HEFTY IMAGE OF TEXTILE INDUSTRY

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ABSTRACT

"The textile industry players still admit that they have internal problem that are why banks consider it a high-risk sector"-Sigit Pramono

Gone are the days when textile industry was treated as rag trade. This trade has come a long way since the days when manufacturing used to primarily happen in the consumption centres of US, Europe and Japan. The Newly Industrialized Economies (NIE's) of Asia i.e. Hong Kong, Taiwan and Korea were the first to take advantage of this opportunity. MFA was designed to provide time to the textile and clothing industry in developed countries to adjust to more competition from developing nations. The major development of the ATC was the emergence of China. As a result of low labor cost, government incentives and increasing investment in textile and apparel, share of China in world trade increased from 12% in 1995 to 24% in 2005. Other countries like India, Bangladesh, Sri Lanka, Indonesia and NAFTA countries also emerged as major textile and apparel bases during the ATC regime. The author took an inside voyage of the station called global textile industry. The paper explores historical angle and makes an effort to be acquainted with the two vital panoramas of the textile deal i.e. export and import. Further it notices the drift and analyses the whole packet of global textile trade.

Key Words: History, Import & Export Scenario, Drift, Analysis, Strategies

INTRODUCTION

The global textile and clothing industry is projected to be worth about US$ 4,395 bn and presently global trade in textiles and clothing stands at roughly US$ 360 bn. The US market is the prevalent, estimated to be growing at 5% per year, and in combination with the EU nations, accounts for 64% of clothing consumption. Global textile and apparel industry has come a long way since the days when manufacturing used to primarily happen in the consumption centres of US, Europe and Japan. With the development of economies in US and Europe, textile and apparel manufacturing increasingly became uncompetitive in these countries. The Newly Industrialized Economies (NIE's) of Asia like Hong Kong, Taiwan and Korea were the first to take advantage of this opportunity by setting up textile and apparel bases in their countries. Experts expect that World textile and apparel trade is expected to reach US$ 805 Billion by 2015.

MATERIALS AND METHOD

For the purpose of in depth study the contents from various books, journals and encyclopedia have been consulted. Some materials have also been drawn from websites. The method used is analytical and descriptive.

RESULTS AND DISCUSSION

Author started the expedition with jotting down the historical perspective of the rag trade.

I. **HISTORICAL OVERVIEW**–The present part of flash back is divided into three segments which are as follows:

- **Pre quota period (Till 1974) Trade shift from western countries to Japan**

Textile & Apparel (T&A) production was dominated by US and the Western European countries in the early 20th century. In the mid 20th century, due to the emergence of Japan as an economic power, global T&A production shifted towards Japan. As to protect its domestic industry, US placed limited quotas on Japanese cotton textiles in 1956 .There was significant employment loss in US because the developing nations were increasing their exports to US. With this backdrop, US decided to take multilateral action and invoked the Short Term Arrangement (STA) in 1961. This pact limited specific import categories to protect the domestic industry from any disruptions. In 1962 it was soon replaced by the Long Term Arrangement (LTA). LTA allowed for temporary bilateral agreements if domestic markets were disrupted considerably through any swift increase in imports of specific product categories. Under LTA the US signed 30 bilateral agreements in the time period between 1961 and 1972. Conversely synthetic materials were not included by LTA as a result of which trade in these articles grew noticeably in the 1960's.

- **Swing from Japan to the Asian Big Three**

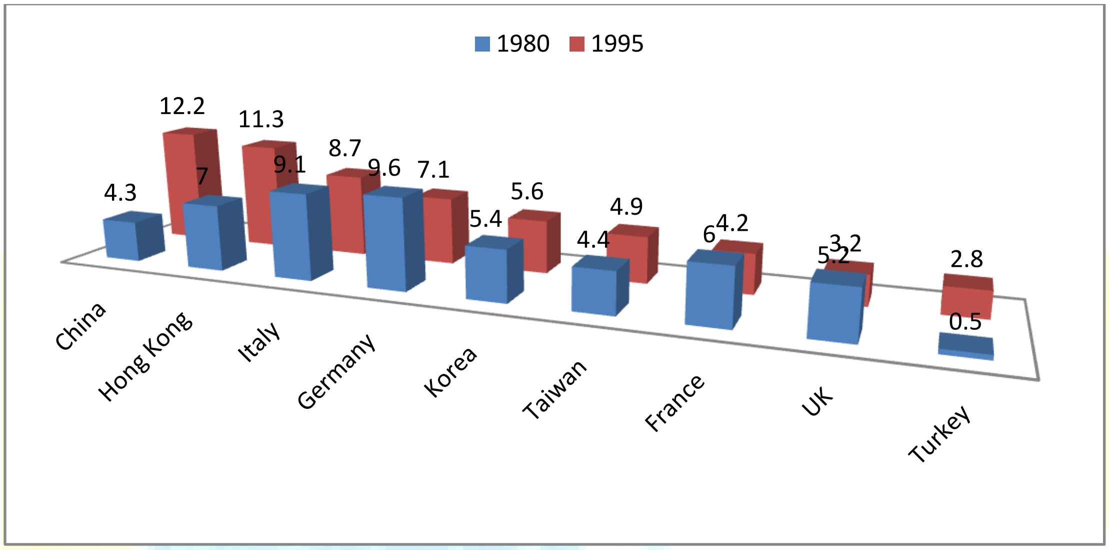
Japan saw a raise in domestic production costs and labor shortages during 1960's and early 1970's. Therefore as a remedy, Japanese firms started looking towards the additional Newly Industrialized Economies (NIE) like Hong Kong, Korea and Taiwan for outsourcing their production set up in the 1970s. Cheap labor along with improved quality level and flexibility of production was the major advantage of the NIE's. US$3.8 per hour was the average wages of workers in the US apparel industry in 1975. On the other side, comparing the NIE countries Korea (US$0.22), Taiwan (US$0.29) and Hong Kong (US$0.75) had much lower labor wages which encouraged firms to shift towards these countries for their sourcing needs.

