

Fast Fashion: Theory and Evidence from Portuguese Textile and Clothing Firms*

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Abstract

Using exceptionally rich and representative data on Portuguese firms, this paper studies how import competition from China, both at home and in third markets, induces firms in high-wage economies to exploit their competitive advantage in fast trade and quality production. For identification, we exploit the exogenous increase in competition at the fine product level following the removal of Multi-Fibre Arrangement (MFA) quotas on Chinese textile and clothing (T&C) exports in 2005. We find no evidence of changes in employment, wages, value added, output, or sales among the Portuguese T&C firms despite the sharp increase in competition, contrary to existing evidence from many developed countries. We then exploit the rich data on prices and quantities of firms' input, import, output, and export transactions, as well as the distance and frequency of exports, to paint a comprehensive picture of quality upgrading. We find that it is the medium-sized firms that upgrade quality and increase the frequency of exports (within a year) the most. Quality upgrading and fast trade are accompanied by firms importing more expensive materials, hiring more skilled workers, substituting foreign for domestic outsourcing, and specializing in exports to closer destinations. We rationalize these findings by a simple heterogeneous-firm model that features endogenous quality choices and time-sensitive demand.

Key Words: Quality, low-wage country competition, heterogeneous firms

JEL Classification Numbers: F1, F2.

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