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THE TAIL WAGGING THE DOG: UNCERTAINTY AND ORGANIZATION IN THE FASHION PRODUCTION MARKET

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To My Family

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ABSTRACT

My dissertation seeks to explain the puzzle of the sustained domination of small shops over large companies in a highly volatile apparel production market in China.

Three major elements of the market are analyzed—explosive fashion in seasonal production, off-season production, and clearance transactions.

For explosive fashion, the study showed that it is a recurrent phenomenon mediated by an external institution—the sample marketplace. I show how the sample marketplace connects and coordinates the behavior of manufacturers and how it can generate repeated fashion waves. Large firms end up having a lower chance of hitting explosive fashion because their organization of production is in conflict with such external institutions.

Explosive fashion is a typical r-strategy phenomenon, which in theory should be gradually transformed into more institutionalized, more stable forms as the market evolves. Yet the transition seems stagnant. To understand why gambling-like practices couldn't be selected out through competition, I move towards the "grey" part of the market—the clearance market—and demonstrate that instead of being an auxiliary device secondary to the primary market, the clearance market is actually the most pivotal component of the industry. It enables liquid transference of uncertainty to risk-takers (middlemen). The dual-exchange system in the local market triggers periodic "mini-crises" in every production season resulting in the absorption of a great number of newly made products into the clearance market in advance.

This had two consequences. For one, it provided a safety valve for small shops chasing after "explosive fashion." As "hedgers", they could easily gamble for success while compensating their failures through quick clearance. Liquidity had fermented opportunism among manufacturing shops and prevented most of them from developing into elaborate modes of production. Because small shops were resilient against adversaries, unlike in many other

apparel industries, they could also keep themselves from being controlled (or in a mild way) coordinated by large companies. The second consequence is that the clearance market also limited the profitability of explosive fashion on average. Although the myth of the overnight millionaire continues, the prolonged clearance period in advance of the consumption season compressed the period of normal business. As a result, profits and market shares were shifted from the client market to the wholesale market. This secondary market became so colossal that the tail was wagging the dog.

Finally, the inflated clearance business also affects leading apparel firms in off-season production. The impact is the sum of a set of structural conditions related to the mismatch between apparel and fiber cycles, which further limits the power of leading firms.

Overall, the study provides a unique case study of an enduring market structure that suppresses the tendency toward hierarchy and institutionalization.

CHAPTER 1

INTRODUCTION

This introductory chapter serves to explain a set of relevant questions about this dissertation: Why study the topic of production organization in cultural industries? Why choose children's apparel (as the case of cultural production)? Why are the answers still valuable given our enormous knowledge about organization, production, and uncertainty in the discipline? These are just a few. A standard style of writing may begin with a detailed literature review, followed by puzzles and hypotheses, then an introduction of the cases and my findings, and finally, the summary. That would be a friendly arrangement from the reader's point of view yet less sincere. For this introduction, I want to take a researcher's point of view. The reasons are that I believe through the descriptions of my somewhat zigzag research experience, readers can better understand how the general research ideas were formed initially, how I was misguided by theory after I entered the field, how the research question co-evolved with findings through the process of ethnography, and how I ended up completely reshaping my understandings, thanks to a few lucky moments. In doing so, readers may better grasp the tension between existing theories and reality and understand why I want to propose a new framework on the structure of an economic system that features "an expanding tail" as well as stagnant institutionalization. To sum up the whole research process, I started the journey as a hunt for a tiger but ended up with a rabbit.

1.1 Before Ethnography

I began the project trying to understand the relation between production organization (mainly of cultural items) and uncertainty. I had already familiarized myself with a few articles about the perpetual elusiveness of demand and evaluation in cultural industries. Obsessed with the idea of "Knightian uncertainty" (Knight, 1921; Liu, 1998), and unsatis-

fied that scholars such as Beckert (1996, 2011) only pointed to it as the logical starting point of economic sociology without taking many further steps, I then thought it would be natural to explore, empirically, how real-life production is conducted in the face of Knightian uncertainty, and whether the idea of unpredictable outcomes may result in casino-like behaviors, especially in cultural industries—a quite legitimate question to start with in the discipline. Over the past few decades, economic sociologists have been good at battling with economists over various issue—i.e., rationality, morality, embeddedness—but I was convinced that it was really through the study of such fundamental unpredictability that sociologists could get a real win. After all, if indeed economic actors are gambling in real life, then it would be a big punch in the face for economists. Of course, later on after entering the field, I discovered that my understanding of gambling was narrow-minded.

So in my mind I began to filter possible industrial cases to study within this exciting topic. The art market was ruled out first, though it is a more mature area of research. The pricing of singular art items (Karpik, 2010) involves the evaluation of the unknown and unpredictable values of cultural products, but studying the art market to me has its shortcomings. Artworks are unique and often not reproducible, thus the cycle of art production is often irregular. Compared with art industries, the apparel and textile industry (and especially apparel production) stand out as the "fruit fly" in social sciences. It is a highly stable industry in terms of the manufacturing technology employed—manual labor—yet in the meantime, a highly unstable industry in terms of the demands and values. Since the beginning of the twentieth century, it has been extremely difficult to predict consumer demand in the apparel and textile industry. According to Tokatli et al., "A single music video was sometimes enough to generate a sudden wave of fashion" (2008). The market is so volatile that manufacturers often suffer huge inventory loss. One observation about the U.S. market showed that along with the introduction of colored bed sheets, the percentages of markdown and markup, sales, and clearances immediately skyrocketed, and in many U.S. apparel segments, the markdowns have climbed from 3 percent to 16 percent since World War II (Pashigian,

1988). Another estimation shows that the resulting inventory loss in the 1980s' U.S. apparel industry once amounted to a quarter of its annual retail sales (Fisher et al.,1994; Frazier, 1986).

In other words, apparel production is not only highly volatile, but the volatility of fads and fashion occur repeatedly in the industry; therefore, it will certainly impose great pressure on the apparel producers to tackle the problem of uncertainty. The production cycle is quite regular and relatively short as each season is a half-year long, making it easier for researchers to observe whole life cycles.

1.2 The Case

That said, it didn't take me long to find a case in the apparel industry that was suitable for the purpose of this study. What makes it an even more ideal case is that the industry I was looking into—the children's apparel industry (CAI) in China—stands out like a "black swan" against other cases, to the best of my knowledge. Let me first briefly introduce the case.

The case I studied is the children's apparel production market located in a small town named "Zhili" (meaning the town of Weaving) in East China. The township jurisdiction now contains forty-six villages surrounding its downtown area, where most registered apparel firms and shops are situated. The population of the town is difficult to count as there are many migrant workers, jobbers, and retailers. But according to some estimations, about 450,000 people live on apparel-related business in the town of Zhili. The town is arguably the heart of the children's apparel industry in China. Reports in 2015 showed that it was at that time already taking 50 percent of the domestic market share in China, and now the figure can only be higher.

I soon learned that despite the fact that the township market is the single biggest market

in the country, large businesses only barely exist. Several figures can confirm this observation. For instance, a news report in 2018[1] showed that more than 7,000 apparel shops were registered with the local commercial bureau, together with roughly 3,000 unregistered shops. (There are many unregistered shops, either because they are too small to register or because they are usually closed during the slack season, thus ramping up the total number.) However, out of the 10,000 or so shop, only sixty of them were companies that had more than 200 employees. In other words, enterprises "above designated size"—a common term to refer to standard-sized companies—is merely 0.6 percent of the local apparel industry. In addition, profitability doesn't differ much by organizational size. The scale of profits of these large apparel firms is around 10 million yuan a year, but some tiny family workshops run by a couple can also make about 1 million a year. After nearly forty years of development, the industry still contains more than 10,000 apparel shops, most of which are small-sized individual workshops operating independently.

Preliminary interviews also revealed that these small shops, in the eyes of the state, used to be troublemakers. Their manufacturing sites occupied downtown streets and caused severe pollution. Not only did they pay little in taxes, but the government spent 40 million a year to clean their garbage. These issues, together with fire hazards, public safety problems, and the problem of low-quality products, are all associated with small-sized shops. I was not surprised when I learned that the government exerted great effort to push the industry towards large-scale businesses.

I will save the examples on how the local government made acted aggressively towards small firms during the past few decades. Their attempts all failed, and some even resulted in unexpected social movements. During my interviews with local officials, I often caught sight of the awkwardness on their faces when our conversation happened to touch upon the issue of small firms. Apparently, this to them is the last thing they want to talk about, despite

1. *https* : *//www.sohu.com/a*/216823097_395766

the massive success of the local apparel industry. After all, even their defeated opponents —production bases such as Foshan and Shishi—had witnessed the emergence and control of giant apparel companies in the local industry. I can tell how the local governments, as industrial firms (Walder, 1995; Oi, 1999), are eager to grow some apparel giants out of the industry.

1.3 The Puzzle

As I dug deeper and learned more and more about local firms, the overall picture became more apparent—small shops were dominating the local industry. This is something quite rare, given our common knowledge that organizations are essential to handle uncertainty. How could such a volatile sector favor such "disorganization" and "independence"? This, to me, is an anomaly because small shops are vulnerable, and the dominance of the weak goes against some basic principles of economic evolution.

It goes without saying that in the initial stage, virtually all industries start with individuals doing small businesses. They behaved more or less opportunistically to accumulate wealth. Then, not forgetting what Adam Smith, Herbert Spencer, and Karl Marx had observed, the magic of market competition would trigger inequality through waves of crisis and prosperity, and participants would differentiate. Those who lacked the ability to make a profit would be selected out of the industry.

As they became winners in the competition, some lucky firms spontaneously grow large, and as they become larger, they begin to develop long-term profile behaviors against volatility. Efficiency would favor a tendency towards rationality, which in turn brings greater efficiency. They become less opportunistic, their organizations more formalized, and they begin to ambush less powerful firms as they organize others into their own business, even allying with political powers to establish control. All of the spontaneity towards organization described above would further bring them more advantages over unorganized small producers. Less

organized firms can still survive, but they may either survive in a marginal niche or became subordinated under the umbrella of large companies, as we have seen in many existing apparel industries. Such a hierarchical structure would then facilitate the top firms exerting their influence and secure leading positions.

Another feature of the apparel industry is the potential for economy of scale. According to some scholars (Datta and Christoffersen, 2005), the apparel industry falls neatly into the model of scale economy. The marginal cost generally decreases with scale because one can always purchase larger quantities of raw materials at lower prices. Retailing and management costs also go down as the amount of sales scale upwards. In fact, this is precisely how economists would justify the emergence and competitive advantage of giant apparel firms and specialty chains (such as GAP, H&M, Levi Strauss, and Zara). Following the logic of scale economy, the "problem" for the apparel industry eventually is likely to be a monopoly rather than numerous small firms, and we often need the state to intervene against monopolies, for example, through antitrust laws and governmental subsidies, rather than the other way around.

The principles described here justify the widely acknowledged structure of cultural industries that Hirsch characterized (1972, 1978, 2000), and existing discussions of uncertainty were situated in such a context. So I found myself gradually modifying the initial research question. The coarse-grained "how" question was turning into a more theoretical "why" question as I realized that in my case, the issue of uncertainty was closely related to the non-hierarchical market structure. The puzzle thus becomes **"why can small-sized apparel shops durably dominate the production market, regardless of the (supposedly) strong momentum of market evolution?"** Put slightly differently, "In such a volatile fashion market, **why efforts to deal rationally with uncertainty**—which arguably is the engine of institutionalization—**didn't result in transformations towards larger organizations**, as many other established apparel industries had already set the path?" Are there

any mechanisms impeding firms from adopting the big-company model? Is the prevalence of small shops merely a transitory phenomenon, just like what once happened in the U.S. apparel industry? If so, then classic market evolution principles would not be challenged, and the industrial features I noticed are of less interest. If, however,specific mechanisms that sustain the dominance of the weak firms exist, then the case will indeed be a black swan. It will entail a distinct path of market evolution.

The puzzle described above may remind readers of the Emilian Model in "Third Italy", which stands out as one of the few models explaining the "small firm phenomenon", where decentralized production and the predominance of small firms are also observed within local industrial zones in Italy (Brusco and Sabel, 1981; Brusco, 1982; Powell, 1990). However, a brief comparison with the Emilian Model makes this case more puzzling, summarized below as the "four lacks".

First is the lack of local governmental support. As Brusco pointed out, the organizational decentralization in Italy was buttressed by local political authorities (controlled by the Communist party), as they provide a series of services facilitating the operation of small firms. As described above, the local government in my case was devoted to developing large apparel firms in the town. Secondly, the lack of major organizers. In the case of the Third Italy, while the (sub)contractors and artisans managed to obtain their own bargaining power, orders are still mediated by larger companies. In other words, the market structure is somewhat still hierarchical, with organizers receiving/executing orders and dispatching to contractor and subcontractors, except that the boundary of firms is blurred and the level of (vertical) integration of production is low, providing a relatively smooth passage for some subcontractors to contact independently with the market. Put in other words, the smallness of firms in the Emilian model is largely a result of contracting and subcontracting of the manufacturing process. In comparison, small firms and individual producers in the apparel industry studied here have more central positions than those in the Emilian model (and as I would reveal

later, the reason goes beyond subcontracting relations). The bulk of firms not favoring subcontracting are independent in receiving and dispatching orders, without the coordination of some pivotal companies.

Thirdly, the lack of associational support. A big problem for small firms is whether they can gain access to a series of services (financial, technological and more). These services are provided by associations in Emilia-Romagna. In the Zhili market, however, the only business association is the fellow association. These associations keep track of fellow villagers coming from the same province and occasionally help resolve their disputes. Except for that, fellow associations seldom involve in business. Many fellow associations in Zhili only maintain a list of fellows and have no fundings. Lastly, the lack of union regulation. According to scholars, one reason of the movement towards decentralization in the Italian case is the union regulation. Since the 1960s, the union launched a series of movements to improve the working conditions and set payment standards for workers. In response to the union's victory, large firms seeks to offset the effect of the union power "by shifting production towards the small firm sector" (Brusco, 1982: 171).[2] Yet, union power simply doesn't exist in the focal industry studied here.

Thus, except for such endogenous factors as an increasing demand for new styles and similarly low property prices in both districts, none of the four conditions that facilitate the prevalence of small firms in the Third Italy exist in the *Zhili* market.

1.4 Misguided

During the first few months in the field, I conducted dozens of intensive interviews with different kinds of people. Through discussions, I thought it was clear that the local apparel industry was divided into two groups: (A) apparel companies of "standard-or-above size" and

2. It is interesting that, the New York garment district experienced similar union-led movements in the early 20th century.

(B) the group of small-sized manufacturing shops. Both groups run businesses independently, yet the two groups operate in separate seasons. Group A makes high-tier products and features off-season production. By off-season production I mean efforts are made to predict demand and arrange production in advance before the production season begins. (For the apparel industry, there are typically two seasons, the spring and summer season, and the autumn and winter season.) Large firms can plan ahead six to nine months in advance and likewise gain advantages. As leaders, they may define fashion trends, which leaves the second group (Group B) making apparel within the season to chase "explosion styles."

Therefore, after a couple of months of work, I built up two parts of my analyses, contrasting off-season production and seasonal production. This dichotomy should quickly remind readers of the R-K strategists in population ecology, which states that the R strategists are opportunistic and can exploit resources quickly. They invest little in capital and have simple organizational structures. Their advantage is mainly first-mover advantages, and overall it is considered a high risk (Brittan and Freeman, 1980: 311). By contrast, the K strategists usually invest heavily and have more elaborate organizational structures. The R-K transformation relates to the density in the environment.

Under the R-K transformation framework, I figured that my main focus should be on explaining the advantages of explosion styles for producers. After all, there are so many myths about small shop owners becoming millionaires thanks to explosion styles. From the materials I gathered, these producers have strong social capital, so I figured it would be the unique social capital that producers had that endowed them with advantages enabling them to make the most from transitory fashion trends. I developed several indicators to show how producers can easily mobilize additional labor through their networks and share information closely with their friends and relatives to surf fashion waves. I told myself it was a social capital story about sharing risks and opportunities, and how social capital enables a quick response without the need of cumbersome organizations. Then I kept gathering more ma-

terials to make this story complete. Although favorable pieces of evidence accumulated, I couldn't fully convince myself that the social capital argument was powerful enough to offset the tendency of market evolution.

1.5 Reorientation

It was not until an accidental interview in July (only two months before the end of my fieldwork) that completely changed my mind. That interview was conducted during a casual dinner with a retailer who was visiting the wholesale center in the town and her friend, a tailor who had worked in local factories for more than twenty years. The retailer and I met in a marketplace selling sample designs when I was gathering material about explosion styles. Through our chat, I learned that she planned to visit the famous apparel wholesale center, but as she was new to the town, she got lost. I had previously only conducted interviews in the downtown area and had only been to the wholesale center (in the suburban area of the town) once. It would not be a bad idea to visit there again, so I offered to lead the way and walked with her. She was grateful and invited me to dinner with her friends.

During the dinner, I brought up that I found people driving motor tricycles along the downtown streets to solicit unsold apparel stock. To me, it was merely something fun. My focus was still on primary client transactions. Stock clearance to me was only auxiliary, and I didn't realize that the volume of clearance business was actually huge. Quite unexpectedly, the tailor responded without much surprise that this clearance of stock is very common, and in a couple of days, there would be more manufacturing shops *"kicking their goods to the wholesale center."* I asked whether they were clearing old stock from the previous season, and the tailor replied that those were newly-made products for the upcoming autumn season, some of which were made only several days ago. All of the sudden it dawned on me that the season was just beginning! Thus, the inventories would in no means be overstocked! How could new products be kicked off so early? The tailor then explained in detail the practices

at the factory where she worked, which completely refreshed my understanding.

Only then did I realize that I might be probing in the wrong direction. The story might not be so much about organizational efforts to *institutionalize* uncertainty, but collective behaviors to *transfer* uncertainty. The social capital argument about the advantages of small organizations is likewise not pivotal, and the fundamental reason why the so called R-K transformation didn't take place might be that neither the R strategies nor the K strategies are advantageous. Although opportunistic production is prevalent, it doesn't necessarily mean it is highly profitable. Small shops indeed dominate the industry, but they may not be in control of most of their goods.

Thus I soon adjusted my focus. For the next few weeks, I stopped my interview plans and spent all my time on the street observing apparel clearances. I visited the wholesale center frequently to learn about their business. As I learned more, I recalled that in fact there was already plenty of material in my previous interviews regarding apparel clearance. It's just because my mind was preempted with the conflict between explosion styles and off-season production that I ignored them. Moreover, I realized that my ignorance was rooted in the belief that fundamentally, economic exchanges are intentionally rational, and such rationality will eventually crystallize into organizational rationality. Economic actions will be institutionalized in the long run. Isn't this what institutional theories have been teaching us for so long about markets and organizations? Because I believed that production would more or less be institutionalized, I couldn't think of the possibility that when the organizing tendency of production was reversed, the need to tackle uncertainty is still satisfied, nor could I imagine a market whose heart is at its margin.

After that, I realized that explosion styles are closely related to apparel clearance—the tail of the whole production process. But it was not until redesigning the chapter on the clearance market that I became fully aware that the pivotal structure of the market is clearance-driven, and the system is ideally tail-booming. What in other apparel markets is secondary is in

this case primary, and that explains why the R-K transformation failed. In fact, my own research experience kind of mimicked this market structure—the biggest surprise came when my fieldwork was moving towards its tail.

1.6 Chapter Outlines

The rest of the dissertation is organized as follows: I first introduce the historical background of the emergence and development of the children's apparel industry in the focal town during the 1980s and early 2000s (chapter 2). Then, chapters 3, 4, and 5 provide analyses relating to three major characteristics of the production market: the "explosive styles" of the seasonal production (chapter 3), the highly liquid apparel clearance that reshapes the overall market structure (chapter 4), and the R-K mismatch between fiber and apparel that limited the power of leading firms during off-season production (chapter 5). Finally, the last chapter stands as the concluding chapter, which rethinks the issue of uncertainty and proposes a new framework on market evolution and organizational change.

Specifically, in chapter 2, I describe how the children's apparel industry has two separate origins—the offshore origin in coastal cities (such as *Foshan* and *Shishi*) and the domestic origin in inland cities—and how the offshore origin was gradually replaced by the inland part, and how this gave rise to a colossal production base condensed in a single town. In addition, the growth and development of the wholesale industry is also reviewed. I argue that the concentration of apparel wholesale businesses has nurtured the growth of sample trading as well as the trade of stock. Conditions that may facilitate such a distinct path of market evolution are summarized in the end.

Chapter 3 deals with the puzzle of explosive fashion. Explosive fashion refers to a flash in trends that features the blowout of demand within a relatively short period of time during the production season and not the consumption season. Explosive fashion is neither planned nor completely unaccountable. Instead, it is a recurrent phenomenon mediated by an ex-

ternal institution—the sample marketplace. I show how the sample marketplace connects and coordinates the behaviors of manufacturers and how it can generate fashion waves repeatedly. High-tier firms end up having a lower chance of hitting explosive fashion because their organization of production contradicts such external institutions as the sample market. Thus, the two organizational models—external institutions and the internal ones following conventional business models—become "conflicting institutions" (Beckert, 1996: 829) or, in the words of neo-institutional scholars, institutional contradictions. The labor structure that allows for high leverage is also analyzed. As a result, small apparel shops benefit a lot from the auxiliary fashion engine.

Explosive fashion is a typical r-strategy phenomenon that in theory should be gradually transformed into more institutionalized, stable forms as the market evolves. Yet the transition seems stagnant. To resolve the puzzle of why gambling-like practices couldn't be selected out through competition, Chapter 4 moves towards the "grey" part of the market—the clearance market (or, the off-price market), and demonstrates that instead of being an auxiliary device secondary to the primary market, the clearance market actually became the most pivotal component of the industry. Because of the clearance market, the local manufacturing industry is a *de facto* dual-exchange system that enables liquidized transference of uncertainty (as well as profit) to risk-takers (retailing middlemen). The dual-exchange system triggers periodic "mini-crises" in every production season, through which a large number of newly made products are absorbed into the clearance market for further sale.

This had two consequences. For one, it provided a safety valve for small shops chasing "explosive fashion." As "hedgers" they could easily gamble on success while compensating their failures through quick clearance. This fermented stronger opportunism among shops and prevented most of them from developing into more elaborate modes of production. Because small shops were resilient against adversaries, unlike in many other apparel industries, they can also keep themselves from being controlled by larger companies. The second consequence

is that the clearance market also limited the profitability of explosive fashion on average. Although the myth of the overnight millionaire continues, the prolonged clearance period in advance of the consumption season compressed the period of normal business. Large quantities of products were transferred from the hands of producers into the hands of middlemen, who through their unique sales networks, delivered products further, to remote areas, for their own profit. As a result, the clearance business replaced a great portion of normal business, as profits and market shares were shifted from the client market to the wholesale market under the name of clearance. The "secondary" market became so prosperous that it quickly became the tail wagging the dog.

Chapter 5 extends the analysis to the more traditionally institutionalized domain - off-season production - and demonstrates that the inflated clearance market affects not only seasonal producers but also leading apparel firms.[3] This impact is also magnified by a set of structural conditions related to fiber, which strengthens the tendency and limits the power of leading firms to counter the effect of clearance inflation. Apparel firms' coordination with fiber developers are analyzed. In particular, there is a mismatch between fiber and apparel in terms of their strategies. Both leading fiber developers and leading apparel makers seek business stability, and their K-strategies are in conflict with each other. To resolve these conflicts, leading apparel firms need to routinize their fiber with developers or incorporate fiber business into their own organizations. However, due to their limited market share, they lacked this ability. Leading fiber developers adapted themselves instead to opportunistic apparel makers who, as a collective purchasing power, represent a stable demand source. In addition, the downstream relations between off-season firms and their clients were also affected, as emotional auctions became necessary for some firms to mobilize pre-orders.

3. Here off-season doesn't mean slack season. Instead, the off-season is relative to the target season that products are sold for. For instance, if products are for the Spring and Summer season but are designed and manufactured during the Autumn and Winter season, then the products are considered as made in the off-season.

The concluding chapter (Chapter 6) reconsiders the issue of uncertainty in economic sociology and seeks to provide a distinct approach to market evolution. I argue that an "institution bias" exists in our discipline. While seemingly opposing each other, both economics and sociology put institutions (as well as organizations) in a central position to address the issue of uncertainty. For economics, the stream of thought can be traced to the question "why do we need firms?" Similarly, a parallel puzzle perpetuates in sociological thinking: "why do we need institutions?"

Apparently, recent developments in both disciplines have contributed to the myth of institution and organization, justifying their necessity. Yet, my research on the children's apparel industry provides a critical example against this institution-centered approach. I show that without organizational "central nerve systems" that provide liquidity and tackle uncertainty, external decentralized "nerves" can also resolve the problem of uncertainty for market actors in a sustainable way. Consequently, this sets barriers to the evolutionary path towards larger-scale organizations. If provided with certain social conditions, such a decentralized nerve system can even out-compete the central system and gain dominance in economic transactions. I call such decentralized arrangements "(social) containers" to contrast with the term "(social) devices" that scholars currently use. Unlike social devices that regulate uncertainty in a managed way, containers function like "pump stations" to transfer uncertainty (as well as profits) from one to another, and as risk-takers are attracted to join the game, the size of containers will continue to grow. Finally, whether or not recent changes in the distribution sector would affect the "tail-wagging" market structure are discussed.

CHAPTER 2

THE ORIGIN AND HISTORICAL DEVELOPMENT OF THE CHILDREN'S APPAREL PRODUCTION MARKET

This chapter seeks to trace the origin and development of the studied market by embedding it into a broader historical context. This will help better familiarize readers with the social and economic environment that interacted with the peculiar organizational structure of the studied market. There are many ways to look at this history. For the purpose of understanding the clearance-driven production market, I've picked an angle with a focus on the geographical characteristics and spatial structures of the industry, locally and nationwide.

