

# SURVIVING THE NEXT YEARS

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*This article discusses what would be a pragmatic decision for Asian the garment industry in order to survive during the anticipated heightening of the US-China trade war under Trump presidency.*

**W**e are moving into a period dominated by a massive trade war: **THE UNITED STATES VERSUS CHINA.** Every trading country will be pushed to take sides. During difficult times of uncertainty, fear and stress, there are those who would reject democratic government as too inefficient and the rule of law as too cumbersome in favour of the strong-man and the authoritarian leader. However, past events have shown that democracy versus authoritarianism is irrelevant. The real conflict is pragmatism versus ideology. In this war,

the pragmatists always survive, while the ideologues invariably go down in flames.

This is the subject before us. As a garment industry specialist, I will use that industry to determine an answer because the garment industry is ubiquitous.

## **China**

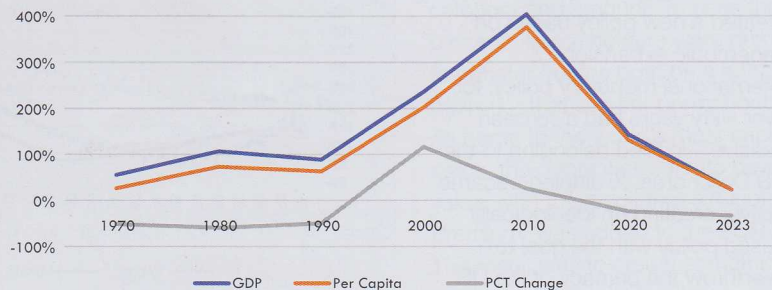
This is a good place to begin. China is authoritarian. It is also home to the world's largest garment export industry.

As we can see from Graph 1, in the past 50+ years the Chinese economy has gone





GRAPH 1 CHINA: NATIONAL INCOME DATA - YEAR ON YEAR CHANGE



through three phases:

**1. 1949 -1980: Maoist ideologic phase.** A time of GDP stagnation. This was the era when ideology trumped everything. Every sector of the Chinese economy was under party control. Agriculture was commune based. Industry was in the hands of state-owned enterprises (SOE) where meeting production quotas was the measure of success, with the result that customers' needs such as product quality, and delivery dates were of little importance. This was the era of the iron 'rice-bowl' when SOE factories were small cities in themselves, existing to meet workers' needs, including hospitals, schools and ideology. Factories' sole responsibility was to meet arbitrary production quotas, with the result that they concentrated production on the simplest products. Government policies based on Maoist ideology created one disaster after another: The Hundred Flowers Campaign (1956-1957), The Great Leap Forward (1958-1962), The Cultural Revolution (1966-1976).

**2. 1978-2010: Deng Xiaoping pragmatic reform.** This was the era when China moved from ideology to a pragmatic business orientation. The new motto was: *WHAT MATTER IF THE CAT IS BLACK OR WHITE AS LONG AS IT CATCHES THE MICE?* The Deng reforms began with the Special Economic Zones (SEZ) where socialist rules did not exist. The Deng reforms were vindicated in 1991 with the collapse of the Soviet

Union. In a major meeting of Chinese leaders there was a debate between the two major factions: The ideologues versus the pragmatists.

- The Ideologues argued that the USSR collapse was inevitable because when personal income rises, the population will inevitably demand democratic reform.
- The pragmatists argued that the USSR collapsed because the Party could not feed their own people. If the Party could ensure a better life for its people, the Party would maintain its mandate to rule.

Deng Xiaoping's pragmatic reforms brought about the world's largest garment export industry. China encouraged investment from the three little dragons—Hong Kong, South Korea and Taiwan, who built the factories, provided the orders, and trained the workers. Government together with the three little dragons built the needed infrastructure. The Pearl River Delta adjacent to Hong Kong became the world's largest agglomeration of garment export factories. Shenzhen, once a poor collection of small fishing villages located across the border from Hong Kong, became the fourth largest urban economy in China. Between 1989-2012 China's US market share increased from 11.5 per cent to 37.8 per cent. Hong Kong became the centre of the global garment export industry.

