How to deal with changes in the apparel supply chain?

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The various apparel supply chains worldwide have seen quite some developments in this decade. A key trend is China’s declining exports to Europe and a shift in focus to more added-value production. Another trend is Europe’s growing focus on ‘proximity sourcing’. To turn this into an opportunity for your company, you need a solid strategy based on a few alternatives: low-cost mass production versus speed to market, just-in-time deliveries and pre-production services, or high-end, added-value production.

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1. Classification of apparel products

Apparel refers to the garments or clothes that people wear. Harmonised System (HS) codes are used to classify apparel products and calculate international trade statistics. This study bases its apparel statistics on the HS codes in the table below.

Table 1: Product codes

HS code	Description of product
61	Articles of apparel and clothing accessories, knitted or crocheted
62	Articles of apparel and clothing accessories, not knitted or crocheted

Developments in the apparel supplies to Europe are calculated using the relevant trade statistics from ITC’s Trade Map.

2. China remains Europe’s largest apparel supplier

Despite China’s declining apparel exports to Europe, the country is still the leading supplier to the European market. In 2017, China’s share of the European import volume totalled 22% for knitted garments and 26% for woven garments. Until 2010 and 2011, these shares reached up to 29% and 35% respectively, but have since declined. See more details on Table 2 below.

Table 2: China’s share in European import volume, 2010–2017

	2010	2011	2012	2013	2014	2015	2016	2017
Knitted garments	29%	29%	25%	26%	24%	22%	21%	22%
Woven garments	35%	37%	32%	31%	29%	27%	27%	26%

The competitiveness of China’s garment industry in the European market has been impacted by rising wages, while its own domestic market has absorbed more and more of the local Chinese garment production over the years.

China had already lost the number-one position in cost leadership to Bangladesh years ago, but the Chinese strength in terms of textiles supply chain is still there. Coupled with high productivity and wages that have not reached the levels of those in Japan, South Korea and Singapore, this continues to make China very competitive in the European apparel market, particularly in the mainstream market.

3. Bangladesh still gaining market share, but what happens after 2024?

Bangladesh has been the second largest apparel supplier to Europe for years now, offering low production costs particularly attractive to European buyers. It is interesting to note how its share of European imports went up almost every year since 2010 despite considerable rises in wage costs. In 2014 alone, for instance, the minimum wage increased by more than 70%.

Table 3: Bangladesh’s share of European imports volume, 2010–2017

	2010	2011	2012	2013	2014	2015	2016	2017
Knitted garments	12%	13%	14%	15%	14%	16%	16%	17%
Woven garments	6%	7%	9%	11%	10%	11%	12%	13%

Table 3 clearly shows Bangladesh’s growing share of European apparel imports volume. Whereas its share in knitted garments increased from 12% in 2010 to 17% in 2017, in woven garments Bangladesh’s share even doubled from 6% to 12% in the same period. This can be explained in part by the trend of European buyers increasingly sourcing added-value, often woven garments from Bangladesh.

In the long term, there is a good chance that Bangladesh will leave the LDC (Least Developed Country) category. Currently the largest LDC country in terms of population and economic size, Bangladesh is projected to ‘graduate’ from its LDC status by 2024, which may affect the country’s beneficial zero-tariff rates in Europe. The actual effects will depend, however, on what tariff rates will apply to Bangladesh going forward.

4. Cambodia and Myanmar growing fast among LDCs

Tariff rate is an important factor for buyers to consider when selecting suppliers or supplying countries. One group of countries that offers zero tariff is LDCs.

While Bangladesh has a clear lead in apparel exports to Europe among LDCs, Cambodia and Myanmar are fast growing their market shares. Both countries currently benefit from their proximity to China, from where they source most materials, since they lack a local supply of cotton and virtually all other materials. Therefore in the long term, competition will increase with China, home to the complete supply chain.

Bangladesh, India, and Turkey also benefit from advanced domestic supply chains.

In spite of the recent strong growth, Cambodia's and Myanmar's shares of European imports are not impressive yet. Most striking is the growth in Cambodia's share for knitted garments: from 1.1% in 2010 to 3.5% in 2017. For woven garments, Cambodia's market share grew even more sharply, from 0.2% to 2.1%. The development of Myanmar's apparel exports is some years behind Cambodia, but Table 4 shows volume growth take off for both knitted and woven garments starting from 2015.

