Global Outlook and trends in the apparel market

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Global outlook
Global recession

The global financial crisis that originated in the United States sub prime mortgage market is now pummeling the real economy. As household and corporate sector cut spending on tightened credit and reduced wealth, the global recession has become almost inevitable. The recession will likely be more prolonged than originally expected, as it will take time for global financial system to stabilize and governments policies to take effect. According to estimates and forecasts published by the Economist Intelligent Unit (EIU), world economic growth slowed from 4.8% in 2007 to 3.6% in 2008, and is expected to slow further to 2.0% in 2009 before recovering to 3.0% by 2010.

World Trade Organization (WTO) Economists say; the collapse in global demand brought on by the biggest economic downturn in decades will drive exports down by roughly 9% in volume terms in 2009, the biggest such contraction since the second world war. The contraction in developed economies will be particularly severe with exports falling by 10% this year. In developing countries which are far more dependent on trade for growth, exports will shrink by some 2% to 3% in 2009.

Following the dramatic worsening of the financial crisis since September 2008, real global output growth slowed to 1.7% compared to 3.5% in 2007 and is likely to fall between 1-2% in 2009. This is the first decline in the total world production since 1930's and it's impact is magnified in trade. Growth in 2008 was the slowest since 2001 and well below the 10 year average rate of 2.9%. Not even China, with its dynamic economy, can insulate itself from global downturn, when most of it's trading partners are in recession. China's exports to it's top six partners (treating EU as a single partner) represented 70% of the country's exports in 2007. All of these trading partners are currently experiencing economic contraction or slowdown are likely to exhibit weak import demand for some time. Asia's economic growth (GDP) in 2008, was only 2%,owing to negative growth of (0.7%) recorded by Japan. However (excluding Japan, Australia and New Zealand) grew by 5.7% led by China, which registered the fastest growth of any major economy at 9%, still less than 2007 GDP of 11.4%.

Reasons for Trade Contraction

The number of factors for decline of trade growth are; one is that fall-off in demand is more widespread than in the past as all regions of the world economy are slowing at once. A second reason relates to the increasing presence of global supply chain, in total trade. Trade contraction or expansion is no longer a simply question of changes in trade flows between a producing country and a consuming country-Goods cross many frontiers during the production process and components in the final products are counted every time they cross a frontier.

The third element in current condition that is likely to contribute to the contraction of the trade is a shortage of trade finance. A fourth factor that could contribute is protectionism. Any rises in protection will threaten the prospects for recovery and prolong the downturn.

Protectionism

The economic crisis which has engulfed developed countries and threatens to undermine much of the developing nations, is leading to a wave of protectionist sentiment. The wave comes at a time when governments around the world are becoming increasingly anxious that rising unemployment will threaten political and social stability. For the world of textile and clothing protectionism threatens to reverse decades of trade liberalization. This has included lowering of tariffs, the phasing out of quota's after decades of controls and the signing up of number of preferential and free trade agreements.

Today some of the strongest voices for protectionism lie in the USA. Many textile and apparel makers in the USA well therefore has welcomed the "Buy American" provision in the Obama economic stimulus package which limits the procurement of certain uniforms to goods which are 100% US made. However, protectionist sentiment is by no means confined to USA. It is also mounting in a number of developing countries which are highly dependent on textile and clothing exports for their earnings and employment.

In the past such countries have fought for protectionism and defended free trade that would benefit greatly from the dismantling of trade barriers and opening up of market. But with exports falling and unemployment rising, industry leaders and governments in low cost countries are preparing themselves for the storm which is brewing across the world.

In Brazil, the government introduced import licensing on a large number of textile and clothing products with effect from January 26th 2009. According to Brazilian Government the decision was based on a need to monitor imports more strictly as the domestic textile and apparel industries are faced with growing difficulties. But supporters of trade liberalization stage a strong counter-offensive and licensing scheme was terminated only one day after its official implementation. Similarly Egypt, Argentina, Indonesia etc has taken action to curb imports since recent past.

US "Buy American" Clause

The most controversial development lies in the shape of the "Buy American" clause which forms part of Obama economic stimulus package. The latter was passed into law on February17th 2009. as the American Recovery and Reinvestment Act of 2009.- ARRA. Until the ARRA was passed in February, 2009, the "Buy American" rule applied only to uniforms being produced to the US Defense Department. But now it could be extended to include all uniforms sold to Department of Homeland Security-DHS

Protectionism greatest threat to the world economy

The growing threat of protectionism is causing great alarm among many eminent people in the business and academic world. For ex; It has prompted Jean –Pierre Lehmann Professor of International Economy of IMD (International Institute of Management Development) and founder Director of Evian Group (The Evian Group founded in 1995, in Switzerland describes as an International Coalition of Corporate, Government and Opinion Leaders) to issue a statement warning that "the greatest threat that the world economy faces is resurgence of protectionism."

