

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

Ana P. Fernandes[†]
University of Exeter

Heiwai Tang[‡]
Johns Hopkins University and CESifo

April 29, 2019
(Preliminary)

Abstract

Using data on all Portuguese textile and clothing (T&C) producers' monthly export transactions, we study how import competition from China in third markets induces firms in high-wage economies to specialize in fast trade and quality production. To guide our empirical analysis, we develop a simple continuous-time industry-equilibrium model of heterogeneous firms to study exporters' choices of destination markets, the frequency of exporting and the quality of exported products in each market. In response to import competition from low-wage countries, the more productive firms increase exports of high-quality products to nearby markets, while the less productive firms drop out from distant and low-income markets. These changes in export patterns across firms imply that advanced economies, in response to low-wage countries' import competition in third markets, will become more specialized in fast fashion—exporting higher quality products to closer markets at higher frequency. Exploiting the exogenous increase in competition at the detailed product level as a result of the removal of Multi-Fibre Arrangement (MFA) quotas on Chinese T&C exports in 2005, we find no effect of increased Chinese import competition on Portuguese T&C firms' employment, output, or exports, but significantly positive effects on their prices and frequency of exports, and negative effects on their average distance of exports, especially among the most productive exporters in the sector.

Key Words: Just-in-time trade, low-wage country competition, heterogeneous firms, quality upgrading.

JEL Classification Numbers: F1, F2.

*We are grateful to Amit Khandelwal, Pravin Krishna, Logan Lewis, and Andrew McCallum, and participants at the AEA in Boston, WAITS, George Washington, NTU, Nottingham, and Exeter for insightful comments and suggestions. The usual disclaimer applies.

[†]Email: a.p.o.fernandes@exeter.ac.uk

[‡]Email: hwtang@jhu.edu