Table 4: Cambodia's and Myanmar's shares in European import volume, 2010–2017

		2010	2011	2012	2013	2014	2015	2016	2017
Cambodia	Knitted garments	1.1%	1.6%	2.0%	2.3%	2.5%	3.0%	3.1%	3.5%
	Woven garments	0.2%	0.4%	0.8%	1.2%	1.2%	1.6%	1.9%	2.1%
Myanmar	Knitted garments	0.0%	0.0%	0.0%	0.0%	0.1%	0.2%	0.4%	0.6%
	Woven garments	0.3%	0.3%	0.2%	0.2%	0.3%	0.5%	0.7%	1.2%

5. Pakistan benefits from GSP+ status

The European Union's Special Incentive Arrangement for Sustainable Development and Good Governance (GSP+) benefits nine countries: Cabo Verde, Armenia, Kyrgyzstan, Mongolia, Pakistan, Philippines, Sri Lanka, Bolivia and Paraguay. Among these countries, Pakistan and Sri Lanka export substantial volumes of garments to Europe. Their shares are listed on Table 5.

Table 5: Pakistan's and Sri Lanka's shares in European import volume, 2010–2017

		2010	2011	2012	2013	2014	2015	2016	2017
Pakistan	Knitted garments	1.5%	1.7%	1.7%	1.9%	2.0%	2.2%	2.3%	2.6%

	Woven garments	2.0%	2.1%	2.2%	2.3%	2.6%	2.9%	3.1%	3.3%
Sri Lanka	Knitted garments	1.1%	1.1%	1.3%	1.2%	1.2%	1.2%	1.3%	1.1%
	Woven garments	1.0%	1.1%	1.1%	1.0%	0.9%	0.9%	0.8%	0.8%

As Table 5 shows, Pakistan has increased its share of European imports for both knitted and woven garments, contrary to Sri Lanka, which even has a shrinking share for woven garments. It seems that Pakistan has managed to benefit from its competitive advantage provided by zero-tariff rates, which have been in place since 2014. Pakistan is the fourth largest cotton producer in the world, which allows manufacturers to source cotton locally, providing the Pakistani apparel industry with yet another advantage.

6. India and Vietnam

India is the world's largest cotton producer, which has been important to the development of its apparel industry. Known for its low production costs, India supplies almost 4% of knitted and 3% of woven garments imports to Europe. Table 6 shows the evolution of Europe's import volumes from India and Vietnam, in their respective shares of the European overall garment imports.

Table 6: India's and Vietnam's shares in European import volume, 2010-2017

		2010	2011	2012	2013	2014	2015	2016	2017
India	Knitted garments	3.6%	3.4%	3.1%	3.3%	3.5%	3.7%	3.7%	3.9%
	Woven garments	3.3%	3.2%	3.0%	3.1%	3.1%	3.1%	3.1%	3.0%
Vietnam	Knitted garments	0.8%	0.9%	0.9%	0.8%	0.9%	1.0%	1.0%	1.1%
	Woven garments	1.8%	2.2%	2.2%	2.3%	2.5%	2.7%	2.7%	2.8%

India is expected to maintain its current share in the European market, particularly because the country has a reputation for supplying knitted garments at competitive prices.

The future of Vietnam as a supplier to the European market is more interesting to look at, as the EU-Vietnam trade agreement is set to enter into force in Autumn 2019. The agreement eliminates tariffs for many products, but apparel will be subject to long transition periods of up to 7 years.

In addition, to benefit from preferential access, negotiated rules of origin will require the use of fabrics produced in Europe, Vietnam or South Korea — the latter being another partner with whom the European Union has a trade agreement. This will ensure that products from other countries that do not have a trade agreement with the European Union, do not gain unfair access to Europe through Vietnam.

These limitations for fabrics could prevent Vietnamese exporters from benefiting from the zero tariff rates. While Vietnam has a large and strong yarn spinning industry of mostly cotton, the country depends on imports for more than 80% of the fabrics it uses. In addition, Vietnam currently exports almost 50% of its yarn production, mainly to China. This scenario makes the future of Vietnamese apparel supply to Europe unpredictable as to how will its yarn production and exports, as well as its local fabrics production develop.

Another factor that may affect Vietnamese supply to the European market in the coming years is the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), which enters into force in December 2018. Vietnam is the second-largest exporter of garments within the CPTPP, behind China. Vietnam can gain apparel market share in Canada, Mexico and Peru, as these three CPTPP members did not have a free trade agreement with Vietnam before.

