The clothing and textile GVC: Industrial development implications for South Africa

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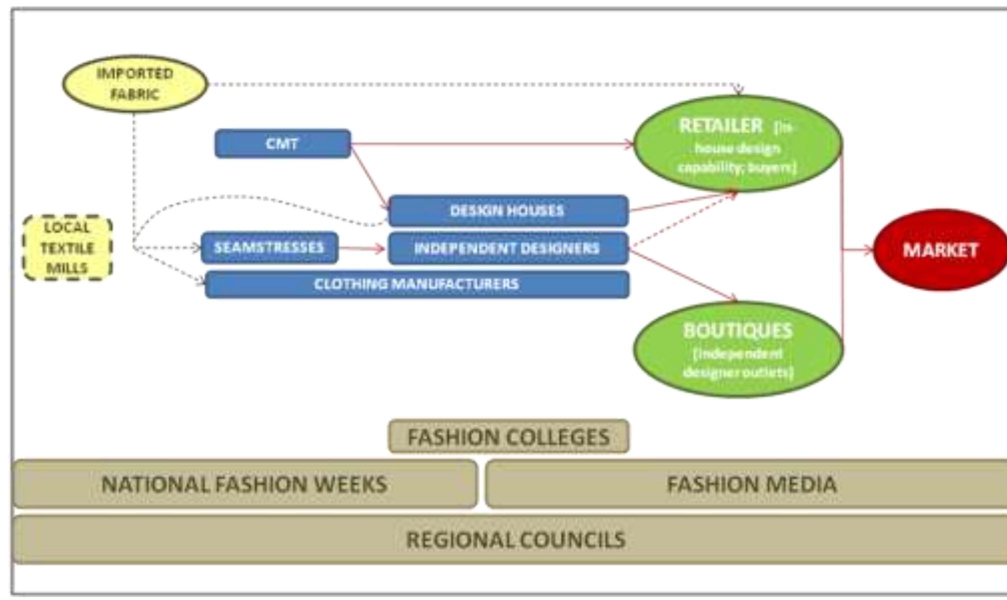
Clothing and Textiles GVC schematic



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World Exports of Clothing, Top 10 Countries

	Export (US $ million)						2007/2011	% of World total	
	Country	2007	2008	2009	2010	2011	% change	2007	2011
1	China	108,881	113,367	100,479	121,072	143,238	31.55%	31.50%	41.44%
2	Hong Kong	27,276	26,487	21,796	22,883	23,180	-15.02%	7.89%	6.71%
3	Italy	21,710	23,579	18,479	18,567	21,398	-1.44%	6.28%	6.19%
4	Bangladesh	9,323	12,975	13,471	15,578	20,476	119.63%	2.70%	5.92%
5	Germany	16,060	18,036	16,256	16,980	19,569	21.85%	4.65%	5.66%
6	Viet Nam	7,204	8,499	8,329	10,819	13,689	90.03%	2.08%	3.96%
7	Turkey	13,467	13,154	11,222	12,381	13,525	0.43%	3.90%	3.91%
8	India	9,373	10,265	11,312	10,604	13,255	41.41%	2.71%	3.84%
9	France	10,106	10,866	9,316	9,220	10,110	0.04%	2.92%	2.93%
10	Spain	5,489	6,912	7,063	6,892	9,228	68.10%	1.59%	2.67%
World Total		**345,622**	**364,327**	**318,002**	**350,650**	**411,383**	**19.03%**	**66.22%**	**83.23%**

Source: WTO

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World Imports of Clothing, Top 10 Countries