Professor Lehmann goes on to argue that such a "calamity would as did in the past, decrease growth and dramatically increase unemployment at a time when hundreds of million of young people will be coming on to the labor market." World Bank also states rising protectionism may further harm International trade.

Trends in Global Apparel Industry

Clothing Trade is most affected, World Bank Reports

China could lead the way to a recovery of Asian economies, the World Bank expects in a freshly released report in April 2009. Apparel exports were the most affected in the past months in Eastern Asia along with electronics, with a large number of plants shut down and hundreds of thousands of workers being laid off. **Cambodia** is the most affected economy, due to its extreme dependence on US apparel market. Vietnam is also suffering to a lesser extent.

The world of textiles and apparel is being clearly devastated by the current economic crisis. This is because Asia remains extremely dependent on its exports to the developed nations especially in the apparel market. China is less dependent on its clothing and electronic exports to the US and the EU , although by far the largest exporter in both sectors. China and Hong Kong account for almost three-fourth of the East Asian region's garment exports and China appearing to gaining market share at the expense of smaller producers. In other apparel producing countries a lack of fabrics and electricity shortages have dampened production, along with the dramatic fall in export orders, the World Bank says.

Although less affected than Cambodia,**Vietnam** is also suffering from a fall in its apparel exports, being excessively dependent on the US and EU markets. With the textile recession depressing exports, a large number of plants were shut down in Eastern Asia. About 50,000 garment workers would have lost their jobs in Cambodia while 100,000 employees were laid off in Vietnam in January and February,2009 after 10 large firms stopped production. The International clothing market is also affected by the current crisis in trade finance. Availability of trade finance has tightened while its costs surged, "amplifying the downturn in global commerce". Trade Finance was down 40% world wide in the fourth-quarter of 2008.

Rising protectionism may further harm the international trade, especially in the textile market. **Indonesia** for instance began restricting textile and apparel imports to only five ports and airports on the ground this was necessary to fight smuggling. Although Asian countries should shift away from export-oriented sectors and develop their domestic markets, they may also be tempted to sharply reduce their costs in order to cut export prices.

In **China**, excess capacities may result in lower prices, therefore leading the recovery. China's overall growth at 6.5% should remain higher in 2009 than for most other countries in the world. In addition, to a rebound in China's economy, the Eastern Asian road to recovery will also depend on a possible turnaround of EU and US markets, the world bank however warns.

Asia's Textile and Apparel Exports will fall in 2009-ADB say; Asia's textile and apparel exports are expected to slide this year, ADB, predicts in a report released in April 2009. As prices rose in China and fell in India , results may finally be strongly different in value and volume terms. As a dominant player, China should bear the brunt of the world textile recession but other countries are also suffering such as **Pakistan**. In constant 2004 prices, total Asian textile and apparel exports are expected to drop by about US$ 8 bn with China accounting to a larger part at US$ 3.9 bn.

Projected 2009: Changes in real exports by region of textile, apparel and leather

Region	2004 (US$ Mn.)
China	-3.895
India	-449
Rest of South Asia	-473
Other countries	-3,232
Total	-8,049
Source: ADB.	

This may be more or less probable forecast, but such data are however indicating how severe is the current crisis in Asian exports after EU and US imports began sliding in the last year.

Differently affected

US clothing imports fell 7% in volume terms in January 2009 and this will differently affect apparel exporters depending on where they are located.

Prices of **Chinese** apparel were on the rise at the beginning of the current year, by contrast with higher unit prices partly offsetting the fall in volume exports. The declining in consumer prices is made possible by dramatic fall in raw materials in China, which is benefiting textile and apparel exporters of China. The decision of a large number of exporters to shift to Domestic market is an additional factor for the current drop in prices, as a surge in competition is mixed with rising unemployment and falling demand. China's apparel exports during the January/February 2009 period has declined by 11% over the same period of 2008.

Inflation seriously slowed down in the last months in the in the emerging countries due to lower raw material prices and reduction in economic growth. Consumer prices already declining in China, prices also began declining in **India** with the two textile giants therefore enjoying additional competitive advantages in Asia.