- **Quota period : MFA regime (1974 – 1994)**

The developed countries came up with a more comprehensive trade restriction in 1974 as to protect its domestic industry known as the Multi Fiber Arrangement (MFA). MFA was designed to endow with the textile and clothing industries in developed countries time to fiddle with more competition from developing nations. Fundamentally, member nations could uphold quotas established prior to the agreement, but were constrained from expanding those quotas by complicated restrictions. About 81 bilateral agreements were signed by developed countries and imposed over 1000 individual quotas on various importing countries during the MFA regime. With the imposing of quotas and mounting labor costs, the NIE's (Hong Kong, Taiwan and Korea) started looking towards the neighboring less developed countries such as China, Indonesia, Thailand, Pakistan, Sri Lanka, and Vietnam etc. for accessing more quota holdings. In 1979, the opening up of the Chinese economy served as an additional boost for Hong Kong’s overseas production budge. The major advantages of these less developed countries were their extremely low labor wages and production costs. The protectionist measure of the developed countries backfired as the less developed Asian countries including China were slowly developing a good competitive textile and apparel production base due to the relocation of many textile firms of NIE towards the less developed countries. Asian countries government policies also helped the development of textile industry in these countries. By the late 1980s, the appreciation of Japanese, Korean and Taiwanese currencies added the cause of these less developed Asian countries as the global textile and apparel production bit by bit transfer towards them.

Figure 1: % Share of Major Suppliers in World T&A Trade– 1980 vs. 1995

Source: WTO Trade Statistics



During the late 1980s, the developing countries protested against growing quota restrictions and asked for lowering of trade restraints. The Uruguay round of trade negotiations in 1986 focusing on this issue lasted for 8 years and culminated with the end of quota restrictions and the formation of the WTO in 1995. Under the WTO, MFA was replaced by the Agreement on Textiles and Clothing (ATC). Figure 1 depicts the share percentage of major suppliers in world Textile & Apparel Trade in the years 1980 & 1995.In 1980, Germany & Italy ruled the scene by sharing 9.6 % & 9.1 % shares respectively. On the other hand, Turkey and China were left behind with 0.5% & 4.3% in their plates respectively.

- **Quota phase out period: Agreement on Textiles and Clothing Regime(ATC -1995 to 2004)**

For having all the textile and apparel products stand quota free at the end of the 10 year period the ATC envisaged the elimination of quotas in a four-step transition phase. This ATC regime resulted in the launch of liberalization and the breach up of global textile and apparel trade, as more and more countries like Mexico, Turkey and the South Asian countries got into the textile and apparel producers' league. The four stages are explained below:

ATC Quota Phase Out Procedure

Stage 1: 1995 to 1997-16 % of the total volume of each member's imports of textile and clothing products is released from quota restrictions and integrated into WTO trade regime in 1990 (minimum, taking 1990 imports as base).

Stage 2: 1998 to 2001-Further 17 % of products were integrated in the WTO regime.

Stage 3: 2002 to 2004 -Additional 18% integrated.

Stage 4: 2005 onwards -Full integration in WTO: (remaining 49% also integrated with elimination of quotas on all products).China joined WTO only in 2001; hence quotas / safeguards continue to exist on certain categories of China's exports till 2008.

II. IMPORT AND EXPORT PICTURE –The global textile industry could be very well understood by looking into imports and exports of the textile deal.

