

# World recession and the impact on the global textile and apparel industry

by A.H.H. Saheed, Chartered Marketer.

The collapse of the USA sub-prime market and worst ever global financial crisis has had serious repercussions not only for developed world's economy but for developing markets as well. The impact of this crisis on developing and emerging economies is widespread. The financial meltdown inevitably backlashes on consumer markets and broadly on the process of investment in the production of goods and services.

According to World Bank, the world economy is likely to grow by 2 to 7 percent in 2010, after shrinking in 2009, with almost all developed countries posted negative growth in 2009, despite numerous stimulus packages and government action of unprecedented scale.

Overall, global gross domestic product (GDP)-a broad measure of the output of the goods and services, that fell 2.2% last year-is expected to expand 2.7% in 2010 and 3.2% in 2011.

The growth will be led by developing countries, whose economies would have "relatively robust" growth of 5.2% this year and 5.8% in 2011, after managing to buck the global downturn with 1.2% growth in 2009. China's massive economy would continue to be the primary engine, with growth at 9% this year and the next. South Asia would post a 6.9% expansion in 2010, including a 7.5% rise in India.

Rich countries, impacted the most by the global financial crisis would not recover so quickly. Developed economies which experienced 3.3% plunge in GDP last year were projected to grow by 1.8% in 2010 and 2.3% in 2011. The United States, the world's biggest economy and the epicenter of the financial crisis that triggered the downturn would be see 2.5% growth in 2010 and 2.7% in 2011.

The countries relying on trade as a primary means of boosting economic growth, saw trade volumes disappear as contraction started on trading partners. Growth in trade volume fell to 3.3% in 2008 as compared to 7.2% growth in 2007 and plummeted by 14.4% in 2009. However trade volume were projected to expand by 4.3% in 2010 and accelerated to 6.2% in 2011.

Protectionism is also manifested itself in many countries, following a fall in trade international markets. The wave came at a time when governments around the world became anxious with closure of factories,

rising unemployment which has in turn threatened political and social stability.

The global textile and garment industry also has been hit hard by the global financial crisis. The impact on the textile, garment, leather and footwear sectors has been dramatic. Since June 2008 over 8,200 factories have been closed and an estimated 11.8 million workers have lost their jobs. Further 3 million jobs are estimated to be at risk. The situation is particularly tragic for workers in the developing countries, where there are no social safety nets. In addition, as many as 80% of the workers involved are women and again vast majority are less than 24 years old and often the only breadwinner in their extended family.

Demand for textile and garments dropped considerably during the past few quarters, especially in USA, Europe and Japan due to falling consumer confidence and rising unemployment figures. Many consumers are now focusing on prices and are shifting demand to lower-priced products and/or postponing consumption. With the exception of few export oriented nations of clothing -namely Bangladesh and Vietnam most are suffering from strong reductions.

The competitive environment has changed, and manufacturers who have enjoyed success over the last decade are having to rethink their strategies.

Trade has become more liberal over the last fourteen years with the elimination of quotas, but this has made the market more competitive.

At the same time retailers and consumers are placing new demands on suppliers. It is no longer special to simply offer the best prices-or even the best quality nor it is sufficient just to be able to deliver on time. All of this factors are now taken for granted.

In additions to above, and on top of this, there are wider issues Corporate Social responsibility - CSR, to address. Manufacturers are required to ensure that the working conditions in their factories meet acceptable standards and increasingly to minimize any adverse impact of their operations on the environment.

It is seem that suppliers who are geographically close to their main markets enjoy a distinct competitive advantage over those based some distance away. The competitive advantages has become

stronger in recent years as fashion cycle have become shorter, the number of collections in a year has increased, and pressure on manufacturers to reduce lead times has intensified.

The cost of transportation from nearby sources is usually lower and transportation times quicker. Moreover, it is generally easier to make adjustments to existing orders, and to replenish inventories in-season, when the goods are manufactured in a nearby country.

The 3<sup>rd</sup> quarter of 2009 confirmed the strong rebound of the global textile production observed in the previous quarter. Both yarn and fabric production rose modestly in all most all regions, especially in South America, while North America recorded stagnant output.

