The Global Apparel Value Chain: Introduction & Trends

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Session I: Understanding the 21st Century Global Apparel Value Chain
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What is a Value Chain?
Global Value Chain (GVC) Framework

1. Input-output (referred to as value chain)
   – Supply chain (tangible)
   – Value-adding activities (intangible)
2. Geography
   – Production & consumption
3. Firm Governance
   – Coordination & power dynamics
   – Producer versus buyer driven industries
4. Institutional Governance
   – Industrial, trade and labor policies
   – Local, national and international

• Upgrading (changes over time)
  o Industry changes in: capabilities, complexity & codifiability
  o Firms change in activities to increase benefits (e.g. profit, skill, technology or knowledge); results in country changes
Apparel Value Chain

Increasing Economic Value-Added

Inputs
- Natural & Synthetic Fibers
- Trim (Buttons, Zippers, Elastic, etc.)
- Equipment & Machinery

Components (Textiles)
- Yarn Production
- Fabric Production
- Knit
- Woven

Final Products
- Apparel Production (Cut & Sew)

Distribution, Sourcing & Sales
- Intermediaries
- Lead Firms
  - Brand Manufacturers
  - Brand Marketers
  - Retailers

Tangible Activities

Increasing Value-Added

Intangible Activities

Design, Branding, & Retail: 60-75%
Logistics & Sourcing: 5-10%

Production: 20-30%

Red indicates highest value-added activities + control/power over the chain
Percentages represent relative shares of apparel retail selling price attributed to value-adding activities
Structure of the Global Apparel Industry: Buyer-Driven GVC

- Apparel is one of the most globalized industries; nearly every country has some degree of a formal or informal clothing sector.
- Apparel production is very labor-intensive; has low start-up and fixed costs and requires simple technology.
- Producing textiles (yarn & fabric), the main physical inputs to apparel, is capital- and scale-intensive, higher workers’ skills and more male-dominated.
- Firm governance: buyer-driven value chain
  - Buyers (lead firms) focus on highest value activities (design, branding, marketing) and not production.
  - Outsource production and input sourcing to a global network of intermediaries and manufacturers.
  - Main types of lead firms: retailers, brand marketers and brand manufacturers.
- Government regulations have historically played a significant role in shaping the geography of apparel manufacturing (e.g., MFA, ATC, trade agreements).
Consumption: Europe, USA and Asia; growth in South America, but small overall share of world market. Asian growth strong in Russia, Korea and China.

Production: increasingly dominated by Asia; even more prominent when domestic production factored in

Source: UNCOMTRADE, HS 61+62
Notes: size of bubble represents the import/export value in 2012; y-axis represents the compound annual growth rate of imports/exports between 2005 and 2012
# Shifts in Competitive Dynamics in the Global Apparel Industry

## Institutional/External Impacts

- **Trade Policy**
  - End of the MFA/ATC & China safeguards (2005/08)
  - Regional & bilateral trade preferences
- **Macroeconomic Impacts**
  - Global Economic Crisis (2008/09)
  - Energy & material costs (textiles)
- **Consumer Demand**
  - Growing foreign market demand
  - Greater variety

## Buyers’ Sourcing Strategies

- **Cost competitiveness**
  - Global overcapacity in production
- **Non-manufacturing capabilities**
  - Sourcing, management & soft skills, design
- **Consolidation of supply base**
  - Strategic partnerships with fewer key vendors
- **Time factors**
  - Shorter lead times, lower volumes, flexible production
- **Social & environmental awareness**
Dynamics in the Apparel GVC: Upgrading

- Upgrading is a way to analyze a country’s position in the value chain, benchmark countries, and to show the evolution of the industry in a country over time
  - Functional upgrading: CMT → Full Package → ODM/OBM
  - Supply chain upgrading: backward linkages and lead times
  - End market upgrading: global export, regional and domestic markets; export dependence and diversification over time
  - Product upgrading; change in export unit values; shifts to higher value products
  - Process upgrading; reduction in lead times; investment in technology
## Factors Affecting Competitiveness: Country Comparisons

### Upgrading (firm-specific)

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### Measurable objective

- Comparing countries by firm strategies and institutional policies provides a way to identify growth drivers and best practices
- Not a one-size-fits-all strategy, but some strategies are more sustainable than others

### Institutional drivers

Apparel Suppliers: Country Trends

Increasing Export Values

- **China:** clear leader; 2000-2012, global apparel export share from 25 to 41% ($48.5B to $145.5B); global market share has *stagnated*, but has not declined post-crisis.
- **Growth Suppliers:** Bangladesh, Vietnam, Cambodia, Indonesia and Pakistan increased global market share since the early 1990s, post-MFA and post-crisis.
- **Stable Suppliers:** Sri Lanka, India and Turkey – increasing export value, stable market share.
- **Declining Suppliers:** EU-15, Tunisia and Morocco increasing export value, but declining global market shares and lower than world average growth rates.