Fig 2: Top Textile Importers – 2004

Source: WTO Trade Statistics & Technopak Analysis

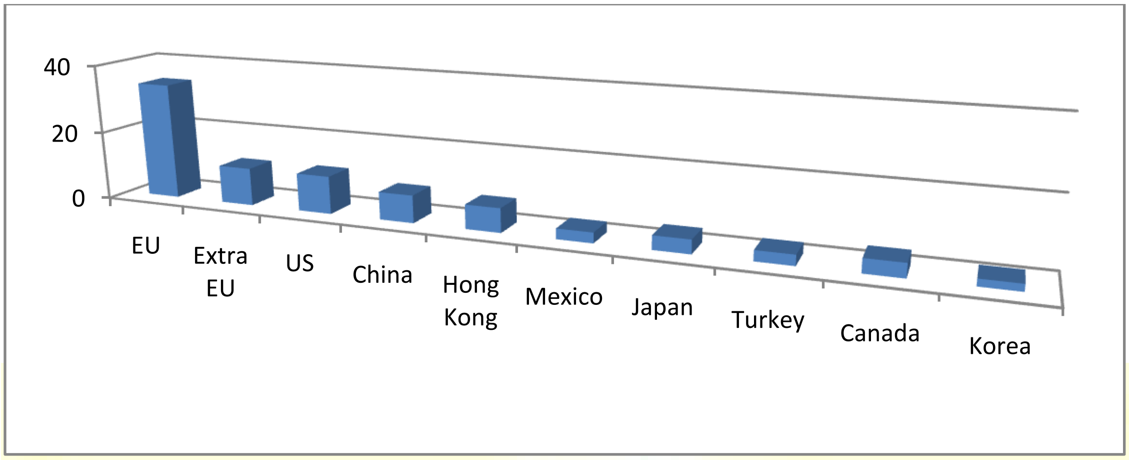


Figure 2 depicts the major importers more or less are the same i.e. US and EU. 75% of total apparel trade is being imported by them although they have a much lesser share in textile imports (approx. 45%) as intra-Asia trade accounts for much of the textile imports. In this hold, China has emerged as a noteworthy import destination for textiles. Intra-EU trade accounts for almost 75% of EU textile imports..Russia emerged as a fast growing importer of both textile and apparel with the liberalization of the Russian economy. Russian apparel imports grew significantly by 26.1% during the ATC period and put Russia as the fifth largest importing region in the world. Figure 2 portrays the scene of top exporters in the field of textiles. The first position is bagged by EU by having major share of the industry and playing as the chief player.

Table 1: Top Textile Exporter

Source: WTO Trade Statistics & Technopak Analysis

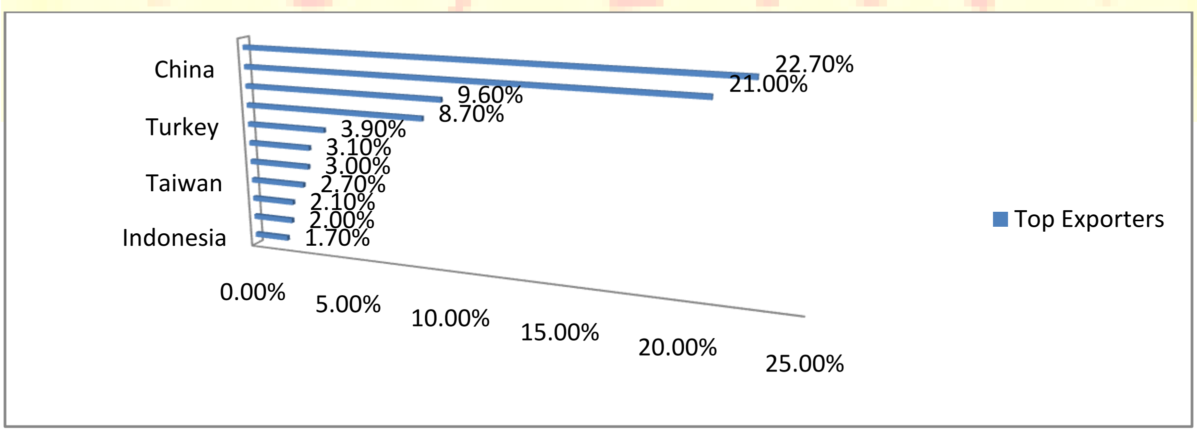
DATA	1995	1998	2001	2004	CAGR
WORLD	152.00	151.00	147.00	194	2.8%
CHINA	13.92	12.82	16.83	33.43	10.2%
ITALY	12.79	13.03	12.30	15.80	2.4%
GERMANY	14.38	13.67	12.20	15.60	0,9%
HONGKONG	13.82	13.04	12.21	14.30	0.4%
UNITED STATES	7.37	9.22	10.49	11.99	5.6%
KOREA	12.30	11.28	10.94	10.84	-1.4%
TAIWAN	11.88	11.16	9.92	10.04	-1.9%
FRANCE	7.46	7.57	6.50	7.70	0.4%
BELGIUM	7.88	7.50	NA	7.40	-0.7%
JAPAN	7.17	5.97	6.19	7.14	-0.1%
INDIA	4.35	4.56	5.90	6.85	5.2%
TURKEY	2.52	3.55	3.91	6.43	11.0%
PAKISATN	4.25	4.30	4.53	6.12	4.1%
UNITED KINGDOM	5.16	5.43	4.70	5.90	1.5%
INDONESIA	2.71	2.36	3.20	3.15	1.7%
THAILAND	1.93	1.76	1.89	2.63	3.5%
CANADA	1.38	1.92	2.16	2.43	6.5%
MEXICO	1.28	2.03	2.09	2.24	6.4%
SWITZERLAND	2.26	1.81	1.44	1.60	-3.7%%

ROMANIA	0.18	0.20	0.20	0.60	14.5%

Table 1 depicts the textile trade shift occurred mainly towards the Asian countries during the ATC regime. There is rise of Asian countries. If we compare the growth road of the globe of 4 yrs. China continued its growth story growing at 10.2% annually. Conversely, Hong Kong showed tiny growth primarily because a chief portion of Hong Kong exports constituted re-exports from China, with most of domestic Hong Kong manufacturers shifting to China. The other two East Asian biggies, Korea and Taiwan, continued the downhill drift of exports with relocation of its manufacturers to lower cost countries mainly to leverage quota advantages and lower factor costs. During this era the countries that emerged were the South Asian countries i.e. India and Pakistan with 5.2% and 4.1% CAGR respectively. US, Canada and Mexico traverse on the NAFTA bandwagon with major intra trade helping high CAGR of around 6%. The EU countries like Germany, Italy, France, UK and Belgium sustained their exports with majority exports through Intra EU trade.

