UNCTAD XII

World Investment Forum Session II:

“Global Value Chains: Opportunities and Challenges for International and Domestic Firms”

The Textiles and Clothing Value Chain
Write-ups by ITC panellists

Compiled and Edited by Matthias Knappe

Introduction

Matthias Knappe, International Trade Centre (ITC)

Developing countries can play a more active role in the buyer-driven global value chain of cotton to clothing. Many African countries, for example, produce high-quality cotton. Moreover, these countries have (some) clothing manufacturing capacity, and ample fashion creativity. What is missing is a textile industry that can complement the value chain and provide the needed push for the industry. To fill this gap a holistic approach is needed, comprising five elements:

1) The clothing industry needs to be organised e.g. in the form of clusters, etc.: Steven Walton describes how this could be done.

2) An international buyer needs to make a commitment to buy a significant amount of garments from a country or a region: Gary Ross describes the conditions under which a globally-operating buyers could do so and what a global buyer expects from its suppliers and value chain operators in developing countries.

3) If conditions 1 and 2 are in place, a textile mill might have enough incentives to invest in a new textile mill for example in Africa. However, what are the necessary conditions to do so? Angelo Paratico explains the investment decisions of a textile company in light of the pre-conditions set up under items 1 and 2.

4) In addition to private sector business decisions, a public-private investment and trade promotion organisation in the host country need to provide an enabling environment and possibly incentives for a foreign company to invest in a textile mill. Amédée Darga, Enterprise Mauritius, elaborates on this. He looks at the Mauritius experience in attracting investment in the textiles and clothing sector to the island. He also looks into the possibility of outward-oriented investment form Mauritius into spinning facilities on the African continent.

5) Finally the China Factor needs to be taken into consideration. China is such an important player in this global value chain that its movements are important for other developing countries as well as for the global textiles and clothing industry as a whole. Mr. Sun Rhuize elaborates on some important China issues, namely, what can be learnt from China, what are latest developments in China and how China regards investing in T&C outside of China.

Overall this series of presentations sheds light on one major development issue on the African continent, namely how can Africa use its cotton base and provide value addition to its cotton fibre. Five different presentations look at the same issue from various perspectives and complement each other. What is needed is a holistic approach at national and regional level addressing all aspects of the value chain.

The clothing industry needs to be organised

Steven Walton, Chairman, Wingtai International Apparel Group

1. The global sourcing strategy is changing dramatically. The supply chain must be transparent and collaborative, and be able to clearly define its competitive advantage.

    - The change in the quota regime, the emergence of private equity acquisitions and consolidation of both the supply base and the customer base have all been contributing factors to the changing sourcing strategy.
    - Customers demand 'total' compliance and visibility in the supply chain. As such, this is a must, and an 'open door' policy must be marketed to build trust. The industry must be built around social, environmental and corporate compliance.
    - The win-win of competitive advantage combines low WIP (work in progress), high connectivity and a strong understanding of the customer. Supply management must understand a fast-moving industry and the need to create the core competencies that surround fast fashion. Lean production, well-trained workers, access to materials, trims, and chemicals (washing) and an efficient inland infrastructure and port mechanism are all required.

2. Understanding your customer, and being able to create 'real' partnerships both with regional suppliers and your targeted customer are crucial.

    - What are the value drivers of the chosen customers?
    - How do they operate and buy?
    - Where is their current production base? What are the strengths and weaknesses?
    - What does a partnership mean? – Commitment, investment, flexibility, open appraisals and joint problem solving.
    - Cross-fertilization of staff for training both technically and culturally
    - What is the inspection system? When and whom?
    - How does the regional supply work? Customer-driven or production-driven?
    - Do internal payment and trade terms synchronize with the export trade terms?
    - How does the banking system work? What industry incentives and trade financing are in place?

3. Supply chain solutions (technology) are driving change; hence the regional supply chain must be prepared to understand and adopt them.

    - PLM (product lifecycle management) is the key term these days. There are various products on the market, but the industry leaders are implementing solutions which connect all aspects of the design and development of a product, through to sampling, merchandising, bulk material management, production and delivery. Any supply chain must be educated and prepared to adopt.
    - Factory floor efficiency and knowledge of the exact status of each order by size and colour is a must. Inexpensive solutions are now being rolled out

across Asia, such as factory floor RFID, which updates data for management every five seconds.