Specifically, I first use spatial statistics to provide an overall picture of the growth and development of the entire children's apparel industry in China over the past thirty years. By examining this grand picture, I highlight the steady growth of the focal market as compared with other "competitors," for it keeps gaining market shares both nationally and provincially over time. Compared with the focal market, its national-level opponents (the two production bases *Foshan* and *Shishi*) face relative contraction, partly due to their shifting focus between overseas business and domestic business.

Then, I zoom into the spatial structure of the focal market and show how guided by the local government's plan to build industrial parks, a necessary condition was reached for the "kingdom of children's apparel" to become a clearance-driven market. This necessary condition, when combined with excessive manufacturing resources, can cause "big bangs" in the local market.

The necessary condition is the **excessiveness of retailing resources**. Only when retailing resources far exceed the need for primary transactions will the emergence of a large group of middlemen specializing in clearance business be possible. This condition is achieved by the

proliferation of "street factory shops"—the typical production unit of the industry—in addition to the construction of one of the country's largest children's apparel wholesale centers in the town. The spatial configuration of a street factory shop is also unique and arguably adds to the power of small firms. I explain the following question: why the development of industrial parks, supposedly favoring firms of "standard-size and above," didn't come into being. Due to budget constraints, in the early years the local government made compromises to local residents and allowed them to build residential factory shops along the streets. Although later on, industrial policies were reformed to favor enclosed industrial parks, the enormous number of street factory shops built during the first decade of the twenty-first century still occupied a substantively large area of the town and had path dependency on future urban development. This by-product of street factory shops —excessive retail spaces —remained.

The concentration of manufacturing resources adds to the above conditions of the clearance-driven market. The local market sustains enough sewing machines operating in the town at the same time, which makes temporary overproduction possible. When a high level of temporary overproduction is reached, there can be mini-economic crises that promote the clearance business. In addition, if the manufacturing resources are abundant yet too scattered, explosive fashion (discussed in Chapter 3) wouldn't be possible.

2.1 Separate Origins of Children's Apparel Production

The emergence of the children's apparel industry in China is unique with its own characteristics. First, it has two separate kinds of origins. Beginning in the Reform and Open period, the industry began to emerge in both coastal cities and inland cities at roughly the same time, and the largest one among the inland origins is the Zhili market of this study. In terms of its relation with women's wear, the industries with coastal origins were not clearly separated from the women's wear, while the inland origin only make apparel for children. Secondly,

in terms of their relative market power, the Zhili market has been steadily substituting for offshore ones. I will introduce each production base separately.

2.1.1 The Coastal Origins

One of the earliest coastal origins is found in the center of *Shishi* city —Fengli —in the Fujian province in the late 1970s. The dramatic political and economical transition starting in the late 1970s also greatly reshaped people's mindset (Zhao, 2000; 2004). At the end of Mao's era, people in Shishi were among the first to adapt to the rising children's apparel business. According to my informant, Shishi's advantage had to do with its informal ties to Hong Kong (as well as Taiwan), as many locals had family connections with those who migrated to Hong Kong and settled in Kowloon. When the political atmosphere changed, business opportunities started to pullulate in the mainland. Doors were opened and gave Shishi a great informational advantage when it came to learning everything about styles, materials, and organization of apparel production, including but not limited to children's clothing.

Chinese people in Mao's era were universally dressed in suits colored navy blue, green, or grey, which were "sexless and shapeless" in appearance and lacked fashion elements (Chen, 2001). There were no such factories making ready-to-wear clothing for children, and most families would either purchase cloth and make apparel themselves or turn to a tailor to suit casual needs. If a family had more than one child, then the clothes of the elder child would often be passed to the younger one. Due to the lack of a ready-to-wear industry, a few ordinary styles adapted from gifts sent by Hong Kong relatives could easily bring tremendous change to the local business in Shishi. With the rise of the children's apparel industry also emerged women's and men's clothing in this coastal city. Beginning in 1983, there was a greater expansion of demand and supply for domestic clothing products after China abandoned the coupon allocation system (Qiu, 2005).

The origin of children's wear production in Foshan in the Guangdong province was similar to that of *Shishi* except that *Foshan* also has a large fiber production base in the *Zhangcha District*; hence, its market share rose quickly as it became the largest production base by the year 2000.

Beginning in the 1990s, the textile and apparel industry became a driving force for China's exports, and many apparel firms in the two coastal bases shifted their focus to the world market. *"At that time, there were three production centers —Shishi, Foshan and Zhili. Around the year 2000, both Shishi and Foshan shifted greatly to foreign business. The targeting markets include Europe, North America, Middle East, and South Asia, together with some anonymous foreign orders mediated by Hong Kong buyers. A lot of us thought, how could China's domestic market be comparable to the world market? Back then, people like me who ran domestic business often felt inferior compared to fellows doing foreign business. They often laughed at us, because domestic businesses were small businesses. No one had anticipated that the domestic market would grow that large today. I kept my domestic business and didn't shift initially. But I really paid a price. I was diligent and worked extremely hard all year long, yet in those years my annual sales only barely reached a couple of millions. But my fellows were different. Their foreign trade volume would easily become ten times mine, and the price is also favorable. When my fellows and I traveled abroad for fun, I was always the free-rider, because they all had their agents and foreign clients treating us to dinner. So eventually even I shifted part of my business. It is safe to say that almost all of us during that period got more or less involved in foreign business; the difference was whether or not one completely abandoned his domestic business."* (Informant Chen, an entrepreneur from Shishi)

Thus, the coastal bases, compared with inland bases, were more likely to access the huge world market. The poor size of the emergent domestic apparel market had led most firms in Foshan and Shishi to refocus on foreign business. Consequently, once most firms in

the two production bases switched their focus, the affiliated services of the industrial chain around them also shifted. Requirements for quality control, material function, and design all changed. In particular, auxiliary services that used to benefit from the growth and survival of small shops began to disappear. This is because overseas orders were usually made a half-year in advance. The orders are of large quantity and many come with specified materials, only leaving the job of manufacturing. Thus, the large-business model gained prominence in foreign trade. However, quite unexpectedly, when the 2008 financial crisis started, orders from the world market suddenly dropped. Many firms had to turn back to the domestic market. But this time, they found the domestic market to be evolving faster than they themselves were, and only a few firms managed to succeed in redirecting.

2.1.2 The inland origin: the rise of the Zhili *market*

In contrast to the coastal bases, it is interesting that the inland origin of the children's apparel industry started with pillowcase retail. Until the late 1970s, Zhili was just a small town on the edge of Taihu Lake, covering an area of 0.58 square kilometers, with only one old street and one village. Nor did it have the geographical advantage of proximity to mega-cities. With a ballooning population, a shortage of arable land, and shrinking agricultural production over the years, the town used to be known as the "wilderness place" of the Hangjiahu Plain.

In the early 1980s, some of the poor people in the town turned to their traditional skills, using techniques such as weaving, embroidery, and sewing to produce bedspreads, pillowcases, and other fabric. At that time, the private economy was still forbidden in the town, but villagers took risks to develop this business. Families would work at night to sew embroidered pillowcases, and then secretly carry them to nearby villages for sale during the day.

By the early 1980s, most households in the town were engaged in making bedspreads and pillowcases, and to make full use of the leftover cloth, some villagers began to make children's

clothing. To their surprise, they found that the demand for children's clothing was far greater than pillowcases, so more and more villagers began to test the waters. The growth of the children's apparel business was so fast that villagers eventually abandoned pillowcases and only specialized in the apparel business. People in nearby counties were also attracted to Zhili to work as temporary workers for the locals. They even carried with them their own sewing machines in order to get a job. Because the discovery of the children's apparel business was more or less a coincidence, these inland origins in the beginning had no connection to women's apparel production.

After about ten years, starting in the late 1990s, many young people in the town who had previously earned their wages as migrant workers in mega-cities began to flow back and open their own apparel shops in the apparel industry. The *Zhili* market soon became the third-largest production base in the country, only after *Foshan* and *Shishi*.

2.1.3 The gradual substitution of coastal bases by the inland base

By the end of 1990s, the industry had begun to witness the Zhili market catching up with the markets in Foshan and Shishi. Figure 1 below illustrates this trend. This change had more than just an economic impact. For one, it also affected the cognition of producers, especially in Zhili. Previously, the Zhili market was thought of as only a follower in the trends, but as its position became more and more central, producers in Zhili started to feel confident and believed that their modes of production were more efficient than their competitors. Leadership in the domestic market encouraged greater competition and risk-taking for both large firms and small shops.

Official statistics from the Chinese industrial and commercial bureau validate the overall picture of the changing positions of the three production bases. In particular, I use the number of registered apparel manufacturing firms as an indicator of its relative importance in the domestic market. This number was normalized by the total number nationwide.

Since yearly statistics of actual volumes of production are not available (to the best of my knowledge), the indicator serves as an alternative to show the relative trend of each production base. That said, the absolute number on the y-axis is less reliable, compared to the relative trend. The data covers a range of thirty years and consists of more than 78,000 records.

Results

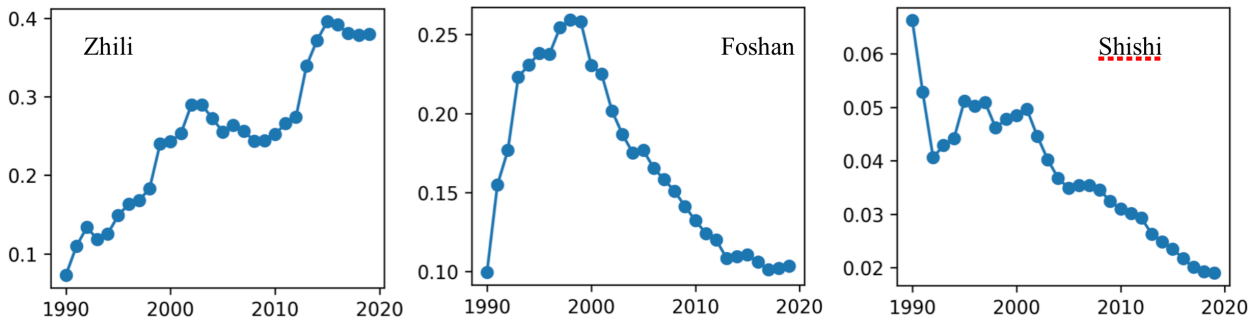

Figure 2.1: The substitution in the domestic market of children's apparel (1990 - 2019).

The figure contains three subplots, each of which corresponds to a major production base introduced above (from left to right: the Zhili market, the Foshan market, and the Shishi market). Each figure shows the relative importance of the production base with respect to the domestic business. The measure of the y-axis is a proxy indicator of market position. It is operationalized by the number of registered apparel firms in the given base over the total registered apparel firms in the country, year by year. This proxy serves as a relatively reliable measure of market share.

Figure 2.1 provides the big picture of the changing position of the three major production bases. Both Foshan and Shishi declined significantly after 2000, while Zhili kept gaining in relative importance. In addition, if we look at the provincial level change (in Figure 2.2 and 2.3), we would also see a similar trend. Figure 2.2 and 2.3 give the changing concentration level for the Zhili market and the Shishi market within their provinces. Because each was undoubtedly the largest market in their provinces, the concentration level essentially tells whether or not the position of the largest market in the province is becoming strengthened or not. For the Zhili market (Figure 2.2), it is clear that its position is strengthened. In comparison, the position of the Shishi market is less salient than in the past (Figure 2.3). The figure for Foshan is limited as it is similar to that of Shishi.

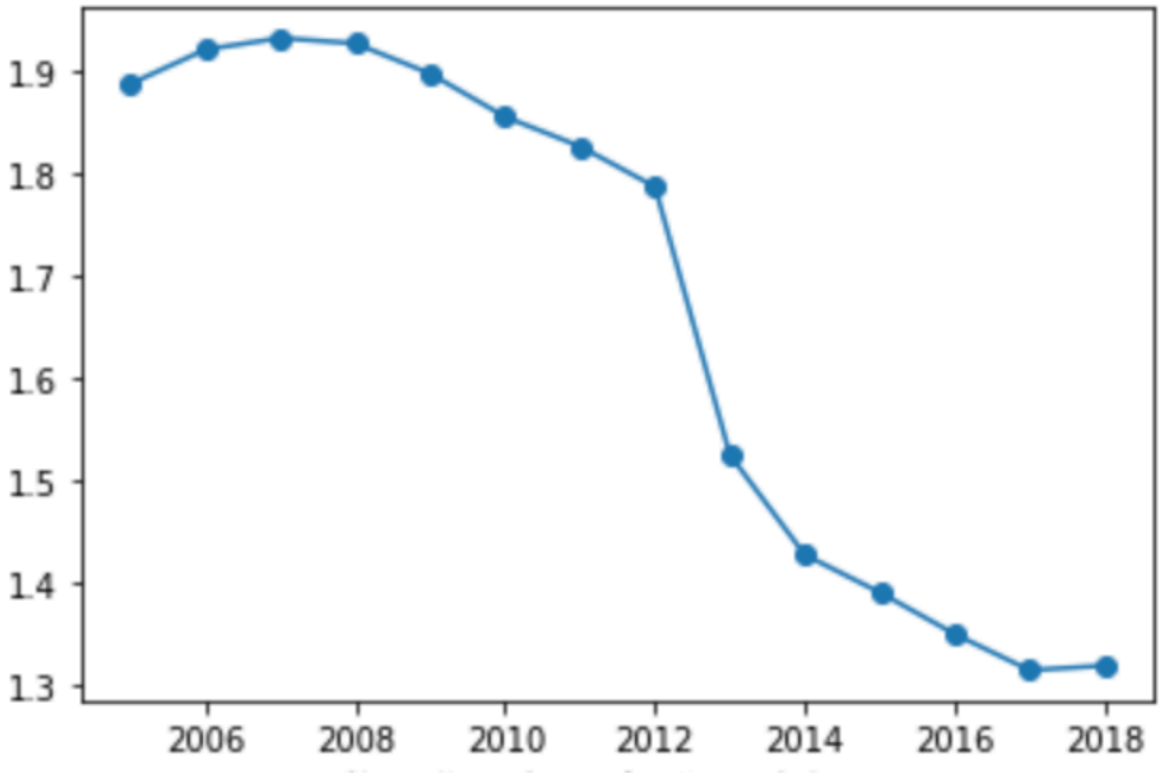

Figure 2.2: The concentration of production within Zhejiang Province (2004-2018).

The x-axis is the index of the year. The y-axis is the index of concentration measured by the entropy of the distribution of the number of existing factories among the eleven municipalities in Zhejiang. The smaller number corresponds to smaller entropy, i.e., greater concentration. In other words, this figure indicates that the children's apparel production within Zhejiang province is becoming more and more concentrated (into the Zhili market). The production market of interest is located in one of the eleven municipalities and has been taking up market shares.

2.2 Governmental Planning of Industrial Parks: Spacial Settings of the Local Market

I provided results above demonstrating the substitution of the coastal production bases by the inland production base. I argue that this had to do with their geographical conditions. Given their easier access to directly engage in international business, firms in coastal cities were more likely to shift their business to the huge international market, and this, while on good days contributed to the scale of their business and led them towards a more organized way of production, also reshaped the local industrial chain and made auxiliary services less likely to survive. That said, looking back at the domestic production base, this section seeks

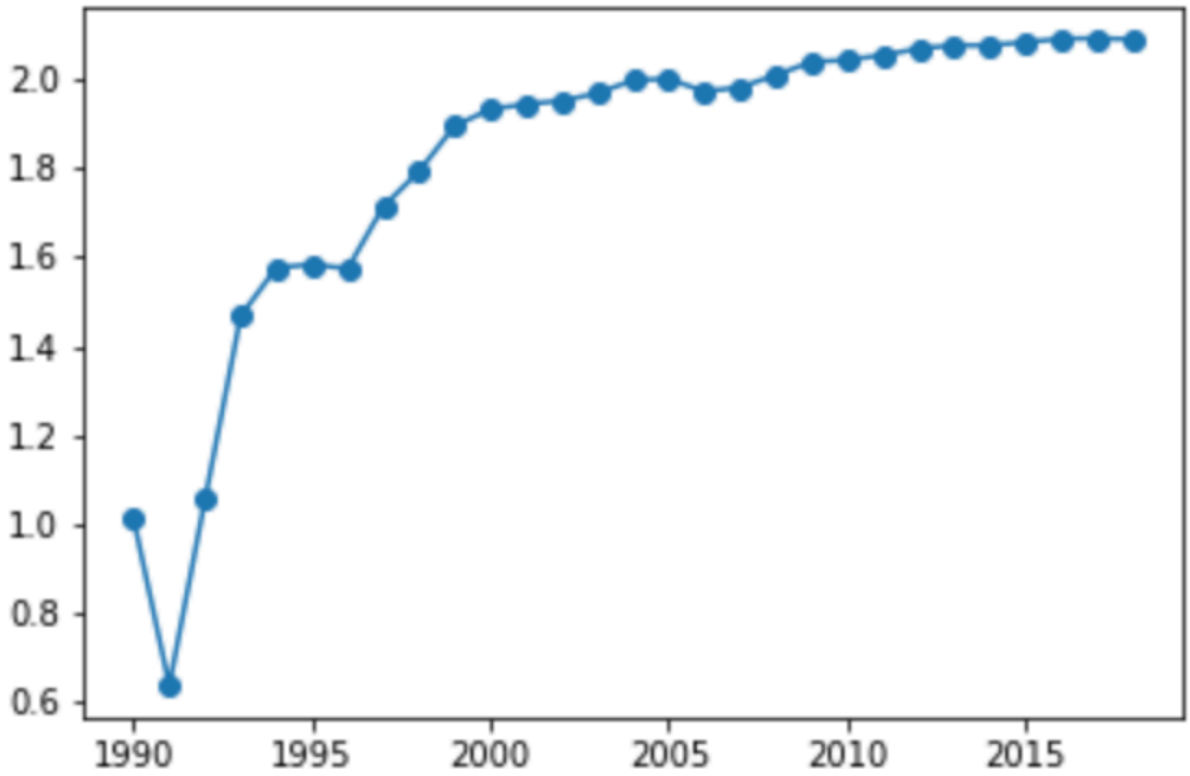

Figure 2.3: The dispersion of production within Fujian Province (1990-2018).

The x-axis is the index of the year. The y-axis is the index of concentration measured by the entropy of the distribution of the number of existing factories among the nine municipalities in Fujian. The smaller number corresponds to smaller entropy. In other words, this figure indicates that the children's apparel industry within Fujian province is less concentrated. The production base (Shishi) is located in one of the nine cities and has been losing market shares within the province.

to show the spatial settings of the local market in Zhili and how the spatial settings formed during the planning and development of industrial parks resulted in excess retail space.

2.2.1 Critical juncture in the urban planning of the industry during the period of fiscal budget shortage

During the period between 2000 to 2006, there was a sudden proliferation of "street factory shops" in the town. Although not the driving mechanism, the spatial characteristics of street factory shops undoubtedly add to the advantages of small shops. Thus, I introduce below the configuration of street factory shops and explain why they are ideal for small businesses

and why the local government allowed the growth of street factory shops.

What is a street factory shop? As the basic production unit, a street factory shop is usually a four-story building. The first floor of the building is a square unit used as the showroom. The showroom is further separated into the front part and the back part. A smaller compartment in the front part is usually used as the office, while the remaining part has racks installed to display samples. The back part is for temporary storage, pressing, and sealing. Normally, two iron and pressing machines are juxtaposed. In front of each pressing machine, pressers standing side by side working with bundles of newly made items piled next to them. The door connecting the front and the back part is open. Not only can the manager of the shop sitting in the office supervise the working of the pressers easily, but clients visiting the shop can also enter the back room to check other items. The second and the third floor often contains a small workshop capable of holding four to twelve tailors, depending on the size of the room. The workshop is equipped with sewing machines, thread trimmer machines, and thread sucking machines, with a ratio of 4:1:1. Finally, the fourth floor is used for the dormitory.

The factory shop later evolved into two variations of this due to the risk of fire. The first type of variation separates dormitories from manufacturing rooms by constructing a tunnel that connects the dormitory directly to the first floor. The second type of variation has separate buildings for living and manufacturing. In other words, these new manufacturing buildings still have the same structure as the original factory shop except for the dormitory.

Street factory shops are favorable for small businesses for the following reasons. First, each unit is originally designed as a family workshop for a single household. Thus, the size is limited, which makes rents more friendly. Secondly, this "three-in-one" spacial arrangement greatly reduces the supervision cost. A manager can attend to showroom visitors while still able to supervise production. During busy hours, he could even act as a temporary presser or packager. Thirdly, it makes shops more capable of meeting peak demands. Given the extreme

closeness of the dormitory to the workshop, it takes workers only one to two minutes to walk to the workplace, and under the piece-rate system, many of them are willing to work late at night to raise their income. In fact, skilled workers often engage in "competition games" (Buraway, 1982) to maximize their daily income. Payments are monthly or bi-annually. A skilled worker can earn 500-600 yuan a day. As factory shops are next to each other, if for several days a skilled worker couldn't obtain his expected income (perhaps due to a lack of orders) and decided to quit, he could easily switch to another shop. This also stimulates competition among apparel shops.

In addition, contrary to the common knowledge that apparel manufacturing is labor intensive, in theory it does not have to be so space intensive. For example, estimations of the New York Garment District in the beginning of the twentieth century show that it was enough to contain all apparel factories in the industry into less than two dozen, twelve-story buildings. Thus the garment industry in New York didn't occupy large space (Florence, 1951; Dickinson and Kolchin, 1925). By contrast, the apparel district in the Zhili market is more space-intensive, as each product unit is only of four stories or less. The consequence is that the ratio of retailing space over manufacturing space is only about 1:11 for New York, but 1:3 for Zhili.[1] Thus, the story height of factory shops also contributed to excessive retailing resources.

In the late 1990s, most township governments in China were heavily in debt. Starting in 1999, financial reforms were taken to transfer government debts to rural and urban credit cooperatives, which were further bailed out by the central government. While this lessened the burden on local governments, it also strengthened top-down budget constraints. Meanwhile, the period between 2000 and 2007 was also a time when local governments were given great freedom to mobilize resources for economic development. To address the conflict between

1. The calculation rests on the simplified assumption that the first floor is used for retailing and the rest floors are for manufacturing.

development and budget, local governments began to extract resources from below (Xiulin and Feizhou, 2014).

The local government in Zhili had similar problems. The officials were eager to promote the apparel industry and renovate the town into a huge industrial base. Yet as a small town, it initially lacked enough money even to cover the cost of road construction. As residents were engaged in the apparel business, the government came up with an idea to mobilize them in financing the construction of new roads. In return, residents were allowed to build factory shops (to their own specifications) along the main road, which resulted in the "three-in-one" settings. This practice was successful and popular for urban developments until land finance (Zhou, et. al, 2014) gradually became the dominant practice. I estimated that the area of the town grew about eight times larger from 2000 to 2007, and most of the developed areas were constructed into arrays of factory shops. The total number of street factory shops constructed in this short period was more than two thousand.

The proliferation of factory shops during this critical period created enormous retailing space in addition to the retailing spaces in the wholesale center. Given such a retail surplus, more and more middlemen in the wholesale center soon became risk-takers who gradually specialized in clearance business.

2.3 Discussion

To summarize, the development of the studied production market characterizes the substitution of both the coastal production bases and other production markets within the province. I argue that the enormous volume of apparel clearance business in the studied market requires the presence of a large group of risk-takers who willingly absorb stock from producers. This is difficult to achieve without excessive retailing resources. I demonstrate that the surplus of retailing resources in the local market is the inherent consequence of governmental planning of the industrial park.

Consequently, the position of retailers in the apparel wholesale center became paradoxical. On the one hand, their function as mediators for primary transactions was impaired, as the emergence of "three-in-one" production units provided an alternative way of retailing for producers. With their showrooms integrated into factories, producers were reluctant to rely on the wholesale center for their primary sales. On the other hand, the position of the wholesale center didn't simply decline. Rather, the center became more pivotal. Here I want to make an analogy to the difference between the predator-and-prey chain (Lotka, 1910) as well as the detrital food chain (Sun, 2001) in ecology. When there were not so many street factory shops, producers mainly conducted household manufacturing; thus the total retail space in the market comes from the wholesale center. The relation between producers and retailers in the wholesale center was similar to that of predator and prey—the predator (producer) relies on its prey (retailer) to obtain energy (from customers). Indeed, a single producer would rely on ten wholesale retailers in this case. However, when producers acquired their own retail spaces, their roles were transformed as they no longer depended on the prey and were able to directly engage in customer acquisition. In response to this change, the retailers in the wholesale center also underwent fundamental transformation into *"decomposers"* as these retailers now relied on producers to feed them "dead" stock in primary transactions. As "decomposers", they undertake a series of decomposition processes (such as de-branding, see Chapter 4 for more detail) to transform stock and send them back into economic circulation. In other words, the "predator-prey chain" was transformed into the "detrital food chain" in which the excreted products by one organism are processed by another organism. Under this analogy, it seems that most market theories are grounded solely on the predator-prey chain without paying much attention to decomposition and the detrital food chain in the economy.[2]

2. An interesting thing about this analogy is that, for many terrestrial ecological systems, both the predator-prey chain and the detrital food chain co-exist, yet, a high percentage of the energy cycle is usually made possible via the detrital food chain (Sun, 2001). This is similar in the case of a clearance-driven market, where apparel clearance has a high weight of the "value cycle" in the system.

CHAPTER 3

EXPLOSION STYLES IN SEASONAL PRODUCTION

As introduced in the previous chapter, the sustainable dominance of small-sized, low-tier shops in the children's apparel market in China is puzzling. Theoretically, classical principles in economic theories—the law of concentration, the survival of the fittest, invisible hands, and economy of scale are all against such a developmental path within the studied market. Empirically, despite the visible hand of the local government to nurture giant apparel companies, small shops still continue to prosper and dominate large companies with strengthened market positions.