Overall Textile and Apparel Exporters' Position

Figure 3: Top Exporters in T&A–Market Share (2004)



Source: WTO Trade Statistics & Technopak Analysis

Figure 3 gives the following results:

- **High Share Holders-China & US**

  Overall EU accounted for maximum share of world exports with significant intra-EU exports. Amongst individual countries China was the top exporter of T&A in the world. The competition matrix explained below identifies the major T&A exporters that emerged during the ATC period.

- **Low Share Holders-Turkey, Mexico, India, Pakistan, Tunisia, Canada & Thailand**

  China emerged as the single biggest exporter of textiles and apparel. US showed decent growth in textile exports mainly due to numerous FTA's with its neighboring countries, although apparel exports of US declined. EU & Hong Kong sustained their market share albeit with low growth.

- **Sustainers-EU, Hong Kong, Taiwan & Korea**

  In textile exports Turkey, Mexico, Tunisia, Thailand and Canada are the countries which showed high annual growth during the ATC regime, while in apparel exports Morocco, Bangladesh, Switzerland, Sri Lanka and Vietnam grew significantly. India and Pakistan showed substantial growth both in textile and apparel exports.

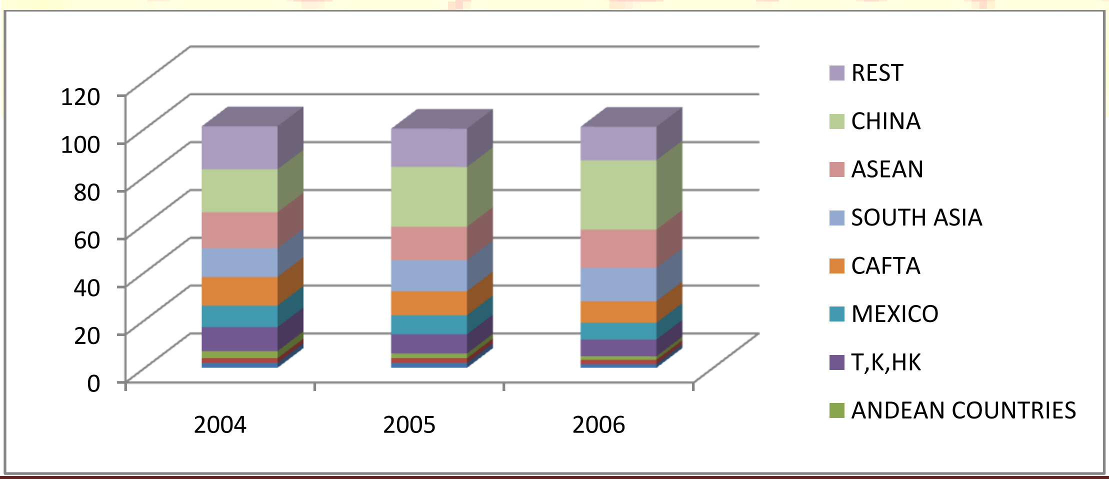
- **Decliners-Indonesia, Japan, Bangladesh & Switzerland Korea and Taiwan** declined significantly both in textiles and apparel exports, While US declined in apparel exports. Also, Switzerland and Bangladesh declined in textile exports while Thailand and Philippines reduced their apparel exports during the ATC period.

Post Quota Trade Scenario

US Imports

Figure 4 give a picture of US imports which have grown by 5.6% CAGR since quota elimination to reach US $ 93 Billion (2006). US buyers shifted towards low cost Asian countries like China, South Asia and ASEAN countries in US imports increased from 45% in 2004 to 59% in 2006 of all US imports. Despite safeguard quotas in place, China's share of US imports has increased significantly by 11% after quota elimination. South Asia and ASEAN countries also increased their exports to US. The major beneficiaries comes out to be south Asia -India, Pakistan, Indonesia and Vietnam increasing their share by 1%, 0.4%, 1.1% and 0.3% respectively. Share of CAFTA, Mexico and Andean Countries has decreased by 5%, with Mexico's share coming down from 9% in 2004 to 7% in 2006 indicating that despite proximity advantages and free trade agreements the South American countries are not as cost effective as the Asian countries. Due to quota elimination the Share of Taiwan, Korea & Hong Kong (T, K, and HK) has also further decreased.

