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The Textile Industry — an Unsuitable Development Primer

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The establishment of local industries must be one of the main elements of economic development in the countries of the Third World. Which are the sectors of industry offering the best opportunities?

Here is a question which calls for careful consideration, if the capital available for development is to be employed economically. Besides, the choice of specific industries as development primers will have far-reaching repercussions on the industrialized countries if they endorse the view that the erection of factories in developing countries must go hand in hand with the opening by the industrialized countries of their markets to products from these new factories even though this may trigger contractive processes in their own industries. If necessary, certain industries would — according to this view — have to be "translocated" to the developing countries.

Primer Industries for Developing Countries?

Having said this much about the basic development idea of linking the policy of industrialization in the developing countries with the structural policies of the industrialized countries,

it must be noted that the textile industry is one of those which are sometimes suggested as primer industries for developing countries. A few countries, especially in East Asia, actually took their first steps into the industrial age by manufacturing textiles and more particularly probably clothing. However, is production of textiles today still a recipe for success in development policy?

To answer this question one has to go back a bit. When the economics of proper siting of an industry are considered from the point of view of the international division of labour, the point of departure is mostly the evident fact that in industrialized countries labour is generally scarcer than investment capital while the position in developing countries is the reverse. The latter have commonly relatively little capital for employment in the form of production plants or training facilities. Hence — it is argued — the aim in economic policy and in trade policy should be to have labour-intensive productions carried out increasingly in low-capital countries.

Increased Capital Intensity

If these general reflections are applied to the concrete case

of the Federal Republic and its textile industry, it is seen, however, that the textile industry here has long ago moved on to capital-intensive production methods. The change followed inevitably from the technical progress of which the textile industry has made particularly good use. As a result of this development the textile production in the Federal Republic is today highly technicized — in most areas indeed automated.

Correspondingly the investment per working place in the textile industry has undergone an exceptionally large increase. Unprecedented sums must nowadays be invested for each worker in modern enterprises although there are naturally variations from sector to sector. Moreover, these sums are rising fast. Present indications suggest that the technological trend towards higher investment per worker will continue.

Averages are of problematic value in a heterogeneous industry like the textile sector. A few examples only will therefore be given here for large textile

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areas and three-shift production will be assumed:

In 1971 (when the Research Centre for General and Textile Market Economy at the University of Munster calculated the investment required per worker for several areas of the textile industry on the basis of data from firms involved) DM 300,000 had to be spent to provide one new job in cotton spinning. Even at constant prices the investment per working place had risen 3½ times within 10 years. In the weaving trade the cost of investment for one new working place had soared to DM 400,000. Adjusted for price changes, it had doubled in no more than five years. In a spooling mill installed in 1971 the investment expenditure per worker was, in real terms, ten times what it had been 10 years earlier. Since then the investment rate has gone up further. Any textile manufacturer can furnish figures from his own field of application which bear out this trend towards rising capital inputs.

Severe Market Competition

The official statistics unfortunately do not cover the actual investments required per working place while comparisons which for lack of more informative data are based on average asset inventories are a "look back" and can only too easily lead to miscalculations. For, crucial for an investment decision are not the historic but the current if not the foreseeable future capital requirements.

Another problem posed by technical progress is that the workers' qualifications (and thus the investments for training) must be raised very fast to match it.

Under these conditions it does not seem advisable to give the textile industry priority as a

starting-off industry for developing countries, the less so as such a choice would compel the country concerned to earn the foreign currencies which it needs for its further economic development by means of textile exports and this in a market in which international competition is more severe than in most others.

Could it not be left to the governments of the developing countries to decide which are the right starting industries?

Needless to say, an industry which offers advice invites suspicions that it has its eye primarily on its own interests. But even an observer as far above suspicion as the United Nations Industrial Development Organization (UNIDO) is warning against placing excessive hopes on help for development policy from the textile industry. The industry has gathered a certain amount of experience which gives it the right to "rack the developing countries' brains", for it knows from experience that governments which have to make a success of their industrialization policy and have no alternative but to use the available capacities are not likely to shrink from any act of intervention however much it will distort the competition.

Tasks in the Federal Republic

Furthermore, the textile industry is fulfilling important tasks as part of the industrial structure of the Federal Republic. How greatly its performance has improved is shown by the fact that, were the German textile industry to achieve today's production level by the production techniques of 12 years ago, it would have to employ nearly 700,000 persons and not 350,000 as it does in fact. Through the above-average rise of its productivity it has for a long time made a special contribution to

the growth of productivity in the national economy.

