

Illuminating the Impact of Globalization on the Development of the German Clothing Industry

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Abstract: This dissertation deals with the influence on the ongoing structural change, caused by globalization, on the German clothing industry. After the concept of globalization has been defined and more detailed information on it has been given, it is referred to and discussed in consideration of the circumstances concerning globalization in the country of Germany.

Thus gives an introduction to the subject matter. Subsequently, a current, economic insight into the German clothing industry is given. The presentation, which is characterized by a theoretical execution, leads to the topic of globalization in the German clothing industry.

Moreover the effects of global processes in the German clothing industry are described. It is basically dealt with the questions that answer the effects of globalization on the German clothing industry.

These dissertations will be finalized by a conclusion which has been drawn on this topic as well as future perspectives will be shown in this subject area.

Key words: globalization; clothing industry; economics

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1. Introduction

The term “globalization” is defined as the form of strategy of a cross-border enterprise, in which competitive advantages are to be built up worldwide by exploiting locational advantages and achieving economies of scale. The theoretical foundation is the theory of convergence, according to which different socializations are getting closer due to technical and economical development. While the thesis of globalization was originally restricted to international product policy, it gradually expanded to encompass the entire international marketing mix and, ultimately, all corporate activity.¹

Globalization is a dynamical process in the economy, which overshadows the importance of national boundaries through political, social, technical and economical conditions. This process will intensify international competition and thus improve the global use of resources. There are both opportunities and risks for globally active companies. The causes of globalization in economics are based on the constantly changing global framework conditions in this area. The intensity of globalization depends on the given structural conditions.

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¹ Available online at: <https://wirtschaftslexikon.gabler.de/definition/globalisierung-35657>.

Globalization is a statistically measurable quantity in the economy, which can be represented by the term “degree of globalization”. The degree of globalization is a relation variable from foreign activities to domestic activities in an economy.

The term globalization should not be confused with the concept of internationalization. While internationalization is merely the increasing transgression of geographical boundaries in economic activities, globalization is a more developed form of internationalization, which implies the lack of integration of internationally diversified economic activities. In economics there are central features. These are characterized above all by constantly more flexible production mobility and by the stronger international networking of corporate structures.

In addition to globalization in the economy, the term globalization is also used in other, selected areas. These different areas are declared by the term dimensions and, in addition to the topic of economics already explained, encompass complex politics, the environment, culture and society.

These dimensions can rarely be viewed in isolation from each other, since they almost always act across dimensions and thus treat similar topics through common intersections.

2. Globalization in Germany

In Germany, the globalization process is discussed very critically in the economy, whereby the population is often critical of this. The population presumably argues that globalization is related to the dismantling of domestic jobs or their relocation to cheaper producing countries. For this attitude formation there are three primary reasons in Germany. The first reason is that Germany is a very successful exporting nation and could therefore be particularly strong affected by globalization in economic terms in the long term, as competition on the world market intensifies.

The second reason lies in the form of government used in Germany. Germany is a welfare state and can therefore very quickly feel the negative effects in a special way. Economical developments are not under the control of the nation state, but the German state must take responsibility for the consequences of these developments through its own social policy and thus absorb the resulting financial losses, especially in the labor market. The third reason is reflected in the self-image of the German state. The Federal Republic of Germany presents itself as a homogenous and national state space and would like to remain so in the future because of a largely successful course in the past.

Globalization could be contrary to this understanding. Although Germany has long been a global place where many clients come together, the denationalization associated with globalization, which describes the transformation from the national to the transnational state, is often accepted only very slowly. These representations show why the globalization process in Germany is often viewed critically and that a corresponding opinion has been formed.

3. The German Clothing Industry

The clothing industry in Germany is an important, high-revenue industry and therefore of great importance to the country. Together with the German textile industry, these two segments form the second largest consumer

goods industry in Germany.²

The closed financial year 2018 has tended to be negative for the German clothing industry. Turnover in this industry amounted to €6.478 billion in 2018, down 4.4% on the previous year 2017.