7. Proximity sourcing

So-called ‘proximity sourcing’, i.e. sourcing from countries near the EU, is not new. European buyers prefer to spread their supply risks by buying from various countries. In addition, for fast fashion segments, the need for short time to market and lead times favours sourcing from countries geographically close to the European Union.

There are two groups of countries relevant for proximity sourcing. In one group are the countries in South, Central and Eastern Europe which make part of the European Union and therefore benefit from a zero-tariff rate. In the other group are the Non-EU countries close to the European Union, either to the south or to the east, many of which benefit from a free trade agreement (FTA) with the European Union. Table 7 shows the shares of both groups in European imports.

Table 7: Proximity sourcing, shares in European import volume, 2010–2017

		2010	2011	2012	2013	2014	2015	2016	2017
EU Member Countries	Knitted garments	17%	15%	17%	14%	16%	15%	13%	14%
	Woven garments	20%	15%	16%	16%	15%	16%	14%	13%
Countries near the EU*	Knitted garments	11%	11%	11%	11%	10%	10%	9%	9%
	Woven garments	9%	9%	9%	9%	8%	9%	9%	10%

*Only countries that benefit from an FTA with the European Union.

The most important conclusion from Table 6 is that proximity sourcing is definitely not on the rise in terms of volume. Only the share of woven garments from countries near the EU has experienced an increase, although very small.

As for local European production, within both groups the most important developments were:

- knitted garments — Spain and the Czech Republic have seen the highest growth in export volume to Europe. Polish exports also increased considerably. The largest declines were reported by Portugal and Greece, while Romania and Bulgaria also experienced reductions.
- woven garments — Spain was the only country with strong increases in exports to other European countries. Other countries faced declines, most notably Bulgaria, Italy, Slovakia, Romania and Portugal.

The growing share of Spain in intra-European apparel imports is related to the reshoring strategy of Inditex and some other Spanish companies to bring back to Europe the apparel production for the fast fashion segment.

Turkey is the main supplier in the group of countries near the EU to the east and south, accounting for 70% of knitted garment exports from these countries to Europe. For woven garments, Turkey's share in this group is 46%. Table 8 provides a comprehensive overview of this group, showing each country's share of the European apparel import volume.

Table 8: Countries near east and south of the EU — shares in European import volume, 2010–2017, plus compounded annual growth 2010–2017

	2010	2011	2012	2013	2014	2015	2016	2017	Growth
Knitted garments									
Turkey	7.4%	7.2%	7.8%	7.5%	6.8%	6.9%	6.6%	6.5%	-0.2%
Morocco	1.1%	1.2%	1.2%	1.1%	1.0%	1.0%	1.0%	1.0%	1.0%
Tunisia	0.7%	0.7%	0.7%	0.6%	0.6%	0.5%	0.5%	0.5%	-3.2%
Albania	0.2%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	6.9%
Egypt	0.4%	0.5%	0.4%	0.4%	0.4%	0.3%	0.3%	0.3%	-2.6%
Serbia	0.4%	0.4%	0.3%	0.3%	0.2%	0.3%	0.3%	0.3%	-3.7%
Other	0.6%	0.6%	0.5%	0.4%	0.4%	0.4%	0.4%	0.4%	-2.5%
Woven garments									
Turkey	3.8%	3.8%	4.1%	4.1%	3.8%	4.1%	4.2%	4.4%	2.0%
Morocco	1.8%	1.8%	1.9%	1.7%	1.6%	1.8%	1.9%	2.0%	2.0%
Tunisia	1.8%	1.9%	1.8%	1.7%	1.5%	1.5%	1.4%	1.4%	-3.2%
Macedonia	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.3%	0.3%	-2.0%
Albania	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	2.4%
Ukraine	0.4%	0.4%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	-2.2%

Egypt	0.3%	0.3%	0.3%	0.3%	0.2%	0.2%	0.3%	0.3%	-1.3%
Moldova	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.2%	2.4%
Other	0.2%	0.3%	0.2%	0.2%	0.2%	0.3%	0.3%	0.3%	2.4%

An important conclusion from Table 8 is that from a volume perspective, the import shares of most countries close to Europe show small decreases. In most cases, this was because export volumes to Europe declined. Only in the case of Moroccan knitted garments exports, there was growth in absolute volumes, but this growth was lower than average, leading to a declining share.