How to explain this puzzle requires a detailed understanding of the configurations in the production market. As a starting point of my analysis, this chapter begins with the most prominent phenomenon in the industry—explosive fashion—to explain the strength of weak firms.

The main finding of this chapter is that the general patterns of explosive fashion were shaped by auxiliary markets, and particularly by a *sample marketplace*. A typical wave during the summer season of 2019 is analyzed here for illustration. I explain how the sample market has reshaped the flow of information, and how small shops end up relying on the sample market while large apparel shops don't. The labor structure that allows for high leverage is also analyzed. As a result, small shops benefit a lot from this externalized fashion engine.

3.1 The Rise-and-Fall of Traditional Han-Chinese Costumes (*Hanfu*) —A Critical Case

Collective imitation and adaptation of new styles are always at the core of fashion. While risk-reversing and loss-compensation mechanisms can provide buffers for manufacturers, it is

the explosion of significant fashion trends that stimulate the fever of gamble-like production among producers. Beginning this section, I discuss how a typical fashion explosion could be generated by institutionalized external configurations in the production market, and how through their adaptation to external institutions in the market, small-sized manufacturing shops were more likely to hit and make the most from a sudden trend.

Before I entered the field, I had already heard a lot of stories about "explosion styles" that everybody seemed to be talking heatedly about in the apparel industry. Taken literally, the explosion style refers to a flash of fashion that features a blowout of demand within a relatively short time period. It is often assumed to be almost unpredictable or even mysterious. Despite the numerous anecdotes told about "overnight millionaires" who successfully hit an explosion style in a season, it turns out that detailed accounts of exactly what makes an explosion style and how a typical "eruption" could take place are actually quite rare. Thus, when I entered the field and conducted interviews, I always asked the respondents about their experiences with "explosion styles." I got various answers, some of which were contradicting. A few respondents told me that they no longer rely on explosion styles and that this phenomenon was going to disappear. Others insisted that most of their yearly income hinge on explosion styles; otherwise they would waste a year for nothing.

Therefore, I realized soon that the puzzle of "explosion style" needed to be tackled first in order to understand the organizational logic and competitive advantages in this highly uncertain industry. In addition to the retrospective accounts obtained from interviews, the most convincing and decisive source nevertheless comes from witnessing a significant fashion wave during the summer season (from March to early June) of 2019. This wave only lasted two months and then quickly vanished in the following season, and I was able to observe its whole lifecycle. Not only did this up-and-down case reveal rich details about the distribution and variation of explosion styles—such as a clear pattern of fashion distribution among firms —but it also helped me uncover the underlying mechanisms that enable constant fashion

generation and style substitution. While only one wave is analyzed here, the pattern of explosive fashion is constantly reoccurring. In fact, the spring season of that year also experienced a similar wave but is not shown here due to limited space.

This explosive trend I observed is the fashion of traditional Han-Chinese costumes (*hanfu*).

First of all, it's necessary to clarify that the emergence of the "Hanfu" wave in the studied market is not completely ungrounded. In fact, it can be seen as part of the larger wave of "Chinese fashion" that began to emerge during the last decade. The rising nostalgia and promotion of nationalistic ideology, learning Sinology (*Guoxue*), and practicing the national arts gained more popularity in Chinese society, which further fueled the need for nationalistic clothing. Reports dating back to 2015 had already noticed the signs of a rising fever around traditional Chinese costumes in the fashion world. Chinese fashion designers began to incorporate "China elements" —such as "Chinese red," "Chinese knots," and "Chinese embroidery" into their designs (especially for their Spring Festival collections), and models wore these during international fashion shows.

That said, the sudden outburst of the "hanfu" wave in the children's apparel market was still quite unexpected, even to insiders in the industry. As a sample seller with twenty year's experience told me, *"When we initially bought hanfu samples, we thought something like this would die quickly. We didn't anticipate its trend. In fact, during March, many manufacturers couldn't accept such a style either. But after a while, it became quite popular, you know what, when it came to April, no other styles could match hanfu's hotness. It's just that weird."*(Informant Cai).

Several reasons are clear why such an explosion cannot be explained merely by external forces (i.e., the rise of nationalism). For one, it was the first time that hanfu entered the field of daily casual wear. Previously, the nationalism-related fever was only seen in special categories for performance purposes. Secondly, while nationalism increased more or less

smoothly, this wave featured a high degree of discontinuity. According to respondents, most manufacturers in the nearest winter and spring season made no samples similar to hanfu. And except for a few companies who were niche suppliers of hanfu, the whole industry during the previous summer season was largely inclined towards Korean fashion. The fever didn't last long either, and it soon disappeared in the succeeding fall season, yet no signs of cooling down of nationalism were observed.

Existing sociological studies have already identified such discontinuity of fashion/faddish cycles in various broadly defined cultural industries (Zuckerman, 2012; Lieberson, 2000; Strang and Macy, 2001), yet it is still debatable whether this discontinuity is due to endogenous mechanisms or outside changes (Zuckerman, 2012: 7; Kaufman, 2004). Among many interesting studies of fashion cycles, the up-and-down of demand/adoption was given the most attention. By that, the question these studies essentially address is the dynamics of diffusion, contagion, or imitation. While these dynamics are certainly important (and I also did similar pattern studies in my case and confirmed several shared properties of fashion cycles), few studies had examined the social and technological devices that "pipe" fashion trends and how the configurations can trigger, stimulate, or modify the trends. When it comes to faddish and volatile phenomena, even for reoccurring ones, theoretical arguments often attribute some non-institutional forces as the driving factors.[1] The *technicality* part of faddish markets has been largely overlooked.

Similarly, from the perspective of evaluation, probably because of the "loose connections" between the effectiveness of novel faddish forms (such as the innovation of management strategy) and diffusion/adoption processes, fashion cycles are widely considered to be less grounded by objective constraints (see Zuckerman, 2012 for more detailed discussions). Adoptions are more or less random and easily herded. Textbook examples of experimen-

1. Although the study of name cycles may appear to be an exception at first glance, if we think about the "endogenous" force —the relative uniqueness of names to distinguish from other names —that alter the fashion, it's still not looking at aspects that drills down to the "pipes."

tal studies such as the "music-lab" (Salganik et. al, 2006) also help strengthen such beliefs.[2]

The market configurations underlying the fashion dynamics described here would put such thoughts into question. Explosion styles, while showing some volatilities, are closely related to institutionalized settings of the production market. I use the term "auxiliary markets" to characterize these configurations. In particular, the sample market is one kind of auxiliary market that facilitates the growth of explosion styles. As will be shown, apparel shops more dependent on the sample auxiliary market are more likely to hit explosion styles. Although not fully predictable in terms of the distribution across styles, explosion styles arguably have a pattern of distribution across firms.

3.2 The Shop-level Variation of Explosive Fashion in the Street Market

3.2.1 Data collection and methods

This study relies on ten-month ethnographic fieldwork conducted in the garment district in the township of Zhili, an apparel production and wholesale base in east China where nearly fifty percent of children's wear in China is made and sold. The town is composed of more than 10,000 apparel-related firms and workshops of varied sizes. I conducted 130 semi-structured interviews in the town during the period between 2018–19, including apparel shop managers and store owners (n=72), factory workers and subcontractors (n=9), wholesalers and retailers (n=5), township cadres and officials (n=24), cloth sellers (n=7), accessory sellers (n=2), designers (n=6), and fashion buyers and sample sellers (n=5). Most interviewees were recruited in a snowballing fashion. It usually started with me asking town officials to introduce one or two interviewees of acquaintance. Because officials themselves live in the

2. People often focus on the main results of "musiclab", which highlighted the contingency and unpredictability of fashion. The results of "musiclab" are in fact more complicated. For example, the popularity of the "highest quality" music was actually found to be quite "predictable."

town and often have friends, neighbors,and relatives engaged in the apparel business, this gave me an easy start. Then usually after the interview, I asked the interviewee to nominate a few people related to the apparel industry for further interviews.

To counter the potential biases of this snowballing method, I also directly approached apparel firm owners and workers on the street and asked if I could interview them. The acceptance rate was surprisingly high. In most cases, they were happy and willing to participate. Interview data are arguably most suitable to understand the functioning of the market, since comprehensive statistical and behavioral data on the production and transaction processes are not readily available. The interviews usually lasted from one to three hours (with a few only lasting less than thirty minutes). All 130 interviews were audio-recorded. The recordings were transcribed and analyzed by developing measures focusing on the strategy and behavior of "arbitrage." The samples covered a wide range of producers and apparel firms, in terms of the informants' age, gender, firm size, and apparel category, from firms with more than 500 employees to those workshops consisting of only a couple, and those founded more than thirty years ago to those that just started only two months ago. Some apparel shops don't have their own design sector and are therefore just manufacturers. Most manufacturers maintain their own selling stores, which allow for direct sales. The relatively small number of clients (wholesalers and resellers) interviewed is due to the difficulty in recruitment. However, their behaviors are inferred from interviews and other sources of complementary data.

The interviews aim to understand the process of production and the mechanism of explosive fashion under uncertainty in the production market. Special attention was paid to the practices of sample testing in various dimensions such as the timing, periodicity, coordination of the decision process, and the evaluation of designs. Because no producers in the industry can survive without making new products each season, interviewees often talked about designing and testing of new products without prompting. During the interview, produc-

ers, workers, designers, cloth and accessory sellers in the production chain, and wholesaling clients were asked to elaborate on their own experience relating to the process of uncovering the unknown value of new products. Government officials not familiar with the production processes were invited to talk about the historical development of the apparel market and government policies in different historical stages.

In addition to interviews, thanks to the openness and easy access to apparel shops on the streets, I compiled a street-level dataset of explosive fashion. This primary dataset contains information on whether a shop was making Han Chinese clothing during the summer season of 2019. A total of 636 apparel shops along ten main streets in the town were included. I choose shops on a street-basis and classified them into three tiers for several reasons. First and most importantly, shops of different grades and products are highly clustered at the street level. This can be easily seen if one takes a walk across the town from the north to the south. The landscapes of room displays, outside decorations, and the delicacy of products change gradually from lower to higher grades and then (after passing the center of the town) from higher back to lower as one goes further south. Correspondingly, the rent differences by streets also match these observations, which further correlates with the government's classification of tax regions among the street markets (see Table 3.1).[3] In coding, shops were classified into a binary variable and assigned value 1 if they made *hanfu* and 0 otherwise. This binary measure furnishes a proxy for the likelihood of hitting explosion styles.[4] The measure is coarse-grained as it doesn't discriminate among the percentage of explosion styles made. This introduces some errors but also makes the estimate more conservative and robust. I visited each store, checked their showrooms, confirmed with salesmen, and did all the

3. If taking into account the size of units, the rent difference would be even larger, since rooms in higher grade streets are cut into smaller units. Assuming roughly the same depth of a unit, I use the "Time Machine" module offered by the Chinese search engine Baidu to measure the width of units in different streets. The estimated ratio of the unit size in tier-1 streets over the unit size in tier-3 streets is around 2 to 3. A consequent result is that shops are denser in top tier streets.

4. I also compiled a smaller dataset for a spring season explosion style to confirm my main findings. The results are highly similar. The spring season results are omitted here.

classifications by myself. The whole visiting process took three consecutive days.

	Est. Annual Rents /Unit	Tax region
Tier-1 streets (Top)(N=81)	450,000 ∼1,000,000 yuan	Level 1 (high tax rate)
Tier-2 streets (N=242)	180,000 ∼250,000 yuan	Level 1 (high tax rate)
Tier-3 streets (N=313)	100,000 yuan or lower	Level 2 and 3 (middle and low tax rate)

Table 3.1: The typical range of annual rents and tax rate levels at the three tiers of streets.

During the period of fieldwork, I tried to get acquainted with interviewees and made quite a few revisits to them weeks after the initial conversation to double check their answer consistency and to further my inquiries. I also discussed with them my ongoing findings and thoughts and asked for their responses. These revisits and conversations greatly facilitated my being able to filter the intricate flows of daily market activities simultaneously taking place throughout the town. The revisits not only served for verification purposes, but in many cases they also triggered more insights and helped to deepen my understandings. Interviewees would usually interpret my findings based on their own experiences, through which I could further examine whether the logic of my argument fit my cases. Besides, the snowballing fashion of interviews allowed me to do cross-validation by asking new interviewees to verify some general information gathered from previous interviews. Triangulation in such a cumulative way helps to ensure the validity of the data.

3.2.2 Results

A clear pattern can be seen from Table 3.2 and Figure 1. In Table 3.2, Tier-1 streets have less than 10 percent of their shops making hanfu. In comparison, more than half of Tier-3 street shops made hanfu in the same period. The percentage of Tier-3 is about two times as large as Tier-2 and five times as large as Tier-1. Statistical tests confirmed the street-level discrepancy. The p-value of the overall Chi-square test is less than 0.0001. The p-value of the paired Chi-square test for T1 and T2 is less than 0.05, and the p-value of the paired Chi-square test for T2 and T3 is less than 0.001. Apparently, if hitting a hot style more or less requires luck, the distribution of "luckiness" is empirically found to be nonrandom.

	Percentage of hitting the hanfu trend
Tier-1 streets (Top)(N=81)	0.098
Tier-2 streets (N=242)	0.219
Tier-3 streets (N=313)	0.53

Table 3.2: Manufacturing shops' likelihood of hitting the *hanfu* trend (by tier of streets)

The pattern described above indicates a reversed order of fashion among firms as smaller-sized shops in lower-tier streets are making a higher proportion of the explosive style. The question then goes to what generates such explosive trends and why firm size and fashion hit rates are highly correlated. In the next section, I will first demonstrate the role of auxiliary markets in generating explosive fashion. Then I explain how competition channeled by the auxiliary market has a fine-graining effect on the time granularity of economic actions, and how apparel shops dependent on the auxiliary market would diverge from the conventional organizational model mostly adopted by large firms.

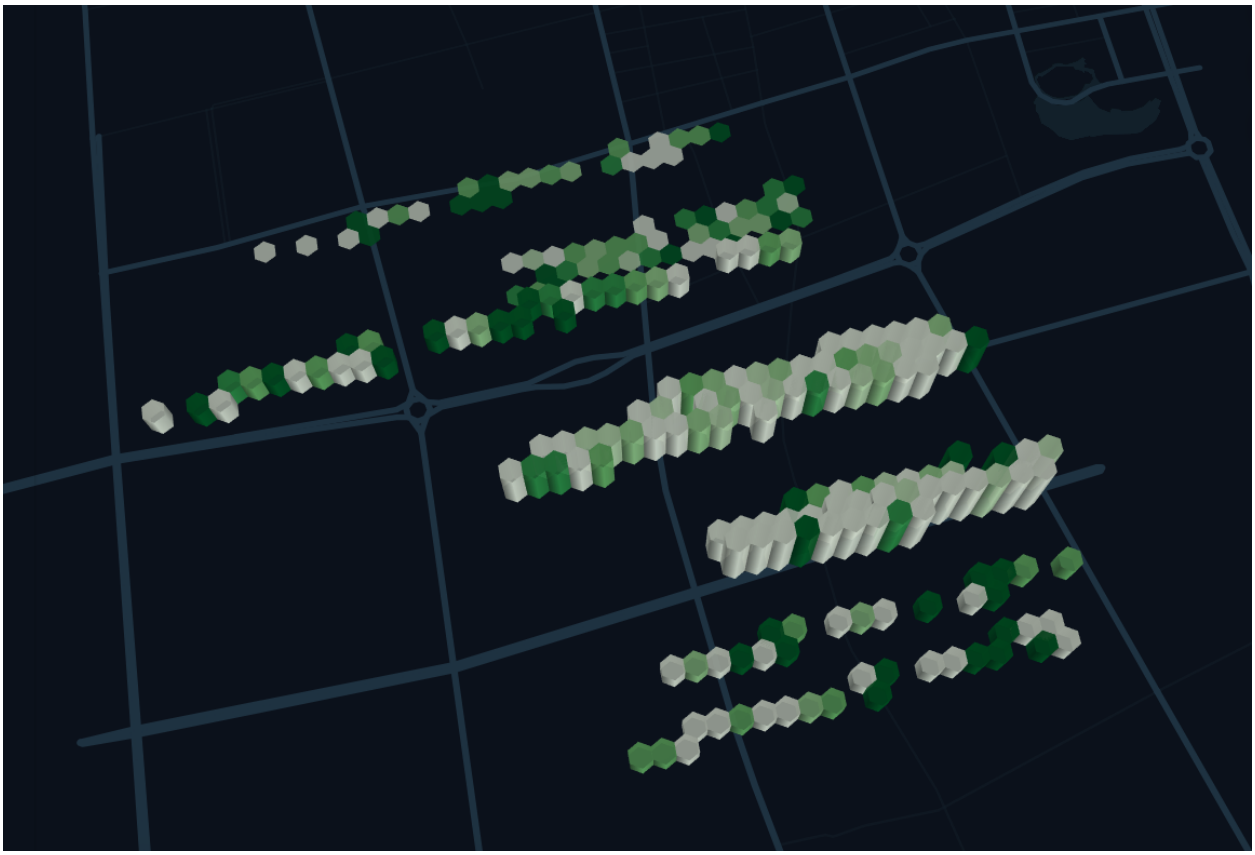

Figure 3.1: The spatial distribution of *hanfu* production in the town during the 2019 summer season.

A total of 636 shops along ten streets are included. For better visualization, the nearby shops are combined into hexagons to indicate the "density" of hanfu in a given unit area. The deeper the color, the higher proportion of hanfu production in the region. The bar height indicates the level of rents on a street. Taller bars correspond to higher rents, hence to higher-grade streets.

3.3 The Auxiliary Market Connecting the Wholesale Networks

My research indicated that the higher likelihood of hitting rate by smaller firms had much to do with a set of auxiliary configurations in the apparel market. Through the expansion of the industry in the town, middlemen gathered resources and affiliated themselves with the growing market. They carried with them unique social capital and offered services that facilitated apparel production. Their services include but are not limited to sample selling, marker-making, temporary cutting, pressing, finishing, packaging, driving, and even hauling. More importantly, once their service business was crystallized into the existing market configurations, the industry began to see different sub-markets that functioned as

supporting institutions, especially for small-sized shops. Among these sub-markets, the sample market stands as a primary auxiliary institution and will be the main focus here. In this section, I examine the process of sample transactions and their impact on fashion trends. At the theoretical level, I also suggest that large-sized organizations face more conflict with such external institutions as they spontaneously try to develop their own realms according to the internal logic of "large-business models."[5] As a result, it is smaller apparel shops that benefited more from the integral of the industrial chain.

3.3.1 Sample Selling—The Arbitrage Institution Integrating Regional Wholesale Centers

A basic yet often neglected fact is that, activities —waiting for costumers, negotiating with clients, transactions and transportations —all take a *duration* of varying lengths.[6] Events — including transactional events, do not simply happen *in* time but *take* time (Martin, 2018). Thus, what drives production strategies is not just consumer demands or preferences, but also market players' action order, speed and the chance of preemption.

Unfortunately, the notion of time or duration doesn't appear in neo-classical economic models very often. After several generations of evolving, neo-classical economic models gradually bracketed the concrete market and mainly dealt with demand and supply calculations.[7] As pointed out by Earl (1995: 300), classical economists (such as Walras) gained their intuition about market competition and market equilibrium from auctions in the Paris commodity and stock market in the 1800s, the operation of which, in theory, should contain timing as a crucial element to the functioning of markets. Sadly, it was not until the past two decades

5. Some told me that the famous brand name of men's apparel in China—Qipilang(七匹狼), set the industrial model for large-business in the early 1990s. But others thought it was the OEM business with oversea companies that brought experiences of large-business to the children's wear industry.

6. As Martin (2018 : 196) noted, Bergson (1911) termed it as "concrete duration".

7. One reason might be that transactions in the early years were often slow. As MacKenzie and Millo have noticed, even the futures trading in CBO during the 1960s were so slow that "traders were sitting on the steps of the soybean pit ···reading newspapers" (2003:113).

that scholars (some being insiders) began to rediscover the importance of *timing* and *duration* for organizational mechanisms in financial markets, and indeed, the importance for market successes and crises.[8] While those analyses mostly focused on the financial markets, the time dimension is of equal importance in this case, if not more. For instance, an informant once compared the timing of their business with that of a beekeeper. The two are quite similar in their requirements for extreme observance and pro-activity during the progression of the season. Indeed, price, value, and cost—none of these key components in the market would work without taking (durable) time into account.

Although fundamentally close to "noises," the discrepancies of timing and duration are something more or less natural. During the construction of a unified national apparel market, the price, quality, and fashion lags (as well as similarities) between regional wholesale centers across China were gradually discovered by wholesalers. These "discrepancies" occur naturally for complex reasons—location, climate, economic status, trading volume, etc. For example, some cities in Southern China enter summer as early as April when temperatures in the north part of China are still below 10 degrees centigrade. This gives opportunities for northern wholesale centers to catch early signals from the southern markets.[9] In addition, some wholesalers in wholesale centers can get their orders delivered one to three weeks earlier than other wholesalers, and the real situations differ firm by firm. Moreover, retailers, who purchase from wholesalers, also make their visits to the wholesaling market on different dates during the season. Because of such widely uncoordinated events, it is common that as long as transactions are not fulfilled in complete immediacy and concurrency among all clients in every wholesale center, the time gaps always exist and tend to be reproduced.

As noted by previous scholars, the constitution of regional sub-markets into a unified market is a common storyline for both virtual products and material products, and arbitrage often

8. A famous example is given in the book "flash boys" by Michael Lewis (2014).

9. For winter the order is reversed.

played an important role (Beunza, et. al, 2006). The sample market, as will be analyzed, is essentially an arbitrage institution that aims to exploit the time gaps of price and fashion changes across wholesalers. Arbitrage used here is not limited to exploiting the differences in financial products and goes beyond buying somewhere and reselling elsewhere at the wholesale level. In fact, due to the fixed-volume constraint, reselling alone couldn't generate large explosive trends. Explosive trends are possible, largely because producers also take part in the arbitrage to create incrementation for the market. Producers, apart from their connections with their own clients, are connected to other wholesaling units by *sample brokers* or sample sellers who source new products (sent by producers to their clients) from different regional wholesale markets and sell them as prototypes back to producers via the town's sample marketplace. The quotes from a sample broker below show the existence of fashion gaps and how they are sensitive to it.

"That's why our business is not easy. If your samples lagged behind others, the manufacturers simply don't want them; then you will get stuck with overstock. When I first started my selling business six years ago, the first year I had more than 100,000 yuan's samples end up unsold. You know apparels are sold in one-hand (i.e., 5 pieces); if you sell one piece, you still have four pieces left, and our purchasing price is also high. Later on I realized why I suffered the loss. There was a time lag. I originally took samples from markets in the north part of China, in Zhengzhou and Beijing. When my samples arrived here, manufacturers said they already bought elsewhere—some even had made their own copies to clients—while I was still with my head in the clouds. It will be too late when producers already saw similar samples. In that case, no one would want your samples, even for free." (Informant Guang).

However, despite their wide existence, whether fashion gaps can be exploited in practice depends crucially on three main factors: (1) The expected amount of time to discover hidden gaps in a systematic way; (2) the speed at which information in various regional wholesale markets can be passed back to producers in the primary market; and (3) given that the gaps

are not simply "objective" but also social constructions of evaluation (Aspers, 2009), the existence of certain signaling mechanisms shape producers' evaluation through the passage of information. If a potential arbitrage opportunity can only be found occasionally, then producers and their wholesaling partners would lack the incentive to keep it long term. If information is accessible yet often delayed, producers couldn't really benefit from the opportunities. If information was merely passed to producers without clearly signaling the fashion value, then producers would simply lose direction in the mess of information.

Institutional efforts regarding the fashion gaps diverge from here. Some apparel firms may try to enclose the gaps by forming closer bonds with downstream clients, shielding themselves from outside arbitragers and forbidding either party to engage in exchanges with middlemen. This would favor the growth of organizations, vertical integrations of the supply chain, and demarcation of organizational boundaries. On the other hand, they may also lean to a full mode of arbitrage—that is, freeing any bonding relations with their clients and allowing both sides to be more speculative. This is pertinent to the presence of information-based interfaces in the market, or in other words, some overarching configurations that can directly connect and coordinate de-organized speculators. Such an interface can gather, filter, and feed continuous flows of fashion news to producers. Then, producers rely on the fashion news to guide their further speculation. Such a centralized interface is a pre-requisite for institutionalized speculation. Without it, it would be unrealistic to expect individual producers to trace fashion information perennially across the country, at over 50,000 wholesale stores or nearly 1,000,000 retail stores.

Figure 3.2 illustrates the impact of the sample marketplace on the industry's information structure. Several manufacturers in the town confirmed with me that previously when the sample marketplace wasn't built, they mostly relied on their personal networks or simply watched nearby stores to update style information. In that situation, fashion generally goes from producers to wholesalers in a single direction, with only a few exceptional occasions

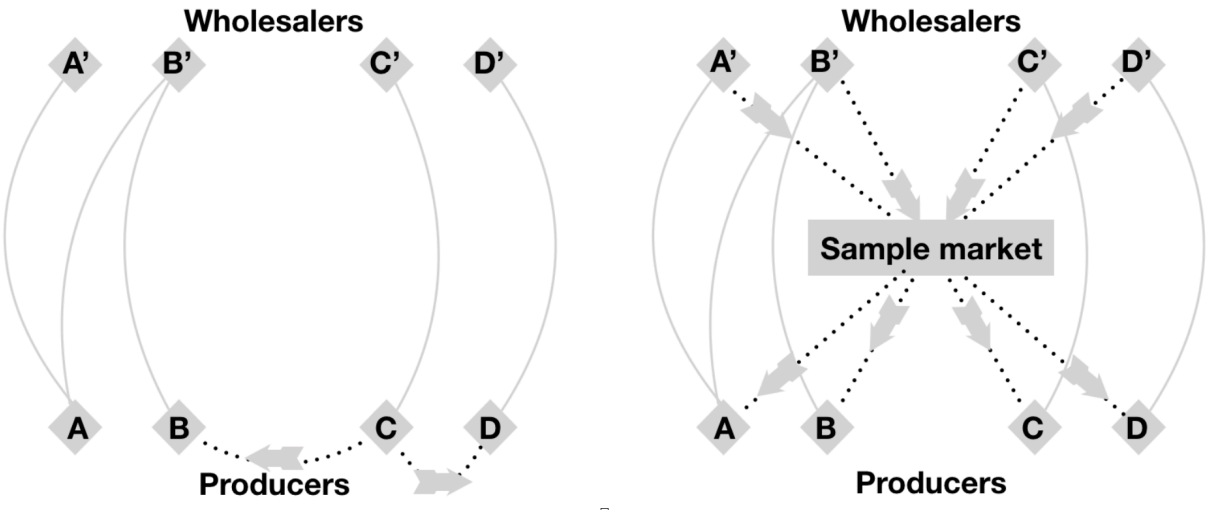

Figure 3.2: The informational structure with and without the sample marketplace.