	Import (US $ million)						2007-2011	% of World total	
	Country	2007	2008	2009	2010	2011	% change	2007	2011
1	United States	78,920	76,363	66,795	75,646	81,514	3.29%	24.06%	24.85%
2	Germany	29,464	32,454	30,499	31,854	37,541	27.41%	8.98%	11.44%
3	Japan	22,597	24,216	24,069	25,262	31,100	37.63%	6.89%	9.48%
4	United Kingdom	23,619	23,427	20,765	22,041	24,839	5.17%	7.20%	7.57%
5	France	19,863	22,024	19,789	20,356	22,829	14.93%	6.06%	6.96%
6	Italy	15,096	16,569	14,819	15,509	17,579	16.45%	4.60%	5.36%
7	Hong Kong	18,136	17,563	14,706	15,709	16,090	-11.28%	5.53%	4.90%
8	Spain	12,640	14,925	12,718	13,165	15,861	25.48%	3.85%	4.84%
9	Netherlands	9,089	10,089	9,395	10,086	11,551	27.08%	2.77%	3.52%
10	Belgium	8,597	9,737	8,381	7,530	8,785	2.20%	2.62%	2.68%
World Total		156,058	166,671	152,376	171,258	196,538	25.94%	72.56%	81.60%

Source: WTO

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World Exports of Textiles, Top 10 Countries

	Import (US $ million)					2007-2011	% of World total	
	Country	2007	2008	2009	2010	2011	% change	2007	2011
1	China	27,049	29,868	26,069	35,112	45,193	67.08%	18.42%	25.36%
2	United States	10,152	10,533	7,991	11,403	15,494	52.62%	6.91%	8.69%
3	India	7,387	8,018	6,575	11,173	9,851	33.36%	5.03%	5.53%
4	Italy	10,880	10,309	7,326	8,026	9,090	-16.45%	7.41%	5.10%
5	Germany	8,887	8,744	6,500	7,483	8,459	-4.81%	6.05%	4.75%
6	Korea	5,249	5,139	4,307	5,456	6,509	24.00%	3.57%	3.65%
7	Hong Kong	8,114	7,261	5,906	6,627	6,444	-20.58%	5.52%	3.62%
8	Chinese Taipei	5,846	5,253	4,668	5,662	6,428	9.96%	3.98%	3.61%
9	Japan	5,172	5,207	4,300	5,001	5,821	12.55%	3.52%	3.27%
10	Pakistan	3,825	3,880	3,503	4,524	5,703	49.07%	2.60%	3.20%
World Total		146,874	146,038	117,943	150,623	178,239	21.36%	63.02%	66.76%

Source: WTO

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World Imports of Textiles, Top 10 Countries

	Export (US $ million)						2007-2011	% of World total	
	Country	2007	2008	2009	2010	2011	% change	2007	2011
1	China	17,091	16,353	14,223	20,374	26,344,	54.14%	12.51%	15.67%
2	Turkey	6,797	6,023	5,199	7,570	8,586	26.32%	4.97%	5.11%
3	Italy	7,711	7,338	5,144	6,520	8,149	5.67%	5.64%	4.85%
4	Germany	6,814	6,947	4,905	6,367	7,485	9.86%	4.99%	4.45%
5	Hong Kong	8,848	7,825	6,225	7,122	6,903	-21.98%	6.47%	4.11%
6	Viet Nam	3,822	4,369	3,878	4,946	6,386	67.09%	2.80%	3.80%
7	United States	6,260	5,849	4,176	5,288	6,131	-2.06%	4.58%	3.65%
8	Korea	3,474	3,416	2,905	4,052	5,128	47.59%	2.54%	3.05%
9	Bangladesh	2,013	3,087	2,595	4,266	4,388	117.96%	1.47%	2.61%
10	Japan	2,623	2,778	1,920	2,468	3,647	-21.98%	1.92%	2.17%
World Total		136,673	139,265	109,284	137,603	168,085	22.98%	47.89%	49.47%

Source: WTO

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The clothing GVC

- Buyer driven
- Dominance of commercial capital
- Highly tradable product (volumetrically)
- De-verticalisation of value chain (design vs. pre-production vs. garment assembly vs. fabric finishing, vs. weaving/knitting vs. spinning vs. fibre preparation)
- Fabric is major input, but significant portion of fabric production also goes into household textiles, industrial and technical markets (37% of SA textiles output to clothing vs. world total of around 45%)