There are a few positive exceptions:

- Albania increased both its knitted and woven garments exports. Albania's apparel industry has seen a boost in the last decade, particularly through foreign direct investment by Italian companies.
- Turkey and Morocco gained share in woven garments, as did Moldova and the countries in the 'Other' category, among which most notably Serbia and Bosnia.

Despite the relatively large number of countries in this group, it seems Turkey has maintained its lead relatively easily. This is not a surprise, considering Turkey has its own cotton supply chain, which is the eighth largest in the world. Turkey also has a well-developed apparel production industry with several strong and independent producers. Several of the other countries close to Europe depend on raw material supplies from Turkey, especially Morocco and Tunisia.

8. Alternatives for European buyers

The analysis above may lead to the impression that there are not many alternatives for European apparel buyers in terms of sourcing countries, which is true to some extent. At the same time, many suppliers in most exporting countries face strong competition and therefore still compete primarily on price.

Until about 10 years ago, China was the solution for many European buyers, but this has definitely changed in recent years. The resulting search for new suppliers in different countries has not delivered strong growth for smaller supplying countries. Although there are several countries close to Europe that produce garments for export, they have not captured much market share.

In the 2010–2017 period, Bangladesh's share in European apparel imports gained the most. Bangladesh has become more or less the equivalent of a new China amongst supplying countries. The Rana Plaza collapse did not affect that development much, although it has of course put more emphasis on social risk assessment.

The extensive audits of fire and building safety in 1,639 factories, according to official sources, resulted in prompt remedial action plans, following the legally binding Bangladesh Accord. This development has reassured brands to continue sourcing from Bangladesh. Nevertheless, there is still a long way to go to improve overall working conditions for workers in the Bangladeshi apparel industry while many European buyers still put minimum efforts into a more ethically sustainable sourcing strategy.

Although the supply alternatives for European buyers seem limited, there are certainly some developments that may affect the position of apparel suppliers which compete mostly on low labour costs. Some examples of such developments include more automation, use of more advanced equipment and even robotisation.

Finally, several European Union Member Countries still have domestic apparel production. This means competition from suppliers within Europe that generally have an advantage in terms of speed to market and lead time.

Tips:

- Improve your competitiveness by working on: speed to market, just-in-time deliveries, offering pre-production services, increasing sampling speed, improving collection proposals and offering services related to stock-keeping units and warehousing.
- Consider the option of vertical integration. Some manufacturers have successfully expanded into brands.
- Implement an impactful Corporate Social Responsibility (CSR) strategy and promote it to your potential buyers. Take into account important factors to buyers such as minimum wage versus living wage, corruption index, freedom of association, social unrest risk, child labour risk and working hours.
- Monitor how key stakeholder groups influence larger brands and retailers in your country. Be aware of the activities of non-governmental organisations (NGOs) and multilateral organisations in your country's apparel industry. For example, in October 2018, ITC announced a new programme to boost competitiveness of clothing manufacturers in Egypt, Jordan, Morocco and Tunisia.
- Improve waste management in your factory and in the whole supply chain. Some industry experts see the focus on waste management from European buyers as the largest threat for exporters from developing countries, as data science and recycling technologies are expected to improve the competitiveness of intra-European supply chains.

9. Many supplying countries still compete basically on low costs

The above analysis focuses on European apparel import volumes, identifying some of the key supplying countries by import volume. This section of the report looks into average prices and how these countries perform in terms of price, following this methodology:

- European import volumes and values per HS chapter (chapter 61 for knitted garments, chapter 62 for woven garments) are used to calculated average or weighted import price per kilogram of garments.
- The so-called 'added-value price per kg' is used to compare the performance of countries on prices and their capability of passing increasing costs on to buyers through higher prices. This price was calculated as follows: average import price + import duties – average cotton price.

Please note that this calculation of added-value price per kg is basic and does not take into consideration other factors such as variations in cotton prices and the use of other fabrics than cotton. It does include all added-value in the value chain, from cotton as a raw material up to and including the apparel production. In other words, it neglects the situation where fabrics are imported and used as the raw material such as in cut, make and trim (CMT).