At the same time intensive competition, heightened by large imports, has kept the rise of producer prices relatively low and thus wrung a special contribution to price stability from the textile industry. Its geographical distribution which makes for a better regional equilibrium and its provision of jobs for women are also beneficial to the economy as a whole. In the border regions of the Federal Republic in particular the textile industry provides employment for many female workers who could not find other work in industry.

As for the integration of the textile industry with the international division of labour the Federal Republic is one of the leaders, notably in the EC. As an industry with exceptional export achievements in the past few years the textile industry cannot and will not eschew the challenge from the intensification of international trade.

Its only demand in regard to trade policy is that action should be taken against anomalous imports due to production conditions in East Asia or state trading countries distorting international competition. These give the suppliers from these countries, irrespective of their lower wage costs, an advantage which has nothing to do with business efficiency. In other words, the textile industry rests its case on trade policy on the idea of "fair trading".

The textile industry of the Federal Republic will be able to hold its own in future in as much and as long as there is fair international competition with the weapons of the market economy. Like many another industry it has to cope with an accelerating structural transformation. This requires a maxi-

comparative wage-cost disadvantages, limited opportunities and action for rationalization, and lacking elasticity of demand to income variations — the locational conditions have worsened so much for the shoe industry that it should in future be left to the countries at the lowest stage of development to make shoes. It was also said that shoe factories did not have to make any particularly high demands on their labour force in regard to training and technical qualifications.

False Assumptions

At a first glance this line of argument may sound convincing, at least in theory, but it is too generalized and does not carry conviction on closer consideration.

The shoe industry is a highly efficient industry and has high technical standards. It would be wrong to think that untrained labour and relatively small investments will do for a shoe manufacturing operation. Apart from the factory buildings required — which might not pose too difficult a problem for a developing country — substantial sums have to be invested in machinery. To put down a few sewing machines is not enough. It is a specific feature of the production of shoes that a large number of special machines, each with its own narrowly circumscribed application, are used for over a hundred separate operations. Their performance and output depend to a high degree upon the skill of the operative attending the particular machine.

This specialization in mechanization is contingent on the availability of workers with the proper training and previous experience. As a rule it is not good enough to give somebody a short briefing and hope that he will in time learn how to

handle the machine as the product and the machine require. Outstanding manual skill, as well as first-class machinery, is needed for the manufacture of high-grade merchandise.

It is not without reason that the German shoe industry is currently preparing new job specifications to make sure that the operatives of tomorrow will have the appropriate qualifications. Increasing technization as a result of modern processing methods, increased use of labour-saving machines and introduction of new working materials has not only brought about cost economies but made employment of operatives with proper qualification essential.

Highly Heterogeneous Products

Apart from the high training and investment standards of shoe factories, the heterogeneous nature of their product is a strong argument against the relocation thesis. The shoe industry is an extremely fashion-conscious production sector. It is highly susceptible to the consumer's wishes, to what he has in mind. Its product range covers the whole gamut from largely uniform shoes — a bulk production article which is mostly standardized — to specialized high-fashion merchandise to suit individual requirements and orthopaedic footwear made to fit the anatomy of the foot. That means that the manufacturer must be market-orientated. He must be able to offer a large number of differentiated products which satisfy the wishes of individual consumers and to adjust to the fluctuating demands of the market. There is need for fine-tuning to keep abreast of fashion trends, and this means that the shoe manufacturer must be close to the market and have direct contact with the distributor and consumer so as to keep his production policy flexible.

There are other locational factors which limit the access of developing countries to the international market and militate against relocation, such as the need to meet specified delivery dates and to avoid complaints and claims for refund for faulty delivery.

On the other hand it cannot be denied that the developing countries enjoy considerable competitive advantages in regard to wage costs. For this reason the German shoe industry has taken to the idea of transferring the production of low-quality mass products and especially wage-intensive operations to foreign countries. The many cooperation arrangements made are significant in this respect.

No Panacea for Development Policy

To sum up, it can be said that it would be a fundamental error to believe that the production of shoes offers a panacea for development policy. It requires considerable investments and a high level of training. It follows from the need for direct contact with distributors and consumers and for adaptability to consumers' wishes that shoes must be made on the spot if the consumers' wishes are to be met.

Under the present conditions, unlike those encountered 20 years ago, the shoe industry, faced as it is with a multitude of differentiated consumers' wishes, cannot be recommended as an industrial primer for developing countries — except for a few low-quality products and product groups. There is very little chance for beginners, least of all in developing countries, to secure a position in a market where the necessary know-how changes all the time and international competition is perhaps more severe than in any other.