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Dynamics underlying the global dispersion of clothing and textiles production

- 1st rung of industrialisation: labour costs as comparative advantage
- MFA (1974), ATC (1994)
- Triangular manufacturing (Asian, but also EU, US)
- CMT vs. OEM vs. OBM
- AGOA, EU GSP (market access)
- Quick Response, Fast fashion (e.g. Turkey)
- Buyer consolidation/size – retailers, brand owners

How have these dynamics changed the relationship between developed and developing countries?

- Shift in employment:
  - Job losses in developed economies (US, EU, Japan)
  - Job growth in number of Asian economies for clothing, but not textiles – technology displacement
  - Job growth in SSA until 2004, but then...
- Marketing, branding, design in Developed Economies, with garment assembly in Developing Economies and growing share of fabric – 57% of clothing value added lies in retail!
- Rise of Asia (especially China), from CMT to OEM to OBM
- Growing domestic markets in developing economies potential game changer
- SSA stuck in CMT, except South Africa

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Is there still a place for a clothing and textile industry in the industrialised world?

- Clothing vs. textiles (apparel vs. household vs. industrial vs. technical)
- EU vs. USA vs. Japan (Southern Europe, e.g. Portugal and Spain)
- Expanding fast fashion/quick response retailing model (Zara, H&M) – e.g. Turkey as outlier ($2.44 per hour vs. $0.55 to $1.08 in China in 2008)
- But only time sensitive and/or highly technical garments

What are the global policy conditions that create opportunities for Sub Saharan Africa to maintain a foothold in the clothing sector?

- AGOA's 1-stage conversion provision (except SA – also Mauritius for a period)
  - But is this a long-term advantage?
  - Does it lead to upgrading?
  - Link between fabric production and garment assembly?
- EU GSP
- SADC is major opportunity for SSA clothing firms to supply in SA (e.g. Lesotho, Swaziland, Mauritius, Madagascar)
- KEY: MFA and the search for quotas no longer provide opportunity
- Upgrading trajectories?

What are the global value chain conditions that create opportunities for Sub-Saharan Africa to maintain a foothold in the clothing sector?

- Price is key market requirement, but additional factors also important – speed to market, small volume runs
- Retailer and brand owner risk coverage: 2-3 sourcing locations preferred to one
- Firm-level upgrading
  - Product
  - Process
  - Functional
  - Value chain
- Proximity to EU
- Middle income market opportunities – elasticity of clothing demand (e.g. SA)

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Does the SA clothing and textile sector have a future?

- Domestic market vs. exports
  - Cost vs. other critical success factors (e.g. Quick Response, Fast Fashion)
  - Strategic alignment with retailer requirements
  - Manufacturing capabilities:
    - Product
    - Process
    - Functional
- Regional market opportunities?