- In addition the supply chain must have:

  - Access to well-trained staff (set up training centres);
  - Production management and supervisors who understand international quality standards and requirements;
  - Stable and predictable labour and economic policies;
  - Uninterrupted supply of electricity and water;
  - Broadband connectivity;
  - Low tax regime to encourage re-investment;
  - International trade agreements to allow the import and export of materials and goods at low duty rates or no duty.

4. Regional authorities must be able to provide a one-stop shop for any investor or supplier wishing to set up an infrastructure.

An international buyer needs to make a commitment to buy

Gary Ross, (until recently) Corporate Vice President Global Manufacturing & Sourcing, Liz Claiborne Inc.

The retail landscape in America continues to change. Shopping patterns continue to evolve.

1. Consumers have more choices:

   Too many stores
   Too much product
   Too few customers

2. Shipping to different retails channels now allowed by buyers.

3. Consumer confidence is mixed:

   Subprime liquidity working its way around the world
   Interest rates are falling
   Commodity and energy prices remain volatile
   Inflation is raising its ugly head

4. Barriers to entry are low.

5. Demands of retailers are increasing:

   Exclusivity
   Innovation
   Flexibility
   Fashion Infusion

Speed to Market

Bringing a great product to a market faster is a strong competitive advantage. It will separate the winners from the losers. Companies can be paid for speed.

Demand Chain

The traditional supply chain must be redefined. The term supply chain implies taking a product off the shelf to satisfy demand. Supply chains must become demand chains. Manufacture more of what the consumer really wants instead of what we think they want.

Best Practices

I have looked outside our industry for best practices. I have studied Toyota, Best Buy, Campbell Soup and Dell. Everyone is looking for the Holy Grail. There is no magic or silver bullet. The industry that most mirrors ours is the food industry.

What is fashion?

Fashion means freshness

Fashion is perishable

Fashion has a limited shelf life

Speed and decision-making are linked. We cannot separate the two. Speed in mind - speed in action.

Source product from a vendor not a country

The marketplace is unforgiving. Companies must align themselves with vendors who have consistent, predictable and dependable performance. Governments can facilitate the transaction but vendors must deliver first quality product on time all the time.

Buy product not process

Vendors must offer full package sourcing.

Vendors can compete on three areas: Price, Quality and Service

If price is the only differentiator, it will be the first step to bankruptcy, because someone can always do it cheaper.

Regarding quality, it is no longer an area of differentiation; instead it is the price of entry. Those who have survived this long are deemed to be capable of meeting the quality standards of their customers. So that leaves everything else or as I just referenced it, service.

Service attributes that are necessary for a vendor to compete on a global basis

1. Compliance: Workers must be treated with respect and dignity. Good working conditions are productive working conditions. Product must be manufactured under appropriate country of origin laws. Products must also be kept secure throughout the supply chain (CTPAT).

2. Operational: Strong and stable management who are well capitalized and have consistent standard operating procedures.

3. Product development: Strong knowledge of brands' unique aesthetic and attitudes will be essential to interpreting design specifications. Strong pattern-making skills will be required.

4. Certification: I recommend SPC (Statistical Process Control) for all critical operations. Utilization of spectrophotometers to consistently match colour. Certified in-house testing and advanced engineering will enable vendors to deliver first quality product on time all the time.

5. Manufacturing: Fast and flexible. Vendors will need to develop multi product capabilities. Shorts runs at high speed are a way of life. Setting up modular lines dedicated to quick turn production.

6. Distribution/logistics: Vendors will need to develop the proficiencies necessary to manage inventory, pick and pack orders and wherever possible, ship them directly to customers.

7. Technology: Technology is a competitive weapon. Vendors will need to invest in technology that is compatible with and complements that of their customers. Yesterday, the most difficult task we had to do was make the garment, tomorrow, it will be the easiest.

What can counties do to help to advance their apparel industry's competitiveness.

Remove barriers to speed: Time is money.

1. Eliminate red tape and bureaucracy.
2. Speed custom clearance process for import (fabric and trims) and export of finished garments (import and export).
3. Liberalize work permits for skilled labour.
4. Invest in infrastructure projects that support industry (modernize ports and roads, cargo handling).
5. Tax incentives to attract foreign direct investment.

The Government needs to set the enabling environment

L. Amédée Darga, Chairperson, Enterprise Mauritius

There is no reason why Africa cannot provide more in the supply chain than just world-class cotton.