Prices of Indian clothing exports sharply fell for instance, while volume exports were rising as a consequence. In India too, during March 2009 wholesale prices rose mere 0.44%. Inflation dramatically falling in line with economic slowdown and lower commodity prices. The currency lost 21% against the US Dollar in 2008, before again dropping 2% again in the first two months of the year.

Vietnam per capita GDP was US$ 1,024 in 2008, thus surpassing US$ 1,000 for the first time. The garment exports which was US$ 7.8 billion in 2007 too increased by 17% to US$ 9.1 billion in 2008 , although unable to reach the annual target of US$ 9.5 billion. In Vietnam too, Inflation slowed down in the past months but remained relatively high compared with other emerging countries. Inflation rate was 14.80% in February 2009. Vietnam growth will seriously decelerate in 2009. In large number of emerging countries prices were only rising 6% in February 2009 as a clear sign that inflation is being successfully trimmed.

In, **Sri Lanka** Inflation which was 28.20% in June 2008 dropped to 14.40%. In December 2008 and further dropped to 7.20% in February 2009. During first two months of 2009, the garment exports were US$ 494 mn as against US$ 463 mn during the same period of 2008. and up by 6.7%. However according to OTEXA-USA, the US imports of Jan/Feb,2009 of Sri Lanka's apparel has dropped to US$237 mn from US$ 266 mn in 2008. and thus has declined by 10.82%

In **Cambodia** for example, apparel exports began falling in the second part of 2008 and this now affecting the domestic economy. A surge in inflation resulted in a 20% rise in minimum wages in Cambodia's apparel plants with export prices rising and US orders falling as a consequence

According to ADB, orders for the first-half 2009 are sharply lower from United States and the European Union. The Cambodian economy is widely dollarized and cannot really compensate higher production costs with a fall in "riel".

In **Bangladesh** by contrast, apparel exporters more resisted the economic recession, especially knit wear products benefiting from a duty-free access on EU market. The shift to lower-priced clothing at European and US retail was another advantage for Bangladeshi exporters as Chinese prices sharply rose at end of last year. Apparel exports should however experience a slowdown in the current year due to the global recession and the reduction in the prices.

Clothing exports continue to account 75% of total Bangladesh sales to foreign countries with about 90%, shipped to the EU and US. In addition Bangladesh may however take advantage of a relatively strict monetary policy with inflation not exceeding 7% this year according to ADB forecast. The infrastructure for apparel exports was also significantly improved in the past years, ADB says. However, shortages of gas and power supplies are threatening the Bangladeshi apparel industry.

In **Pakistan**, Inflation which was 23.34% in December 2008 had showed only a slight drop in February 2009 to 21.10%. Pakistan is having the highest Inflation rate in the region. Pakistan is already experiencing power disruptions for large periods of the year. The political situation is a another issue. While other supplying countries initiated differentiation policies and shifting to higher-priced products, Pakistan suppliers remained stuck on the low-cost segment.

With the consumer inflation receding in a large number of Asian countries, production cost should less rapidly climb, offering opportunity to limit any rise in prices. However, eliminating US limits on all textile and clothing imports from China is also generating consequences, especially for smaller countries which are heavily dependent on their clothing exports.

Developing Economies - BRIC'S

The world's rapidly developing economies Brazil, Russia, India and China collectively nicknamed as BRIC'S by Goldman Sachs continue to grow and making their impact stronger in the global economy. The criteria for these countries for turning potential to reality included macroeconomic stability, political maturity, openness of trade and investment policies and quality of education

The analyst of the global economy in the past couple of years also point to select smaller economies that could become next generation of BRIC's. These economies are sometimes dubbed "junior BRIC's" or the next eleven.

The list includes-Bangladesh, Egypt, Indonesia, Iran, Mexico, Nigeria, Pakistan, Philippines, South Korea ,Turkey and Vietnam. All of the above countries with the exception of Iran and Nigeria are among the world large textile and clothing exporters. Increasing attention for the Junior BRIC's may in a sector like textile and clothing also result from strategic thinking about the changing position of China.

US and EU market

Amid heavily depressing news there are however clear signs that global textile and clothing market may stop shrinking towards end of 2009, although not fully expected to recover from the economic recession experienced in United States and Europe. Although end of 2008 was devastated by a global economic crisis there are reasons for believing for some improvement in 2009.

The reason includes the dramatic evolution in currency values will also support demand from western countries in coming months.

A large number of currencies heavily fell in the second half of 2008 against the US Dollar. Ex; Pakistan (–14%), India (–13.7%). The Vietnam dong was down 11.7% during 2008, while the Thai Baht was losing about 16% and while Sri Lanka's fall was only 6.34%.Such a decline in currency is a support for domestic exporters of all these countries.