World yarn production rose in the 3<sup>rd</sup> quarter 2009 by +1.3% as compared quarter confirming the impressive rebound of the 2<sup>nd</sup> quarter (+22%). With the exception of North America (-2.3%) all regions recorded increases, especially South America (+5%), Europe (+4.5%) and Asia (+1.2).

Fabric production also grew worldwide by +1.2% in the 3<sup>rd</sup> quarter of 2009. Global fabric production increased or remained stable in all regions. In Asia and North America fabric production was unchanged compared to the previous quarter. Europe on the other hand recorded a slight increase of 0.9%, while fabric production in South America surged by 18.1%.

Year-on-year global fabric production was up by +4.2% due to higher outputs in South America (+11.8%) and Asia (+6.1%), while North America and Europe still recorded significantly lower production levels (-17.1% and 17.9%, respectively).

World textile and clothing trade grew by 5% to US\$ 612 billion during 2008 (latest data released by WTO in November 2009). This rise is comparatively lower to Growth of 13.5% in 2003, 12% in 2004, 5.2% in 2005, 10% in 2006 and 10.6% in 2007.

Clothing with US\$ 362 billion accounted for 59.2% and textile with US\$ 250 billion accounted for 40.8% in 2008. The growth in clothing was lower with a growth of 4.6% in 2008, following a growth of 11.9% in 2007 and 11.7% in 2006.

Reflecting the global economic slowdown Chinese textile and clothing exports with US\$ 73 billion were down by 11% in the first-six months of 2009 after growing by 8.2% in 2008 and 18.9% in 2007.

In the USA market in exports of Chinese textile and clothing in the first-ten months of 2009 with US\$ 26.8 bn declined by 4.3% and clothing with US\$19.9 bn only grew by mere 1.4% over same period of 2008. However, the growth should have been faster, after the removal of safeguard quota's restricting USA imports of several products from China at the end of last year.

In the USA market all the other Asian major apparel exporting countries also suffered decline in their exports during Jan/Oct. 2009. Bangladesh- down by 0.13%, India-down by 7.32%, Pakistan-down by 12.40%, Sri Lanka-down by 16.71% and Vietnam-down by 3.36%.

The largest supplier of clothing to the EU during 12 months ending June 30th 2009 was China with a 44.8% share of the total value, showing a sizeable increase of 6.3% from a share of 38.5% a year earlier.

Chinese manufacturers have enjoyed growing demand from buyers in the EU, partly because they have successfully dealt with the rising value of renminbi and upward pressure on wages. They have done so by moving up to value added market and also making better quality clothing, while relocating basic manufacturing operations to lower cost areas inland or abroad.

Of the remaining top ten supplying countries to EU during year 2008 were Bangladesh, India, Sri Lanka and Pakistan. These countries were the only other suppliers to enjoy growth in value and volume terms during the year ending June 30th, 2009. However in the case of Vietnam exports to EU rose by 6.7% in value terms but fell by sharp 32.7% in volume-reflecting a significant 58.6% rise in the average price.

India has targeted exports of textile and apparel of US\$50 billion by 2012, but achieved only US\$ 21billion by 2008/2009 compared to US\$22 billion previous year.

Pakistan suffered a decline in exports of textiles and clothing and reported US\$ 17.6 billion in 2008/2009 against a target of US\$ 22 billion. The government has set a textile sector export target of US\$ 25 billion in next 5 years.

Sri Lanka's textile and garment exports which was US\$ 2.52 billion during first-three quarters of 2008 has dropped to US\$ 2.40 billion during the same period of 2009. Garment exports which was US\$2.39 billion

during above period of 2008 also has dropped to US\$2.23 billion during 2009.

However, new low-cost countries have emerged with double-digit export growth, adding additional capacities vacated by bigger countries and leveraging their lower labour cost. Examples, include Bangladesh and Vietnam as in 2008 Bangladesh and Vietnam respectively posted 23% and 21% growth in clothing exports .

Vietnam estimated the garment export turnover of US\$ 10 billion in 2009 i.e. US\$900 million more than 2008.

Against this market background, governments in the main textile and clothing producing countries had to modify support structure for their exporters on a regular basis for past year and continue to do so. The Governments of these countries announced textile and clothing Stimulus plans in 2009 to meet these challenges. Some of them are as follows:

#### China

The government announced a 3 year plan to revitalize the textile and clothing industry with focus in following aspects.