Mali, Burkina Faso and Benin in West Africa, Malawi, Zambia and Zimbabwe in the Southern region are world-class cotton producers. There are good reasons why we should be (a) capturing more benefits of the value chain, (b) creating an industrial base and an industrial culture, and (c) creating more jobs by exploiting the labour-intensive character of garment production. Right now, Sub Saharan Africa is a very minor player in the world clothing trade – 1.0%. While it is true that the retailing sector captures the lion share of the value chain (57%), fibre captures only 4%, and the fibre, yarn, fabric and garment part captures 43% of the share.

Why has it not happened and what needs to be done to make it happen?

If there is a policy determination, there is a will. It is a matter of deciding to put in place proper conditions to ease up investors both local and foreign into doing this business. The garment production part is the less difficult because it is less capital-intensive even though it requires good strategic management capacity. The yarn and fabric production part is much more capital intensive and it is, therefore, an area where FDI is necessary.

In the new geopolitical context where China-Africa cooperation has been given a major thrust, China is regarded as a partner who could provide investment support into the capital-intensive missing link in the supply chain of the region, namely spinning and weaving. This would immediately provide cheaper inputs to garment production, give flexibility and fast response capacity. Mauritius successfully negotiated a US$ 200 million investment from China into a major industrial zone where spinning, weaving and production of accessories will feature prominently.

To exploit competitive advantage, the best strategy is not to think national but regional and to build a "local" regional supply chain.

Spinning and weaving requires important and reliable power and water supply capacity. Hence a regional perspective will allow to capture the existing resource endowments and to exploit regional complementarities.

However, the region must be focused to:

- Improve integrated supply systems.
- Promote investment in the spinning and weaving sector.
- Negotiate partnerships and alliances within and outside the region.
- Harmonize and rationalize tariffs and trade regulations, amongst which the elimination of all tariffs for intermediary products from within the region, and the elimination of all tariffs on clothing throughout are crucial so as to build a strong market within the region. In addition, a common external tariff on clothing should be considered.

The Market is not only where everybody is looking

The traditional export markets for Africa have been the USA and EU. They are indeed the biggest markets. However, on the one hand they are the most sophisticated markets in terms of supply chain and sourcing strategy, which is driven by retailers. Competing in these markets is more than just a price issue. Nonetheless, the AGOA facility for lesser developed economies only requires a single transformation rule of origin. The new EPAs agreements for LDCs offer similar opportunities.

On the other hand, the textile and clothing markets in the EU and USA are shrinking in relative terms due to the demographics and the present difficult economic situation. In contrast the market size for textile and clothing products is expanding in emerging countries like India, South Africa and the Middle East where an emerging and middle class with increasing buying power and a strong demand for clothing is growing fast.
Bilateral trade agreements with emerging market economies are not unthinkable. In addition, newly negotiated GSTP facilities and duty-free market access for LDCs present opportunities for African countries to develop new markets.

The role of governments in achieving these goals

The achievement of these goals requires a deterministic developmental approach from governments. The creation of conducive conditions of doing business, infrastructure capacity development, establishing financial instruments, including equity financing capacity, support to technical capacity building for enterprises, institutional capacity building for investment and export promotion are items that governments need to address.

Textile investment needs to be attracted

Angelo Paratico,Vice President, Candiani Denim (Far East)

Political stability, low taxes and an export-oriented infrastructure are key ingredients to attract textile mills

This is a complex issue, which requires a complex, but not necessarily too complicated, answer. As a philosopher once said, we can only explore the unknown using what we know as a yardstick.

Let us consider now the practical example of our company, Candiani, which is located near Milan, Italy. With 650 workers and a turnover of USD 300 million annually, it is a fully integrated cotton mill specialized in the production of denim for the high-end market.

Producing denim means running a vertical mill, which is the only way to keep all the quality parameters under control. It seems a simple process to produce denim because it looks a simple fabric, but in reality it is extremely difficult to keep a constant standard of quality.

At Candiani, on the one side we have bales of cotton entering the warehouse and on the other side we see the finished fabric coming out, rolled up and packed, bound for the port or for the airport. Genoa is about 3 hours away and Malpensa international airport is about 20 minutes away.

Let us now imagine for a few minutes that Candiani is not Candiani, no longer a denim mill, but a continent: Candiani is Africa.

The cotton we are using is not growing in our backyard and this point is, after all, not important. About 20% of our mix comes from West Africa and, unfortunately, we cannot use as much of it as we would like to, because it contains too many impurities (e.g. dust and honeydew) that will block the spinning machines. If the simple process of cleaning could be further improved in Africa, we could use more of it.