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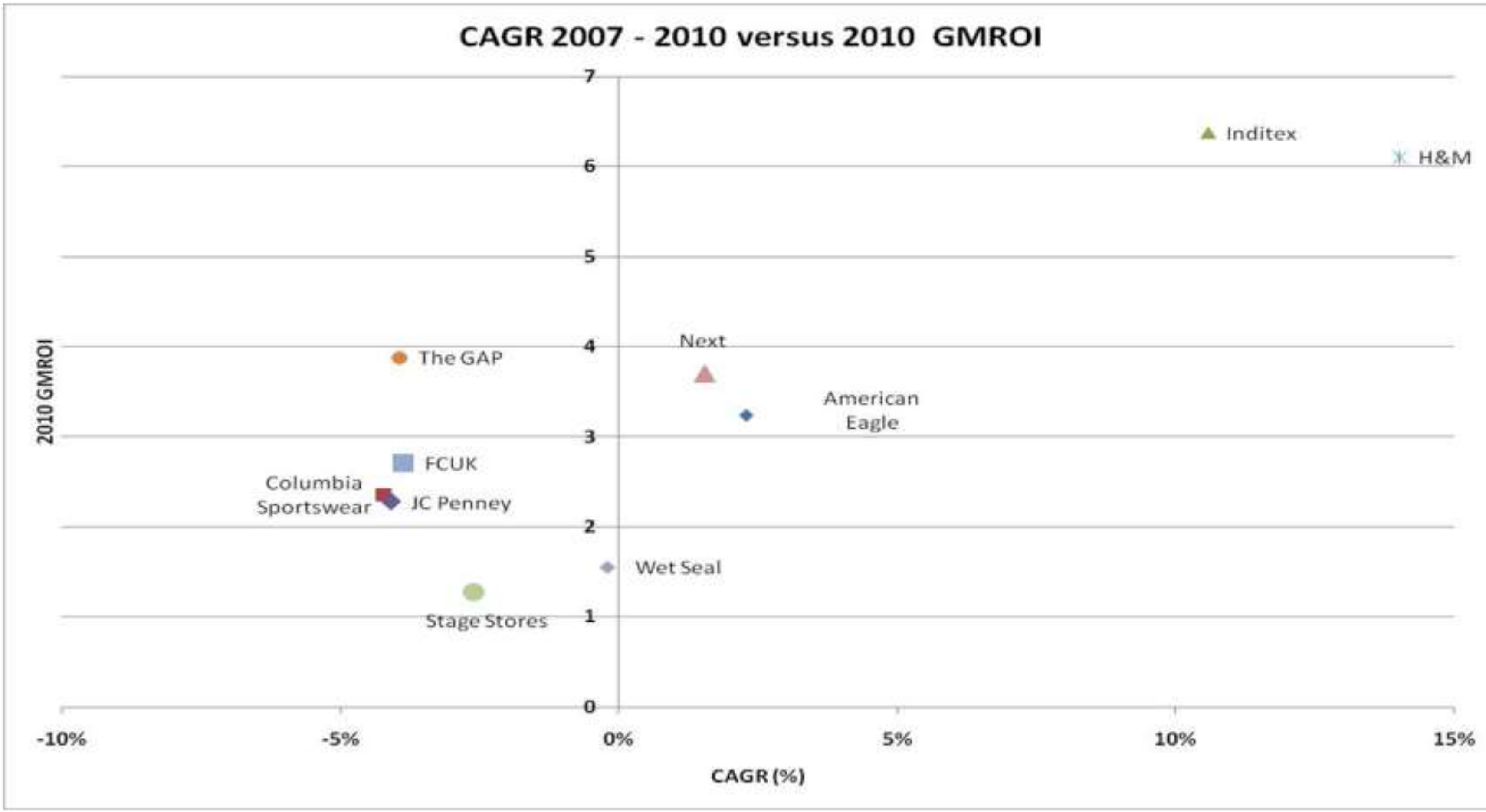