**3. 2013-2024: Xi Jinping moved away from pragmatism to a post-Mao ideology.**

- Foreign policy under both Mao Zedong and later Deng Xiaoping



was passive – based on a policy of non-interference in the internal affairs of foreign countries. Xi Jinping created a new policy based on hegemonic expansion.

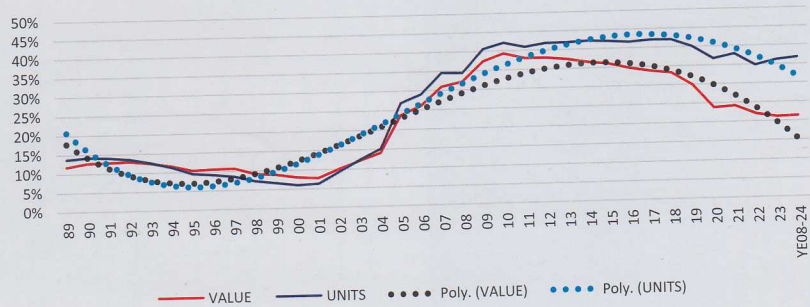
- International monetary policy, for over sixty years had also been passive – indeed belonging to the US Dollar area. Xi Jinping became active, creating an ideologically based policy with the goal to overthrow the primacy of the US Dollar.
- China's industrial policy under the Deng reforms was pragmatic relying on the private sector to increase GDP. Xi Jinping's policies were ideological, based on the goal to increase Communist party control. The results were not good. Where previously economic growth was multi-faceted based on the private sector, the Xi government took control relying on sectors under party control such as property development as the way forward.

Xi Jinping has moved China away from pragmatism towards a return to ideology, thus ending China's economic miracle. China's global garment industry has been no exception. From 2016 to year ending August 2024, China's market share fell from 34.6 per cent to 21.2 per cent. What happened? The answer is Xi forced Hong Kong to follow his new ideology. Hong Kong companies seeing how Xi attacked China's most successful companies such as Ali Baba's effort to add more services were attacked by Xi, placing increased sales and profitability secondary to ideological conformity. Hong Kong companies do not follow Western beliefs in democracy and personal freedom. Rather, they follow the pragmatic belief that if in those in power fail to live up to their commitments, it is time to get out.

As we can see from Graph 2, we can trace China's garment industry trends from the beginning of the Deng Xiaoping pragmatic reforms through to the Xi Jinping return to ideology.

In the world of global business, the rule of success is survival. Consider Shein, formally one of China's largest and most successful e-commerce

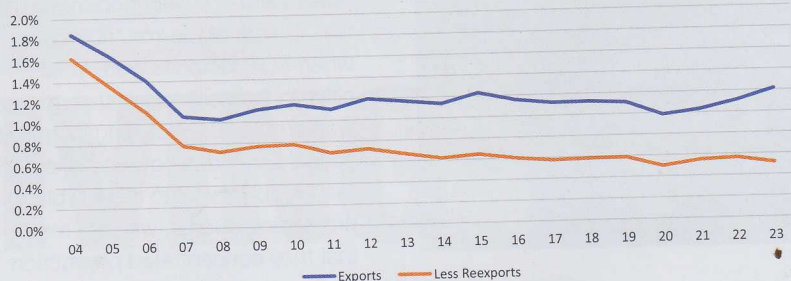
**GRAPH 2 US GARMENT IMPORTS: CHINA MARKET SHARE (1989-2024)**



**GRAPH 3 US NATIONAL INCOME STATISTICS (YEAR ON YEAR CHANGE)**



**GRAPH 4 US GARMENT EXPORT MARKET SHARE**



retailers that in 2022 moved from China to Singapore.

The Xi Jinping move from pragmatism to ideology has brought an end to China's period of great economic growth.

### The United States

With a GDP of \$27.5 trillion, the US is the world's largest economy. Second is the EU with an aggregate GDP of \$19.4 trillion. China ranks third, with a GDP of \$17.8 trillion. US per capita income is \$80,100. The EU's is \$43,900 and China ranks third with a per capita income of \$12,600. Clearly, the US is the world's #1 economy.

As we can see from Graph 3,

US national income peaked in 1980 and has fallen ever since, and as of 2023, GDP was up 28.1 per cent and per capita income up 24.1 per cent, somewhat better than China.