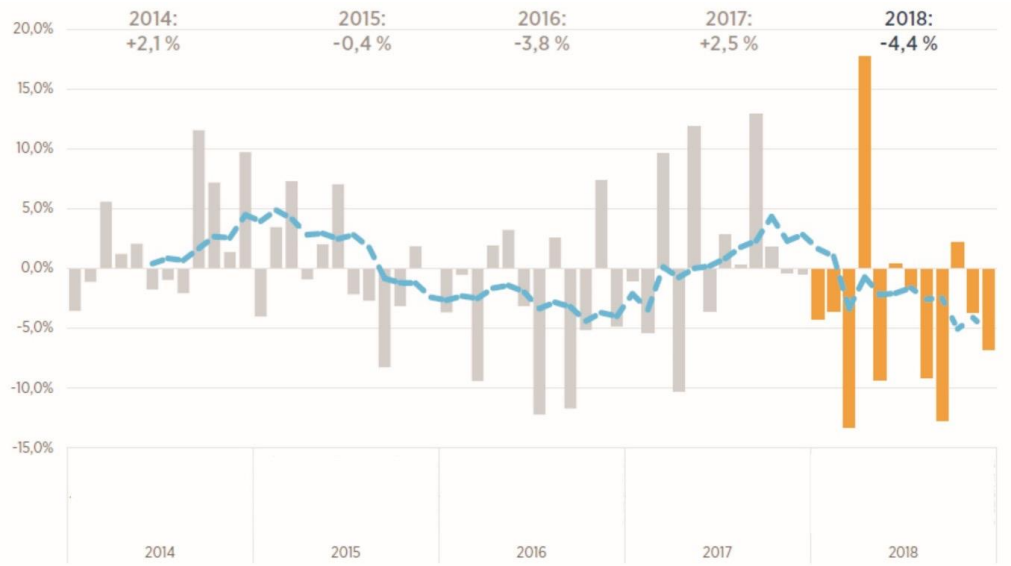


Figure 1 Development of Sales in the German Clothing Industry

It is noticeable in the sales in this industry that these are not continuously made, but always subject to a certain fluctuation. Thus, the course of sales development in the German clothing industry in 2018 can be divided into no consecutive epochs. This is also the case in the previous years.

The long-term view since 2014 based on sales shows a slight recession in the German clothing industry. If one puts Germany in the point of sales volume in the comparison to the European states, Germany occupies the second place in Europe a little behind Italy.

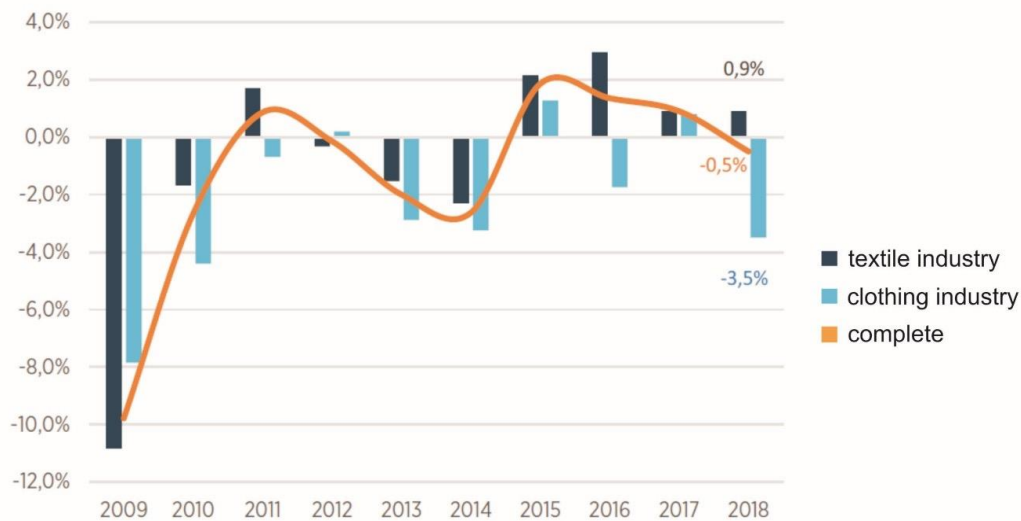


Figure 2 Development of the Employment

² Die deutsche Textil- und Modeindustrie in Zahlen 2017 (2017): 4

The German clothing industry had a workforce of 37,836 employees in Germany in 2018, 4.1% fewer than in 2017 (39,500 employees). Thus, in 2018, no new jobs could be generated from a macroeconomic point of view. If one compares the employment figures of the German clothing industry in relation to European labor markets, it becomes clear that in Germany only very little production takes place. Besides Italy, the leading country in the garment industry in Europe, it is noticeable that Eastern European countries are strongly represented. This is mainly due to the fact that companies from western countries has their production cost-effectively carried out on a globalization basis.