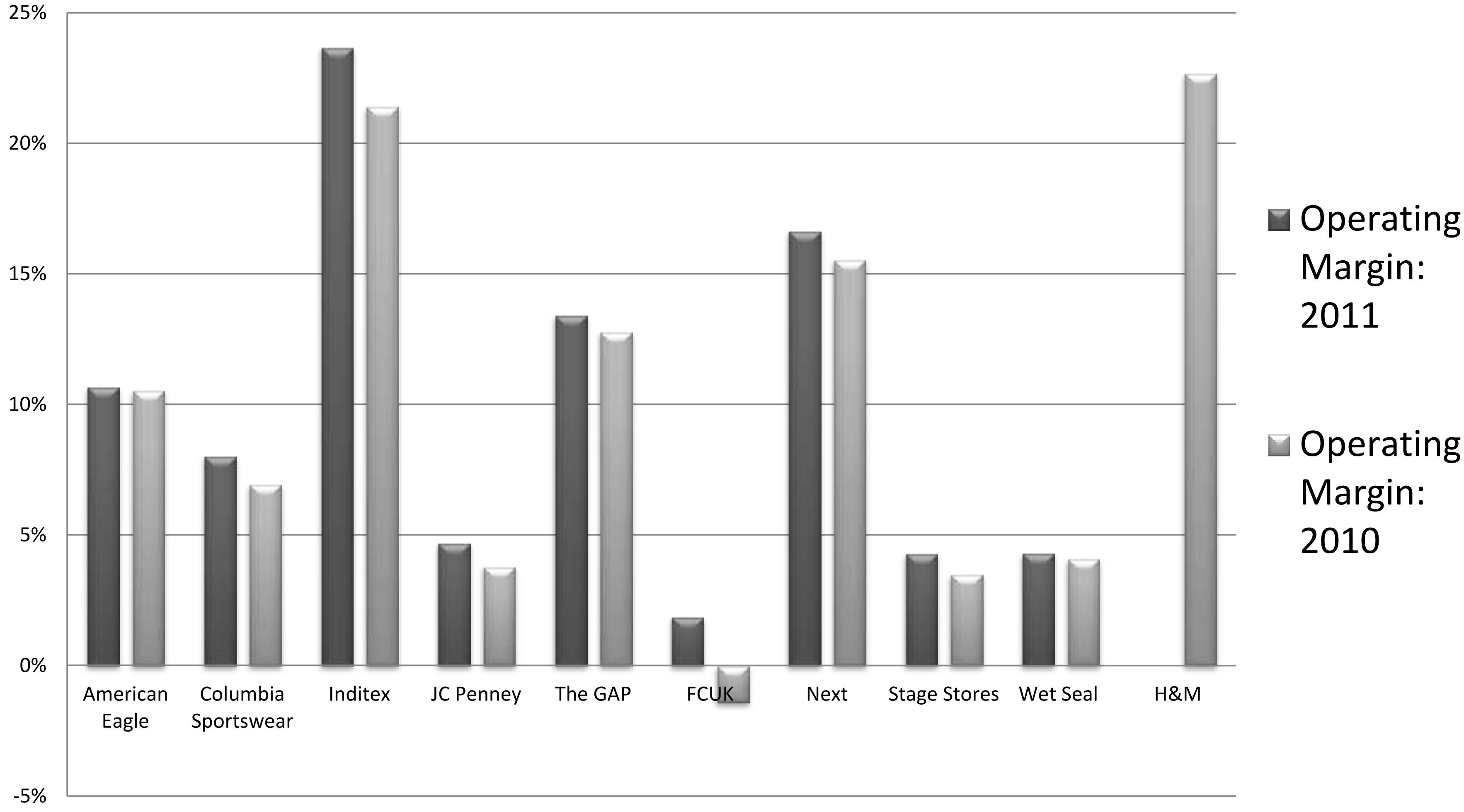
If yes, under what policy conditions?