Total apparel imports by United States

Data in Million US$

Country	2006	2007	% change	2008	% change	% Share
World	71,629.828	73,922.587	3.20	71,568.571	(3.18)	100.00
China	18,517.641	22,745.018	22.83	22,922.718	0.78	32.03
Vietnam	3,222.054	4,358.518	35.27	5,223.439	19.84	7.30
Indonesia	3,670.298	3,981.073	8.47	4,028.425	1.19	5.63
Mexico	5,297.113	4,523.375	(14.61)	4,014.503	(11.25)	5.61
Bangladesh	2,914.090	3,103.346	6.49	3,441.635	10.90	4.81
India	3,186.894	3,169.930	(0.53)	3,073.351	(3.05)	4.25
Honduras	2,440.263	2,511.006	2.90	2,604.028	3.70	3.64
Cambodia	2,135.889	2,424.942	13.53	2,375.830	(2.03)	3.32
Thailand	1,839.711	1,766.311	(3.99)	1,667.807	(5.58)	2.33
Hong Kong	2,810.978	2,034.777	(27.61)	1,553.009	(23.68)	2.17
Salvador	1,407.728	1,486.101	5.57	1,533.582	3.20	2.14
Pakistan	1,412.007	1,498.582	6.13	1,489.561	(0.60)	2.08
Sri Lanka	1,682.425	1,573.361	(6.48)	1,466.970	(6.76)	2.05
Guatemala	1,666.250	1,450.582	(12.94)	1,388.159	(4.30)	1.94

Source: OTEXA

In US market unit price (Average) Comparison January 2009 in US$						
Product	**Unit**	**Country**				
Cotton Cat.		**Bangladesh**	**China**	**India**	**Indonesia**	**Vietnam**
334 MB Coats	Doz	63.99	128.35	141.41	97.99	114.14
336 Dresses	Doz	30.97	69.38	63.56	55.71	49.96
338 knit Shirts	Doz	22.15	58.45	41.94	39.43	41.05
339 Knit Shirts	Doz	21.54	56.82	39.02	35.29	37.67
340 Non-knit Shirts	Doz	46.29	90.03	80.76	68.83	59.82
341 Non-knit Shirts	Doz	43.33	65.98	66.14	75.21	54.57
342 Skirts	Doz	39.88	66.28	56.91	55.27	44.23
347 Trousers MB	Doz	53.07	85.63	76.99	59.08	64.56
348 Trousers WG	Doz	51.15	73.59	63.20	52.49	
Product	**Unit**	**Country**				
MMF Cat.		**Bangladesh**	**China**	**India**	**Indonesia**	**Vietnam**
634 MB Coats	Doz	95.08	169.75	163.27	160.64	144.76
635 WG Coats	Doz	108.42	140.76	115.38	136.93	113.14
636 Dresses	Doz	45.01	102.37	87.50	73.38	65.38
638 Knit Shirts MB	Doz	31.23	55.62	55.06	55.86	56.77
639 Knit Shirts WG	Doz	26.60	53.00	57.67	55.31	51.89
640 Non-knit Shirts	Doz	49.79	56.65	84.27	70.78	57.07
641 Non-knit Shirts	Doz	44.67	48.76	62.69	56.18	51.90
642 Skirts	Doz	70.89	66.92	78.27	66.51	60.33
647 Trousers MB	Doz	40.57	61.38	94.56	56.90	66.70
648 Trousers WG	Doz	54.12	67.23	118.70	69.83	63.87

On the other hand, of the heavy fall of the British Pound will further decrease demand from UK, which already weakened by a decline in apparel sales in UK retail. Lower inflation rates should curb production costs. With the consumer inflation now receding in a large number of Asian countries, production costs should less rapidly climb, offering another opportunity to limit any rise in prices or even to reduce them. US and EU retails sales fell at the end of last year with no clear signs of a possible rebound in the first-half of 2009.

Lower raw material and production costs in Asian apparel industry allied to a stronger US currency may help reducing prices at US retail and meet demand.

The market recovery in the Europe may take a longer where decline in the Euro and the plunge in the sterling may limit any attempt to lower prices. In the U.S. market the leading suppliers of apparels given on previous page.

The above table indicates that the Asian countries which have increased their exports in 2008 over 2007 was Vietnam and Bangladesh and Indonesia and China negligibly. Even during the January/February 2009 over 2008 same period once again Bangladesh has increased by 14.92%, Vietnam -4.81% and Indonesia 4.59%. whereas other Asian Countries namely-China, India, Sri Lanka, Pakistan, Thailand have indicated negative growth. The total US imports also have declined by 11.35%.