Striking are other key figures of the German clothing industry. Exports rose by 5.3% in 2018 and pure retail sales fell by 1.6%.

If you look at the average gross wages per person in the German clothing industry, you can see a slight increase in the development. This has, among other things its seeds in labor union backgrounds, as in recent years wage increases were agreed by collective agreements and these were paid over a longer period of percentage. Looking at gross wages in total, they fell by 1.7% in 2018, although it has to be taken into account that this figure is relative to employment and employment has also fallen by 4.4%.

The order backlog of the German clothing industry also developed in a mixed fashion in 2018 and thus could not always give the operating companies a basis for the hoped-for sales increases.

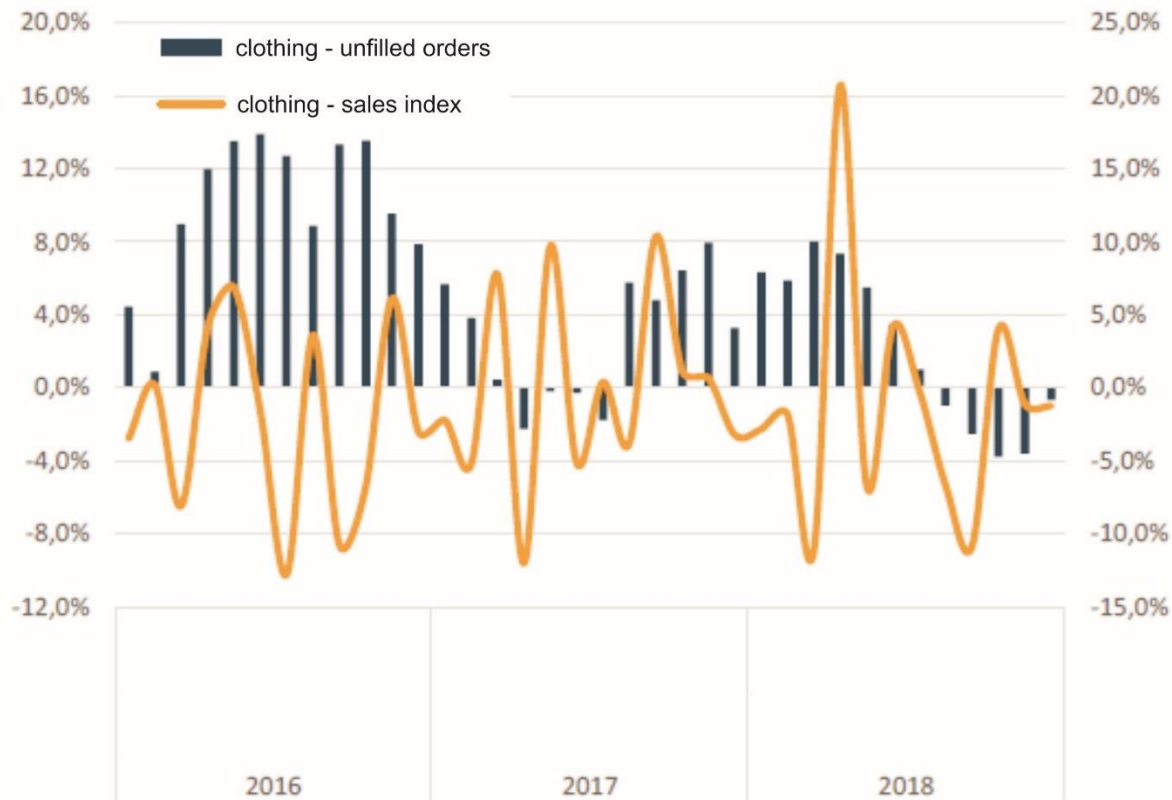


Figure 3 Order Backlog in the German Clothing Industry

If one examines a longer-term development in the clothing industry, in relation to the last three years, one can also assume a very different order backlog. In the long term, however, you can see a slight increase.

