What is the future of global textile and apparel industry?

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Textile and Apparel is one of the oldest and largest export industries in the world. It is also one of the most global industries because most nation produce for the international textile and apparel market. Apparel production is a springboard for national development, and often is the typical starter industry for countries engaged in export-oriented industrialization due to low fixed costs and emphasis on labor-intensive manufacturing.

Although the global textile and apparel industry has been expanding at a rapid rate since the early 1970’s and providing employment to tens of millions of workers in some of the least-developed countries in the world, the industry has experienced two major crises in the past five years.

The first crisis is the regulatory. The Multi-Fiber Arrangement (MFA), which established quotas and preferential tariffs on apparel and textile items imported by United States, Canada and many European Nations since the early 1970’s, was phased out by the World trade Organization (WTO) between 1995 and 2005 via its arrangement on textile and clothing. The concern of many poor and small developing economies that relied on apparel exports was that they be pushed out of the global trading system by much larger, low cost rivals, such as China, India, Vietnam, Bangladesh, etc.

The second crisis is economic. The recent global recession, which was sparked by the banking meltdown in the United States in 2008 and quickly spread to most of the major industrialized and developing economies, brought in the world brink of the most severe economic crisis since the Great Depression of the 1930’s. Plant closures and worker layoffs in the industrialized nations led to slumping consumer demand, which resulted in fewer orders and shrinking markets for export-oriented economies in the developing world. The recession hit the textile and apparel industry especially hard, leading to factory shutdowns, sharp increases in unemployment, and growing concerns over social unrest as displaced workers sought new jobs.

The global textile and apparel exports during year 2009 was US$ 211 bn and US$ 316 bn respectively as against US$ 250bn and US$ 362 bn during 2008 and down by 15.6% and 12.8% respectively.

After declining for three consecutive years, world cotton production is expected to rebound by 16% to 25 million tons by 2010/2011, encouraged by the significant rise in prices experienced last season. Global cotton mill use also continue to recover, but more slowly than in 2009/2010 due to limited available supplies and higher prices, to 25 million tons. As production and consumption are forecast to roughly balance in 2010/2011, world ending stocks are expected to remain stable at 9 million tons.

World cotton imports are expected to continue to recover in 2010/2011, growing by 8% to 8.4 million tons. These would be the largest imports in three years. This increase will be driven by Chinese imports, forecast of 28% larger at 3 million tons.

The strong global recovery in yarn and fabric production that was observed since their lows in the first-quarter, 2009 came to an end in the first-quarter 2010. Both yarn and fabric production dropped significantly compared to the first-quarter 2009. Yarn and Fabric production fell especially in Asia but also in Europe, whereas South and North America recorded stable or higher output level in comparison to the previous quarter.

World yarn production dropped by 12.8% in the first-quarter, 2010 in comparison to the previous one. This is a significant drop which is mainly a consequence of a lower output level in China - a 17.3% decline. Europe also recorded a decrease of 4%, whereas North and South America’s production rose by 5.1% and 17.4% respectively, in comparison last year’s quarter all regions still recorded higher output levels.

Worldwide fabric production decreased by 9.7% in the first-quarter 2010. Both Asia and Europe recorded lower output levels of 11.4% and 3.6% respectively.

The main factor for this drop is China where fabric production fell by 16.4%. North and South America on the other hand reported stable and higher output levels of +/-0% and 5.3% respectively.

Outlook 2010 and beyond

Over the past 60 years since the founding of PRC, China has developed from an agrarian country to a new development stage when China is evolving into a well-off society. Chinese textile industry has played three roles consistently, namely the role as a pillar industry, the role as an important well-being industry and the role as an international competitive industry.

In China there were 540 million people in 1949 with the urbanization rate of only 10.64%. The year output was only 327 thousand tons. In 2008 the national population was 1.328 billion with urbanization rate as 46%, the year output reached 21.49 million tons, an increase of 64.7 times. Fiber output grew from scratch to 24.05 million tons. The textile industry now employs 20 million people and 80% are migrant workers. The industry has also provided an enormous market for 9 million tons of natural fiber of Chinese agricultural sector and has sped up the urbanization process in the countryside.

The per capita consumption of fiber in China has exceeded 15 kg and fiber processing for production, consumption has reached about 6 million tons. The export of textiles grew from 26 million USD in 1949 to 167 billion USD in 2009. There has been a dramatic changes in the industry. However, China’s industrialization process is still in the mid-late stage. The per capita GDP is just little over 3000 USD and 700 million Chinese people still live in the countryside, which accounts for 54% of the total population. As shown by practice, Chinese textile industry will continue to play its historical role until China completes the construction of a well-off society and industrialization.

On the country side, China has been the big winner. It has increased its dominant position in all the major industrial economies, such as the United States, the European Union and Japan. It has also diversified its export reach by gaining ground in many of the world’s top emerging economies as well, such as Russia for finished goods, and India, Brazil and Turkey for intermediate goods, such as textiles. Other developing economies have also gained in the post-MFA era, such as...
Bangladesh, India, Pakistan, Vietnam and Indonesia. But regional suppliers have been hard hit, especially Mexico and CAFTA-DR in North America, and Eastern European and North African suppliers to the European Union.