- ❖ Enlarge domestic market-expand domestic demand.
- ❖ Consolidation of the industry.
- ❖ Phase out obsolete capacity.
- ❖ Up-gradation in value chain.
- ❖ Relocation of industry from south east to the rural west.
- ❖ Increase in export tax rebate from 11% to 16%, and timely release of the rebate.

#### India

- ❖ Moratorium on repayment of loans by one-year.
- ❖ US\$64 million package under Market Linked Focus Product Scheme (MLFPS) on apparel and leather exports giving duty certificates. (2% on fob value over above existing drawback schemes).
- ❖ Thrust on attracting Foreign Direct Investment-FDI- targeted US\$ 8 billion in new investments over the next 5 years.
- ❖ 50% reduction in excise duty.
- ❖ Fast tracking incentive claims to improve liquidity-releasing the entire pending Technology Up gradation Fund Scheme-TUFS amount till FY-2009. TUFS also extended till 31<sup>st</sup> March 2012.
- ❖ Reschedule Loans of all textile and clothing units.
- ❖ Financial support for exporters for market development. US\$ 25 million.

#### Pakistan

- ❖ Seeking duty-free access to USA market.
- ❖ 3% interest subsidy on spinning investments for 2 years

- ❖ Fast tracking incentive claims to improve liquidity.
- ❖ Moratorium on loans by one-year up to the end of 2009.
- ❖ Allocates US\$.484 million to Export Investment Support Fund for textile sector.

#### Vietnam

- ❖ Direct subsidy of US\$21 million to the industry.
- ❖ Reduction of VAT on cotton imports from 10% to 5%.
- ❖ Subsidized financing for cotton imports.

#### Sri Lanka

- ❖ Introduction of 5% and 3% incentive under EDRS (Export Development Reward Scheme).

It is not only governments of the textile and clothing producing countries that are providing fresh stimuli to their manufactures, companies also reusing and fine tuning their individual strategies on a regular basis to ensure that they are able to maintain their cash-flow.

#### 2010 Outlook: For better or worse?

The global economy was spared a meltdown in 2009 and appeared to have stabilized now. Does 2010 looks better times ahead or long year of recovery? Here are some views expressed by economists/business community.

**Professor Nouriel Roubini, Economist at Stern School of Business** at New York University says, "I do expect that the world economy, especially the advanced economy, is going to have weak economic growth for number of factors. There is a weakness in the labour market first of all. Secondly you have shopped - out consumers, who are saving less, and they have burdened in the USA, the UK, in Ireland, in Spain, in Australia, in the Baltics, New Zealand, in Dubai-in all these countries where the housing bubble went bust. They have to save more to reduce their leverage, they are not going to consume very much."

He added, "While I am concerned about advanced economies, I have a more bullish view of China and the emerging markets, especially in the Asia and there is lot of attention in Asia. This mainly due to the fact that in the next few years, as long as reforms continues, China and growth in other Asian countries are going to be one of the most significant components of global economic growth, So, the future belongs to Asia in many ways.

**Peter Wong, Executive Director, HSBC Asia Pacific** says, "As far as 2010, is concerned, I'd probably say it is going to be transition year. That's because, in 2010,

the US economy is still not certain. Therefore the interest rate will continue to be low and therefore there will be huge liquidity coming out at very low interest rates, and this will present, may be a risk of too much liquidity, and therefore asset bubbles, so we have to watch out for that. In 2011, the US economy will be much better. Interest rate will come back up a bit, so bank earnings would be much better, and also the exports and imports of various countries will be better. So I think that 2010 is not going to be easy, but 2011 will be pretty good."

**Cliff Sun, Chairman Federation of Hong Kong Industries** says, "Since mid-2009, there have been a sign of recovery locally and internationally. The majority of

manufacturing companies reported business improvement, but still not at levels preceding the financial tsunami."

Generally, there has been a 20% increase in export value compared to the period during the worst part of the financial tsunami. But there has been a 10% decrease in average-order value. Industry members say the drop reflected the anxiety over high-priced products by overseas buyers, who tended to buy lower priced items, a trend expected to continue in 2010.

Overseas market recovery in the United States and Japan has been slow. In contrast, business on the Chinese mainland and South American markets has

recorded an increase in export value for the third-quarter of 2009, both compared to data during and before the financial tsunami, indicating that the economic turmoil has a lesser impact on these markets.