Figure 4: Post Quota – US Import % Share

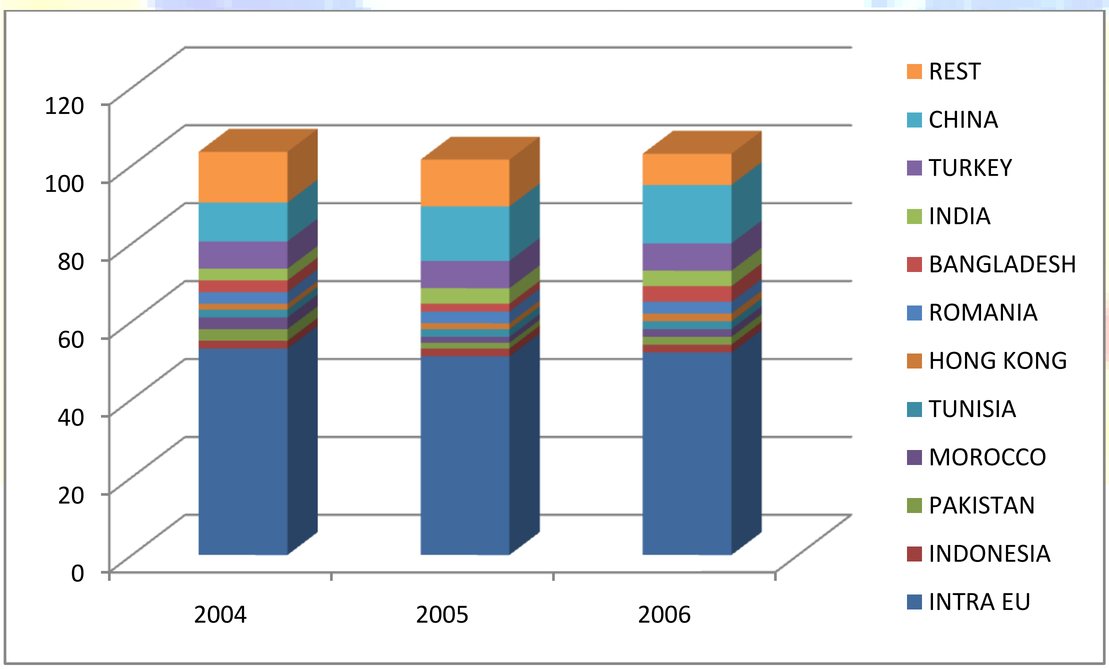


Source: OTEXA Trade data & Technopak Analysis

EU Imports

Figure 5 point up EU imports growth by 3% CAGR since quota elimination to reach an estimated US $ 196 Billion in 2006. Trade share of Intra-EU imports dwindle marginally. Amongst the top exporting countries, China increased its share almost by 5%. Turkey's export share of EU market increased marginally even though the overall exports of the Euro Med countries (Turkey, Tunisia, Morocco and Egypt) came down to 11% in 2006 from 13% in 2004. India and Bangladesh showed further growth even though there was a petite rinse in exports from Pakistan.

Figure 5: Post Quota-EU Import % Share

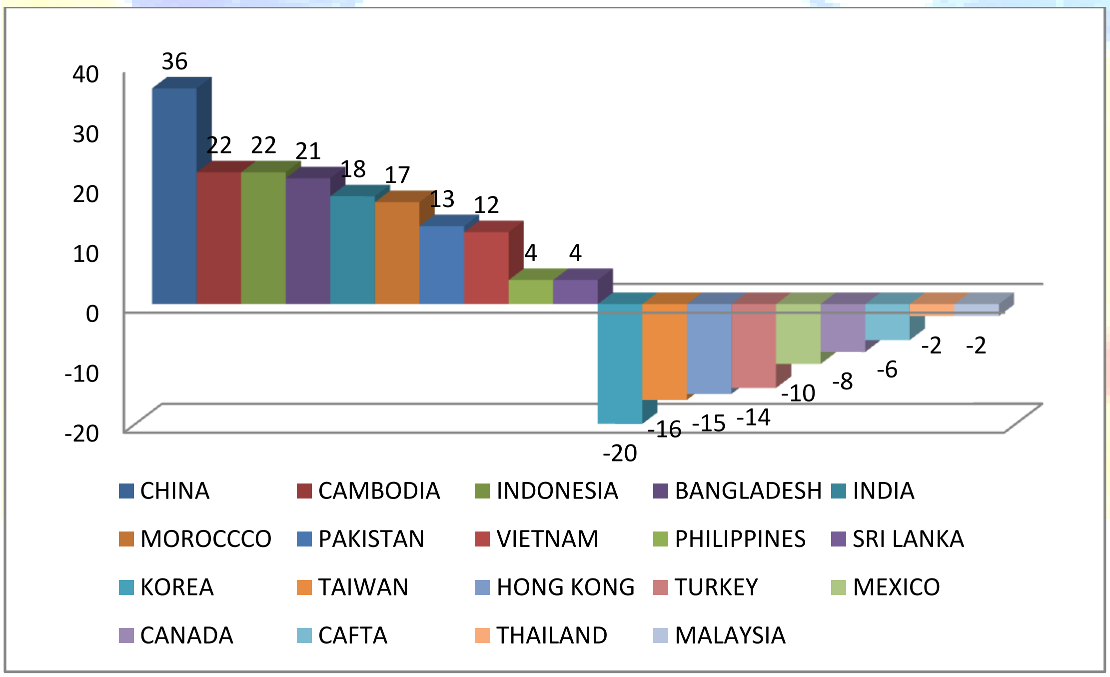


Source: European Commission External Trade Database & Technopak Analysis

WINNERS & LOSERS

In the US market, the biggest winner since quota elimination has been China with significant increase of 36% in its exports. ASEAN and South Asian countries grew further with Indonesia, Cambodia and Bangladesh growing at more than 20%. Morocco's exports went up significantly by 17% amongst the European countries. The East Asian biggies Korea, Taiwan and Hong Kong continued their decline in world export market. The biggest losers were Turkey and Mexico as their exports declined by a significant 14% and 10% respectively. CAFTA countries also were losers with exports declining by 6%, as US buyers focused more towards Asia. Amongst the ASEAN countries Thailand and Malaysia declined in their exports by 2% (Figure 6).