On the firm side, the quota phase out and economic recession have accelerated the ongoing shift to a rationalization of global supply chain. Major retailers, brand marketers, and brand manufacturers have been stressing their desire to work with fewer, larger and more capable suppliers, strategically located around the world.

The current per capita consumption of fibres in North America, Western Europe, Japan, Taiwan, South Korea and Turkey is more than 10 kg. Annual per capita consumption of fibres in the rest of the world is less than 10 kg. For the period Until 2020, an additional demand of fibres, yarns and threads is forecast, raising the annual per capita consumption from 10.9 kgs to 13.5 kgs by 2020.

The textile and clothing industry continues to be buyer-driven, dominated by large retailers, branded manufacturers and marketers which control global production networks and stipulate supply specifications.

Large retailers have increasing power over manufacturers in terms of price, quality, lead times and raw material inputs. In the past, the contractor had to provide cutting and finishing in addition to sewing. Then the contractor also had to purchase the fabric and other raw materials and financially carry the product on their books until 30 to 60 days after shipment. Today, the definition of full-package includes expanded services in design and merchandising as well as direct selling.

In addition, increasing number of overseas buyers are selecting suppliers based on non-production factors such as social compliance and environmental standards. Social compliance includes freedom of association, fair wages, fair working hours and fair social benefits, minimum age (child labour), equal opportunities employment and safe working conditions.

Integration between different stages of the textile chain may provide greater advantages in terms of speed of response to market demands and suppression of non-value added activities along the chain. These may impact on such items such as product development, productivity, sales volumes, leftovers of finished products and raw materials. A successful integration strategy may involve cost advantages up to 25% of total cost. Integration may take place both in the form of strategic alliances between companies at different stages of the textile chain, and through mergers and acquisitions.

The application of new information and communication technologies improves long-distance supply capabilities and establishes virtual exchange base to set Internet communication standards for textile and clothing products in a move to cut third party providers. Internet development enables all parties to reconsider the role of each stakeholder of the textile chain.

There will be a significant shift to non-store retailing all types, from the traditional phone-order to interactive, in-home shopping-or anywhere, shopping.

The growth in domestic demand in developing countries, particularly in Asia, may result in these countries supplying greater proportions of production to the domestic market, as it is seen in China.

The textile equipment suppliers will continue to play important role in intensifying international competition in the textile and clothing sectors. In pursuit of global positions, these international companies have to ensure that new products and technologies are diffused rapidly.

Environmental regulation is spurring considerable product reformulation and increased interest in recovery and reuse operations. Chemical suppliers are moving away from the use of objectionable solvents, heavy metals, salt and other chemicals that release formaldehyde, volatile organic compounds or other regulated materials.

The outlook of textile end use markets plays a key role in both volume and mix of textile chemical consumption. Best prospects are expected in medical products, especially value-added nonwovens, high performance industrial textiles such as Coated fabrics, carpets and rugs.

Biotechnology is transforming the world cotton industry. The cotton varieties developed with application of biotechnology can increase yields by 30-40%, accounted for more than half of world production in the 2007/2008 season. Cotton production practices will change drastically in the next two decades.

Man - made fabric will remain global whereas developed countries will focus on high function fibres, developing countries will concentrate on mass production of commodity fibres.

Man-made commodity fiber producers are in strong competition to each other. In order to survive, they need to move to countries with a high potential of demand. The production of high tech fibres, how-
ever will remain, where textile processing industry is located.

Recent studies has indicated that an estimated 40% of fiber consumption within developed countries is consumed in the manufacture of technical textiles. Technical textiles include textiles for automotive applications, medical textiles (eg; implants), geo textiles (reinforcement of embankments), agro textiles (textiles for crop protection) and protective clothing (eg; heat and radiation protection for fire fighter clothing, molten and metal protection for welders, stab protection and bulletproof vests, and space suits.) Technical textiles are expected to continue to grow at a higher rate than any other segment of the textile market.

In today’s market place, it has become a norm to source clothing from countries with low costs. Furthermore, buyers, are being forced to look for ever cheaper sources in order to satisfy consumers who are increasingly demanding while competition in the retail level continues to get tougher.

However, there is still a gap in the market for manufacturers based in Western Europe and the USA who produce goods in their own country for sale in the domestic market and for export. In this context, production costs are usually much higher in developed countries. Indeed, labor costs alone in western Europe can be over 100 times as high as those in certain Asian countries. Nonetheless, manufacturing in developed countries brings with a number of benefits. One benefit is flexibility in being able to offer smaller production runs and short delivery times. While distant suppliers may be cheaper, they often demand minimum quantities which can be too high for smaller companies. Furthermore, the buyers are looking increasingly to source from factories which adhere to corporate social responsibility-CSR programmes in general- and fair labor practices in particular.

