millennium. China is the global apparel manufacturer, accounting for over 50% of global production and over 30% of global apparel exports (Ma, 2022). Guangdong province is the hub of China's clothing production, with more than 28000 exporting enterprises located there (Guan et al., 2019). China's apparel industry employs more than 8 million people and contributes 7.1% to the annual share of GDP (Asia Garment Hub, 2022). A robust domestic raw material supply and a long-standing emphasis on the textile and apparel industries make this sector essential to the country's national economy, significantly strengthening export revenue, GDP, and employment levels nationwide (Kaplinsky & Morris, 2008; Lu & Karpova, 2011). China has experienced a slowdown in its manufacturing and export market share for crucial apparel product categories compared to its Asian neighbors, resulting in a drop of 41% to 37% in its global export share from 2016 to 2020 (Larocco, 2022).

Since 2015, China's apparel manufacturing industry has undergone a profound transition. The rising labor costs have shifted the sector towards a less labor-intensive and highly automated direction (Guan et al., 2019). Geographically, many apparel enterprises have relocated to lower-labor-cost labor regions, such as Western and Middle China (Benissan, 2022). Guan et al., (2019) also found that a declining level of industrial competitiveness was caused due to rising costs for production, labor, transportation, logistics, and depreciation in the Chinese currency value. Besides manufacturing, China's apparel export industry also faced significant challenges from recent international trade disputes. The USA-China trade war has caused disruptions in China's apparel manufacturing industry and was instrumental in rising supply chain costs (Lu, 2022). The Covid-19 pandemic also severely impacted China's apparel manufacturing industry. It led to the closure of China's ports and transport hubs and unsettled the apparel supply chain (Larocco, 2022). China's clothing export value and global share have continuously dropped between 2014 and 2020 (WTO, 2022). In the meantime, several rising apparel manufacturing counties in Southeast Asia started to threaten China's leading position. For example, Bangladesh's apparel exports surged from \$19 billion in 2011 to \$35 billion in 2021; similarly, Vietnam's apparel exports increased from \$13 billion to \$31 billion during the same period (WTO, 2022). To understand who is gaining from China's apparel manufacturing slowdown, revealed comparative advantage measure (Balassa, 1965) for the top 10 apparel exporting nations is calculated.

Balassa's (1965) Revealed Comparative Advantage (RCA) index is one of the most adapted tools for export competitiveness measurement. RCA measures the share of a given product in a country's total exports

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relative to the share of that product in total world exports. A country is said to have a comparative advantage in a particular product if its share in the country's total exports is relatively larger than the share of the product in total world exports (Nath, Liu, & Tochov, 2015). Normalized Revealed Comparative Advantage (NRCA) is a variant of RCA (Yu et al., 2009) and provides more stable means across countries and commodities (Saki et al., 2019). Product level trade data of HS Code 61 and 62 from the United Nations Commodity Trade Database (UNCTAD, 2023), was acquired for the study. Product level export trade data of the world's top 10 apparel exporters (China, Bangladesh, Vietnam, India, Italy, Spain, France, Germany, Netherland, Turkey) were collected between 2016 and 2021 from UNCTAD (6-year period). RCA and NRCA were calculated and compared at the two- and four-digit HS codes for the ten apparel exporting countries. Additional RCA and NRCA calculations at six-digit levels were measured for the sub categories where China showed either comparative disadvantages or a declining advantage.

Results indicated only two out of the thirty-four subcategories at the four-digit level had sustained comparative disadvantage for China, during the time period studied. HS 6106 (women's or girl's shirts or blouses) and HS 6217 (clothing accessories) were the categories in which China had sustained comparative disadvantages. It was interesting that the RCA and NRCA calculations suggested that at HS 6106, Bangladesh, Vietnam, India, and Turkey are gaining a comparative advantage over China, while Italy, Spain, and France are gaining comparative advantage at HS 6217. Seven subcategories HS 6101(Men's or boy's knitted overcoats or jackets) [declined advantage in 2020 and 2021], HS 6102(Women's or girl's overcoats or jackets) [declined advantage in 2020 and 2021], HS 6105(Men's or Boy's knitted shirts) [declined advantage in 2019, 2020 and 2021], HS 6113(Garments of knitted fabrics) [declined advantage in 2019 and 2020], HS 6205(Men's or boy's shirts-not knitted) [declined advantage in 2020 and 2021], HS 6206(women's or girl's shirts or blouses-not knitted) [declined advantage in 2019 and 2020], HS 6209(Baby's garments accessories-not knitted) [declined advantage in 2020 and 2021] were also identified where China saw a decline in its competitiveness to other competing nations. The data indicated that multiple countries outgrew China in those categories. More precisely, Bangladesh, Italy, and Vietnam at HS 6101, Bangladesh, Germany, Italy, and Vietnam at HS 6102, Bangladesh, India, Italy, Turkey, and Vietnam at HS 6105, Bangladesh, Italy and Vietnam at HS 6113 are competing with China within chapter HS 61. On the other hand, Bangladesh, India, Turkey and Vietnam at HS 6205, Bangladesh, India, Turkey, Vietnam, and Spain at HS 6206, and Bangladesh and India at HS 6209 overtook China within Chapter 62. When calculating the export shares at the 4 digit and 6-digit HS categories, China holds a significant advantage over its competitors. Even though RCA and NRCA showed a disadvantage for those categories, China is still way ahead in terms of volume and dollar amount exported.

Among above mentioned product categories RCA and NRCA calculations at the six-digit level for China identified twenty-three sub categories with sustained years of disadvantage or decline in comparative advantage. HS 610610 (Women's or Girl's knitted blouses or shirts of cotton) [disadvantage in 2016-2021], HS 610620 (Women's or Girl's knitted blouses or shirts of man-made fiber) [disadvantage in 2016-2020], HS 610690 (Women's or Girl's knitted blouses or shirts of textile materials other than cotton or man-made

fiber) [disadvantage in 2016-2021], HS 621790 (Clothing accessories not knitted) [disadvantage in 2016-2021].

This study examines the current export scenario, changes occurring in the export structure, and highlights the various reasons for the structural change of the textile and apparel sector for top 10 apparel exporting countries. The results highlighted that China may be losing its edge as the top apparel exporter at certain product categories but none of them are going to replace the country in its superiority in near future. The findings of the study have significant implications and contributions. It contributes to the existing academic literature regarding China's recent decline in its export competitiveness in global apparel trade. The findings could attract updated regulations and increased investments from the policymakers and government which would facilitate the further growth of the Chinese apparel industry.

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