Many Hong Kong manufacturers are preparing to explore the mainland market. They are willing to develop their own brands and upgrade their trade products in order to enter the domestic market. Some will transform from a processing plant to a foreign invested enterprise, so that they can sell their products in the domestic market.

Sources-World Bank, WTO, Hong Kong Trader,ITMF, OTEXA, Euratex etc.◆

## Ban on polyurethane in performance swimwear

The use of polyurethane in performance swimwear is credited with securing 235 world records over the past two years. But on January 1, 2010, the material will be banned in competitions. According to a ruling from Fina (Fédération Internationale de Natation) - the international governing body for swimming - competitive suits must be made exclusively from "textile fabrics".

The new rules will have a major impact on leading manufacturers of swimwear -- including Adidas, Arena, Jaked, Speedo and Tyr. But the rules are also likely to boost innovation and technological development in textiles, according to a new report published in Performance Apparel Markets.

The report notes that the global market for performance swimwear is worth about US\$200 mn, based on 2008 estimates. Of this figure, about 60% is held by Speedo alone. Significantly, it is thought that Speedo's launch of the LZR Racer in February 2008 alerted regulators of the need to change the rules.

The LZR Racer took the market by storm and played a major role in helping swimmers to shatter world records.

At the Beijing 2008 Olympic Games, for example, 23 of the 25 new world records were set by swimmers wearing the LZR Racer - including the world champion, Michael Phelps, who is sponsored by Speedo.

Furthermore, 89% of all the medals awarded in swimming - including 94% of the gold medals were given to LZR Racer swimmers, according to Speedo.

The LZR suit is ankle length, and leaves only the arms, feet and neck exposed to the water. It is made from a blend of nylon and elastane, and features very thin polyurethane panels placed over "drag hot spots". Drag - a term used to describe fluid resistance is one of the main factors preventing swimmers from maximising their speed through water.

The LZR suit consists of multiple pieces of fabric with ultrasonically welded seams which are said to reduce drag by 6%. During the process of developing the suit, Speedo scanned the bodies of more than 400 elite swimmers. Also it carried out tests on over 100 different fabrics and fabric combinations. These revealed that swimmers wearing the LZR Racer increased their speeds by an average of 4%.

Speedo has already responded to the new rules, and in December 2009 it launched its LZR Racer Elite. This incorporates

the same fully bonded construction and ultrasonically welded seams as its predecessor, but is made exclusively from an ultralightweight and low drag woven nylon and elastane fabric called Pulse.

Other swimwear manufacturers having invested heavily in developing the now-redundant polyurethane-based suits are similarly being forced to work on textile-based replacements.

Fina's new regulations also preclude the use of full length bodysuits. In future, performance swimwear used in competitions must extend no further than from the waist to the knee in the case of men's swimsuits and from the shoulder to the knee in the case of women's.

Performance Apparel Markets also reports that one of the key component fibres in swimwear, elastane (also known as spandex), has enjoyed a big increase in usage over the last decade. However, the fortunes of elastane fibre manufacturers have been mixed in the past two years.

Between 2000 and 2008, consumption of elastane soared from 153,000 tonnes to 300,000 tonnes, although there was a decline in 2008 alone. By 2015 consumption is expected to climb to around 438,000 tonnes.

But most of the expansion has been in China, and the proportion of that capacity which is being utilised remains debatable, the report reveals. Pushed by high profits, Chinese elastane production capacity, which now accounts for 60% of the world total, expanded continuously in 2007 and 2008, but the global economic slowdown has forced prices down significantly.

Not all elastane fibre manufacturers are suffering, however. Invista, for example, appears to have escaped the worst of the downturn which is afflicting low cost competitors. The company produces Lycra by far the best known brand of elastane and has continued to do well by finding new high-value applications and expanding into new international markets.

The success of Lycra, which celebrated its 50th anniversary in 2009 is based on heavy investment in innovation, product development, partnerships and sophisticated consumer marketing campaigns. Chinese manufacturers, according to Performance Apparel Markets, could learn much from the way it has sustained its success.

For further information, please contact Textiles Intelligence, email: [info@textilesintelligence.com](mailto:info@textilesintelligence.com).