However, data related to garments tells a very different story. As we can see from Graph 4, as of 2023, US' garment export market share totalled 1.2 per cent, most of which were re-exports, products imported and then sent on to other countries with no changes. Deduct re-exports and the US net export market share totalled 0.5 per cent.

As we can see from Graph 5, US garment import market share at 21.4 per cent, is among the highest in the world.



GRAPH 5 US GARMENT IMPORTS: GLOBAL MARKET SHARE



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EU garment import market share is over twice the US, while its garment export market share is over 3 times the US.

For all practical purposes, the US has no domestic garment industry. What happened? As of 1965, the US was home to both the world's largest textile and garment industries. 40 years later, in 2005, both industries had disappeared.

The traditional domestic industry was based around two groups:

- The Brand.
- The brand contractor who produced the garments

This operation included all garments sold in US retail stores from budget to better quality. There was one exception. At the very bottom were very large 5&10¢ stores, such as Woolworth and SS Kresge (later renamed K-Mart). These were major retailers that did not fit into the traditional domestic industry.

In the late 1950s, a new sector emerged to meet the needs of these 5&10¢ stores, what we later termed 'private label'. They designed the garments and placed orders in Asian factories, first to Japan and later to

the three little dragons: Hong Kong, Taiwan, and South Korea. These factories produced woven cotton shirts for FOB \$7.50/dozen and woven trousers for FOB \$9.50/dozen.

**IT IS IMPORTANT TO POINT OUT THAT GARMENT IMPORTS FROM THE THREE LITTLE DRAGONS AT THAT TIME DID NOT COMPETE DIRECTLY WITH THE US DOMESTIC INDUSTRY.**

Nevertheless, the US government took an ideologic approach to protect its domestic textile and garment industries. It imposed quotas on exports from Hong Kong, Taiwan, and South Korea. The quota regime lasted 43 years, until it was finally phased out in 2005. By that time, the US domestic textile and garment industries had virtually been wiped out.

This is the story. In 1963, the US negotiated specific quota quantities based on fibre, product, knit vs woven, and gender with each of the three little dragons. The Hong Kong Government immediately allocated the quota based

on the past performance. From that point, every garment shipped to the US required quota in the specific category and amount. To ease the process, quota holders were permitted to transfer quotas both on a temporary basis (for that year) or permanently. As home to the world's most capitalist place, the quota was seen to have value, with the result that a 'Quota Premium' was added to the FOB price. The result was to create something of immense profitability.

Usually, the profit margin for garment exports, after accounting for costs, was estimated to be around 5 to 10 per cent. But, selling quota provided a 100 per cent profit because there were no costs, with the result that the US had unwittingly created an immense profit sector, which changed Hong Kong, and the global garment industry, forever.

- The added cost of the quota premium forced Hong Kong factories to trade up from cheap commodities to higher quality fashion, with the result that the three little dragons began to compete directly with US domestic fashion garment factories.
- At the same time, to maintain their basic commodity business, the three little dragons were forced to open branch factories off-shore in quota free countries, thus creating a real life model of the *ROAD RUNNER AND COYOTE* cartoon. The little dragon *ROAD-RUNNER* would open a factory only to be attacked by the US Government, *WILE E. COYOTE*, and his *QUOTA BOMB*. The little dragon *ROAD-RUNNER* would upgrade its new branch factory while, at the same time, run off to open a branch factory in another quota free country, only to be attacked by the US Government *WILE E. COYOTE* and his *QUOTA BOMB*.
- The *ROAD RUNNER AND COYOTE* game finally ended 43 years later, when quotas were finally phased out at which time the global garment export industry that had previously consisted of the three little dragons producing cheap commodities, grew to the point where there were more garment exporting areas than members of the UN, producing





China desperately needs a trading partner to replace the US.

all types of garments from cheap commodities to designer labels. The US domestic industry had ceased to exist together with its local textile suppliers.

Once again, the replacement of pragmatism with ideology had wrought irreparable damage. In this case, the US Government had protected both its domestic garment and garment related textile industries out of existence.