Factories based in Western Europe and USA are usually easier to audit, and tend to be audited regularly, which provide them with a significant competitive edge. Also, it is generally easier for a buyer to verify the accuracy of claims by suppliers that their factories are in compliance. Importantly, sourcing closer to home enables a company to cut down on the distance which a product has to travel in order to reach the customer and therefore provide scope for the company to reduce its carbon footprint. The strengths, weaknesses and threats to leading textile and apparel manufacturing countries are given on the next page.
Apparel & Knitwear

China

**Strengths**
- Labor-high productivity, competency and experience.
- China excels in improving productivity in light of rising inflation.
- Cost of labor and quota elimination.
- Quality of fabric and garments.
- Reliability.
- Technology investment (logistics).
- Product diversity; fabric and finished goods.
- Availability of abundant raw material.
- Availability of abundant labor.
- Mentality of the management; “can do” business approach.
- Government Support.

**Weaknesses/Threats**
- Inflation (increases producer prices), and labor competition from higher paying, non-apparel sector industries.
- Labor costs and labor laws: Rising domestic wages are expected to increase further as a result of new labor laws. Labor Rate $1.44/1.88 per hour.
- Currency appreciation, energy costs are increasing.
- Shipping Cost: Major increases.
- Product Safety issues.

Turkey

**Strengths**
- Flexibility and Speed, for example domestic manufacturers are investing in new production centres in Egypt.

**Weaknesses/Threats**
- Labor costs:$2.44 per hour.
- IP Enforcement.
- Inflation in raw material costs compared to competitors.

India

**Strengths**
- Product diversity, as being the most diversified exporter of textile and clothing products in South Asia.
- Flexibility and speed are major strengths, when compared China, flexibility can cater to buyer’s requirements for small customized orders as well as large orders. Intricate; high quality garments with flexibility and speed.
- Government Support.
- Domestic market: Growing number of firms switching to domestic market.
- Labor cost: $0.51 per hour, availability of raw material and availability of enough labor.

**Weaknesses/Threats**
- Procedural hurdles to international trade.

Bangladesh

**Strengths**
- Lower costs of production and firms willingness to keep margins low; while investing in new technology to improve productivity and to reinforce relationships with buyers.
- Improvement in terminal handling and customs, for example handling and customers have gone from 12-13 days as recently as last year to clear goods within 3 days.
- Labor costs and availability: $0.31/hour.
- Energy costs and currency deprecation coincided with post-ATC period offering more advantage to knit exports.
- Growing textile investment from Taiwanese and Korean investors for setting up fabric/fiber operations.

**Weaknesses/Threats**
- Design, soft skills and technology.
- Currency fluctuation (mainly euro).
- Shortage of skilled workers and middle management;
- Human Capital (poor) and worker unrest and strikes over poor pay and conditions.
- Energy Reliability; power interruptions in the national power grid are common, and stand-alone generators are often needed, which are more expensive.
- Inefficient Infrastructure: port and transportation.

Vietnam

**Strengths**
- Alternate to China: FDI & Sourcing.
- Growing textile industries: Taiwanese and Korean investors are setting up operations.
- Growing exports to Japan and domestic market. The enterprise nature of the private sector to position country in niche markets.
- National instability and security.
- Energy access and reliability.
- Lack of design skills and global market knowledge. Lack of supporting resources, such as research & training.

**Weaknesses/Threats**
- Lack of skilled workers with experience in technology, fashion and management.
- Dependent on imported textiles.

Indonesia

**Strengths**
- Large domestic market.
- Large installed production capacity.
- Low labor costs: $0.44 per hour and relatively low turnover rates.
- Long, refined textile tradition (batik techniques, embroidery).

**Weaknesses/Threats**
- High energy costs.
- Outdated machinery.
- Inconsistency of general business climate; unfavorable bureaucracy, taxes, corruption and security issues.

Mexico

**Strengths**
- NAFTA: Proximity to the United States.

**Weaknesses/Threats**
- Labor cost: $2.17 per hour.

Pakistan

**Strengths**
- Low Labor Cost: $0.56 per hour.
- Government support and liberal FDI policies with incentives.
- Currency Depreciation; against the U.S. Dollar and other western currencies. This has raised exports and also raised the cost of imported inputs.
- Fairly large domestic market.
- Availability of raw material especially cotton.
- Trade concession proposal by EU-Duty free access to 60 products of textile and clothing to EU market.

**Weaknesses/Threats**
- Energy access and reliability.
- National instability and security.
- Quality and colour consistency of textiles and clothing.
- Lack of design skills and global market knowledge. Lack of supporting resources, such as research & training.

Sri Lanka

**Strengths**
- Diversification of exports as well as focus on niche apparel. The enterprisng nature of the private sector, position country in niche markets.
- Quality, on-time deliveries & service.
- Compliance & emphasis on international labor and environmental standards.
- Low labor costs: $0.46 per hour.

**Weaknesses/Threats**
- Loss of EU-GSP+ Status.
- Lack of indigenous raw material supply.
- Dependence on apparel exports. Lower productivity, design capabilities.

(Source: WTO, ITMF, ICAC)