(Left) The information structure without the sample market. (Right) The information structure with the sample market. Producers are denoted as A, B, C, D and wholesalers A', B', C', D'. The black dotted line indicates there is a passage of information between the two connected actors. The grey lines connect actors with clientships.

when wholesalers may suggest popular items they saw from other wholesalers.[10] However, with a developed sample market, information flow starts to go cyclical and non-relational, as shown by the right part of Figure 3.2.

The channels illustrated in Figure 3.2 are largely woven by individual sample sellers, whose main job is to track new styles in wholesale markets. As a seller noted, *"Speaking of our business, it is not complex, we don't produce, we don't make designs, we only catch the time gaps —just take samples and sell... Designing is useless, many designers used to hand their products to us—but theirs just don't sell, no matter how much effort we make, they just don't sell, so we eventually gave up and only followed the market⋯. We can get all kinds of samples from any apparel firms. As soon as they send new designs to the wholesalers, we are able to get them here on the next day... manufacturers depend on us, no one could ever replace us —we are their eyes."* (Informant Li)

10. Because feedback from wholesalers was often delayed, producers typically didn't count on them to provide fashion information.

As the season progresses, these sellers would move from one wholesale center to another. "In the first half of a year, the south gets warmer first, so we began our search in wholesale markets in Guangzhou. I spent one-and-a-half months in Guangzhou this year. Then, when the Hangzhou market heats up, we switch to Hangzhou. When it comes to July, it's hot all over the country, but in one city, the weather is like spring all year around —Kunming! So we typically switch to Kunming (to look for fall season designs)."[11] (Informant Lu)

Despite their hard work, the search job of sample buyers was partly facilitated by the concentration of apparel wholesaling for regional markets, as well as express services, such that a group of family members can form a search team in one category. This is because despite the large and scattered population of children, the number of regional apparel wholesale centers in China is quite limited. The major centers are concentrated in *Guangzhou* and *Kunming* for the south, in *Hangzhou* for the east coast, in *Wuhan* and *Zhengzhou* for the middle, in *Shijiazhuang* and *Beijing* for the north. Most centers are located in provincial capitals with easy transportation. A family search team is common in the sample selling business, as reflected by one of the informants who sells sample pants:

"Information is the key. Products are our sole advertisement. I, my brother and my sister are responsible of searching the samples. We travel across the whole country, to major wholesale centers. We had to be familiar with every provincial wholesale agency who sells pants. ⋯Because those marketplaces open early every day, we have to be early too. We shop in wholesale places every day, kind of like those retailing buyers⋯. The samples we got can be packaged and sent to our store here via express. The cost is minimum. Thus, when we are out, there is no need for us to go back and forth. And some wholesale agencies have become our regular cooperators, so we don't even need to visit their stores. For those (wholesalers) who had long-term relationships with us, they just send the latest samples to us regularly. That saves time for all of us. Of course, there are good ones and bad ones. Our information

11. This is because the weather during the fall and spring season in China are similar.

also gets leaked more easily⋯I am in charge of the outside; it is the most complicated part to talk about, too much to say⋯. We need to build relations with various people, and a lot of competitors are chasing behind us closely⋯. We know other fellows quite well, since we all search in the same markets. If a sample design is popular, everybody wants it, so who gets it first will make money —there's a big article about it. That, needless to say, is my ability (to secure priority). I dare say even if I give people the address of the wholesale store where I bought samples from in the Hangzhou market, they just couldn't get ahead of me." (Informant Guang)

The price of a sample typically ranges from 150 to 300 yuan, which is at least three times higher than the wholesale price. Nevertheless, sample purchasing is still favorable to manufacturing shops, especially those with few designers. As is similar in other industries, searching for samples used to be a great burden for producers. But with the sample market signaling ongoing fashion trends, the cost of a search has been reduced significantly. Even a newly opened manufacturing shop can quickly learn the latest fashions just by shopping around. But this goes beyond design information. During interviews, I learned that most manufacturers spent several hours a day, two or three days a week in the sample marketplace. While they took time bargaining and purchasing, a much greater portion of time was simply spent on watching and feeling out the market. The information they were looking for was not just the details of the prototype they buy, but more about who else is buying what —the style popularity, the current phase of a trend, and the level of competition. *"A rule of thumb we use to tell the popularity is to count the number of sample stores that sell the same style. If the number exceeds five, you may bet on its potential (to be a hot-style)... Of course you also want to avoid the samples that appear to be flooded in too many stores... Because we hang around almost every day, we would seldom miss any information."* (Informant Zhou)

Thus, the sample marketplace as a public space not only maintains a flow of information, but it also constructs collective evaluation of fashions way ahead of the consumption season.

Most of the ninety or so sample stores in the marketplace are membership-free. In these stores, samples are piled on desks or on shelves for exhibition in open rooms. Crowds flow in and out freely. Salesmen hold a sample in their hands and shout loudly to the crowds: "The last piece! Explosion style! The last piece!"

As manufacturers gather around in the marketplace on a daily basis, they themselves became references for each other and the sample sellers. Sellers decide when to get new styles or restock existing ones based on the crowdedness and the purchasing behavior of manufacturers, while manufacturers make their decisions relying on sellers' exhibition of styles and the current and future prevalence of styles. As the process continued, it often became confusing that many producers thought other competitors copied their styles, as they saw the designs they bought and adapted from the sample market reappearing as new prototypes in the sample market. Because of this recursive process and the mutual dependence of sample sellers and producers, it is extremely difficult to separate production from evaluation. Participants' collective evaluation guides production. Simultaneously, production itself becomes part of evaluation. This contradicts the standard industrial model in which evaluation and production are distinct stages. Such collective evaluation in sample markets is auction-like and can send strong signals that are easily interpretable (Kharchenkova and Velthius, 2018). This signaling effect of collective evaluation is also the reason why the sample marketplace proved more dominant than any other design service provider, which also claimed to offer first-hand style information to producers.

The sample market also triggers collective adaptation to new fashion trends otherwise too deviant from the previous year. Common sense about innovation tells us that initial trials are always difficult (Christensen, 2013). This is especially true for abrupt style changes, such as hanfu. The original patterns, collars, buttons, drapes, and ornaments of hanfu differ sharply from those of casual wearers; therefore, many shops were reluctant to try them in the beginning of the season. But since there were so many shops, some made an effort to adjust

and modified the patterns a bit. And since most of their wholesale clients were connected by the sample market, the modified patterns were spread quickly via sample selling, leading more shops to continue modifying the designs. One informant told me that about a month after the season started, the hanfu design had already changed a lot. The decorations became much simpler than when it first came out, as producers kept making it more fitting to the market. He observed that after a few weeks, the modified hanfu started to look more and more similar to ordinary skirts and t-shirts, with fewer and fewer unique symbols. This is apparently a result of multiple rounds of feedback.

A remaining question, then, is why the sample market as an arbitrage institution could be so prosperous in the town? For one, the local government was only strongly motivated to promote large businesses and wouldn't be interested in developing the sample selling market. Secondly, the "grey" nature of the sample-selling business often triggers conflict and concern about uneven competition.[12] Thus, the development of the sample institution should not be completely self-autonomous or self-fulfilling (Beunza, 2006:5–6). Similar to industries such as life insurance (Zelizer, 1979) or financial derivatives (MacKenzie and Millo, 2003), the arbitrage business also requires certain levels of legitimacy for it to blossom fully. Interestingly, the legitimation of the sample market was partly thanks to the local government's intention to level-up the designing capacity of leading apparel companies in the town. Back in the late 2000s, the local officials were aware that the designing capacity of top apparel firms was lagging behind competitors in Guangzhou and Fujian provinces. In order to enhance their competitiveness, the local government built an apparel design center inside the new Children's Apparel Mall and invited design companies and studios in the hope that local apparel firms could benefit by outsourcing design work to these companies. They also wanted top-tier firms to establish their showrooms in the Mall. However, most of the targeted firms preferred to control their own designing processes. Not only were they

12. For instance, "design piracy" was considered as a major issue in the U.S. apparel industry during the 1910s-1940s (Marcketti, 2005).

unwilling to outsource design jobs, but they also didn't want to open new showrooms in the Mall as they already had plenty of rooms in their own plants.

As the Mall ran into deficits and property developers quit, the Apparel Development Company (ADC) was in distress, and the local government had to take over the Mall. To improve their financial situation, the ADC managers decided to rent out vacant rooms for other purposes. First, they chose the cloth business, but the cloth business developed too slowly. Managers then came up with the idea of gathering all existing sample sellers (previously scattered in the town) to the Mall. *"The second floor was empty anyway, we figured by inviting them, we could attract more people to hang out here."* A premium of a three-year rent deduction was given to sample sellers invited to move in. As time went on, the number of sample-selling stores quickly expanded four times over, eventually taking over the whole floor, which indeed brought popularity and profit to the Mall. Witnessing the popularity and benefits of the sample-selling business, local government officials gradually accepted it as an integral part of the industry and blurred the boundary between the sample selling business and that of the design center. The officials sometimes even treated it as a highlight of their work. It is through such a mix of intended and unintended consequences that a highly concentrated and integrated sample marketplace was formed.

3.4 Why Small-sized Shops Benefit More From the Auxiliary Market

Conventional wisdom in organizational theories tend to believe that non-hierarchical organizations are more opportunistic (Williamson, 1975), and they respond faster to environmental signals compared to large organizations that often have structural inertia (Hannan and Freeman, 1984, 1989).[13] Therefore, smaller-sized, lower-tier shops' advantage of catching a new fashion may seem to lie in their flexibility. This argument is called into question here. Given

13. This view is, of course, complicated by empirical results, see for example (Haveman, 1993).

the higher dependence of small firms on the sample market, their flexibility is superficial and is more of a market result than an organizational attribute. In fact, the advantages of small shops rely crucially on binding with the market and pipelining their designing, testing, and even mobilizing processes through agencies.[14] The frequency of their sample purchase may differ by weeks, but overall, visiting the sample market has become an indispensable part of shops' organizational routines. Put differently, while they are not constrained that much internally, small-sized shops are not flexible enough to escape the influence of external institutions. In this light, it might be more appropriate to say that the larger-sized apparel firms are more flexible, as the organizational boundaries allow them more independence from the market waves and grant them more freedom in timing, designing, manufacturing, and marketing.

But the greater degree of freedom large firms experience does not present much of a barrier to exploiting explosive fashion. As I will argue below, the conflict lies in the credit sales, associated with which are two fundamentally contradicting views toward uncertainty. Apparel firms who want to control uncertainty strive to reduce the credit-sale rate as much as they can, but the retailing method dictated by explosive fashion tends to elevate it.

3.4.1 Credit Sales

In essence, the marketization of design gives rise to an endogenous generative mechanism of fashion trends, the process of which features sequential selection. Sequential selection contrasts with the standard way of selection in the industry. The standard way requires producers to make a whole collection of samples all at once. Then, clients are invited to make choices from the collection and filter about 20–80 percent of styles for actual production. This standard selection model is common in cultural industries, and its features, such as overproduction and gatekeeping, have been described by scholars (Hirsch, 1972, 2000; Bielby

14. A side fact is that in other production bases where the sample marketplace is not functioning, small firms do not have much advantage when it comes to capturing explosive fashions.

and Bielby, 1994).[15] By contrast, under sequential selection, although a total of nearly 100 new styles are expected in a season, producers only make several new ones at a time and send only a few to clients immediately. Every style is promoted as a potential explosion style. The wholesale client takes the pieces home and shows them to his or her own clients for the order. If the order goes well, additional production follows. Otherwise, producers head to the sample market immediately to purchase a new sample and make a few new styles accordingly. Usually the cycle renews within less than a week and can be repeated sequentially at most about a dozen times in a season. Naturally, the chance of success is associated with the frequency of visits to the sample market. If we think of each cycle as a gambling trial, this means that manufacturers could make about twelve trials per season to catch potential hot styles.

In practice, I learned that this led to a finer-grained granularity of time, especially for shops in lower-tier streets. We know from the previous section that the sample market changed the information flows of apparel shops. Over the past few years, the number of visits to the sample sellers changed from monthly to weekly to daily. But information flows are not the only things influenced. Once a sizable sample market was built and legitimized, it could also shape apparel producers' workflows. Accordingly, producers fine-grained their production. They increased the frequency of cloth purchases but reduced the unit length of cloth in a single purchase (from a hundred meters to less than ten meters). The initial cut number was also reduced from thousands to hundreds. Knowing that suppliers would change styles quickly, the clients became more vigilant. They became less willing to place large initial orders, except for unusual styles.

As the temporal granularity was refined for the "flash fashion" model, it started to require a high level of *trust* and began to repulse the conventional fashion model. Under the "flash

15. Although in recent years, many large apparel firms in their propaganda highlight the fashions of their products and also use strategies such as holding part of their designs for later release to stimulate consumption, their designing processes still largely follow the standard model.

fashion" model, as clients were reluctant to place initial orders, manufacturers adapted to this situation by taking over the risks. They increasingly used credit sales —that is, offering their clients new products without charge or at an extremely low ratio of payment —and waited until the end of the season to settle up the difference. For firms adopting the conventional production model that highlights the control of uncertainty, such risky credit sales clearly goes in the opposite direction.

Informant Xu is an entrepreneur operating a top-tier firm in the town. During our discussion on the power of explosive fashion, he acknowledged that they were in some sense disadvantaged, as they couldn't benefit much from newly generated fashions. Knowing that their firm was a typical off-season producer that arranges order fairs two seasons in advance, I asked him whether he ever considered, for instance, to partly follow the market. *"We tried, yeah, we figured it would be nice to have both and we actually tried to set up a separate team that only follows the market. By that we may fit closer to the trends. It's good for our agents too⋯. But it turned out it didn't work well. Our agents didn't accept it. They refused to order on the "market" samples we showed them⋯. Normally at that time the entire market heats up; maybe they worried about the style changes so they were unwilling to give money out, unless we deliver our products on credit, for free. But credit sale is something definitely unacceptable to us."*[16]

3.5 Mobilization of Labors

Explosive trends, therefore, are institutionalized in the wholesale markets. The consequence is that the evaluation process and the popularization process of fashion are mixed. The latest information is fed to manufacturers constantly at very low cost, making the arduous searching problem under uncertainty and asymmetric information (Stigler, 1961; Geertz, 1978) a secondary one. Regardless of risk, following the market becomes strategically favorable,

16. I will discuss in Chapter 4 in more detail why small shops can bear the seemingly unreasonable risks.

which also shifts the challenge from the cultural part to the material part of production. Once the sample market endows apparel shops with the prompting signals, it becomes imperative that shops are able to adapt signals to their own storyboards with the utmost speed, test quickly, and once feedback returns, be able to fill the rocketing orders of certain styles. This had stimulated the growth of already quite well-developed sub-manufacturing and contracting jobs, as no shops could handle peak orders with their own labor.

Apparel shops were quite aware of the pressure of quick production. A factory owner told me that during the first year when he and his wife opened their shop in the town, they were lucky to have a few popular designs. Despite that, they didn't make much from the designs due to the shortage of labor. *"(Back then) we weren't able to fulfill quick orders. During the peak week, we got orders of five thousand pieces per day, but with only ten tailors, it's impossible to ramp up our production. What a pity! We had great designs that year, but a lot of our orders eventually leaked to other shops. That year I felt like I was just a sample seller."* One year later, he began to contract with two sub-manufacturers to work regularly for him. Two years later, he invited a new contractor to contain the two, but he decided to stay with three afterward, and only let his three contractors handle further increased amount of orders themselves.

The magic of meeting peak orders that could be ten times greater than off-peak lies in the ability of contractors or sub-manufacturers to mobilize additional labor. Many contractors had previously worked as factory managers in apparel firms before they resigned to start their own business. Most of them had five to fifteen years' experience in the industry. As they are often subjected to order instability and seasonal demands, contractors collaborate with each other closely. A contracting factory typically has twenty workers,[17] but the experienced contractor could easily mobilize 500 additional workers from other contracting shops of similar size. In fact, contractors usually take an order first, regardless of the size or

17. which is a threshold number that prevents the factory from bankrupting during the slack season.

difficulty, and then coordinate the work with their fellow contractors to meet the demand. For instance, once during the end of my interview with a contractor, he answered a phone call from an upper-stream shop, and the called demanded that he deliver the orders by the end of the day. From his humble reply, I learned that his factory couldn't make the complex styles assigned, but he still took the order initially and later dispatched the order to another factory for help. After the call, he told me it was a common strategy adopted by many contractors, and the upper-stream shop also knew it. Such a job-sharing system among experienced contractors has an egalitarian nature to it and works similarly to the share system of fishing crews (Norr and Norr, 1974). It allows contractors to offset the bargaining power of apparel shops to some extent. It also makes production capable of meeting surging demands for certain apparel shops.

3.6 Discussions and Conclusions

In this chapter, I argue that the general patterns of apparel shops hitting explosive fashion trends (a typical case being the hanfu wave during the summer season of 2019) were shaped by auxiliary markets, and particularly by the sample market. Small-sized shops were seen as more likely to make hanfu in part because they paid more frequent visits to the marketplace and developed their sales routines as highly credit-based. Although the formation of the sample market as a centralized marketplace was more or less a mixed result of contingency and action, once crystallized, it gradually shaped the information flows and workflows of apparel making. Small-sized manufacturing shops became more dependent on the auxiliary markets. Still, in theory, large apparel firms could also benefit from auxiliary markets equally in a similar way, yet their logic of handling uncertainty was found to be conflicting with the marketplace's logic, which features sequential selection and credit sales.

Thus, the two organizational models—the external institutions such as the sample market and the internal ones following conventional business models—become conflicting institu-

tions (Beckert, 1996: 829), or in the words of some neo-institutionalists, institutional contradictions. Such tension has previously been discussed for the most part at the macro-level, between grand institutions such as capitalism, a bureaucratic state, the nuclear family, and the Christian religion (Friedland and Alford 1991). A few studies did focus on the intermediate level of competing institutions. For example, Lounsbury (2007) studied the competing logic for U.S. mutual funds, but in his case, the rival institutions were largely geographically separated. Here, the contradicting institutions coexist in the same location, and their conflict doesn't seem to be temporary as the boundary is consolidated by the finer granularity of time for market-based apparel shops.

Explosion styles, trust, and market as the (alternative) foundation

Auxiliary markets in the apparel industry play a double role: they help lower the informational cost to stimulate the collective fever around the latest fashion, and they increasingly create an enclosure to incorporate the daily activities of manufacturing shops. In contrast to being subordinated to a hierarchical intra-organizational structure or becoming the subcontracting appendage of large companies, small shops are more involved in dependent relationships with various service providers in the market. Rather than deviating from the dichotomy of market or hierarchy and blurring the boundaries of organizations (Podolny and Page, 1998), shops connect individually with the market in a sustainable manner. Moreover, the legitimacy of the business also gets altered. Economic sociologists often hold the view that certain inherent values of a market (such as liquidity and trust) are rooted and operationalized by larger external powers, such as the state (Carruthers and Stinchcombe, 1999). While this view is certainly insightful in the general sense, it somehow fits less in this case as the ultimate faith in trade and production outcomes are sourced internally from the market —more specifically, auxiliary markets. This is in part because in the apparel industry, the "market" functions not just anonymously as a matching and price-discovering mechanism; it also works as a concrete space (Cetina, 2006), a public space that channels resources,

communications, and evaluations essential for producers to fulfill their self-looping daily actions. In comparison to other forms of coordination (such as authority's guides, fashion guidance made by gatekeeping institutions, or famous designers), marketplaces are viewed by producers as the most tangible, trusted, and indeed, the most mythical social apparatus.

The set of auxiliary markets effectively define the organizational routines of shops. Chasing and promoting explosion styles in the spot market therefore can also be seen as a "ritual" of worshiping the power of the market and its mysterious nature, or in a Durkheimian perspective, close to some elementary forms of religious-like behavior that ultimately points to societal power. It is just that in the case of the children's apparel industry, the societal power is realized in the form of the market, manifested through deployment of information and labor under the middlemen's concrete signals rather than in other institutional devices, such as associations, unions, or political groups. Needless to say, the ritual has its economic benefits—the chance of explosive wins. But the meaning that producers attach to the explosion styles goes beyond monetary purposes, which is similar to what Preda observed for retail traders in electronic trading (2017). The generation of explosion fashion is seen by small-sized shops as the manifestation of the myth of the market. Thus, the reason why they were so willing to play the game of explosion styles lies not just in their calculation of profits but also in their belief in the market. It hints that the marketplaces may constitute the societal power in China's private sector. This, in addition to the gambling nature of production, forms the rationality behind explosion styles.

The analysis in this chapter also leaves one important question unanswered: Given that credit sale is so risky, why were small-sized firms able to practice in a sustainable way? This question will be addressed in Chapter 4, when I elaborate on how gambling on explosion styles is backed up by a set of compensation mechanisms in yet another more important kind of auxiliary market—the clearance market.

CHAPTER 4

THE SOCIAL STRUCTURE OF LIQUIDITY IN THE CLEARANCE MARKET

This chapter furthers my explanation of the "small firm" puzzle. In chapter 3, I described the role that the sample market as a central institution played in sustaining small shops' advantages in hitting explosive fashions. However, this leaves a relevant question unaddressed. Given that the retailing strategies dictated by the sample market are highly risky, how could it be possible that by-and-large, gambling on such a production could sustain and eventually dominate the industry? In this chapter, I introduce the grey part of the industry —the clearance market—and argue that due to its certain properties (during the production season), the potential loss of gambling is compensated to a great extent. Loss in gambling production was largely offset due to two compensation mechanisms in the off-price market, and more importantly, both are strongly biased towards simple and unbranded products. This granted higher liquidity to small firms. Thus, dramatic rituals of gamble-production and gamble-retailing are realized not in the single primary market itself, but in between the "dual markets."

This chapter begins with a brief comparison of the retailing strategies of apparel firms, showing the "negative" side of explosion styles. I then turn to set up the theoretical framework of this chapter, offering a framework for "dual markets." The two parts of dual markets—the primary market (or client market) and the clearance market (or off-price market)—are linked and mediated by middlemen. Then, I examine in detail the way apparel clearance is mediated in the production season, focusing on the varied liquidation of products. Two specific types of mediated transactions—the open-door street-market transaction and the indoor showroom transaction—are analyzed. After introducing the method and data, I then compare the liquidity of products for different levels of firms and identify the pivotal com-

pensation mechanism associated with each type of mediation. The overall findings indicate that the power of weak firms is conditional on the characteristics of mediation between the primary and the off-value market. I conclude the chapter with a discussion on the "front-loadedness" of dual market in this industry, and more generally, its implications towards other cultural markets.

4.1 The Risks Of Small Firms in Gambling Explosion Styles

In the previous chapter, I mentioned that credit sales (or penetrating distribution of goods) as a risk-taking behavior that accompanies explosive fashion is adopted more widely by smaller-sized apparel shops. Upon making new samples, producers deliver all products to clients without getting payment. If the sale turns out to be bad, clients are free to return the products without the burden of loss. By contrast, almost all leading apparel firms in the town not only stick to made-to-order production,[1] but they also strive to avoid credit payments as much as possible.

Naturally, one would predict that such gambling-like practices will be selected out through competition, and that whatever producers adopted these strategies would easily fail sooner or later. As producers typically try multiple rounds of hitting explosive fashions, their behavior is similar to those of the persistent gambler defined in the canonical "Gambler's ruin" principle (Feller, 1950). As the principle goes, these persistent gamblers with finite wealth tend to do a "random walk" and will eventually and inevitably go broke against an opponent (i.e., the volatile market) with infinite wealth, even if the game is fair. That said, given that the typical gross profit rate of apparel is 20–30 percent, a "fair" game would require the apparel producer to sell at least sell three to five items in compensation for one

1. However, these firms will typically add 10 to 30 percent in additional production to the actual orders in case there is more demand than expected. This, in fact, ends up being a major source of their stock. Another major source of stock comes from returns or renegotiations with clients. Therefore, despite that leading firms try their best to avoid credit sales, in reality credit sales still exist. But the problem is certainly much less severe.

unsold item to break even. This calculation is, of course, a coarse one and is merely for approximation. Nevertheless, it still implies that under credit sales, the conditions for small shops would be harsh, and they might be more liable to failure. This contradicts the fact that credit sales dominate the industry, and many low-tier shops with credit sales grow quite well and profitably. Moreover, despite the fact that various technological updates are taking place in recent decades, credit sales is among the last things to be affected.

Risk Reversal	Client Market	Clearance Market
Small apparel shops	High	Low
Large apparel firms	Low	High

Table 4.1: Relative risks in the primary market (the client market) and the clearance market.

How to account for this puzzle? As I will argue below, the contradiction of risk and sustainability is eased primarily due to another auxiliary market, the clearance market, which forms a dual market with the primary market. Risk-reducing mechanisms in the clearance market reversed shops' risk distributions (see Table 4.1). As a result, as dramatic forms of exchange in clientship transactions were backed up, so were the competitive advantages of low-tier shops.