We spin and then weave around 20 thousand tons of cotton every year and then about 60% of our production is exported all over the world, about 35% to the United States, mainly to California, where in the last 10 years a rich industry of garment-making and washing has sprung out of nowhere. The only reason to be in California is in fact due to fashion, industrially it makes no sense.

Fashion is driving (textile) technology

Technology must follow fashion. This fact means that an integrated industrial company like Candiani, or a series of industrial complexes must be ready in terms of machinery and chemicals so as to follow the market trends set by fashion designers. These act like antennas, capturing the mood of people and translate it into practical style.

A good example to quote is the return of the shuttle looms, i.e. an old type of machinery that, industrially speaking, has no reason anymore to be used. However, a fashion designer wanted to imitate the look of old jeans made with selvedges inside the legs. As a result, our company had to find and install old shuttle looms, which had been out of fashion for more than 40 years. We had no choice but to follow and re-install them.

In many developing countries we are not talking about the high-end market, but still, it is worth exploring. For instance, Ghana has strong artistic traditions; some Ghanaian artefacts influenced the Art Deco movement in France, just to cite a well-known example. Our company is strong and going well in spite of the global recession, simply because we work closely with designers who set new trends. Without our close link to the fashion industry our company would have closed down a long time ago.

Many Asian nations had already invested heavily in textile plants in the past 20 years, but remembering that there is always room at the top, I should point out that now there could be some good chances for Africa, which were not there only one year ago. As a matter of fact, the largest garment producer of the world, China, is having problems keeping prices down and finding enough specialized workers, due to factors which do not concern us now, and Africa could seize the moment and step in. Africa should move fast before other Asian nations get their slice of the global cake!

Local government should invest in infrastructure; the importance of a school of textile technology is high

Africa, like Candiani, needs good infrastructure to prosper. Local governments should concentrate on the creation of first class airports and ports. Technicians will be able to come and go easily, and finished goods will be shipped in and out. First class hotels should be built, with all the comforts, where visitors will stay. This is the best way to attract multinational companies, which, after all, are made up of common people. Moreover, ports must be able to handle goods in containers, with efficiency and without too many bureaucratic problems.

Africa, like Candiani, needs good technicians. We have a famous school of textile technology: ITIS of Busto Arsizio, about 25 kilometres from our mill. All of our technicians graduated from there, including this speaker.

The technical contribution for the creation of a textile institute could be arranged at inter-governmental level. Private enterprise tend to look for quick returns and the setting up of such schools will require at least 7-8 years to bear fruits.

The governments of Africa should set up not only technical schools but also a school of design, on the artistic–creative model, to raise the image of the rich traditional crafts of their nations and move them to a higher level.

Tax-free arrangements should be set up for multinational companies willing to establish their sourcing and production centres locally. Governments could grant ‘tax holidays’ for, say, 10 years, and in the mean time the whole society will benefit. Large industries work as a catalyst for a complete cluster of industries that spring up to service them. A classical example that I can see in my country is the Fiat car company, created in Turin 100 years ago, which gave rise to an incredible number of industries that were connected with this carmaker at the beginning but later were able to differentiate and evolve independently.

The *conditio sine qua non* for having textile mills come to a developing country to invest are:

- Security for the technicians.
- Low or no taxes for a number of years.
- Availability of at least partially trained/skilled workforce.
- Intergovernmental agreements in force, for tax exemptions on the export.

The China Factor

Sun Ruizhe, Vice President, China National Textile & Apparel Council

Global value chain – sustainable supply capacity in developing countries is important

- Investment in T&C outside of China – China's position.

The global value chain for textiles and garments is undergoing dramatic changes:

- From traditional labour-intensive to technology- and capital-intensive.
- From individual product design to integrated innovation along the chain: fibre, spinning and weaving, dyeing and finishing, cut & sew, marketing and branding, and logistics.
- From price issues to non-price issues, such as quality, environmental protection, intellectual property rights and corporate social responsibility.

In order to form a responsible and harmonious global value chain, it is necessary to align the duties of buyers in developed countries and manufacturers in developing countries. On the one hand, buyers in developed countries should be committed to taking responsibility for buying more from developing countries; on the other hand, developing countries should build up their own ability to meet the sourcing demands of buyers.