Table 9: Leading supplying regions, tariff regimes, by added-value growth 2010–2017

Region, tariff regime, leading countries	Conclusion	Strongest growers
Far East		

LDC (0% tariff), Bangladesh and Cambodia.	Highest volume growth for both knitted (HS61) and woven garments (HS62), but the strongest for HS62. Highest growth also in added value for HS61 and above average* added-value growth for HS62.	Bangladesh had the highest added-value growth in HS61 overall in knitted garments exports to Europe. This is mainly related to the increase in wages in the 2010–2017 period. It could also be related to export of more added-value garments to Europe. Cambodia: strong volume growth in HS61, but below-average price growth. This could be an indication of strong focus on low-cost production and competition on price, but also of more economies of scale in production.
GSP (9.6% tariff), HS61: India, followed at a distance by Vietnam and Indonesia. HS62: India and Vietnam, followed at a distance by Indonesia.	Volumes have grown, but not remarkably and only thanks to Vietnam. Added-value growth was below average, indicating price competition, in particular from India.	HS61: Vietnam and India in terms of volume, only Vietnam in terms of added-value. India seems to compete on price. In HS62, Vietnam experienced strong volume growth with an average added-value growth. Indian export volumes declined, while added value grew but below average. Indonesian volumes for both HS61 and HS62 declined but added-value increased above average.
GSP+ (0%), Pakistan, followed at a distance by Sri Lanka.	For both HS61 and HS62: Pakistan recorded relatively strong volume growth and added-value growth just below average and average, respectively. This could be an indication of a strong focus on low-cost production and competition on price, but also of more economies of scale in production.	
China (12%)	China experienced drops in volume for both HS61 and HS62. Added-value went up for both groups, but most strongly for HS61.	
Near East-South		

Near East-South – FTA (0%). In HS61, 70% of the volume comes from Turkey. Morocco and Tunisia follow. In HS62, 50% comes from Turkey. Morocco and Tunisia have 30%.	For HS61, a small decline in volume and an added-value growth just below average. For HS62, a small growth in volume and the lowest average growth in added-value of all regions. This is an indication of strong price competition or of European buyers not allowing prices to go up much.	The only volume growth took place in HS62: Turkey and Morocco experienced relatively strong growth, although added-value growth was below average. Tunisia's export volume declined, while added-value growth was far below average. In HS61, Turkey recorded an added-value growth that was just above average, but other countries had only very low growth much below average.
Near East-South – Europe. Leading producers are Spain, Italy, Portugal, Poland, Czech Republic, Slovakia, Romania, Bulgaria.	For HS62, volumes went down by 34%, which was much more than the average decline of 1%. For HS61 the volume decline was 5%. Added-value increased above average for both HS61 and HS62, but most notably for HS62 (highest of all regions), while for HS61 it was equal to China's added-value growth.	HS61: Spain, Czech Republic and Poland increased exports to Europe in terms of volume, Slovakia and Romania in terms of added-value. For HS62, Spain in particular experienced growth in terms of volume, and Bulgaria in terms of added-value.

* average means the average of total European imports.

The main conclusions from Table 9 on added-value developments per region and leading supply countries are:

- Bangladesh recorded the highest added-value growth in HS61. It shows that the sharp wage increases in the country had a firm impact on export prices.
- Cambodia might take over Bangladesh's production of very low added-value garments, but it is too early to make this conclusion based on current data.
- India seems to maintain its reputation as a price competitor, while data analysis of the 2010–2017 period indicates that Pakistan is also competing on price.
- China's added value went up relatively strongly for both HS61 (strongest growth) and HS62. This is clear evidence of China's strategy to strengthen its focus on added-value production.
- In the group of supplying countries close to Europe, there are many countries with cut, make and trim (CMT) production that compete with each other. Only Turkey has a complete local supply chain, leading this region in terms of supplying volumes. Turkey was also the only country to realise above average added-value growth in HS61.
- All countries in HS62 had very low added-value growth, except for Turkey. This is an indication of an overall weak position of suppliers in countries near Europe in relation to European buyers. Producers from these

countries compete with producers from several other countries close to Europe (see Table 7), as well as several countries inside the European Union.

- The production countries in the EU (Near East-South — Europe) recorded the highest added-value growth in HS62. This could be an indication of a greater acceptance among European buyers of price increases imposed by European suppliers.
- In knitted garments (HS61), only Bangladesh, Turkey and China managed to register above average added-value gains in the 2010–2017 period.
- For woven garments (HS62), only China and EU countries recorded above average added-value growth. All other countries did not perform well on added-value growth. It seems to remain a challenge for suppliers from these countries to pass increasing costs on to buyers through higher prices.

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