4.2 Dual Markets

The notion of economic dualism has long been conventional in market theories, especially regarding the labor markets. In his contribution, Michael Piore (1978) claimed that duality (of labor markets) is a natural tendency inherent in the uncertainty of economic activity. There exists in the given labor market a primary sector and a secondary sector. Dualism emerges when certain portions of labor are insulated from uncertainty and institutionalized, and then begin to resemble "capital," and the behavioral patterns of capitalized labor and the rest (which remain as "labor") gradually differ accordingly.

Since the 1970s, empirical evidence began to accumulate that labor markets in France, Italy, and the United States are indeed divided into stable, good, high-paying jobs and less secure, low-paying jobs (Doeringer and Piore, 1971; Hudson, 2007), and market dualism soon became a critical research area. However, although this stream of thought has made great advances in understanding the creation of the boundary of dual markets, its relations to race, gender, and class structures, and has offered various explanations as to how and why such segregation is maintained, the central concern and the fundamental assumption of market dualism has stayed more or less the same. That is, dualism in these studies is merely considered a form of *separation* (between formal and informal, stable and unstable) and is dichotomous.

Thus, this notion has almost become a cliche. In this section, I argue that while dualism is still important, attention needs to be shifted from separation to mediation and transference. What's theoretically more challenging is to specify the mechanisms of the transference of uncertainty—i.e., how uncertainty (supposedly generated or encountered in the primary sector) gets absorbed into the secondary sector. This will turn the "dualistic" dualism into a dynamic one. For cultural markets specifically, the study of mediation/transference involves the analysis of the categorization processes of value-unknown products and tasks. This is a topic Piore and his successors had left blank.

What do I mean by transference of uncertainty? Transference of uncertainty is grounded in the epistemological assumption of Knightian uncertainty (Knight, 1921). It states that while human behaviors are conducted with intentions and plans, the future states of the outcomes are fundamentally unknown. In addition, an exchange system encoded with certain rules and norms would possibly develop diverging paths to deal with endless flows of challenges. One path is to develop new practices in the hope of internalizing uncertainty to the existing body of institutions. The second path, by contrast, is to leave the primary part relatively insensitive to uncertainty and channel it towards a second part of the system. I found the children's apparel production market to be a typical example of the second. Interestingly,

it's not the only dual economy that features such transference of uncertainty.

A parallel case can be found, in fact, in a classic ethnographical study by anthropologist Daniel Miller (2002). His study concerns pottery making and potters of the Jajmani system in an Indian village. Although the case studied here and the Jajmani system address issues in completely different social, cultural, and historical contexts, theoretically they share substantial similarities.[2] Therefore, for illustrating purposes, I will first digress to briefly describe the Jajmani system. I then compare it with the dual markets studied here.

The Jajmani system consists of an exchange economy between what are known as patrons and clients in an Indian village. In this semi-contractual system, clients (lower and middle castes) provided services to the patrons (landowners) and other castes in exchange for food, such as grain, or services like hair cutting. The type of clients specifically examined by Miller is the potter caste. According to him, six households of potters (of the potter's caste) in an Indian village make over fifty kinds of pottery (Miller, 1986: 529). They serve the remaining 259 households in the village with their pots during religious festivals. Although the pottery was distributed under religious settings, they were designed for practical use and were daily necessities for residents.

A paradox naturally occurred, as the supply of pots is unrelated to the actual demand[3] (1986: 539). To ensure the distribution of "religious" and "moral" pottery, the amount of supply is not determined by the calculation of mundane needs or values of exchanged services. Consequently and quite similar to other cultural products, pottery is often oversupplied in the round of contractual circulation (1986: 542). Yet, production of pots is still resource consuming; therefore it is still subject to cost constraints and should not be too excessive.

2. Practices in the client market for the apparel production industry are quite similar to those of religious festivals in the Jajmani system, as the practices highlight morality and trust.

3. Miller found that regardless of whether households still have the pots from last year, they will nevertheless still accept new pots to replace old ones (1986: 539). This, interestingly, is quite similar to the ritual of "fashion" in the apparel market.

In a word, such a system has inherent difficulties in keeping a balance.

To address the conflict between ideal exchange and mundane production, Miller observed the existence of a local marketplace that co-existed with religious festivals for more than a thousand years. The observation of the local marketplace is insightful. As Miller explains, the local marketplace functioned to absorb unknown shocks that might otherwise destroy the operation of the religious exchange. For instance, potters could now and then sell their overstock in the marketplace to people from surrounding villages to recover some costs; if pottery was broken during daily use, local residents could also purchase additional ones from the marketplace so that they didn't have to wait until the next festival. Outside-village potters could also bring their makings to the market, which would benefit local villagers in case there was a death among the potters in this village. In sum, Miller hypothesized that while the Jajmani system is conceived by anthropologists as "ancient" and "ideal" (2002: 221), in practice, it is realized and sustained by a joint pact that handles certain externalities and keeps the religious part intact from practical challenges.

That said, the "duality" interpretation of the Jajmani system in Miller's original work is mainly intended to resolve the controversy of "modernity" (featuring monetization) and "tradition." Miller used the case to challenge Callon's theory of performativity and sought to complicate his notion of market dominance in capitalist economy (Callon, 1998). But he didn't seem to analyze specifically the mediation process of uncertainty; neither had his interpretation been further developed into a new theoretical framework about the interaction between the embedded exchange and the disembedded exchange. Still, the issue he grasped remains important, namely, the connections and co-functioning of dual forms of exchanges. As I will show below, such dual forms of exchange—despite the fact that one elevates value and another undermines value—do not merely exist between radically different systems such as the "modern markets" and "ancient religions," but can also be observed inside "free markets." In other words, we see great similarities between "ritual systems" (Keane, 1997)

and "market systems" in terms of the way they handle uncertainty. For the children's apparel market studied here, specifically, the dual markets are constituted by a client market and a clearance market. Of course, this doesn't mean that the dual markets are spontaneous and simply coexist naturally in economic activities. The formations of dual markets (for both systems) are still subjected to a wide set of entangled structural and historical conditions. (Due to space limitations, historical analysis will not be the focus in the chapter.) But once formed, dual markets are essential in influencing both the dramatic gambling production with a fever of "explosion styles" and the success of small apparel shops in the apparel industry. This is what I examine in detail below.

Now let's turn to the apparel market. I distinguish two trading zones in the market. In comparison to the Jajmani system, the "ideal" part of the economy is based on recurrent exchanges characterizing embedded relations (Granovetter, 1985) between apparel shops and their wholesale partners. Buyers (wholesalers and their representatives) who manage to connect directly with these source manufacturing shops are intended to establish long-term relations to get first-hand seasonal products. Likewise, apparel shops usually start a season with the preferences of their stable clients in mind. Clients are classified by shops in terms of their preferred colors, sizes, and so on. For instance, clients from north China generally prefer oversized wear, as parents expect their children to grow quickly and are more sensitive to budgets. There are occasionally random orders from customers who make new searches across apparel shops, but they either order little or would be converted into stable clients after replenishing their orders a few times. According to my estimation, each year about 60–70 percent of total trade volume occurs among embedded relations.

The more "market" part of apparel transactions, analogous to pottery trading in the marketplace, takes place mainly in a wholesale trading center known as "The Children's Apparel Wholesale City of China." This wholesale center was built in the early 2000s, initially occupying a zone in the suburban area two miles to the south of the town. However, with an

increase in urban development over the past three decades, the urban area had increased ten-fold, and the wholesale center was gradually incorporated into the urban region, now only a two-street walk to the downtown area, where most apparel manufacturing shops are located. Such closeness added to the connections between the two parts. Thus, the geographical structure of the production market is divided into two separate yet neighboring zones: one zone where apparel shops directly sell goods to their clients, known as the "street market," and a more condensed zone of the "wholesale city" containing more than a thousand showroom stores displaying goods mainly for clearance sale. Most of these showrooms are run by middlemen who themselves don't manufacture. About 30–40 percent of apparel is sold through the wholesale clearance market. Figure 4.1 gives an illustration of the two areas.

Figure 4.1: The map of the street market (for client transactions) and the wholesale city (for clearance sale).

The colored dots indicate blocks of apparel shops included in the previous analysis of explosion fashion in chapter two. The brighter color indicates a higher proportion of explosion styles. There are more than thirty streets in the town where manufacturing shops are located. The plotted ones correspond to the ten streets selected for the purpose of the study.

One needs to note that such a division of dual markets is not merely constructed for analytical purposes. Rather, producers developed this distinction themselves in practice. To them, the market (*shichang*) is a special term referring only to the wholesale city area, which they contrast with transactions that happen in the street area. Accordingly, when they clear stock to the wholesale city they call it "kicking to the market." Interestingly, local officials and outsiders often mix the street market with the wholesale city and address both as "market" in the interviews.

One may also note that the framework of dual markets is related to that of secondary markets. Classic examples of secondary markets include various flea markets (Sherry, 1990) and lemon markets (Akerlof, 1978). Admittedly, the dual forms of exchange discussed here and in the Jajmani system are, in some sense, close to the notion of secondary markets in modern economics. Both the apparel clearance market and the marketplace for pottery redistribution could be treated as social devices for market-based redistribution of products. But there are two important differences. First of all, goods in secondary markets are usually resold after purchasing (and using). The value of these used products are discounted for natural reasons. However, apparel clearances studied here occur during the production season, when they are still new products not yet entering retailing and consumption (which is similar for the pottery case); thus the final value of the products remain ambiguous. In other words, there isn't a natural way of discounting the value of a product when it hasn't been evaluated by potential consumers, even if it is literally under clearance sale. The order between primary and secondary markets is therefore parallel rather than sequential in a season. Secondly, while secondary markets in most literature are isolated and analyzed as alternative institutions, dual markets imply that primary and secondary markets are more closely connected than assumed and the mediations between them are emphasized. In fact, as I will argue below, the mediation processes are responsible for shaping the social structure of risks in this industry. For these reasons, the framework of dual market fits better for the analysis here rather than the existing framework of secondary markets.

4.2.1 Liquidity in the Clearance Market

The way the clearance-sale market altered the social structure of risks is through the liquifying of transactions. Therefore, my key argument is essentially related to liquidity. Liquidity is less of an issue for the primary exchange and more for the secondary transaction. In the analysis, I followed the definition of liquidity from Carruthers and Stinchcombe (1999). Carruthers and Stinchcombe reexamined liquidity and offered a sociological interpretation of this pivotal property of free markets. They noted that the problem of liquidity is a sociology of knowledge. According to them, liquidity refers to how continuously transactions of certain products could happen: *"If exchange constitutes the elementary form of market life, liquidity means that exchange occurs easily and frequently—markets are operating smoothly and properly"* (1999: 353). Such continuity, in reality, is difficult to reach, especially in non-financial fields as most exchanges can only happen when the buyer and seller are matched perfectly in time. In apparel production, liquidity means that producers who sell their items need to find parallel mediators (known as the *market markers*) willing to constantly offer prices for their products and take the associated risks. That said, the easiness of reselling is undoubtedly an inherent aspect of liquidity, and the liquidity of apparel depends on how likely the item can be sold repeatedly to other sellers and middlemen in the production market.

Except for the existence of continuous auctions and the groups of market markers, a third major property of liquidity is homogenization and standardization of commodities. This property, as argued by Carruthers and Stinchcombe, is in many cases created by the state for "grading natural products" (for products like wheats and minerals) or "creating legal instruments" (1999: 356) to standardize the income streams of singular assets (i.e., financialize the assets).

What if products are not financialized or graded? In apparel production, distinctiveness is a natural calling of fashion (Simmel, 1957), and products naturally differ in brand, style, and

material. I found that in this scenario, homogenization is still important to liquidity and is related to two processes. One process relates to the reduction of design complexity and usage of costly materials, such that the value of the products would be more apparent for examination during the assessment. The second process is de-branding, i.e., the removal or disclaiming of product brands such that clearances wouldn't conflict with client transactions. The first process works to make transactions between producers and market maker closer to a "fair" trade. The second process is more related to fairness in client relations. Put together, both are found to benefit lower-tier firms more.

Similarly, Smith (1993) has noted such "fairness" in auctions—the typical exchange scenario when the goods are mostly singular and distinctive (Lucien, 2010). According to his observations on auctions, wholesale buyers are less concerned about the particular price paid. What they care about more is the difference between the initial price and the reselling price. *"The only thing that needs concern them is that they pay no more than their competitors. Since this is the concern of all the wholesale buyers, they have a collective interest of ensuring that everyone pays the same price for the same goods"*(1993: 185). Here his unspoken idea echoes with that of John Maynard Keynes, who already hinted in his famous "beauty contest" example (Keynes, 1936) that economic rationality is based on a balanced mutual awareness of each others' evaluation and knowledge. Therefore, the notion of fairness or balance is also essentially related to liquidity, and more specifically, to liquidity associated with evaluation.

In the apparel clearance market, liquidity varies across products, and since apparel firms specialize in different products, it also varies across firms.

4.2.2 Types of Mediation in the Clearance Market

I distinguish here between two interconnected types of mediation in the clearance market, the first being mobile and the second more sedentary. The mobile mediation is conducted by middlemen who usually drive motor tricycles across the garment streets soliciting apparel

for clearance. They are termed "street-market middlemen" here. The sedentary mediation is conducted by middlemen who run showroom stores in the Wholesale City. The street - market middlemen also rent rooms as warehouses near the Wholesale City, but they typically don't run showrooms. Besides their transactional relations with producers, street-market middlemen and showroom middlemen also exchange goods within and between each group now and then. Unlike their offers to producers, they only charge each other a minimum spread, as low as ten cents per item for inter-middlemen transactions, which makes them quite similar to institutional market markers working for Stock Exchanges.

A closer look at the two types of mediation reveals that they have differentiated into niches (White, 1981) in the clearance market. When a transaction takes place between a middleman and a producer, each niche has its pros and cons in the eyes of the producer concerning the following dimensions of liquidity.

First is the continuity of sale, namely how frequently price can change and auctions can be made in the transactions. For the showroom sale, as the products can be sent simultaneously to multiple showrooms for display, the sales can have multiple auctions happening concurrently on a daily basis. The "market price" of clearance is more competitive as it changes more frequently and smoothly. By contrast, street-market middlemen only make offers to one apparel shop at a time. Thus, only a single auction price is offered to producers, which makes the clearance price change slowly.

The second aspect concerns the ease in getting cash payments (which relates to the middlemen's willingness to take the risks). This is indicated by the proportion of immediate cash sellers can get in payments during the clearance transaction. Many showroom middlemen would "eat" stock (meaning that they buy the stock themselves and hold them for later sale) and some only offer to display samples of stock on their racks and would charge for a spread (usually one yuan) if sold. Even for those who "eat" stock, most of the payments are not given to the producers immediately but are settled on a half-year basis. By contrast, the

street-market middlemen offer immediate cash payment. Thus, while prices are less continuous, products are nevertheless more liquid in terms of "cashout-ability" in street-market transactions.

Overall, the clearance market is made up of more than one thousand showroom stores and several hundred street-market middlemen. The large size of professional mediators and the well-developed differentiation of clearance mediations indicate that the clearance business has become an integral part of the industry.

However, the mere fact that the production market owns a huge sector of clearance sales still leaves the puzzle of small firms aside, namely, why and how the relative risks in the client market got reversed during clearance sales. In the next two sections, I explain separately why this is the case, for both street-market and showroom clearance. I found that the two types of clearance are subjected to disparate mechanisms, one related more to *information* and the other to *identity*.

4.3 The Reversal of Risks in Street-market Clearance

Because middlemen handle clearance transactions, it is necessary to understand the middlemen's evaluation practices. Zuckerman (1999) once criticized that while neo-institutionalists recognized the importance of legitimacy models, they didn't pay close attention to actors who hold legitimacy models. Given the lack of independent evaluation institutions, middlemen become the sole actors that hold the "model" of evaluation in street-market clearance. They work similarly to those security analysts in the equity market: they provide an evaluation of value-changing assets, either by passing around reviews or giving direct offers. As liquidity is created by middlemen, their collective knowledge directly determines whether and which apparel firms' products can benefit more in street-market clearance.

I argue that the reason lower-tier shops have higher liquidity during street-market clearance

is largely due to the information problem. Products of higher-tier shops are more difficult to evaluate. While the limited knowledge of middlemen on designs is certainly a factor, it is only part of the reason. More importantly, since higher-tier shops are subjected to a greater danger of style imitation (given the existence of the powerful sample market and the fact that their designs come out earlier than lower-tier shops), they deliberately make their products more complex and source fabrics from more distant areas. This, while adding protection for their styles to some extent, has also made the middleman's job of "cost assessment" more difficult.

By contrast, most low-tier shops (in Tier 2 and 3), as they count on their manufacturing speed, have to rely on local retailing stores (more than a thousand in the town) for quick replenishment of fabrics and ingredients. This adds quality homogeneity to their products, as they purchase similar cloth and ingredients. These quality-homogeneous materials are easier to be assessed, as the knowledge of their costs can soon be made public among middlemen.

During an interview, a tricycle middleman spoke with confidence, saying it was a piece of cake to approximate the cost of products made by low-tier shops. *"Their costs are quite apparent. The summer wearings differ at most by 0.5 yuan. They buy materials from local fabric stores where we can almost get all the prices. Even if we couldn't get right the cost of new materials in the beginning of the season, we can always ask other peers for help. It's often no longer a secret after several days. For example, for a t-shirt this summer their REAL cost is about 6 to 6.5 yuan... (The range) wouldn't differ much".*

As the grade of products increases, however, the middlemen's cost estimation begins to deviate from the real cost of producers. The reasons are that high-tier apparel firms prefer unique ingredients and complex designs, which would help them limit imitations. A lot of them would fly to Guangdong province to select fabrics rather than purchasing from local retailers. As one producer running a manufacturing shop in Tier-1 streets noted, *"If someone wants to copy our styles, either they redevelop with their own cloth, or they have to find the*

exact same cloth we use, but we got ours in Guangdong market; if he flies to Guangdong, searches and then gets back, that would probably take him two weeks⋯.besides, our designs are very complicated—look at the lace, it would be quite inefficient for workers in other factories to learn our styles. To tell the truth, even our own family workers complain a lot on the difficulty of our styles (they also have higher piece rates though), they always prefer to work on simple designs... I can almost imagine how their brows would knit when they see our new designs come out this year."

However, the prevention of imitation also makes the evaluation work of middlemen cumbersome as they can't obtain enough information about the target shop's cost of unique materials and piece rates. As a result, in the eyes of street middlemen, high-quality, complex apparel are "unclassifiable." I learned from informants that the clearance prices middlemen offer are usually much more biased than the real cost for high-quality products. As an informant producer in a Tier-1 street said, *"These men are bidding too low! Their price wouldn't even cover half of our real costs! Once I remember they offered 6 yuan for our shirts! Are you kidding me! What can you do with 6 yuan today? It's not even enough to buy a bowl of noodles!"* Thus, the problem of asymmetric information and adverse selection (Akerlof, 1970) intensifies when higher-tier firms attempt to protect their styles from imitation.

4.3.1 Empirical Evidence of Street-market Variation

To examine the variation of the liquidity of street-market clearance, I compiled a street-level dataset. This dataset keeps track of the moving areas of eight middlemen who regularly run tricycles on the streets in search of unsold apparel. The middlemen were recruited in the wholesale city area in a snowballing fashion. While not fully representative, the dataset still provides qualitative evidence on the varying degree of clearance easiness among apparel shops.

In particular, I use the *overlapping rate* of the patrol areas of middlemen as the indicator

of how frequently clearance transactions took place between manufacturing shops and middlemen. The overlapping rate is a reasonable measure for the purpose here. The reason is that recycling unwanted apparel is a highly uncertain business, so middlemen generally prefer to spend their time in areas where business opportunities are most likely to occur. In particular, the range of the patrol area can be seen as a function of the middlemen's time constraints during a day.

The town's garment district spreads over a relatively large area with more than thirty apparel streets varying in length from 0.4 miles to 0.8 miles, averaging about 0.6 miles. Middlemen seeking business usually drive motors to save them the trouble of walking. Every motor tricycle is equipped with a speaker playing recordings of chanted slogans. In order to make the recorded voices heard by manufacturers alongside the street and give enough time for shop owners to stop the tricycle if they want to have a chat, the tricycle needs to run slowly—about 3 miles per hour, which is even a bit slower than walking. This creates a constraint in the total patrol area. If a tricycle needs to patrol through all the streets across the garment area in a single day without stopping, then it would take roughly a total of six hours. This doesn't even include the time waiting for traffic lights, the time it takes to travel through non-garment streets, time for meals, time to use the public toilet, and time to negotiate when called upon by a seller. Moreover, the compartment of the tricycle is not closed, so drivers are simply exposed to the outdoors when driving. This makes them unwilling to stay outside for too long, especially if the weather is harsh. For instance, during summer days, when the temperature can easily reach above 100 degrees, most drivers only come out for about two to three hours in the morning. Therefore, the configuration of the "business devices" and the social arrangements by which communication is channeled between middlemen and manufacturers have created a constraint on the choice of streets as the regular patrol areas for street middlemen. This constraint makes it easy for us to infer simply from the density of motors how likely clearance transactions can happen for shops in a given area.

The detailed results are provided in Table 4.2[4]. As expected, the lowest-tier streets are middlemen's favorites, with an overlapping rate averaging 0.83. Tier 1 and tier 2 streets are much less dense with tricycles.

Beginning week of Fall Season 2019	Density of shops	Tier of streets	Is Patrol Area of tricycles
Liji Road	High	1	0/8
Qiantangjiang Road	Middle	2	0/8
Yongkang Road	Middle	2	1/8
Fukang Road	Middle	2	4/8
Xiangjiang Road	Low	3	6/8
Nanjing Road	Low	3	8/8
Caihong Road	Low	3	7/8
Yiming Road	Low	3	8/8
Mingsheng Road	Low	1	8/8
Jiangnan Road	Low	1	3/8

Table 4.2: The overlapping rate of the patrol areas of the street market middlemen (N=8)

4. The density of shops in a given street is measured by the number of units per store. Based on my estimation, for the same space, the tier-1 road is about three times denser than tier 3 roads, and this disparity seems to be increasing over the past four years. Density helps to determine the number of streets included in the sample.

4.3.2 Observational Evidence

To triangulate their own reports with additional evidence, I spent five consecutive days wandering across these streets to get a sense of how motor tricycles are distributed among the streets. My own observations confirmed their reports. For the five consecutive days in the next week of the fall season, there were three days when I didn't see any middlemen patrolling in the Tier-2 area. On none of the days did I see motors patrolling around the Tier-1 area. But for the Tier-3 streets, every day it was always easy to spot a tricycle moving by, with recorded voices coming from the speaker under of the wheel of the truck: "Leftovers wanted! High price! Recycling stocks! High price!"

Clearly, this indicates that street-market clearances are more likely to occur in low-tier streets.

Despite the analysis above, street-market clearance still has its limitations in liquidation, as the easiness of cost estimation varies by season. Middlemen generally prefer summer styles the most, as they are the simplest. Spring and fall styles follow. When it comes to winter, however, the designs of down jackets and cotton coats have multiple layers and are much more complicated. Because the inside layer is sewn below the outside layers, the material of the inside layer cannot be eyeballed directly. The weight of the fabric also increases, which adds to the total cost significantly. Therefore, in winter, the bidding prices offered by middlemen often become too low even for low-tier shops. Most shops suffer a heavy loss if they sell winter products to street-market middlemen.

While winter transactions are much more difficult for street-market clearance, the unit value of winter products is significantly higher than the rest of the seasons. This had limited the relative significance of street-market clearance in terms of its entire trading value. Moreover, the problem of information is not entirely unavoidable, as samples displayed in showroom stores typically don't have these severe problems. This is because while street middlemen

evaluate stock solely on their manufacturing cost to compress their own risks, the wholesale buyers are more value-based and therefore not so sensitive to the real cost of a piece of clothing. However, despite the mitigation of this information problem, the showroom clearance is still found to benefit low-tier shops. In the next section, I explain and analyze the second type of liquidation—the showroom clearance that happens in the Children's Apparel Wholesale City, where counteracting institutions exist.

4.4 The Reversal of Risks in Showroom Apparel Clearances: Identify Conflicts

Price discounts that happened in stores are widely seen in consumer markets. Accordingly, economists have developed pricing theories related to clearance sales and price strategies since the 1980s (Bulow, 1982; Lazear, 1986). Empirically, however, price discounts in consumer markets are less problematic because consumer groups, unlike what economists usually worry about, are instant purchasers who place individual orders and can be segregated into different fashion periods. In other words, consumers are often less strategic with regard to potential price differences. Despite a few strategic purchases, the consumer groups are trained by fashion institutes to seek distinction (Rocamora, 2002) through the purchase of the latest products. Or, according to the Simmelian argument, the tendency to seek distinction is grounded more deeply in societal nature. That said, regardless of the source of distinction, consumers can be institutionalized easily and tend not to be zero-sum competitors against producers.

However, such a non-strategic feature won't hold when it comes to retail and wholesale buyers in the production market, given the presence of geographically adjacent dual markets.

Retailing buyers soon notice that if their initial purchase amount is lower than expected, manufacturers would be pressured to clear it to the market, and they would procure better

deals on discounted products from the clearance market. When the retailing season is still far from over, first-run buyers will suffer a loss because subsequent buyers (most likely their wholesale competitors in the same region) can get lower prices for the same goods and may initiate a price war against them. This will cause buyers to be unwilling to make initial purchases if they assume the price would fall soon. To end such game-theoretic battles, producers are expected to hold the value of products constant throughout the season, so that the time of purchase won't interfere with the auction fairness among wholesale clients. As one informant noted, *"This week a guy came in several times, every time asking if we had lowered the price. How can we lower the price right now? (If we do so), we would soon get endless complaints from previous clients. Do we still want to keep our business?"*

Put in different words, the easiness of clearance is incompatible with stable clientships as it may trigger value conflicts. Improving the liquidity of products in space and time would expand the potential customer base and increase resilience to adverse events. However, it can also threaten the symbolic capital accumulated in the brand (White, 2007). Cooperation with too many showroom stores may destabilize the overarching meaning of the established brand, increase the danger of a price war among clients, and trigger complex and unexpected conflict with clients in the primary market. Therefore, even if clearance is never completely avoidable, it is still largely viewed as taboo in client relationships.[5] Consequently, transference from the primary market to the clearance market is usually a de-branding process, with the samples of unsold goods sent to clearance stores unknown to clients, and the samples displayed on showroom racks unadvertised when it comes to the brand. Coase (1972) noticed a similar problem in a different scenario and termed it the "durable-goods monopoly problem."