### Conclusion: The way forward for Asia's export industries

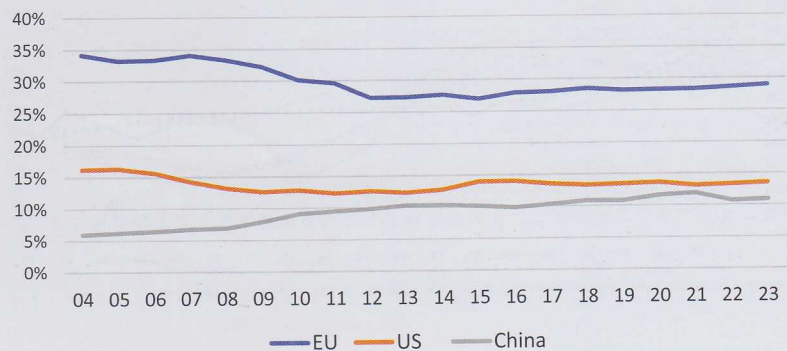
We are currently in the midst of a Sino-American trade war and are being pushed to the same existential two choices. However, on a pragmatic level, there is another, third (rather than siding with the US or China) more practical alternative. Avoid the trade war altogether by looking to the European Union. The EU is by far the World's largest trading bloc. As we can see, from Graphs 6 and 7, the US is a pimple on the body of global trade.

As we can see from Graph 6, EU garment import market share is over twice the US – 28.9 per cent vs 13.5 per cent.

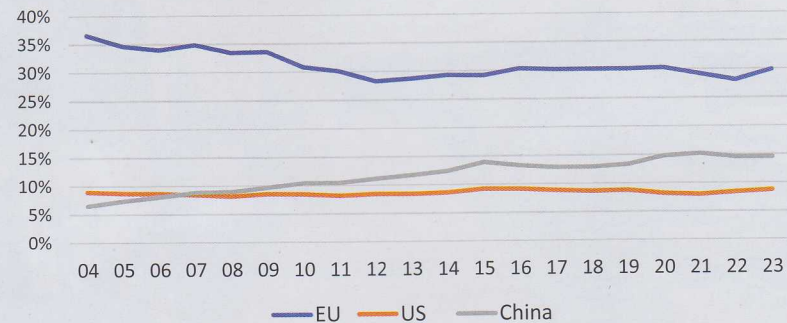
As we can see from Graph 7, EU garment export market share is over 3 times the US – 29.9 per cent vs 8.7 per cent.

Sixty years ago, the United States destroyed its domestic garment and textile industries by protecting them out of business. Today the United States is repeating the same folly, but this time on a far greater scale. The policy of protectionism has brought declines not only to automobiles, cell phones and computer components, but also to the intangible industries such as social media.

GRAPH 6 GLOBAL IMPORT MARKET SHARE



GRAPH 7 GLOBAL EXPORT MARKET SHARE



If your business is trade orientated, who would you prefer as a partner—the #1 or some *ALSO-RAN*.

The US economy is in serious trouble. The country faces insurmountable debt, both public and private in the world market.

- **Public debt:** Interest payments on that debt is about to become the largest government expense. From June 2020 to the same period in 2024, interest on the US 10yr bond increased from 0.68 per cent to 4.48 per cent.
- **Private debt:** Banks and other US financial institutions have reached the point where they are becoming Zombie companies, filled with unrecoverable assets. Credit card debt, student loan debt, and mortgage debt will never be repaid. Add to this, the trillions of lost dollars in underwater commercial property mortgages, and it will be clear that banks and financial institutions face existential threats.

This time, unlike 2008, a supine US government cannot bail them out because the government does not have the funds. The results will be a serious economic recession coupled with the collapse of the dollar.

All major economies face serious problems. However, the others can moderate the difficulties by collaboration. EU and China, while very different, have areas of collaboration for mutual benefit:

- China desperately needs a trading partner to replace the US. The EU is the world's largest trading group.
- The EU must support the Ukraine in its war with Russia. China is the only country with the power to end the war in a manner beneficial to the EU.

So, in order to survive during the anticipated heightening of the US-China trade war under Trump presidency, a pragmatic decision for Asian garment industry would be to look at the EU market. **FF**