An adaptation of a Chinese saying might be useful here: Granting somebody fish is not as good as granting him fishing. This leads to a critical question: how can African countries be helped? By buying more now, or instead by helping to build up African countries' own industrial capability for sustainability.

A good reference for African countries – China's experience in developing its textile industry

China's development over the past 30 years has gone through opportunity-oriented and cost-effective-oriented, towards value-added-oriented, which may give a good reference to the development of African countries.

At the early stage, China lacked expertise, capital and outside channels. Therefore, China set up policies for absorbing FDI, especially investment from overseas Chinese; preferential policies in terms of taxation were adopted. At the same time, both central and local governments made substantial efforts in building up the infrastructure, such as the transportation system and education facilities, which benefited economic growth tremendously.

At the second stage, consolidation of industrial sectors, and creation of economic zones and industrial clusters occurred. In 1986, the garment industry merged with the textile industry during the time that State-owned companies dominated industry. In the 1980s, several economic zones were established by the central government to facilitate the export business by setting up bonded warehouses and a one-stop service for customs clearance; also in the 1980s, several local governments in the coastal area started to boost the local economy by encouraging either State or private investment to set up trade-marts and a manufacturing industry. Through those efforts, the industrial sectors were integrated and industry efficiency was created; this still remains at the core of China's competitiveness.

At the third stage, State ownership faded out and industry withdrew from the major cities. Privately owned companies and SMEs in industrial clusters became the major players in the industry. The milestone was in 1997, when China decided to make obsolete 1 million out-of-date cotton spindles. Now privately owned companies run more than 96% of the total textile and garment business, which gives great vitality to the industry.

Starting in 2007, macro-control policies were imposed by the central government. Reducing the trade surplus, controlling investment size, environment protection measures, and more rapid currency appreciation, together with the growing cost of raw materials, labour and use of land, gave the industry ever-higher pressures. Innovation became the mainstream thinking of the industry. The Chinese textile industry is moving ahead with the following trends:

- Continuous growth for the domestic market: by the end of 2007, domestic market share accounted for 75% of the total textile and garment output.
- More growth potential for industrial textiles: currently fibre consumption is shared between apparel textiles, home textiles and industrial textiles in the ratio 53:33:14.
- More R&D and technical innovation are being carried out by individual companies, and more collective innovations are being done jointly by upstream and downstream companies.
- Quality, environmental protection, intellectual property rights, and corporate social responsibility are now the hot topics and major implementing tasks.
- Investment is increasingly being made in inland China and outside China.

China also has great market potential for other developing countries. In fact, trade between Africa and China is growing steadily. While Africa is one of China's major sources of raw materials such as cotton, the export of African textiles and garment to China is also increasing.

China's Cotton Import (thousand tons)

	2007	2006
Total Import	2459.125	3632.303
From Africa	**305.425 - 12.42%**	**538.101 - 14.81%**
From North America	1173.807	18105.174
From Asia	868.197	1032.300
From Australia	109.620	224.723
Others	2.077	26.662

China's Import of Textiles & Garments from Africa

	2007 (mil. USD)	Increase over 2006 (%)
Textiles & Garments	31	83.87
Textiles	9	6.61
Garments	22	156.69

Developing countries are the major areas receiving China's investment. Over the past years, Africa has been an important destination for China's foreign investment, especially in the textile sector; Africa is now the second-biggest absorber of China's investment after Asian countries.

Direct overseas investment in the textile industry by China at end of 2007 (projects approved by China's Ministry of Commerce)

	Textiles	Cut & sew of garments/shoes/cap	Man-made fibre spinning	Total
Investment (USD millions)	561.4	138.59	34.14	734.13
Investment in Africa (USD millions)	186.33	19.84	2.82	208.99
Africa's percentage (%)	33.19	14.31	8.26	28.47

On the one hand, the comparative advantage of many African countries (i.e. its rich natural resource base) lays the foundation for developing its industries. The desire to improve the industrial infrastructure will be the driving force for African countries. On the other hand demand for continuous growth by Chinese enterprises make the industrialization of African countries a necessity. For a closer link the system to finance Chinese investments in Africa need to be strengthened. Moreover, African countries need to create a favourite environment for attracting investment.

For example, international financial institutions could cooperate with potential Chinese investors, while host could countries create preferential taxation policies so as to attract upstream and midstream industries, such as in man-made fibre spinning, cotton spinning & weaving, dyeing & finishing, etc.