Such conflicts are not only manifest in space but also in time. Small shops are much more advanced when it comes to clearance times. As a shopkeeper of a Tier-1 shop observed,

5. According to informants, there are a few occasional instances when the producers may use a small amount of off-price products as gifts to their clients. But this is certainly not done in an expected way.

"Those (producers) in the back streets (referring to Tier-2 streets), they are really ahead of us in clearance. In mid-April, I already heard them saying they had cleared dozens (of styles). As soon as we started clearance, they were almost done with it ⋯that's just crazy." Advanced clearance also makes the products less devalued. As a showroom storekeeper observed, those who cleared early can not only recover their costs, but in some cases even make profits.

Therefore, the more developed the clearance market, the greater the relative disadvantage of higher-tier firms with branded products. For instance, one manager of a top-tier apparel company told me the big lesson they learned with value conflicts.[6]

4.4.1 Showroom Evidence

Below I present empirical evidence of identify conflicts in the market. The data are obtained mainly from interviews with apparel producers and managers. In my interviews, I asked informants to estimate (A) the typical number of showroom stores they and their peers would cooperate with and (B) the typical starting dates of clearance as they send samples of unsold products to showrooms. These two proxies are used to approximate a measure of liquidity for firms of different tiers.

The showroom business is featured by a low level of differentiation, which grants the validity of this measure. First, except for using self-media (such as posting item pictures on their social media accounts), none of the showroom shops had TV, radio, or banner advertisements. Secondly, the gathering center of the showrooms, known as the "Children's Apparel Wholesale City," is a two-story building with all showrooms opening on to the first floor, while the

6. "We put our stock out for clearance only at one store. For us, it will be safer ... to avoid conflicts. Once an unfamiliar store offered me good prices, so I agreed to sell my stock. To my surprise, only a few days later, I started getting phone calls from my clients, interrogating me on why similar samples with identical materials and designs appeared in the market, but at much lower prices. They started to question whether I am treating them unfairly. Many got angry and threatened that they won't trust our brand anymore, and we would be blacklisted in the next season. It's a big lesson for us. Since then, even for the clearance store we cooperated with, I constantly warn the shopkeeper about the control of price, region, and time. You can never overstate the importance of it."

second floor was used as warehouses or offices. Each showroom occupies a unit of similar size, with a few large ones having two or three combined units. Therefore, the spatial separation of niches usually found in multi-story wholesale buildings doesn't exist. As a result, based on the accounts of interviewed showroom retailers at the more than thirty showrooms I visited, none of the showrooms set a threshold for quality or grades for samples displayed in their stores. Moreover, due to the town's continuing "urban environment improvement and rectification" movements, the outside decorations of these showroom stores were forced to converge on relatively the same level. Placement of packages stretching to the streets are also banned, making the "Mathew effect" (Merton, 1968) of attention accumulation less likely to happen, especially when it comes to new buyers.

Given their virtually identical settings, the showroom businesses can be largely seen as physical processes of random encountering and accumulation of clientships overtime. Such processes are certainly nondeterministic and full of contingency. For instance, a buyer might begin by searching unit by unit from one end of a street to another, but halfway in he felt thirsty. He then turned around to look for a grocery store to get a drink. After he enjoyed a can of iced coke, he felt satisfied and caught the eye of the showroom next to the grocery store, stepped in, and decided to place some orders there. Such incidents always happen. Nevertheless, exactly because such randomness constantly taking place are *poissonian*, they tend to cancel each other out. Cumulatively, the pattern of liquidity is still preserved and subjected to the dominating mechanism of business—the likelihood of (physical) exposure to searchers in the labyrinth of the Wholesale City. A reasonable inference, therefore, is that for off-price products of similar quality, the more space they occupy and the earlier they are displayed, the greater exposure they will be given and the more likely they will be sold; thus the price can change continuously. In other words, products with greater exposure will be more liquid.

Under the above logic, I use the number of showroom stores and the starting date of the

clearance sale (for the summer season) as two proxies of liquidity for the indoor clearance data. The measures are of course coarse-grained and contain variations within tier-groups. Nevertheless, the results still reflect non-negligible group disparities qualitatively. Showroom storekeepers were asked about the validity of the measures.

The results in Table 4.3 confirm that brand-name shops have far fewer numbers of cooperating stores, and their clearance typically started much later in the season. Interestingly, this indicates a reversal of the "behavioral order" among firms, as top-tier firms are found to start the season first, but close the season last. The differences in cooperating showrooms are less significant among Tier 2-3 shops, which have greater variances. But the top-tier firms differ sharply from the rest.

Level of Apparel shops	Approximate Number of cooperated showrooms	Typical starting dates of clearance (for Summer collections)
Tier 0 (Top, located In enclosed Industrial Park)	One to two	Late June after season ends, some till the next year
Tier 1	Usually larger than two	Around May 20th, some till the next year
Tier 2	Usually larger than two	Mid-April after first round of reordering ends
Tier 3	Usually larger than five, largest being thirty-five	Early March

Table 4.3: Showroom clearance: qualitative evidence of liquidity variation among apparel shops.

4.5 The Overall Structure of Liquidity in the Clearance Market

4.5.1 Half-clearance and full-clearance

Apparel clearance can be further divided into two types, according to the price discount. From the interview, I learned that the two most frequent discounts of clearance are 50 percent and 80-90 percent. The first is known as "half-clearance" and the second "full-clearance". While it appears that "half-clearance" links more closely to the core of liquidity, "full-clearance" is also found to be important, as it provides yet another buffer for primary transactions.

"*(Holding a piece of clothing) for example, for this kind of products, manufacturers would sell to their client wholesalers for sixty yuan per item. But we get from them at about half the price – around thirty yuan – that's why it's called half-clearance. Currently (in the beginning of the Fall season), most clearance goods are still in half-clearance, which could compensate their overall cost. It happens when they(manufacturers) sensed that their sales of current styles were cooling down and decided to switch to new styles... Would be until late Fall that we start to absorb full-clearance items from manufacturers. Some 40-50 yuan goods would then be cleared only for several yuan. That's cheap enough for us. But right now, the clearance business mainly goes to the Wholesale City. Because middlemen in the Wholesale City can resell for higher prices than us, it's easier for them to make clearance deals with manufacturers.*" (Informant Zhang, a street-market middleman with 5 years' experience of clearance business).

A common yet misleading image of clearance is that, because the business happens in tail, the profit rate will be lower than it is in the primary transaction. However, this image is only partly true. For the "half-clearance" products, middlemen usually resell the stocks to their own clients at prices lower than the normal (factory) prices. Thus, as their purchasing cost roughly equals the production cost of manufacturers, given all other things the same, they

would have a bit lower profit rates than the manufacturers. Nevertheless, when it comes to full-clearance, the discount becomes so large that it would be quite common for them to triple the reselling price. For instance, in full-clearance middlemen could buy at 5 yuan and easily raise to 15 yuan, the profit rate of which then would become 100 percent higher than for producers. This had stimulated middlemen to absorb producers' stocks at prices as low as possible, but half-clearance is certainly more welcomed among producers. As a result, eventually it is half-clearance that commonly happens in the clearance market, except for a few extreme cases when producers have emergency or when the season ends badly and everyone wants to get rid of their stocks.

Because price is sensitive and information is important, middlemen rely on each other to form collective knowledge of fair prices. "*You need to keep a close eye on the fabric price and the market change, and you have to trace every day. Be aware of the price of other fellows. You don't want to deviate from others. Sometimes you need to find out the price from similar styles your fellows sell. Look at their posts, the chatting groups. The market price differs every day.*" (Informant Zhang).

As market makers, middlemen not only share price information, but also directly trade with each other. For instance, a middleman who only specializes in teenager's wear clearance don't need stocks of baby's wear. However, he still do related business and then transfer the sourced stocks to other middlemen (who specialize in baby's wear clearance) for a fixed fee of 50 cents per item. Moreover, the price gap between the Wholesale City showroom middlemen and the street-market middlemen, as well as the gap between half-clearance and full-clearance, also nurtured more fine-grained niches of market makers. For example, some street market middlemen become specialized in the business of hedging the gap between Wholesale City prices and street market prices. The "Liquidity Index", measured as the percentage of all collected clearance products sold by middlemen to other fellow middlemen (as opposed to sold to middlemen's own clients), is as high as 50%. The clearance market

also witnessed a group of "image middlemen", who mediate the clearance business by taking style images of clothes in middleman's warehouses and present photos to mobile customers. If they succeed in matching, they can get a commission. In addition, middlemen also hire agents to solicit clearance products for them. The agents usually get half the profits after the stocks are resold. These derived forms of market makers contribute further to the liquidity of clearance transactions.

4.5.2 The Duration Constraint and Front-loaded Production

It is worth noting that, both the market described here and the well-known institutions such as "outlets" and "discount stores" – many of which are owned by or cooperated with large apparel companies – are similar in terms of the price change across season. In other words, it is natural for the sellers to optimize the price as a function of time and demand. To optimize such a value-decaying process normally requires increased control of retailing, and it further entails a time constraint on the sellers. However, what becomes unique here is that such a time constraint is removed due to the liquidity of the clearance market. Producers no longer wait for their current products to realize value in the foreseen future, but instead act upon immediate signals. As a result, we saw many shops' clearance products sold in parallel with original products, albeit spatially separated into different trading zones. This had freed apparel shops, especially those low-tier shops from the constraint of time for retailing.

The analysis above brings the notion of front-loadedness (of production) as a major characteristic of the industry. The idea of front-loading and back-loading initially comes from the study of hunter-gathering societies. Bettinger et. al (1999 : 52), in their study on the origins of hunter-gathering sedentism in the Inyo-Monno region in California, made an insightful distinction between the time spent in resource gathering and in resource processing. In particular, they divided the total handling time of food into two parts—the storage time and the preparation time. The former refers to the amount of labor spent foraging and catching

while the latter refers to the time needed later on to prepare food for consumption after storage. In so doing, food resources that take a higher proportion of storage time are termed "front-loaded resources" (and vice versa, "back-loaded resources").

Later on, Tushingham and Bettinger (2013) applied this distinction to explain why foragers favor acorns over salmon as their key staple even if salmon is more nutritious. They argued that because back-loaded foods require a significant amount of work before consumption, they are less attractive in the eyes of robbers. Thus, by choosing acorns as their main resource, they can reduce the likelihood that the food will be robbed and better maintain the food as their private goods. Mayshar (et, al. 2015) further extended this concept to explain the rise of hierarchy and city-states.

Apparel production is similar to hunting and gathering in the sense that the total amount of time can also be separated into the pre-stock time for manufacturing and the post-stock time for retail. In conventional procedures, after designing and sample manufacturing, there is a long retailing and order-replenishing period that lasts about two months for long seasons and one month for short seasons (see Figure 4.2). In contrast, the integration of a clearance market shorted the duration of retailing by transferring unsold products to the hands of middlemen thereby increasing the number of rounds. The season is thus sliced into small segments, and the retailing effort of each segment is greatly minimized, making the production of (low-grade) apparel more "front-loaded." High-grade products remain back-loaded and demand heavy work in terms of retailing, as they are less liquid in the clearance market. Consequently, this had greatly reduced the running capital for production, as manufacturers could constantly refund themselves through clearance at the end of a short round of "gambling", and in the common scenario of "half-clearance", they could cover the cost of making non-explosive styles.

With increased front-loadedness, the market becomes mostly information driven, leaving

quality, trust, contracts as secondary considerations.[7] Production also becomes more opportunistic in the sense that producers can now hedge between the primary and the clearance market. Regardless of future demands, in each round, the producer can now mobilize resources to test certain styles and kick wrong styles to the clearance market to exploit the informational gap.[8] (see Figure 4.2 for illustration).

7. This doesn't mean that the market would forever be trapped in low-end products. Rather, quality improvement will be driven by alternative forces, such as the sample market.

8. In practice, the "hedging" frequency is found on average to be weekly.

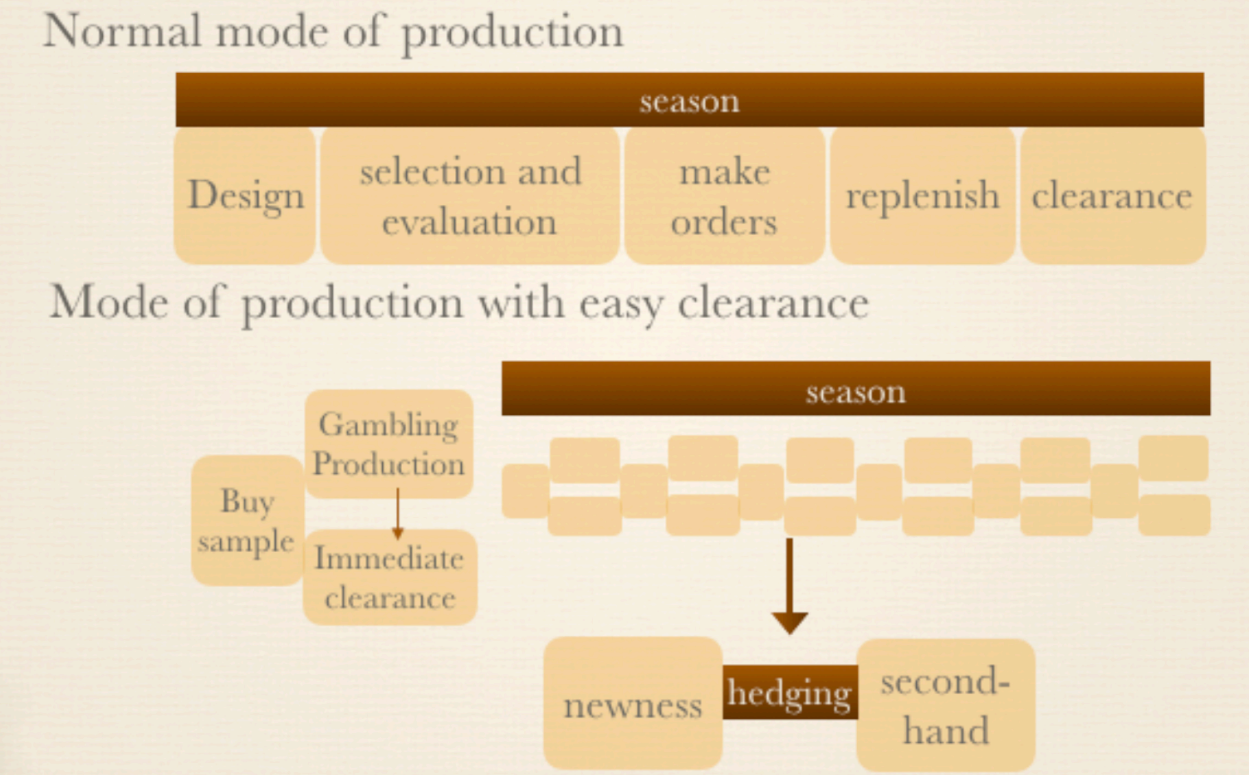

Figure 4.2: Illustration of the mode of production with and without easy clearance.

The set of three parts (sample purchase, gambling production, immediate clearance) are grouped together and repeated in a season, as illustrated in the lower half of the figure.

4.6 Conclusion And Discussion

Opportunistic gambling, credit sales, and excessive production characterize the mode of explosive fashion in the apparel production market. Such a mode in itself lacks enough resilience against volatility and unpredictability. To explain its sustained dominance in the industry, this chapter shows that with an adjacent wholesale marketplace, the market structure becomes parallel and dualistic, and the challenges of uncertainty in the client market are transferred into the clearance market, albeit unevenly.

I demonstrate that lower-tier firms are more capable of compensating their failures under such a dual structure. In particular, the role of agency in transference is critical, and the existence of strategic purchasing challenges mechanical views of market dualism. It is the mediation part of dual markets that sociology enters and a new set of compensating mechanisms becomes effective. Mediators' collective knowledge about products, their evaluation practices, transportation devices, the spacial arrangement of the market —all of these factors constitute micro-level channels that reshape the social structure of liquidity in the market. The overall effects of these factors highlight two basic mechanisms, one related to the information problem and another identity conflict. It granted small apparel shops aggressiveness and also institutionalized opportunism in their client relations.

The findings also point to a changing temporal frame of apparel production, featuring "front-loadedness". In addition to the role of liquidifying the market, "front-loadedness" tends to hinder the cumulativeness of cultural products, as opportunistic production leaves little time for master designing. In cultural industries, competition benefits society due to the cumulativeness of culture. This granted society more delicious food, quality clothes, higher-tech machines, and more efficient transportation. But cumulativeness demands a certain level of freedom in terms of time constraints. An informant once told me how a designer in a top-tier shop would stand in front of the storyboard for hours just to adjust the position of the pocket of a sample t-shirt by 0.1 inches, and he would yell at anyone who interrupted

him. But under opportunistic production, such a heavy investment wouldn't be possible as designers must work like crazy just to meet rolling deadlines. The accelerated speed also affected the local labor market. It's easy to understand why the town is short of labor, yet most local factories only hire highly-skilled tailors. Once ways favoring front-loaded production (and consequently retailing) were institutionalized into the operation integral of the market, the momentum drives the industry towards a higher degree of disorganization, a diverging trajectory distinct from spontaneous concentration and scaling of organizations. This makes the Chinese market in children's apparel closer to a financial market rather than a production market.

Thus, the case of apparel production with strong front-loadedness challenges the "iron cage" model of neo-institutionalism. In contesting Weber, Dimaggio and Powell argued that the engine of rationalization has changed in society. They reasoned that "highly structured organizational fields provide a context in which individual efforts to deal rationally with uncertainty and constraint often lead, in the aggregate, to homogeneity in structure." (1983:147) However, as the driving force under the need to "deal rationally with uncertainty" is greatly weakened due to the existence of dual markets and the fact that actors can find ways to systematically transfer uncertainty into the secondary sub-system, the logical underpinning of their argument no longer holds. Rather than moving towards institutionalization, it would become extremely difficult for the emergence of organizational rationalization to form a "field" in the primary sector. Various forms of opportunism and non-calculating, less rational behaviors can sustain well. Due to limited space, I cannot go deeper here, but I will discuss this in more detail in the concluding chapter, where a new theoretical framework for organization in modern markets will be proposed and juxtaposed with conventional ones. I argue that economic sociologists should stop muddling various cases of dual markets (as demonstrated here as well as in a number of similar cases) with the framework of neo-institutionalism, as they fundamentally go in opposite directions.

Finally, although the clearance market is not a typical secondary market, the findings still add new understanding to existing theories of secondary markets. While microeconomics has long been talking about the benefit of secondary markets (Doherty and Singer, 2003), the findings here complicate their claims. For one, if secondary markets indeed benefit firms by making their products more liquid, then the benefit is unevenly distributed among firms of varying sizes. The analysis here indicates that lower-tier firms could be more adaptable during the process of "liquidation" if the secondary market is parallel to the primary market. It becomes a testable assumption for other dual markets, such as the life insurance markets, equity markets, art markets, etc. Secondly, the impact of secondary markets isn't merely about the value or the price. Perhaps more importantly, the logic of production in the primary market can also be changed by stabilized institutions. The mediating institutions, as highlighted in this chapter, may flatten the hierarchy of the primary market as liquidity increases.

CHAPTER 5

OFF-SEASON PRODUCTION

The predominance of small firms is self-reinforcing. It created an environment that also affected top-tier apparel firms locally. While already hinted at indirectly from accounts of the sample market and the clearance market in previous chapters, this deserves a more detailed analysis. As the apparel industry became small-firm dominated, its linking parts—the up- stream and downstream partners—also developed their coordination with small firms. This chapter aims to detail the specific ways top-tier companies' mode of fashion production during the off-season was affected in terms of both the upstream and the downstream industry.

I show that top-tier firms' ability to lead fashion and filter styles are limited. Two findings will be presented. The first concerns the upstream textile industry. Existing institutional theories tend to believe the existence of a fashion imitation order, and this arguably brings benefits to fashion leaders. However, I found that such an order is partly broken in the local market, and the reason has to do with the coordination structure between the textile makers and apparel makers. Specifically, the development cycle of fabric and fibers has exclusiveness—either the cycle fits the rhythm of seasonal production or it fits that of the off-season. From interviews, I show that in the local market, textile developers' cycles are exclusively coordinated towards seasonal production, thus making it harder for off-season producers to align themselves with the latest textile fashion. As a result, not only the imitation order is changed, but their design teams also need to maintain a sense of caution to avoid embarrassing mistakes. The second finding relates to downstream retailers. The advantage of collective wisdom has been widely acknowledged to help apparel firms predict the demands through their clients, yet I show that this advantage is also limited. I compare two "judgment devices" for style evaluation —*exhibition* and *auction* —and show that while

the former is more accurate for demand prediction, it lacks the ability to promote sales during the off-season. We still saw firms employing auction-related strategies pragmatically in order to maintain their business scale.

The structure of this chapter is organized as follows: The analysis first deals with the upstream industry. Based on interviews with textile developers and sellers, I show why the transactional cost of fiber purchasing is large for top-tier firms and why the usual structure of imitation in which top-tier firms act as fashion leaders and low-tier firms as followers is partly broken. The analysis of the downstream industry follows. I first introduce the institution of order placement fairs. Based on the description and comparison of three order placement fairs I participated in and a few others I investigated indirectly, I then explain why firms adopt different judgment devices. The chapter ends with a discussion on the general structure of a fashion regime.

5.1 Relations with the Upstream Suppliers

5.1.1 The Imitation Order in Production Market

Although fashion as a concept lacks a precise definition and is widely associated with changes that can take place internally or externally, sociologists tend to believe that they are "well-equipped with theory and research tools" (Aspers and Godart, 2013: 172) to understand fashion. Despite all the confusing descriptions of fashion, there is no doubt that a theory of fashion is simultaneously a theory of organization and social structure (Simmel, 1957), and underlying the structure lies what Simmel thinks fashion is essentially about: "imitation." While already made clear by Simmel regarding the consumption world, this is equally manifest when it comes to the production market.

Existing theories of fashion production tend to hold a typical view of imitation as a hierarchical structure (Jørgensen and Di Liddo, 2007). If we think of producers in the fashion

industry as engaged in a race, then the game is viewed as a "marathon" with high-end firms ahead of a bunch of followers. And although some see imitation as a problem, it is nevertheless beneficial if high-end firms are regularly followed by imitators. This brings high-end firms status and fame in the industry, which would grant them a greater say in defining new trends. Under this assumption, the imitation order is always clear, and the arrow of time points to a single direction. Scholars like Blumer (1969) who challenged such an image only questioned the trickle-down order, suggesting instead a bottom-up order rather than the form of the game itself.

A closer look at fashion production suggests that the game of imitation may not naturally be so much of a marathon. Rather, it is more like a race held in a stadium with a circular track. Order is relative to the eyes of observers. A tracking coordinate is necessary to settle the imitation order. If there are no tracking or counting standards, there can be no agreement on whether an athlete is ahead of or behind another. But such coordinates are not inherent in status. Classical works on imitation in economic sociology tend to make hidden assumptions about the imitation order, suggesting that success and fame naturally serve as coordinates of imitation. A typical example is Han's (1994) study about the "fashion" of audit services among U.S. listed firms. Han, in order to explain the "Big Eight Fetish" of audit companies, proposed that small clients tend to select giant CPA firms to audit them because they want to emulate higher-status firms.[1] Despite the use of empirical evidence to support his claims, he nevertheless simplified the problem by assuming the direction of imitation. The supporting data, on the other hand, couldn't actually tell who imitated whom, provided that both lower-status firms and higher-status firms chose the same auditor. According to Han, such an assumption is grounded by widely accepted knowledge in sociology that "firms do look for models of imitation among more successful firms" (Han,1994: 645).

1. The proposition is, of course, made more complicated by taking into account other factors, such as the cost. Therefore, his final argument is a U-shaped structure, with middle-level firms subject to the greatest pressure of imitation (Han, 1994:643). That said, Han's central idea is still a top-down imitation order.

This, however, is not always the case. In the children's apparel market, there is no denying that top-tier apparel firms are "more successful" in the sense that they managed to grow large and establish their own brands. Many of them also hire more designers and are therefore endowed with greater designing capacities. During interviews, manufacturers also confirmed that designers in leading firms are usually more experienced and received better art education. Thus, it is tentative to think that low-tier companies would simply follow top-tier companies in fashion. However, imitation is subjected to the arrangements of broader industrial configurations. As White (2002) noted, a defining property of a production market is its multiple networks that connect upstream suppliers and downstream buyers. Thus, innovation and change involve not just the work of apparel designers, but also coordination within networks.

Let's continue with the race analogy. Every calendar year is essentially a cyclical track, and each year, not only apparel designers but also upstream textile makers develop new products to keep their competitiveness. Hundreds of thousands of various new fibers flood the market every year, and many fiber retailing stores keep more than 20,000 SKUs at the same time. By injecting novelty into raw materials, the upstream textile suppliers provide a diverse material base of fashion for the apparel industry.

A necessary condition then becomes clear. For apparel firms to be considered leaders in that year, at least regarding the material part of fashion, they need to build their designs on the latest series of fabrics. There exists two modes of production in the market—seasonal production and off-season production. The majority of small apparel shops belong to the first group, while leading apparel firms belong to the second group. Textile development is time-consuming, especially for spring and summer products (mainly because colors for these products are more diverse). Apparently, textile makers cannot suit the needs of both groups given their conflicting time arrangements.