Another economic aspect for this industry is the Ifo Business Climate Index. The Ifo Business Climate Index, published by the Leibniz Institute for Economic Research at the University of Munich e.V., is a very important index for the German economy. This index is based on a regular empirical survey of companies operating within each industry. It contains both assessments and future expectations, which can be read and interpreted accordingly.

The economic situation and economic development are the two points which are the focus of the Ifo Business Climate Index. This also takes short-term changes in the market into account, which can of course also be brought about by globalization-related aspects. On the basis of this index one can clearly see that the economic development for the clothing sector is not ideal. The index value in May 2019 is significantly below the value of May 2018, albeit at a similar level to the long-term average value of the German clothing industry.³

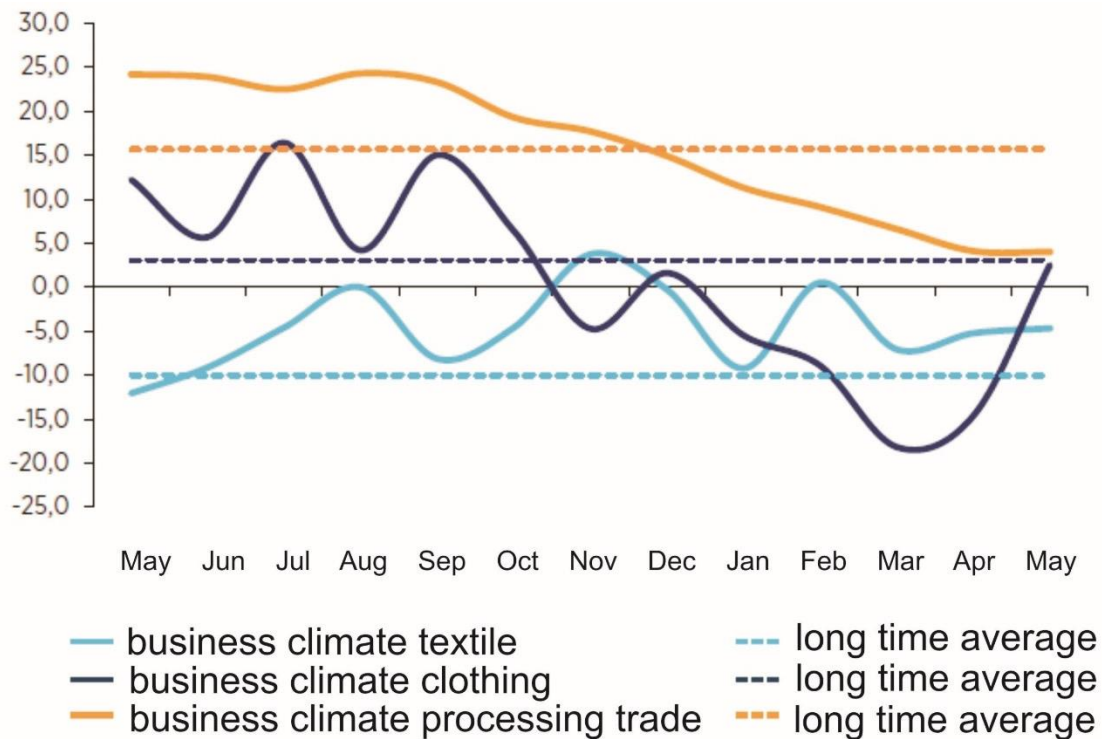


Figure 4 Ifo Business Climate Index 2018/2019

For the year 2019, the general economic forecast of the Ifo Institute tends to be better. The situation of the German clothing industry corresponded to the declining economic figures which were issued. Compared to a downward trend until March 2019, the situation in the clothing industry now presents itself a little bit more positive.

Finally, for the economic situation of the German clothing industry, it can be summarized that there are certainly some problem areas for the future which have to be solved for the market in order to be able to operate successfully. On the other hand, the German clothing industry has a fundamentally good basis for countering these problems. The good position to make it a successful future is available.