Figure 6: Post Quota CAGR of Exporting Countries to EU Market



Source: OTEXA Trade Database & Technopak Analysis

EU Market

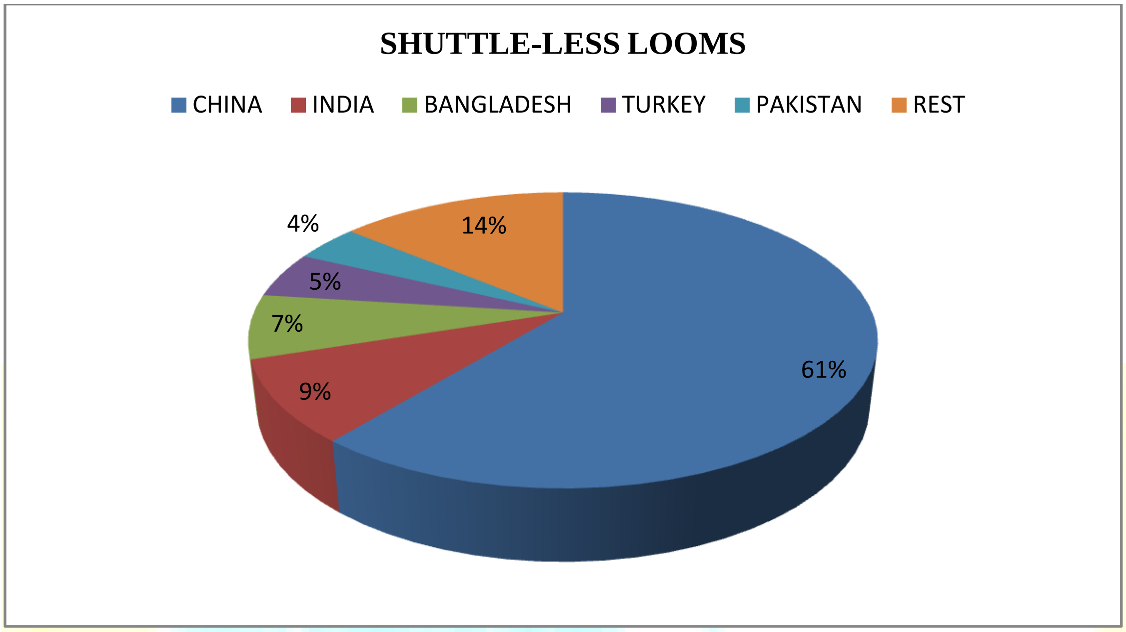
China as expected gained substantially in exports in the EU market. Vietnam was the main gainer with increase in exports at 27.9% CAGR. Other ASEAN countries except for Philippines also amplified their respective export shares extensively. India showed maximum export growth amongst the South Asian countries of 19% followed by Bangladesh and Sri Lanka growing at 14.6% and 12% respectively. The chief losers in the EU market were Korea and Philippines. Euro-Med countries Tunisia and Morocco also turn down marginally while Egypt and Turkey gained momentous.

III. DRIFT IN TEXTILE TRADE

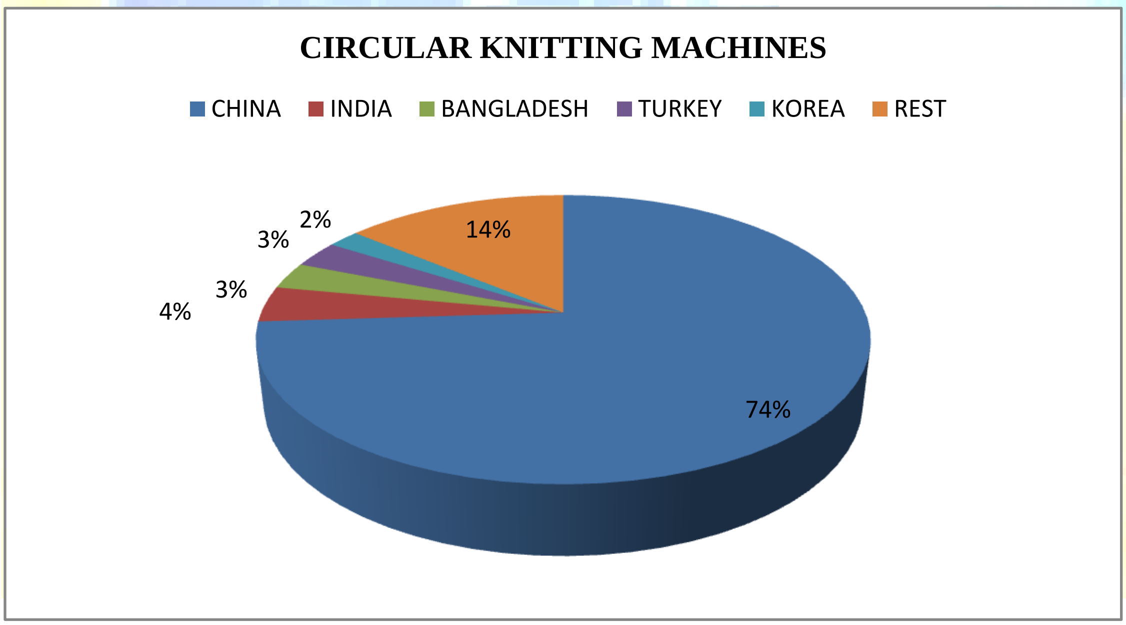
Increasing Investment in Asian Countries

The trade shift towards the Asian countries in the last 15 years is clearly reflected in the installed textile machinery capacities and investments in the different regions of the world.