The question then becomes which group do textile developers actually choose to coordinate

with? If the developing cycle of new fibers regularly meets the schedule of seasonal production (and thus is in conflict with off-season production), then the imitation order (i.e., the lower-tier ones imitating the higher-tier) usually assumed in the apparel industry can no longer hold. Thinking hypothetically in Han's case of audit services, even if small firms are subjected under pressure to emulate their role models —large firms —by retaining "fashionable" CPA firms, the fashion list of CPA firms may get updated every year, and the updates can be announced right before the audit renewal dates of small firms, but after the dates of large firms.

As I pointed out above, the problem with studies of neo-institutionalism on imitation is that the order of imitation is assumed rather than empirically examined. Thus, the arguments on imitation and isomorphism become somewhat tautological. I argue instead that provided that fashion is by nature circular, and the fact that coordination with upstream developers also plays an important role, whether a top-down imitation hierarchy in the apparel industry can exist is a matter of business size. In other words, if small apparel firms collectively dominate the industry, they will attract textile developers to coordinate with them as a group, and thus can offset the pressure to emulate higher status companies. This will be explained further in the next section.

5.1.2 Data and Results

To empirically examine the rhythms of textile developers, interview data are compiled to reflect the yearly timetable of innovative cloth makers. In addition, I also managed to collect information regarding activities of both seasonal production and off-season production. For seasonal production, data is collected from a job posting website[2] in the local apparel market where mobile apparel workers post ads in search of jobs. Because of the existence of slack seasons for seasonal production, laborers return home and only come back when the new

2. *https* : *//www.zlrcsc.com/*

season has started. Thus there is usually a surge in the beginning of each season. We can easily identify the distribution of seasonal production activities simply from the frequency of job search ads throughout the year. A total of more than 80,000 posts were collected, and the data covers a range from January, 2016 to December, 2017. I kept only the ads posted by cutters to avoid confusion as they work exclusively for the apparel industry. The data is certainly not representative of all cutters since they can also search for jobs via offline channels, and some simply stay in the same factory for years. But the size of the data is sufficient enough to suit my purpose. For off-season production, data were collected from another website[3] that keeps track of the dates of order fairs held by every large apparel firm. The order fair is the pivotal event for off-season production, as almost every leading company relies on order fairs to organize their production activities. The event dates can well reflect the intensity of off-season activities. Similarly, the purpose of this dataset is only to indicate the general timeline for off-season production. After data cleaning, a total of 1,232 records remained.

3. http://www.61ef.cn

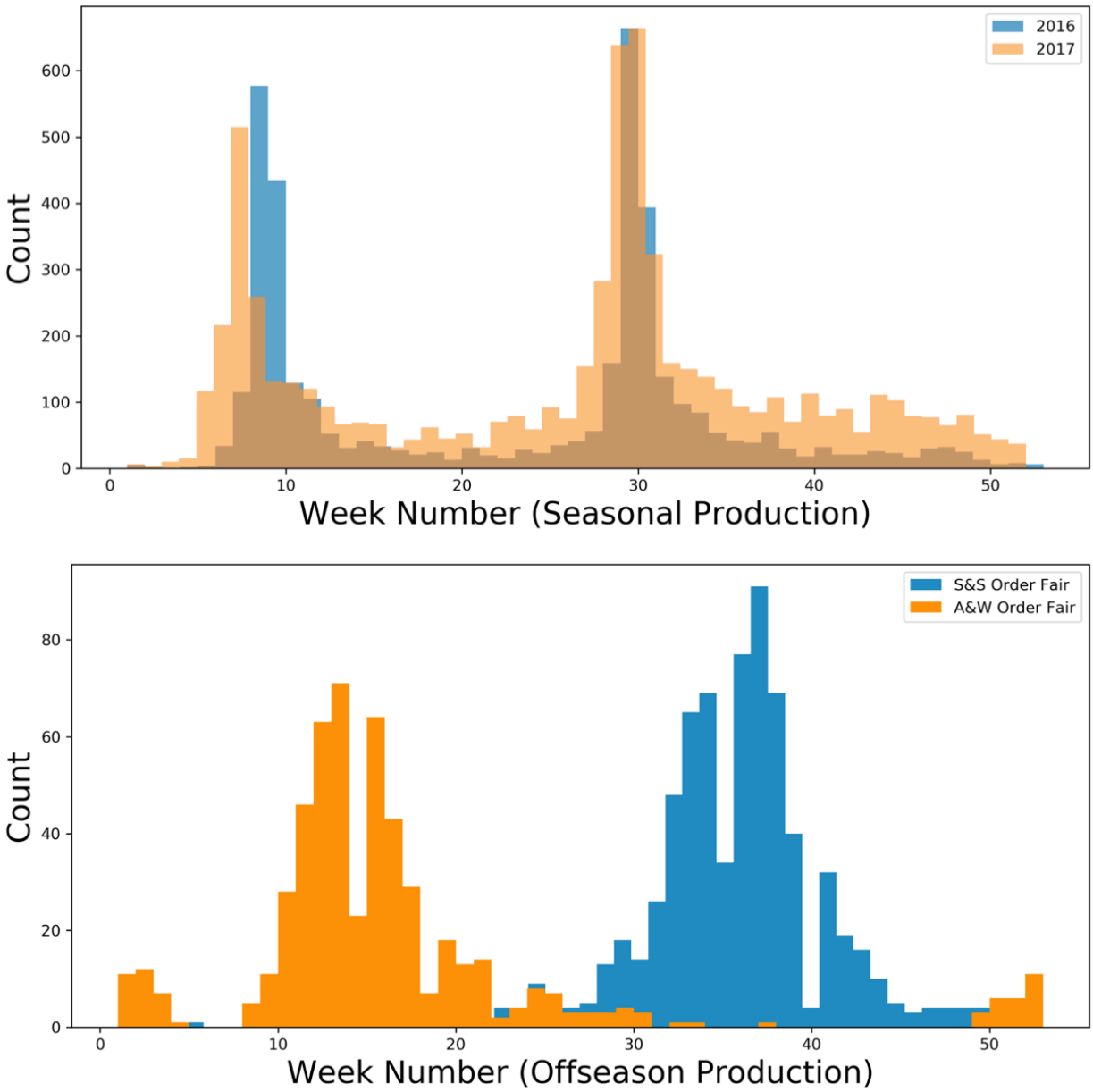

Figure 5.1: The distribution of activities for seasonal and off-season firms.

(Top) Frequency of job posts by cutters as indicators of seasonal production. The x-axis is the index of weeks during a year (0 meaning the first week of a year and 51 for the last week). The y-axis is the count of activities. The differences in the starting point for the spring and summer season (during week 7 to 9) between the years 2016 and 2017 is due to the date difference in the lunar calendar. Other than that, the pattern is consistent in both years. (Bottom) Distribution of order fairs held by leading apparel firms in the children's apparel industry. The bars for spring and summer (S&S) fairs are colored orange, while the bars for autumn and winter (A&W) fairs are colored blue. Note: In the bottom graph, the little bump of A&W fairs actually happened at the end of the preceding year rather than the current year. And the S&S order fairs in the current year are held for the S&S season in the upcoming year.

The distributions of both seasonal and off-season activities are given in Figure 5.1. As shown in Figure 5.1 (top), the calendar year is clearly divided into two production seasons. The Spring and Summer (S&S) season starts around the 8th week of a year, which marks the end of the Spring Festival. A short slack season of June and July separates the S&S season from the beginning of Autumn and Winter (A&W) season, which lasts until December. Most low-and-middle tier shops operate within the two periods. By contrast, the bottom graph gives a different view of leading firms. First of all, as leading firms are more independent, their arrangements of order fairs seem less clustered. Still, the events have a bell-curved distribution centering at about middle September for S&S fairs, and late March for A&W fairs. Both distributions are simplified and juxtaposed to the typical timetable of textile developers, which is shown in the graph below (Figure 5.2).

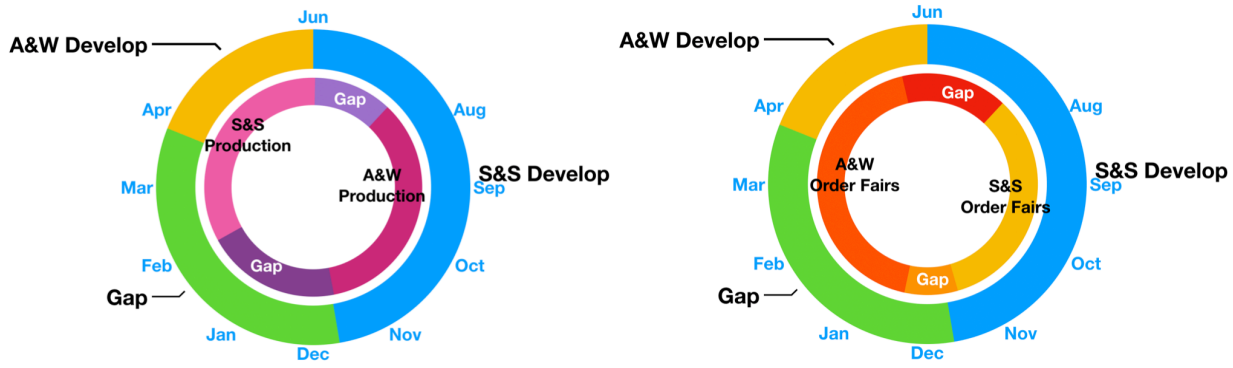

Figure 5.2: The development cycle of local textile producers who develop special fibers for seasonal apparel production.

(Left) Two colored rings are drawn. The outer ring represents the development cycle of special textiles. The label "S&S Develop" is short for "spring and summer product development" while "A&W Develop" stands for "autumn and winter product development." The label "Gap" simply means a resting or holiday period with no production/developing activities. The inner ring represents the cycle of seasonal apparel production based on distributions of activities in Figure 1. (Right) The outer ring is the same as the one on the left, while the inner ring now represents the cycle of off-season production. In contrast to seasonal production, off-season production is characterized by order fairs—a gathering of clients within a short period to make orders, followed by planned manufacture according to client orders. The figure only shows the widely adopted mode of bi-yearly fairs, but in a few cases, order fairs are held four times a year. Except for minor modifications, the main argument here holds for both cases.

Figure 5.2 visualizes the timetable of a typical textile maker who develops "special fabrics" for the children's apparel industry.[4] The textile development cycle is compared with both the seasonal production cycle (left, inner) and the off-season production cycle (right, inner). Note that this timetable only reflects the schedules of developers who typically run or cooperate with a retail store in the local market to sell their fabrics.

As can be seen in Figure 5.2 (left), it's clear that the development of spring and summer fabrics usually starts in June and ends roughly in late November. The seasonal production of apparel makers usually begins in February, when manufacturers and workers return to work after celebrating the Chinese Spring Festival. Because the spring season is relatively short, sometimes producers also prepare a few spring products before the holiday. In either situation, the release of novel textiles properly meets the timing of seasonal production. The same is true in the autumn and winter scenarios—apparel producers who begin to search for new fabrics in late July can always find new fibers readily made for them.

However, when it comes to off-season production, we find little coordination between textile suppliers and apparel firms. Take the A&W season for example. For most off-season firms, their autumn and winter order fairs in the focal year are distributed in a range starting from the end of last year up until May. This means the designers need to begin their work about two months ahead, and for the selection of fabrics, the time might be even earlier. Ideally, they would want to have new fabric for autumn readily available at least in the beginning of January. However, textile developers barely start researching autumn and winter products in April. By that time, most off-season firms would have already finished thousands or more new styles, and quite a few would have even closed their fairs. Therefore, off-season firms, when they source fabrics from special textile developers locally, would end up in the best case scenario only getting last year's products. What's worse, from an interview I learned that

4. The Textile business is usually divided into Special fabrics and conventional fabrics. Unlike Special fabrics, the material of conventional fabrics stay unchanged, only colors differ by years.

sometimes mistakes happen when confounded assistant designers end up randomly picking cloth developed two or three years ago. *"Many brand names didn't have clear directions (for their search). Designers are required to develop styles for off-season fairs so early, yet they do not necessarily obtain first-hand information. Many simply shop around in the textile market and buy whatever they see, as long as the materials are fine to use. Quite often what they bought are old products."* (Informant Wu).

The proximity of the local textile market, therefore, is a double-edged sword for off-season companies. On the one hand, they can enjoy the convenience and diversity similar to seasonal shops. Yet they also face the problem of incoordination. Incoordination creates isolation. To avoid mistakes, they need to connect with remote textile developers who are willing to keep up with their paces or maintain their own textile teams. Both inevitably increase the cost significantly, whether transactional or organizational. If the cooperating remote developer makes textiles not just for children's wear, then the client company also has to be cautious on the choice of colors, as the colors for children and adults differ a lot, and subtle chromatic aberrations would make a huge difference. Regardless of how off-season firms respond, low-tier shops are more unlikely to be herded as they can easily obtain the latest fabrics while those off-season "leaders" cannot.

The cycle described above is about special fibers. Yet some would argue that special fibers occupy only a finite market share. Both large and small apparel shops rely more on conventional fibers as their main raw materials. What, then, is the timetable for conventional fibers? As the informant noted, conventional fiber producers are herded by special fiber developers because of color. Therefore, the development cycle of special fibers also determines the fashion cycle of conventional fibers. *"For conventional products, the raw materials stay unchanged, and they just need to modify the color every season. The price of conventional things is very fixed. Their routine is basically as follows: generally, when there is no business in the slack season of June-July, workers in yarn factories still weave every day. When the*

sales are slow in the slack season, they will need to refund themselves, so the price of yarn goes down. Then conventional fiber manufacturers will take advantage to absorb yarn. And they will wait for our fashionable materials to come out, learn our colors, and then dye. Relatively speaking, the conventional business is more stable, but the scale is large, so the capital for stocking will be greater." Because producers of conventional fibers follow special fibers, they are consequently also coordinated with seasonal production. From the descriptions, it is interesting to see how the imitation order exists in the textile industry, and how it contributes to the disruption of order in the apparel industry.

5.1.3 Coordination as a Size Game

Why then, would special fiber producers favor a schedule fitting seasonal production? Based on the accounts of developers, it is clear that fitting the rhythm of small firms ensures them a bigger command of business with reduced uncertainty. *"Speaking of my own business, honestly I don't prefer working with big (apparel) companies because oftentimes we can't match their rhythms ⋯they did off-season production. For the order fairs, because they have so many designers, they change styles quickly. That means normally they make no replenishing orders of a given fiber. After a batch of spring orders, they immediately switch to summer styles. Basically, no replenishment, no matter how large the initial batch is, it's always a single batch. But for small shops, you saw them picked up a few today, then you know they will return to order more later. And it's not just them. Their friends, relatives, competitors will all follow if a style becomes explosive. Other shops will learn quickly, and you can imagine how large the cumulative amount would be. In busy hours, we could not even finish cutting when orders rocket up."* Moreover, working with small shops is also less uncertain because of protective attribution. While the success of an explosive style entails necessarily brilliant choices of fibers, it is nevertheless the designs rather than fibers that get blamed in the case of failure.

As long as small shops collectively purchase more special fiber than big companies in an explosive manner, developers will willingly grant these seasonal clients first priority. The imitation hierarchy of fashion material is thus partly broken and substituted by a flattened form of imitation—imitation without leaders. Any small shop can potentially herd a wave of explosion.

In short, this section explains why it's difficult for high-tier apparel firms to establish a herding structure. I demonstrate that the main mechanism concerns coordination with innovative textile developers. The dominant position of small apparel firms in terms of their overall business size resulted in coordination of special fiber developers. Therefore, small firms reinforced a market structure that favors them. The following graph (Figure 5.3) summarizes this coordination structure across the textile and apparel industry.

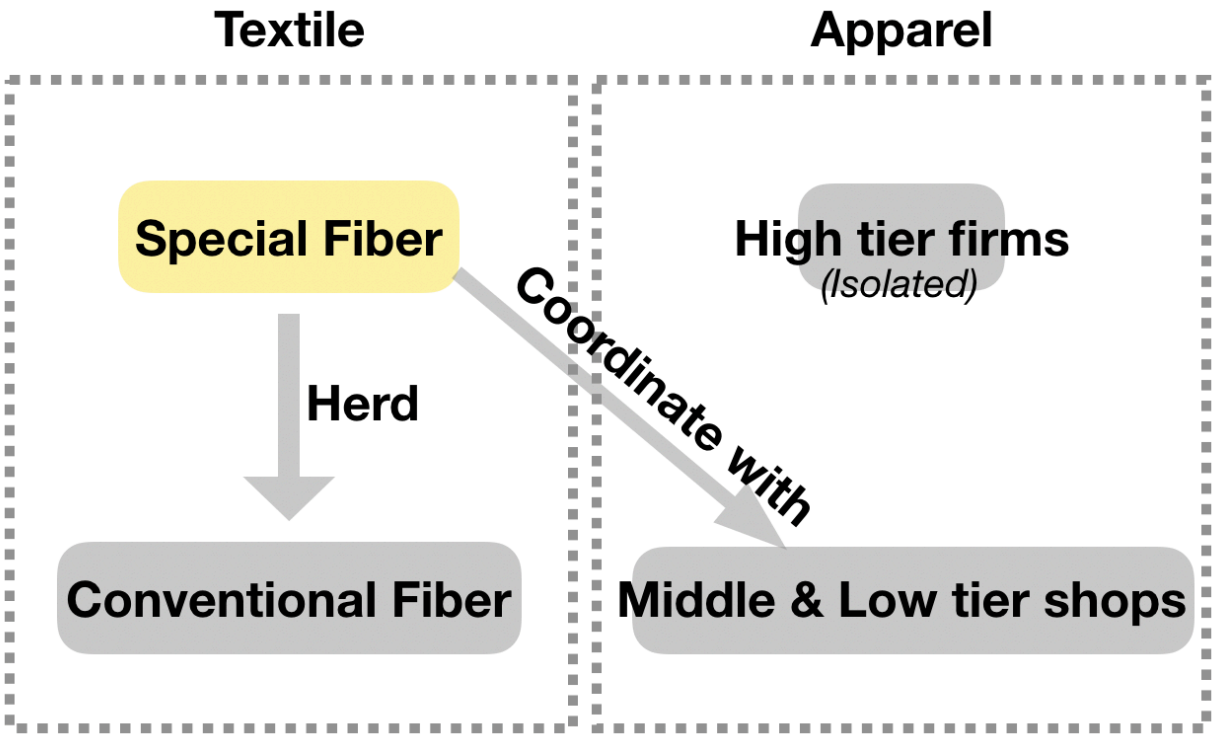

Figure 5.3: The (local) coordination structure of textile and apparel industry (for children's wear)

5.2 Relations with the Downstream Clients

The previous section shows how top-tier firms are isolated in the local market in terms of material fashion. This section continues to demonstrate that their ability to benefit from the collective wisdom of their downstream clients is also limited. This is shown by comparing two major types of order fairs—the exhibition fair and the auction fair. While the exhibition fair is more suitable for cumulating collective preferences of new products, auction fairs and auction-like strategies are often needed to sustain the order scale.

The analytical strategy for this section is to focus on the pivotal fashion institution in the off-season, known in the industry as the "order fair." While such a fair can take various forms, its universal adoption by the two hundred or so apparel firms, classified as top-group producers in the local market, indicates that the fair is the most important institution for their organizations of production and retailing. Retailing clients are invited to join the fair and make orders. In particular, I argue that the most remarkable aspect of this institution is the strategic arrangement of auction-like events. This, contrary to our knowledge, goes against the advantages of collective wisdom.

5.2.1 Collective Wisdom on Style Evaluation and Demand Prediction

Demand uncertainty is undoubtedly one of the most perplexing problems for apparel companies. Economists and management scientists have contributed a great amount of literature on how to counteract inaccurate predictions (Fisher and Raman, 1996; Nenni et. al, 2013; Pashigian, 1988). Among them, the research published in the Harvard Business Review (Fisher, et. al, 1994) famously pointed out that while inventory management systems, such as "quick response" and "just-in-time," and resource planning systems are not up to the task, they found collective forecast to be remarkably more accurate than forecast done by dominant figures. Further, the variance of individual predictions can serve as a good indicator of forecast accuracy. Indeed, the wisdom of crowds (Surowiecki, 2005), or collective wis-

dom, has now become a widely acknowledged principle and has inspired a set of forecasting methods, such as PM in volatile markets (Ivanov, 2009).

Therefore, when I had the chance to interview managers on the organization of order fairs, and even participate in three myself, I deliberately looked for ways in which collective wisdom is applied to reduce demand uncertainty. To my surprise, I got mixed results. For some firms, it was clear that the wisdom of crowds is emphasized. However, others apparently contradicted the principle. I first explain their differences and then give brief examples.

Broadly speaking, order fairs can be divided into two groups. Some fairs are closer to a "dealer-critic system" (White and White, 1993; Fletcher and Helmreich, 2008) with a gathering of connoisseurs. Firms organize a gallery of their new products, usually in an exhibition room at their factory. Dealers are invited to the factory to help filter out new designs together with the apparel designers. In the process, they negotiate and communicate in order to figure out the value of products. Some interviewees told me that the processes of filtering sometimes went on repeatedly five or six times before they reached the final decisions. After that, some dealers will make a few orders, but they do not experience much pressure from apparel firms. By contrast, another form of order fair is close to an auction. The manufacturers bring retailing clients altogether, hold a luxury fashion show as a warm-up, and then mobilize clients strategically using small tricks. The atmosphere during auction-like ordering often gets quite emotional. Based on these differences, order fairs are roughly grouped into two ideal types—the exhibition fair and the auction fair. Table 5.1 summarizes the main differences between the two types.

One order fair I observed was held by a local apparel firm specializing in children's jackets for the A&W season of 2019. Although the firm has less than ninety retailing clients, the fair lasted for twelve consecutive days. I went to the fair on the third day when only a few clients showed up. They were led by the chief designer to a large exhibition room where samples of one hundred styles were circled around near the wall. The room had few decorations. The

	Exhibition Fair	Auction Fair
Event Intensity	Lack of restrictions; Clients come individually	All clients organized as a uniform group;
Gifting Behavior	None	Offer Hotel Reimbursement; Free meal; Visits to tourist attractions
Fashion show/Gala	No	Yes; Usually at the evening of first day.
Order mode	Individual evaluation	Collective auction; With host and herders
Rationality	Rational	Irrational

Table 5.1: Two ideal types of order fairs.

clients really took their time. They strolled around the room patiently, from one sample to another. The chief designer walked with them. When they paused in front of a sample, she would start talking about the details. Stories of fabric were told most frequently to clients during the fairs. When introducing a product, the designer usually started by saying "this one is our latest style this year" and then moved on detailing the product's materials —its unique functions (such as reflectivity, water-resistance, warmth, elasticity, etc.), the mixture, and the fine quality. Then she would stop and wait for their reaction. They would then also discuss their customers' preferences in the client's retail region. Quite often, clients gave their feedback frankly about the styles and didn't hurry in placing their orders. It was the feedback they gave that was valuable to the firm. The manager joked that their order fair was actually a meeting of experts invited to evaluate samples, and he confirmed that although the order amount was limited, the statistics nevertheless become quite a good predictor of regionalized style popularities. *"In 99 percent of the cases, what they choose is what eventually sells in their region."*

The sense of rationality and detachment during the exhibition fair stands in sharp contrast to the emotional fever during an auction fair. This can be shown partly from the budget of an auction fair. For exhibition fairs, there is virtually no cost except for the maintenance fee. But for auction fairs, the total cost can reach as high as a million Chinese *yuan*, including but not limited to fees for booking luxury hotels for all clients, restaurants, payment to

models for catwalks, media coverage fees, room decorations, etc. A lot of these benefits are considered gifts to the clients.

During one auction fair I participated in, child models were invited to perform a fashion show in the evening of day one. Laughs and applaud burst out when models dressed up with shiny clothes performing a professional stroll down the catwalk. The defining characteristic of the show I watched during that auction fair was the pragmatic purpose of scaling up orders. Existing literature states that in established fashion industries such as in the UK, France, and Italy, similar shows are held during "fashion weeks," yet these shows are decoupled from ordering as they are usually held after the order is done. Thus, they are practically redundant to actual ordering (Entwistle and Rocamora, 2006 :742). But catwalks during the auction fair are usually followed immediately by signing contracts. The moment after the catwalk is the very time when—after enjoying a splendid show with lovely models, stunning lights, and thrilling music—clients become highly emotional. No sooner had the show ended, when a host came up and the contracting process began. Some firms even arrange a "herder" who would rush to the cashier to pay the deposit for the contract. During the fair I participated in, I witnessed how, after the herder gave a shout *"I am in!"* and rushed forward, there was immediate turmoil among clients, and the heated crowd soon clustered in front of the cashier to deposit their contract fees.

Such emotion not only exists during the "strategic fashion shows;" it also persists in the ordering process where collective bidding is built in. A manager once described how emotions can get so high that many clients actually regret their decisions after the fair is closed. *"The atmosphere (matters). Why does everyone want it during the fair, but nobody wants it on the streets? Under that atmosphere, when you hear others saying I want ten! I want twenty! you will also become crazy."* Irrational orders during auction fairs do help companies maintain a relatively considerable amount of order. However, what comes at a price is the wisdom of crowds. Clients are no longer viewed as trustworthy connoisseurs, and the statistics obtained

from collective biddings can become quite biased since regrets often lead clients to demand refunded returns. In fact, returns out of regret became a significant source of overstock even for some leading firms.

Fundamentally, retailing clients are unwilling to make early orders during the off-season because the prospering seasonal market has provided them with a strong backup and an easy exit. Implicitly, retailing clients are inclined to coordinate with the seasonal market. This, in return, increases the difficulty for off-season firms to recruit clients. That, in my opinion, explains why we observed so many gifting behaviors on the part of apparel firms towards their clients. Therefore, off-season firms are put under the following dilemma: the exhibition-like fair is not attractive enough to secure the scale of their business, yet the auction-like fair relies on emotional bidding, which can overshadow the wisdom of crowd.