The reasons for this growth of Bangladesh and Vietnam are the apparel prices of Bangladesh and Vietnam are lower than it's main competitors for the US market namely China, India, Indonesia, Mexico etc (Refer table given as above).

Although the average prices are lower in Bangladesh and Vietnam the quality, style, design etc may vary among the countries. However in today's economic context the consumer always look for the price as an important criteria over other aspects and especially in the market where the consumers are lower and medium income group. Another reason is the labor cost of these countries are much lower than other main competitors. For Instance Bangladesh Labor cost per hour is US$ 0.22 and Vietnam US$ 0.38,whereas other main competitors – China - US$ 0.55 - 1.08, India - US$ 0.51, Indonesia - US$ 0.44, Mexico - US$ 2.54, Sri Lanka - US$ 0.43. (Source: Jassin O' Rouke Group ,LLC-USA).

Country	2008 (Per Kg.)
China	11.23
India	15.70
Bangladesh	8.17
Vietnam	9.90
Sri Lanka	15.91
Indonesia	14.56
(Source-Euratex).	

During 2008, US clothing sales via clothing and clothing accessories stores, and department stores were down although sales via warehouse clubs and superstores were dynamic. Clothing sales are expected to decline further in 2009 as consumers cut back on their spending and devout a large share of their disposable income to savings. People in the west are dramatically changing their approach to spending; Instead of hankering after top class and luxury goods, they are turning to medium and low-end merchandise.

Leading suppliers to EU market

During 2008 top 10 clothing suppliers to EU are China, Turkey, Bangladesh, India, Tunisia, Morocco, Vietnam, Sri Lanka, Indonesia and Pakistan. However, Turkey, Morocco, Indonesia and Pakistan growth in 2008 over 2007 was negative. The details are as follows:

Once again the EU Market the average prices Bangladesh, Vietnam are much lesser than China, India, Sri Lanka, Indonesia etc. The average prices are based on total quantity of garments exported to EU and not product basis. In EU Market unit price (Average) comparison of , 2008 in EURO.

Therefore, in the present market situation each country will have to have it's own Plans/Strategies based on their country's SWOT (strengths, weaknesses, opportunities and threats) analysis to overcome the challenges. For Instance China has already drawn their Long –Term Textile Plan as follows-

1- Develop new markets

China's textile and garment industry is excessively dependent on US and EU markets. The strategy is to increasingly turn to other markets, especially in emerging countries like Russia, Brazil, India and Africa. The domestic market should also be more rapidly developed, including rural areas where a large part of the Chinese population continues living.

2- Invest in updated technology and brands

The textile and clothing industries have benefited from low production costs in the past but labor and energy costs surged in the last year. There is an urgent need in shifting from low to higher added value production.

China intend to heavily invest in higher value-added production , such as textile dyeing and printing. Strong Brands should be developed. Training will therefore will be boosted at all levels.

3- Save energy

The country still consumes high quantities of energy for producing textile and apparel. There is a strong need to saving about 30% of currently used energy.

4- Move to central and western regions

Eastern Province should specialize in technological developments with production of high valued textiles and clothing. Majority of the textile and clothing companies are located in Eastern Provinces. Low cost manufacturing should be further transferred to the western and central parts of the country.

5- Financial support

In addition to 16% rebate on VAT, textile and clothing companies should be granted some credit guarantees, with a specific focus on small and medium-sized companies.

VAT has been gradually increased from 13% in August 2008 to 16% in April,2009. An 1% increase in the export rebate consists of distributing US$ 1.11 billion to exporting companies.

(Sources: ADB, Emerging Textiles. OTEXA, Euratex, Textile Asia, Textile Intelligence-UK, World Bank). The writer is a Chartered Marketer with over 25 years experience in the textile and garment sector and carry out regularly market studies and provide articles to International and National magazines.

Country	2007 Euro Mn.	2008 Euro Mn.	Change %
China	21,869	25,223	15.3
Turkey	8,916	7,879	(11.6)
Bangladesh	4,404	4,729	7.3
India	3,834	3,893	1.5
Tunisia	2,573	2,582	0.4
Morocco	2,540	2,391	(5.9)
Vietnam	1,128	1,245	10.3
Sri Lanka	1,042	1,124	7.8
Indonesia	1,195	1,122	(6.1)
Pakistan	909	880	(3.2)
(Source: Euratex			