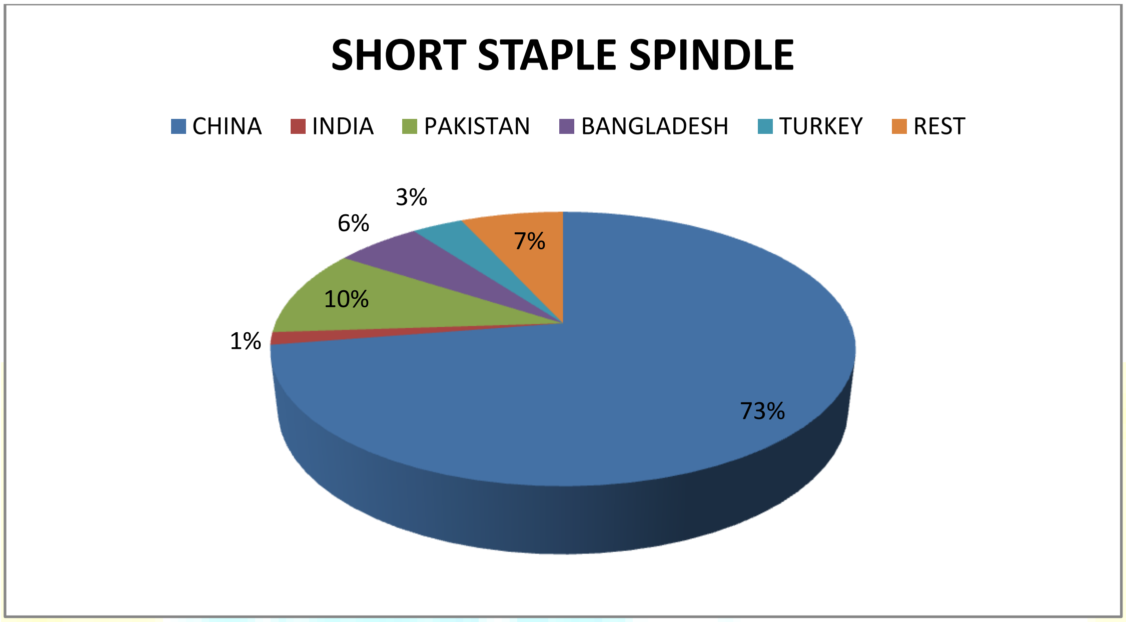
Figure 7 a, b, c & d: % Share of World Shipments of Textile Machineries in Year 2005


SHUTTLE-LESS LOOMS
CHINA
INDIA
BANGLADESH
TURKEY
PAKISTAN
REST
4%
14%
5%
7%
61%
9%

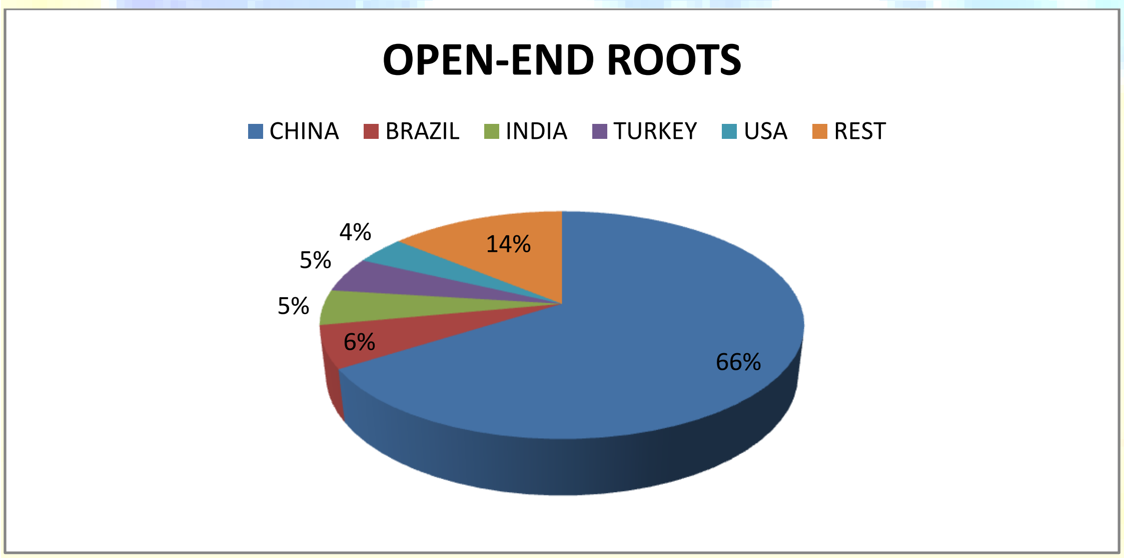
(a)