- Clothing vs. textiles
- Export incentives?
- Tariffs vs. competitiveness differentials?
- Forced local procurement?
- Elimination of illegal competition?
- Supply side support?
  - Labour costs
  - Overhead costs
  - Materials costs
- Institutional support environment

International GMROI evidence : 2007-2010



International Retailers: Operating Margin



Zara's sourcing profile

Sourcing location	Proportion of total purchases	Lead time	Garment assembly wage rates – latest hourly estimates
Far East (good)	1/3	180 days	$0.45 (Bangladesh) to $1.50 (coastal China)
Regional (better)	1/3	28-56 days	$4.10 (Turkey)
Local (best)	1/3	14-28 days	$7.50 (Spain, Portugal)
South Africa (comparison)	N/A	156 days	$3.10 (metro), $2.40 (non-metro)

Why?

- In-season trading capability and late styling adjustments (QR and FF)
- Sales amplification of full price garments more than mitigates input margin loss
- Limited volume placements prior to POS confirmation limits slow clearance merchandise that damages brand equity

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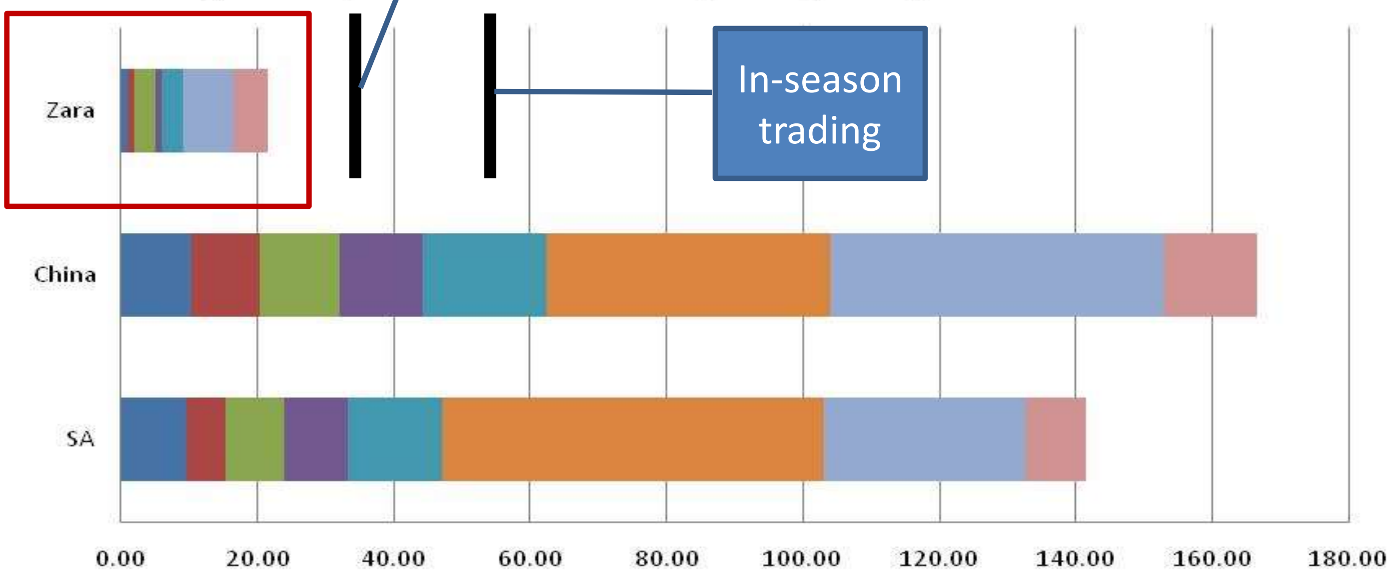
Comparative lead times: Zara relative to South African retailers when sourcing locally and from China (2008, n=6)

International QR/FF best practice



	SA	China	Zara
Generation of style idea	9.58	10.38	1.00
Fabric from stock (for design only)	5.75	9.88	1.00
Design	8.50	11.75	3.00
Style approval	9.33	12.25	1.00
Prototype development/fit sample/approval	13.92	18.10	3.00
Fabric sourcing (including shipment)	56.00	41.70	0.00
Garment production (incl. shipment to DC)	29.58	48.90	7.50
Shipment to store (from receiving at DC)	8.92	13.70	5.00

Calendar days

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SA retailer sourcing findings (2010): Benefits of buying locally on a 42-56 day Lead Time

QR/FF advantage to South African retailers	Average (n=9)	Fashion products (n=5)	Non-fashion products (n=4)
GM Rands	14.82%	19.87%	4.24%
Adjusted GM Rands (including inventory and material handling costs)	15.41%	20.11%	5.72%
GMROI	36.2%	31.6%	42.1%