Decreasing Export Values

- **Decline with MFA Phase-Out:** Mexico, Thailand, Romania and USA - decline in value and global market share during phase-out and post-MFA.
- **Past-Prime Suppliers:** Hong Kong, South Korea & Taiwan - global market shares decreasing since early 1990s. Now intermediaries, textile producers and investors in foreign countries.

Top global apparel exporters, compound annual growth rate in apparel export value (2005-2012)
## Functional Capabilities and Country Examples

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<tr>
<th>Functional Categories</th>
<th>Capabilities</th>
<th>Country Examples</th>
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<tr>
<td>CMT (Assembly)</td>
<td>Marginal supplier; low-cost volume production</td>
<td>Cambodia, Sub-Saharan Africa, Caribbean/Central America</td>
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<td>Preferred supplier; scale economies in volume production</td>
<td>Vietnam, Indonesia, Bangladesh*</td>
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<td>Preferred supplier; scale economies in volume production for specific product categories</td>
<td>Pakistan*, Mexico*</td>
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<td>Niche supplier; smaller volumes; specialize in specific product areas</td>
<td>Sri Lanka, Morocco</td>
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<td>Strategic supplier; export high-value, complex products and volume. Design and development (OBM) for domestic markets.</td>
<td>China*, India*, Turkey*</td>
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<td>FOB/Full Package Provider</td>
<td>Coordinate supply chain and OEM or ODM activities; contract out manufacturing or invest in production in foreign countries</td>
<td>Hong Kong, Korea, Taiwan (1980); Malaysia, Singapore (1995); Thailand (2010)</td>
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<td>ODM/Full Package with Design</td>
<td>Global brand owners; marketing and retailing</td>
<td>EU-15, USA, Japan</td>
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Note: size of country also impacts potential role in GVC

(*): indicates country can supply at least ~50% of textile inputs need for apparel production
### Shifting Country Roles: Apparel Supply Chain Upgrading: Asia

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<th>Countries</th>
<th>Segments of Apparel Supply Chain</th>
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<td>Japan</td>
<td>Garments (\rightarrow) Textiles (\rightarrow) Fibers (\rightarrow) Machinery</td>
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<td>Hong Kong</td>
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**1950s-early 1960s**
- Japan
- Hong Kong
- South Korea
- Taiwan
- China
- India
- Pakistan
- Indonesia
- Thailand
- Bangladesh
- Vietnam
- Cambodia

**1960s**
- Textiles
- Garments
- Fibers

**1970s**
- Textiles
- Garments
- Fibers

**1980s & 1990s**
- Textiles
- Garments
- Fibers

**1990s**
- Garments
- Textiles

**2000s**
- Garments
- Textiles

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Dotted arrows refer to the sequence of production and export capabilities within economies; Solid arrows refer to the direction of trade flows between economies.

Dates refer to a country’s entry years for exports of specific products.
Apparel Product Classifications & Trends

• Woven vs. knit: share of world market for knits increasing faster than woven
  – 1995: 40% vs. 60%; 2012: evenly split
• Gender: women’s apparel accounts for half of apparel retail market; menswear 30%
  – More design, style changes v. more standardized
• Material: MMF vs. cotton: increasing share of world market (by value) made from MMF
  – MMF: 2005-2012: 26 to 32% of world export value
  – Largely driven by dresses and skirts and coats
  – Share of market for other fibers relatively stable

Note: material type is not available for ~8% of world exports in 2012
Segmentation of Apparel Product Categories: Market Share by Value, by Volume, Unit Value & Export Growth

World Apparel Imports by Product Categories (2012)

Characteristics of Product Categories

- **High unit value, mid-size market share by value, low volume**
  - Formalwear – slower
  - Coats and dresses/skirts – faster
  - Woven shirts and athletic apparel – steady

- **Mid-range unit value, large share of apparel market value, high volume**
  - Trousers and sweaters/sweatshirts – slower
  - Knit shirts – steady

- **Low unit value, high volume**
  - Hosiery and socks – faster
  - Intimate apparel* – slower

- **Low unit value, market value share, low to mid-volume**
  - Accessories and miscellaneous apparel – faster
  - Baby – slower

Nearly half of global export value; easier to find countries with manufacturing capabilities for these products

Italicized “slower, faster, steady” references general CAGR trends (2005-2012) compared to world average

*: with the exception of women’s bras; which are a relatively high value item
Questions & Comments?
Thank you

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