³ textil+mode Konjunkturbericht 02/2019: 1-14

4. Globalization in the German Clothing Industry

Compared to many other industries in Germany, globalization has a wide influence on the German clothing industry. On the one hand it offers companies and the German apparel industry a lot of opportunities, but on the other hand there are many risks behind it as well.

The positive aspects of globalization for companies lie especially in the considerably simplified global trade. As a result, companies in the German clothing industry are repeatedly enabled, on a worldwide scale, by new sales markets, resulting in a greater scope for action, as well as a larger potential number of customers. Furthermore, companies focus the most on cheaper production designs, which makes it easier for the German clothing companies to no longer produce in Germany. They are offered a large number of production sites, which then relate especially to low-wage countries. Through productions in Asia, Eastern Europe and North Africa, the German clothing companies often achieve significant cost advantages in production. Because of many years of experience in the most diverse areas of the clothing industry, these production facilities even have the opportunity to produce high-quality clothing.

On the other hand the positive circumstances are also offset by negative effects. These directly affect the companies in the German clothing industry, but are particularly distinctive for Germany. The focus is on labor market policy. Job relocation, as a result of globalization, is a very important aspect for the state of Germany, not only in relation to this industry. In this way, the country lacks long-term tax revenues, which is reflected in the entire social system of the Federal Republic of Germany.

This globalization-related shrinkage process causes a higher rate of unemployment, which generally leads to structural problems in Germany over a longer period of time. In this situation, the state is required to provide supportive measures to citizens, and ultimately for themselves. Therefore a constant development of different markets, which are affected by strong globalization, is inevitable. Furthermore, the globalization in this industry creates a problem in which the clothing company, in general, provides relatively few jobs in Germany, but indirectly expects the population to consume their products in order to be economically successful.

It can be clearly seen that politics plays a very important role in the process of globalization in the German clothing industry. Not only is Germany itself as well as the European Union significantly important, but also the G20 merger, which consists of the 19 most important industrial and emerging countries and the countries of the EU, has become the center of attention. The G20 presents certain framework conditions at the political level for the world economy and thus also for the German clothing industry.

However, the historical background of political influences began much earlier. In order to protect the German clothing industry against the effects of globalization, so-called political barriers were established early on. Shortly after the Second World War, Germany hoped to grow in the economy by choosing the path of liberalization for this particular industry.

The General Agreement on Tariffs and Trade, abbreviated to GATT, was closed on 30 October 1947 and entered into force on 1 January 1948. There were a total of 23 founding members. The aim of this agreement was to reduce trade tariffs and to consequently lay down rules in a contract. It should promote world trade and liberalize it accordingly. Another point of the GATT agreement was that discrimination should be banned and equal treatment should be promoted. Germany subsequently joined this political agreement on October 1st 1951 (Hudec Robert, 2011, pp. 39-40).

Later on the GATT Agreement also provided the basis for the World Trade Organization (WTO) in 1995.

From then on, the GATT Agreement regulated trade concerning the importing and exporting for the German clothing industry. After an increasing price pressure on the garment industry, which affected several countries, the GATT Agreement was supplemented in 1974 with the Multifibre Arrangement. This was a quota system against unfair trading practices in the apparel industry. Higher tariffs were agreed on in order to protect the individual industries and markets from too much goods from abroad, as the influences of internationalization and globalization were getting to massive. Through this the path of liberalization was stopped for the time being in order, among other things, to protect the German market.

Over the years the Multifibre Arrangement became less important, and in 1994 the end of the Multifibre Arrangement on 31.12.2004 was adopted on the so-called “Uruguay Round”. However, in order to continue to protect Germany from too many imports of clothing from China, tariffs against China continued to be maintained (Krugmann & Obstfeld, 2009, p. 305).

On January 1st 2005, Germany took a major step towards liberalizing the markets in the clothing industry. The consequence of this, is that a higher rate of goods in the German clothing industry is imported from abroad than before (Jones, 2010, p. 33).

Many years of research and studies in economic policy confirm the fact that it makes sense in the course of globalization to protect an industry such as the German clothing industry through import quotas and tariffs. However, this is likely to happen only for a limited and not infinite period. The rules of the free market are indispensable under the long-term aspect in a free market economy which also exists in Germany. For this reason, the longer-term path to further liberalization is right.