CIRCULAR KNITTING MACHINES
CHINA
INDIA
BANGLADESH
TURKEY
KOREA
REST
2%
3%
14%
3%
4%
74%

(b)



(c)



(d)

Source: ITMF

As seen from above figure 7a,b,c & d, there has been a noteworthy growth in investment of textile machineries in Asian countries. A significant portion of this investment in Asia was contributed by China, India, Pakistan and Bangladesh whereas investments in South America have fallen down. In North American and EU countries, installed competencies have decreased to a major extent indicating no net investment made in textile machineries and the production shift towards the Asian countries. Amongst African countries, except for open-end rotors investments in other categories have declined. South American countries on the other hand have invested substantially in open-end rotor spinning and weaving with a corresponding decline in short staple. Overall, net positive investment has been made in textile machineries since quota phase out with majority share coming from Asian and South American nations, with the production bases from EU and USA moving to these places.

IV. STRATEGIES

Looking at the current picture it could be analyzed that the state of current trade and emerging consumer and retail trends to arrive at some of the key changes that would impact textile and apparel world in years ahead. Some of the key changes/ trends for future would include:-

- Consolidation, Association and Relocation
- Redefinition of the conventional roles
- Materialization of Heavyweights: Multi Billion Dollars Textile Conglomerates
- Emergence of China and India as utilization bases
- Speed and Reliability: Key to Success
- Paucity of resources would lead to development of new technologies
- Exodus of skilled manpower from buying to supplying countries

V. ANALYSIS

World Textile and Apparel Trade 2015

World textile and apparel trade is expected to reach US$ 805 Billion by 2015 from US$480 Billion in 2005. The growth in trade would primarily be governed by decreased domestic production in US and EU. Textile & Apparel industry would be replaced by services and hi tech industries. Hence, it is expected that the growth of textile and apparel exports of China and India would stabilize after 2012. However, these countries would continue to be a major force in World textile and apparel trade. Amongst the emerging countries Vietnam and Cambodia are expected to play a major role in World textile and apparel trade. Vietnam textile and apparel exports reached US$ 5.8 Billion in 2006 and with Vietnam joining WTO in 2007 it is expected that share of Vietnam is expected to increase further. Vietnam is also attracting large foreign investment from large companies like ITG Group, Formosa etc. Assumptions are that countries like Turkmenistan and Uzbekistan given their abundance of raw material will emerge as major force however they would need to improve on their textile infrastructure, bureaucracy and compliance record. Another key trend envisaged is the emergence of textile and apparel hubs. It is expected that countries in immediate vicinities would collaborate with each other through FTA's/PTA's to improve their competitiveness. Some of the key emerging hubs would be South Asian Countries, ASEAN countries, CBI Countries and Euro Med Region.

US Textile and Apparel Market

China is expected to be a major gainer in the US market. By 2015 it is expected that China & Hong Kong would have a market share of 40% in the US Textile and Apparel imports. Other main gainers in the US Market would include South Asian countries, ASEAN Countries including Vietnam and Cambodia. CAFTA countries are expected to retain their market share subsequent to CAFTA DR. Main losers in the US Market would include Mexico and SSA countries. However, it is assumed and expected that with fast fashion gaining foothold in the US Market, countries like Mexico and CBI countries would not be wiped out completely.

EU Textile and Apparel Market

Although Intra EU countries would remain one of the largest trade partners, expectations are China would be able to catch up with Intra EU countries by 2015. Riding on the wave of fast fashion, countries in the Euro Med region are expected to sustain their Textile and Apparel Industry. GSP and duty free access are expected to play a major role in EU trade. Countries like Bangladesh and Sri Lanka and other countries which are able to get these kinds of concessions from EU would be able to capture market share at the expense of other countries (Table 2).

Table 2: Major Apparel Markets of the World in 2015

COUNTRY	MARKET SIZE	EST SIZE BY 2015	CHANGED SIZE
USA	225	275	50
UK	80	95	15
FRANCE	40	50	10
ITALY	55	50	-5
GERMANY	90	100	-10
JAPAN	75	55	-20
CHINA	45	> 100	> + 50
INDIA	25	>50	> + 30

Source: Technopak Analysis

VI. CONCLUSION

Assumptions, expectations figures data's all are indicators of an increase and change in the pace of textile and apparel trade in the next decade, expected to reach US$ 805 Billion by 2015. All the trade gurus of textile and apparel industry look forward to some new hubs for textile and apparel would appear in the next few years. These technical mentors also anticipating that countries like Vietnam, Cambodia are expected to emerge in next few years. The king of Textile and apparel trade i.e. China would continue to dominate however its growth would slow down due to increasing trade restrictions, growing domestic market and revaluation of Yuan. It is estimated that by 2015 share of China in US and EU imports is expected to reach near 40% and 30% respectively. Consolidation, collaboration and competency are going to be the chief leaders is expected to pick up pace in next few years and textile world would see emergence of multi - billion dollar corporations in the next 6-8 years. Treaties and agreements would progressively chip in imperative responsibility in the world of textile and apparel as in coming years a number of countries would try to protect their textile industry from the competition and would enter into agreements. The competition in textile and apparel trade would intensify in the times ahead and survivors would be the ones who understand the direction of change and build competencies accordingly.

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