
This article discusses the declining European fashion industry. Europe used to be the pinnacle of fashion in the world but now increased competition and a dwindling client base is causing most fashion producers to lose money. Clothing producers throughout Europe are merging and moving their production abroad while dozens have already gone under. The majority of the competition which is causing the decline of the industry is coming from China with its low production costs. China’s ability to produce the same goods at a lower cost allows it to sell those same goods at a lower price to consumers. Currently the European fashion lobby is pushing on the European Union to impose restrictions on Chinese textile imports. However it is believed that even if these sanctions were to be put into affect they would not have much affect on Europe’s declining industry, rather Europe must focus its attention on innovation and quality control, areas in which Europe has an advantage over China.

This article incorporates the macroeconomic principles of competition, supply and demand, opportunity cost, specialization, and trade. One of the major factors affecting supply is the labor wage rate (Lecture: 1/28 III. Supply). China’s labor wage rate is lower than Europe’s and therefore is able to supply more clothing at a lower price. This competition from Chinese imports provides European consumers with a cheaper alternative to their European companies, causing sales of European textiles to decline. China can produce more clothing cheaply because it has a lower opportunity cost to produce clothing compared to the opportunity cost for Europe (Lecture: 1/21 B. Opportunity Cost). Since China has the comparative advantage in terms of producing clothes, China should specialize in making clothing and then trade with other nations for goods. Since Europe has a comparative disadvantage, it should move resources to producing other goods to trade with China. Europe has begun to do this as European clothing firms go out of business. Those workers who were employed to produce clothing can now work to produce other items with which to trade to China (Lecture: 1/26 III. Gains from Trade).