It becomes apparent that globalization and its influence on the German clothing industry, has had a very strong impact on this industry. Often an important point is the relocation of production sites to low-wage countries. However, this is certainly only the first point that makes one aware and a factor that is quite a lot associated with extreme working conditions in many low-wage countries. Exceptionally low wages, ill-treatment, exploitation and disproportionate working hours are not uncommon due to globalization.

For these low-wage countries, the production of textiles generally has great economic importance, which is why such conditions often prevail, as these countries receive most of the production orders from the clothing industry only because of pressure on prices. Employment rights to protect employees in this industry are almost non-existent in these countries.⁴

The minimum standard that should normally be provided by the OECD is repeatedly not respected in these countries, and usually not properly controlled. This complicates the safety of the employees and also a fair social interaction. Given the example of Bangladesh for a 7-day week, with a 12-14 hours day, a monthly salary of the equivalent of 59 euros is given to production workers.⁵

The technical term globalization is a far-reaching term that includes many forms and topics. A closer examination of the subject visualizes the impact globalization has on many areas of the German clothing industry, in various forms. In addition to the production aspects, globalization primarily affects various management processes in the individual companies. Not only a large part of the companies operating in this industry are affected, but also almost the entire clothing market with all its components.

⁴ Available online at: <https://www.stuttgarter-zeitung.de/inhalt.textilindustrie-in-asien-die-sklaven-der-globalisierung.90750ab0-4c60-4542-8b67-f6a7a81ab59b.html>.

⁵ Available online at: <http://www.fr.de/wirtschaft/globalisierung-bangladesch-bleibt-bangladesch-a-1301658>.

5. Impacts of Globalization in the German Clothing Industry

Globalization has a very strong influence on the German clothing industry. To this day, it is causing many process changes in many different areas, which are characterized by increased change and increased dynamics. First and foremost, these process changes are reflected in a changed location policy.

However, globalization not only affects companies' location policies, but also many other areas that are often very relevant factors for economic success. The main focus is on business areas of management, which are responsible for the organization of the individual economic agents.

It is very clear that globalization is confronting the German clothing industry with many different problems, which have led to a recession in many ways. Above all this was confirmed in the number of employees in Germany. Nevertheless, one could see many positive aspects for the future, which can be expected to be successful in this industry. It is always striking that globalization has exposed the German clothing industry to a change that affects them, often breaking new ground in many areas. This can be described as progressive in many ways in this industry. That was based on the fact that the globalization aspects require much more intensive action in order to be successful.

Businesses need to adapt to more flexible ways of thinking through the impact of globalization, which also affects a large number of management elements.

Furthermore, it could be investigated that these influencing factors also have an effect on the planned cost structure of the individual companies in the German clothing industry. Due to the increased workload and the strategic change caused by these influences, this was a logical consequence. The German clothing industry is an industry that is often very cost-oriented.

The influences stand out in various areas. To be precise, aspects of ecology and social standards were explored more closely. It is striking that these two points are now playing important roles in the German clothing industry. A certain socio-critical background that explicitly involves the two areas is caused. A special strategic anchoring is often necessary at these points, because in the future, with increasing globalization and interdependence of the world economy, these two areas will become even more relevant. Above all, this will be necessary in the future as many processes will certainly become even more transparent for customers.

Other, albeit minor influences were noted in the areas of e-commerce and image. Only minor influences could be detected, since these areas are impacted by other, much more relevant, influences. A similar result was found in relation to the globalization-related influences on marketing strategies. There the industry has to act faster and more flexibly, also due to globalization.

For the future development, however, a significant increase in the relevance of globalization influences on the German clothing industry was seen, which will make this topic even more important in the long term.

6. Conclusions

Taking all above mentioned facts into account it is save to say that globalization in Germany has changed many market conditions. These economic effects mainly affect the German state, the acting German companies of the clothing industry and the German population. Regarding globalization there is an opportunity to be seen but also a risk to be weighed in. The previous development is expected to proceed in the future which means that the German clothing industry will have to respond even more successfully to the resulting influences.

Above all, companies have to take a more active approach to these conditions. Therefore it will be very interesting to see how the German clothing industry will handle the subject. Successful handling of these factors will continue to be indispensable in order to be able to act in the best possible way economically in the future as well as to lead the German clothing industry into said future securely.

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