5.3 Conclusions and Discussion

To summarize, the argument of this chapter is that the dominance of small apparel firms is self-reinforcing in two aspects. The upstream and downstream networks of the local market are reshaped to such an extent that even firms doing off-season production cannot stay unaffected. These firms used to be regarded as more innovative, more powerful, and more independent. But their leadership in the fashion regime is impaired when upstream and downstream actors are inclined to coordinate with their followers.

By presenting two specific findings, the chapter also discussed the following theoretical questions: What are the conditions for the order of imitation, and what are the features of judgment devices (Karpik, 2010) in the fashion production market? These two questions are important as they're broadly linked to cultural markets in China and the world. For instance, Kharchenkova and Velthuis (2018) noticed a similar phenomenon on the excessive use of auctions as the main judgment device in China's modern art market. Their explanation focuses on social and political contexts in which institutional devices are situated—

the first level of embeddedness in Polanyi's sense. In comparison, the reason why auction gained popularity, in this case, is more related to its internal features: its irrationality and mobilization power. What makes the internal features prominent is related to social contexts that shape the general structure of the market—that is, the second level of embeddedness.

That said, understanding the two questions do not directly alter existing explanations of the domination of small firms as the key mechanism still lies in the clearance market. Nevertheless, it still furthers a deeper understanding of the possible ways that, given the predominance of small firms, leading apparel companies can possibly stabilize and secure their market shares, and what their limits are in terms of institutional devices that can help mold their clients' evaluation of cultural products.

Interestingly, while the reinforcement of small organizations (featuring market transactions) stands in sharp opposition to the reinforced oligopoly of large organizations (featuring internal transactions) in many other apparel industries, the same reasoning can be applied to both scenarios: lower transaction costs, reduced uncertainty, and greater efficiency. This suggests that orthodox transaction costs and efficiency-based mechanisms might just be *ad hoc* justifications of established market structures in given societies.

Ever since Coase (1937) raised the question "why do firms exist?", using "transaction cost" to explain the problem of organization has been the classic response (Williamson, 1975; North, 1990). Interestingly, the high transaction costs of the "market" doesn't seem to be supported here. On the contrary, for small shops in the production market, especially in terms of their relations with the middlemen and the textile suppliers, the transaction cost is quite low. As can be seen from the last chapter, the groups of middlemen in the clearance market are trading at a very low price (0.5 yuan) with each other, and the cost is uniform. Their transaction costs are also minimum. In this way, the clearance market actually plays a central role in balancing supply and demand and providing liquidity. This is in line with Chandler's idea of the general office of decision making (within the organization) to transfer

capital and create liquidity (Chandler, 1962). Yet, unlike his idea, such a general office or "center" is located outside of apparel organizations. In other words, the ability to form centralized structures that reduce transaction costs is not so directly and explicitly related to organizations. Moreover, transaction costs might be even lower for such an external liquidity center, as the problem that Eccles and White (1988) once identified about internal conflict will be less severe. The clearance market can make small firms think they're making big money while balancing their overproduction with a vast volume of demands they know nothing about. Implicitly, the clearance market creates a collective product cycle as new goods fall in price during the manufacturing season, without the burden of any plans and schedules. The above logic is simply demonstrated again here in the source material market.

CHAPTER 6

CONCLUSION: A TAIL-WAGGING SYSTEM IN CULTURAL INDUSTRY

This chapter discusses the following issues: First, I argue that there exists an "institutional bias" in terms of the issue of uncertainty in economic sociology. While seemingly opposing each other, both economics and sociology as similarly recognized institutions (as well as organizations) are in the central position to address the issue of uncertainty. For economics, the stream of thought can be traced to the very question "why do we need firms?" Similarly, a parallel puzzle perpetuates in sociology: "Why do we need institutions?" Recent developments in both disciplines have only strengthened the myth of institution and organization, justifying the necessity of them.

Yet, my research on the children's apparel industry provides a critical example against this institutional approach, which is the second issue of this chapter. I seek to provide a distinct approach to market evolution. I show that without organizational "central nerve systems" that provide liquidity and tackle uncertainty, external decentralized "nerves" can also resolve the problem of uncertainty for market actors in a sustainable way. Consequently, this sets barriers on the evolutional path towards larger-scale organizations. Provided certain social conditions, such a decentralized nerve system can even outcompete the central system and gain dominance in economic transactions. I call such decentralized arrangements "(social) containers" to contrast with the term "(social) devices" that sociologists currently use to refer to institutional arrangements. Unlike social devices that regulate uncertainty in a managed way, containers function like "pump stations" to transfer uncertainty (as well as profits) from one to another, and as risk-takers get attracted to join the game, the size of containers will continue to grow.

The social conditions that may trigger such a distinct path of market evolution are sum-

marized in Chapter 2. In that chapter I discuss how the surplus of retailing resources in the local market is the unexpected consequence of governmental planning of the local industrial park since the 1990s. This had forced the excessive retailing power to differentiate, with part of the retailing sector transformed into risk-takers.

The final issue corresponds to the concentration of the "distribution sector" that is prevalent in other apparel (and cultural) industries. The issue is important because I previously argued that with the expanding tail, the middlemen and the retailing forces absorb risks and profits from primary transactions. This, while making retailing more important, is not the same as the concentration of retailing business. I explain why some recent changes in the distribution sector will not challenge the current regime in the local market.

This chapter will be organized as follows: I first show how both economics and sociology have leaned towards institution-based theories regarding the issue of uncertainty in the past few decades. Then, based on the case studied here, I define characteristics of "tail-wagging" industries and compare them with institutionalized cultural industries. I then address the issue of concentration in the distribution sector.

6.1 The Issue of Uncertainty and Institution Bias

Perhaps nowadays no one would deny the prevalence of uncertainty in our economy. Looking back into the economic and sociological literature related to the problem of uncertainty, one may find two surprises. First, it is surprising that economists made an institutional turn, not just bringing itself closer to sociology but also wading into areas once believed to be the terrain of sociology. Of course, the institutionalism tradition persists in economics (Neves, 2007; Davis, 2006), but its revival was still not easily perceived given the strong fever of formalism in neoclassic economics (Beckert, 1996: 809). Moreover, in responding to the "invasion" of economics imperialism, sociologists also attempted to substitute economics with their own theories (Velthus, 1999: 629), and in so doing, they developed their version

of uncertainty theory.

Secondly, and even more surprising, is that while their methods, theoretical tracks, and perspectives all differ, economists and economic sociologists somewhat converged in their conclusions. The issue of uncertainty is dealt with more or less by institutions. Institutions here are, admittedly, broadly defined and relates to habits, routines, norms, organizations (i.e., firms) and organizational structures, property rights, the state, and more. Because Beckert (1996) has done detailed analyses on the intellectual turnaround of economics, I will save the effort of summarizing how the new institutional economics has taken the transaction-cost analysis to find the importance of "governance structures" (812) and justify the existence of organizations. As he simply puts it, this approach *"has looked at institutions that limit the choice set of economic actors and thereby reduce the uncertainty of the situation"* (813).

Compared with the institutional approach in economics, economic sociology share similar views of institutionalism, albeit with greater sophistication. While economists mainly treat organization/institution as an efficient and low-cost form of transaction, sociologists shared a few additional thoughts. For instance, (A) they inherited the idea from Chandler (1962) that the interaction between institution and organization is dialectic. For instance, for multi-divisional firms, the central decision-making office in the organization is considered the place to handle what each subdivision cannot handle, and the more practices in each subdivision become routinized, the more important the central office will be. In other words, although soft institutions can constrain uncertainty by regulating or limiting the chosen set of actors, institutionalized organizations still need "central nerve systems" (*institutions in the form of organizational structures*) to confront the uncertainties that remain unresolved. This explains why the job of CEO is less likely to be routine because their positions are designed to deal with unpredictable changes. Thus, while both are considered institutions, the *soft* forms of institutions (norms, routines, regulations) and the *hard* forms (organizational structures) are interdependent. Also, (B) Stinchcombe (1959) observed that institutions are

with boundaries, and in real cultural production economy, there are often boundary-making practices to make the major personnel (usually those who select or filter cultural products) institutionalized at the cost of others (usually creative producers) within the boundary of the focal organization. Stinchcombe called the less institutionalized part "craft administration of production" to contrast with what he called the bureaucratic ones. This idea later on was transformed into what Hirsch (1972) called "gate keeping." He then further developed a general form of cultural industry featuring a chain of "gate keeping" for the control of uncertainty.

Still, such sophistication couldn't alter the fact that both sociology and economics focused on institutions as the key instruments to address the problem of uncertainty. Due to their similarity, whether actions are rational or intentionally rational becomes a secondary issue, as in both cases the consequences are the same—the co-evolution of organizations and institutionalization. Whether the development of the two streams of thought follow a certain internal logic is a complicated issue, yet their convergence may not entirely be a coincidence. Instead, it might be related to the social-historical context when these streams of thought were developed. Specifically, the Second World War strengthened the position of large-scale businesses in countries like the United States, and after the war, American society had witnessed a stable growth in the economy. Both the society and the real economy had become more stabilized. It is in such historical contexts that neo-institutionalism (Meyer and Rowan, 1977; DiMaggio and Powell, 1983) as well as transactional cost theory (Williamson, 1975, 1985) were developed.

Therefore, it is conceivable that when the issue of uncertainty became more prominent, scholars came up with machinery analogies for institutional instruments that contain uncertainty. This can be seen in Ann Swidler's idea of "culture as toolkit" (1986) in decision making. Similarly, Beckert came up with the encompassing notion of "social devices" to limit uncertainty, and he summarized four types of social devices —tradition, habit and routines;

norms and institutions; social networks and organizational structures; and power (827-829). Likewise, Karpik (2010) developed the term "judgment devices" that resolves the (quality) uncertainty, especially relating to valuing unique cultural products. From this he defined the ten types of judgment devices.[1] All of these notions highlight the role of institutions broadly defined.

6.1.1 Social Containers vs. Social Devices

The analysis of apparel production in this studied case raises questions to such institutional paradigms. It showcases that the development and refinement of institutional and organizational structures are not without conditions, and these social devices themselves are not pre-existent in all economic systems. In particular, I proposed that for social devices to gain popularity and eventually establish legitimacy in an economic field, apparatus regarding the transference of uncertainty should not be too developed. When uncertainty is transferred out of the production organizations, the field will lack enough rationals to reinforce and refine institutional instruments, thus it would be possible for economic actors to escape from the cage of institution and constantly behave according to various kinds of opportunism.

In this regard, the way producers in the children's apparel market resolve uncertainty is not through social devices and consolidation of organizations. With a large group of market makers who willingly hold stocks, apparel shops, especially small-scale shops, lack enough motivation to refine their accounting system, enhance pricing strategies and rationalize their client relations. The interaction between market makers and producers also shortened the average production cycle, thus making producers even more opportunistic. Such a way of "resolving" uncertainty through transference is less about regulation and control, and more about liquidation and pooling. It is for this reason that I call such distinct apparatuses

1. According to Karpik, the notion of device (dispositif) is borrowed from Michel Foucault, who used it to replace the notion of institution, for the purpose to include more elements such as texts, images, sounds, signs into this concept (Karpik, 2010: 44).

social containers to hold and transport goods as well as the associated risks and profits. For clarification, the following table (Table 6.1) summarizes the differences between "social containers" and "social devices". Cultural markets with social containers are less capable of developing complex organizations and high-profile heterogeneous products. Interestingly, in the case of apparel, fashionability doesn't contradict with product homogeneity as long as the cost structure of styles are similar among shops. Clearly, the social containers and social devices shouldn't be mixed as they fundamentally go in opposite directions.

	Social Containers	Social Devices
Mechanism of resolving uncertainty	Transference and Storage by external risk takers;	Coordination by Institution (broadly defined)
Organization Complexity	Low	High
Exchange Liquidity	High	Low
Compatibility with Large-scale business	Low	High
Market Structure	Dual Markets	Single Primary market
Rationality	Opportunistic	Rational
Industrial feature	Flat	Hierarchical
Product Differentiation	Homogeneity	Heterogeneity; Niche market

Table 6.1: Social Containers vs. Social Devices in Cultural Industry

6.2 The Tail-Wagging Economic Systems

Large-scale business is also unlikely to gain dominance, despite the fact that through competition, wealth accumulation into a few hands usually occurs spontaneously and is almost an unstoppable tendency. My analyses provided one such possibility that the concentration tendency can be offset to a great extent and the industry can maintain a high level of equality for the good of both small-scale businesses and latecomers. Market actors may even find the reversal of competitive advantages. As more than one entrepreneur in the interviews put it, *"(in this market), the larger-scale your business is, the more likely you will get bankrupted."* Their voices may not be representative for all, yet we can still infer from the independence of small-sized shops that at least no apparel companies in the market could take substantive

control of the industry.

While I focus mostly on the side of uncertainty in the above sections, it goes without saying that the transference of uncertainty also accompanies a shift in profits. Rough official statistics have shown that the annual sale of the wholesale clearance center is at least roughly 30 to 40 percent of the total market volume. This doesn't even take into account the businesses of non-registered middlemen near the clearance center, and the fact that the prices were often lower in the clearance center but may later be raised by buyers for reselling. Some manufacturers confirmed with me that the year 2018 saw a high market share of clearance sales—about 40-50 percent of their products went to the hands of clearance middlemen. In addition, the expansion of the clearance market can also be seen from the temporal structure of the production season as there is no clear-cut time and date to distinguish primary transactions from clearance transactions.

The clearance business is normally considered the tail-end or "tail" of a production and distribution cycle. In the apparel industry, stores such as Nordstrom Rack are secondary to the primary brand company (Nordstrom Inc.) and only functions as an auxiliary institution to recover some costs and reap profit residues.[2] In a normal situation, the size of the tail business shrinks because the price goes sequentially down significantly at different stages —25 percent off first, then 50 percent, and finally 75 percent, making the tail smaller and smaller. However, the "tail" business here is not secondary at all. On the contrary, because clearance is done prior to the consumption season, the products are only off-priced in the local production market. In other words, the business is called "clearance" only locally and temporarily. When the products arrive at the consumer market, they still appear as brand

2. For the U.S. apparel companies, some would argue that giant U.S. companies are facilitated by their easier access to public offerings of stocks, which made business expansion much easier than in China. This argument has its soundness, but it ignored the cases of many clothing companies in the U.S. (such as Levi Strauss & Co.) that didn't rely on public offerings yet also managed to scale their businesses. The argument also didn't explain why in some apparel production base in China, where the planning of apparel industrial parks is interrupted by other urban processes, the business concentration level is much higher than it was in the focal town market of this study.

new goods for normal prices. The large share of market volume as well as the great potential for "price rebound" of resold goods in the consumption market indicate that the clearance business in the local production market is an expanded tail, large enough that the tail can even "wag the dog".

Such a **"tail-wagging" system** is enabled in the local apparel market thanks to market makers who provided liquidity for producers. The presence of market makers is a consequence of excessive retailing resources in the town, which if traced further back, results from unexpected outcomes concerning the governmental promotion of the apparel industrial park. In chapter 2 (on historical backgrounds), I already detailed how the planning of the industrial park and the apparel wholesale center had resulted in a significant surplus of retail spaces. As the street market area developed and shops had their own showrooms, the wholesale city was quickly abandoned by producers for direct sale. The concentration of surplus retail forces in the wholesale center triggered a division of labor as part of the retail forces were transformed into pure market makers specializing in absorbing stock for profit. Later the co-evolution of production and clearance reshaped the practices of both, and the clearance middlemen began to function as "catalysts" that triggered waves of mini-economic crises.

To sum up, the mechanism described above is that as the tail expanded, profits and market volumes were shifted to the clearance market. Consequently, it left the primary market with a smaller market share, which makes the r-k transformation into large-scale businesses in the primary market less possible. The clearance market can also help secure the independence of apparel shops as it is an external social structure that creates liquidity and flexibility. That said, my future research will be directed towards a more detailed analysis of profit making in the clearance market.

One need to note that there was a surge of scholarly interest on the small-firm phenomenon in the 1980s and 1990s (Murray, 1987; Blim, 1990). The crystallized wisdom of that wave was built upon the model of Third Italy, which features "flexible specialization" (Hadjimichalis,

2006) and this model has also been used to characterize regional industry in China and other countries (Walcott, 2007; Schmitz, 1990). In comparison, the critical case discussed here transcends the duality of Fordism and Post-Fordism and suggests a more durable mechanism that sustains the dominance of small firms. While observers noted signs of the "Third Italy" model gradually transforming back into the large-firm model due to globalization after 1990s, social scientists need to be aware of more robust mechanisms that constrain the development of hierarchical structures in production markets.

6.3 Changes in the Distribution Sector for the "Tail-wagging" Market

A related question is whether there would be any changes in terms of the associated distribution sector. After all, business concentration in the distribution and retailing sector has been witnessed in many cultural industries (Miller, 1996; Hirsch, 2000) as acquisition, mergers, and financial provisions through public offerings have all become more popular. Thus, what changes would this bring to the "tail-wagging" production market? I give below two examples of my observations. The first observation is that traditional giant distribution channels, such as specialty chains, have difficulty in fully integrating the production forces, as the firms in the highly liquid "tail-wagging" market are more independent than in the normal cases. The second observation is that within the tail-wagging market, online platforms emerge to revolutionize distribution not just for the primary market, but also for the clearance market; yet such platforms will only make the clearance logic more salient.

One day in May during my fieldwork, I got interesting news that a top specialty chain company, "DUSTO" (specializing in women's shoes), was about to visit the town looking for strategic cooperation with local shops. DUSTO was both a production and distribution company that originated in Wenzhou in the same province and had been a top player in China's fast fashion shoe industry. In the hope of expanding its product matrix and incorporating

children's products into its lines, the company wanted to look for fifty or so apparel shops as their ODM producers. The marketing manager of DUSTO was designated to have a meeting with the local government official to exchange opinions. I attended this meeting, and it was clear that the official in charge of industrial development was also quite willing to introduce this kind of giant company to "stir the water."

Thus, both parties took it seriously. The DUSTO manager did a detailed survey on local firms. Two weeks later, the official organized a gathering of large local apparel firms in a meeting with the DUSTO team about possible cooperation. Quite unexpectedly, the dialogue was not so pleasant. DUSTO deputies showed contempt because they found that none of the large firms in the industry could match even a small part of their own business. The manager said they initially wanted to work with fifty firms, each with an annual production of five million pieces, but they ended up finding no firms matched this standard. Their contempt was well perceived by local firms, and many of those who initially expressed interest later found out the policy would have been unfavorable to them. The local firms didn't anticipate that they were, in fact, more independent than in many other production districts where firms were essentially just manufacturing factories that passively took orders. Neither did DUSTO. The mismatch of expectations explains why both sides did not meet the goal for the other. In the end, DUSTO's attempt at integration failed, but the incident left a message to local apparel firms that "the wolf is at the door."

When I took this case as a question in my interview and asked small shops whether they would see DUSTO as a threat or whether they would be willing to work as ODM producers for them, the pressure was even less. Many producers told me they have their unique competitive advantages. In particular, they were confident in their own "speed" of fashion production and quick clearance. DUSTO, as a fast fashion player, is similar to ZARA in terms of its extremely short product cycles, low prices, and clearance sale policy. Yet, this giant company with all these advantages was unable to impose a significant threat to the collective fashion

production of small shops. Moreover, they questioned the benefit of working exclusively as ODM producers for a single company. One benefit to them seemed to be stability, yet easy clearance was an alternative way to stabilize their business. *"If you don't fiddle with it, you will just be fine."* With greater survival ability, the sacrifice of being their own bosses to achieve stability was less appealing. Another benefit is the distribution advantage, but the clearance market also makes distribution less of a problem. As a result, small shops were neither threatened nor interested in abandoning their independence. They only told me that they wouldn't mind adding a separate assembly line to fill orders for clients like DUSTO.

The second observation relates to even more recent changes in the distribution sector—the rise of the platform economy (Kenney and Zysman, 2016; Vallas and Schor, 2020). Online platforms enable digitally mediated economic transactions, provide digital credentials of trust, and replace offline transactions. There are platforms channeling primary transactions and platforms mediating clearance sales in the market. I will only focus on the platform on clearance sales here.

The largest online platform company of clearance products was founded at the beginning of 2017 by an investor who had more than ten year's experience in the local industry. He was quite aware of the opportunity in the clearance business. He also noticed that many wholesalers had constantly been exploiting the temporal gap between the clearance in the production market and the consumer market. *"If the wholesalers can make money off it, why couldn't we?"* So the investor hired three computer science teams to develop an app with online apparel stores. Then starting in 2018, his marketing team initiated an ambitious plan to sweep every street in the major counties in China, introducing the app to individual retailing stores. When the first wave of users was recruited and online shops were ready, the goods displayed online were purchased directly from the local clearance center. His company was near the wholesale center to facilitate transactions and storage. Retailers shopping on the app would find similar products if they frequently visit the clearance center.

How would such a platform affect the existing market structure? In the end, what his platform did is further promote the clearance market, making clearance sales fully blossom. If operated successfully, the platform would attract more individual retailers to purchase off-priced products directly online. These individual retailers used to make orders from wholesalers in proximate major cities, or more directly from the producers. Now their demands were rewired to the platform, making demands in the primary market even less.[3] That said, even this will not completely eliminate the primary market because producers can still hold on to explosive fashions to gain extra profit. Thus, ironically, the average volume of an explosive style will likely be smaller than before, but the importance of explosive styles will increase for producers because eventually, most of the profits will come from the transient aesthetic and fashionable value of certain designs. The remaining profits will be either gained by middlemen who first bought stock from producers, or the platform who purchased from middlemen, or individual retailers who bought from the platform. Whatever the case, the tail will become even larger.

Thus, both observations indicate that while the distribution sector undergoes great changes —whether it's in the traditional form of concentration, or in the form of a revolutionary online platform economy—these changes at least didn't alter the basic features of the tail-wagging market too much, and the local production economy remains clearance-driven.

3. Admittedly, as online platforms are also developed for primary transactions, the rewiring of demands may be less significant as in the ideal case.

APPENDIX A

GUIDE OF INTERVIEW QUESTIONS

A.1 Guide of Interview Questions for Manufacturers

Background information:

1. (About the owner): Age, gender, hukou, education, previous profession

2. (About the factory): Basic information of factory: factory location, founding time, factory size, register time, retailing mode (online/offline; mediated by middlemen/self-owned stores).

Questions:

1. Designs and fashion

   (a) Many said children's apparel is becoming more fashionable. Is this how you feel? When does this trend began in your own experience?

   (b) Did you watch the show of Paris Fashion Week this year? (If so, what impressed you most?) Did you watch the show of Shanghai Fashion Week this year?

   (c) Number of designers in your factory? [0; 1-3; 3-10; greater than 10] (If 0, ask how sample styles are obtained: 1. Outsourced to a desiging firm; 2. Membership of sample stores; 3. Occationally buy from sample stores; 4. Watch on the street).

   (d) How many new designs are made in this year? How are decisions made to increase/decrease number of designs? Do retail partners guide the designing process? Do you think textile providers played a big role in guiding the designing?

   (e) Could describe the process of nailing down final designs before they are sent for

production.

2. Industrial quality

   (a) How would you rate the quality of your materials/fabrics on a 1-5 scale, if the best material is rated as 5.

   (b) Do your friends/relatives often buy clothes in your factory?: Yes/No

   (c) What would you say if you compare the quality of clothes made in your factory with that of BALABALA/JintongWang? (Much lower than, lower than, about equal, better) [*note: here quality simply refers to industrial quality,]

   (d) Do you agree that large factories made higher quality products than small factories? If so/not, Why?

3. Merchant quality

   (a) Could you share your experience of a [hot-style/ not-so-good design] your factory ever sold? (if not, do you have any friends who ever had that experience) How frequent is it?

   (b) How do you define the scale of a "Baokuan" style last year(extremely hot-style with sales bursting): Sold by 5000 or smaller; $5000-10000; 10000-30000; 30000-50000; 50000$ or larger . What about 5 years ago?

   (c) Do you agree that small factories made more fashionable products than large factories? If so/not, Why?

   (d) Do you agree that as the selling season approaches, products will be more novel and more likely to make a hit?

   (e) I've heard that some factories allow retailers to return unsold products back? Is

this also the case for you and your acquaintances?

4. Production

   (a) Usually how much is the intial cost of making a new sample? What is the minimal production amount in order to cover this cost?

   (b) When did you start the production circle for the spring/summer season this year? What about last year?

   (c) When do you plan to start preparing for the production for the fall/winter season this year? What about last year?

   (d) Is it true that this year your factory started the production circle eariler than last year? (yes/no) What about the year before last year?

   (e) Are there any factories you know that now cancelled the summer vocation to prepare for winter season in advance?

   (f) Speaking of the starting time of the spring-summer season/fall-winter season, how early do you think you are among all producers in *Zhili*? [From earliest to latest: $20\%; 20-50\%; 50-80\%; 80-100\%;$ Not sure]

5. Distribution and sale

   (a) Do you organize "order-placement fairs"(订货会)? When and where? Could you descibe the process and the settings of the fair? How long does it take to start the production after orders are placed?

   (b) Of the following three groups of intermediary middlemen: A. Secondary wholesalers; B. supermarket agent; C. Wechat merchants (微商), which group is more "professional" in your eye? Which group is more willing to prepay after order

placement? Which group comes earlier to select goods? Do they have any taste differences during selection? What is the earlies/latest time for ordering.

(c) After the goods are produced, which is usually the case: A. Goods are stocked in you warehouse; B. You send immediately to middlemen and they stock the goods.

(d) After the goods are produced, do you send samples to sample stores on the street? If so, when?

(e) When do you decide to sell goods for clearance (尾货)? Do you send samples to stores on the street? If so, how many such stores collaborate with you?

(f) Within the spring-summer season, how many rounds of "fashion waves" are there? What about the fall-winter season?

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