

Sourcing shifts: Is garment production really moving out of China?

By Jens Kastner | 3 June 2015

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Experts both in China and abroad have yet to buy into the notion that garment production is dramatically shifting out of China.

After years of strong economic growth, salaries of Chinese clothing makers have increased, resulting in more expensive Chinese textiles and clothing manufacturing. But while cheaper outsourcing locations such as Cambodia, Vietnam, Bangladesh and India have picked up the slack, China garment manufacturing losses may be exaggerated, experts suggest.

"China's overall economic situation is changing, and stricter environmental regulations and higher land and labour costs all have their effects; but the garment production that is leaving for Southeast Asia is that of some exporting contract manufacturers for foreign brands only," argued Zhao Hong, deputy director of international trade of the China National Textile and Apparel Council (CNTAC), China's national confederation of all textile and apparel organisations.

Zhao said data from the National Bureau of Statistics of China suggests the country's garment sector is consolidating rather than declining. The number of textile and garment enterprises above an annual sales turnover of CNY20m (US\$3.2m) decreased by 11.5% in 2014, to 38,319, but their combined profits climbed by 6.1%, to CNY360bn (US\$58.1bn).

Despite 2014 being a year of lacklustre economic sentiment in key export markets such as the US, Europe and Japan, China's 10,916 garment manufacturers churned out 29.6bn pieces in 2014, up 1.6% year-on-year. As another indicator of health, investments in fixed assets by the Chinese textile industry increased significantly in 2014, by 13.4%, to CNY1 trillion (US\$161bn).

Manufacturing myth

Mike Flanagan, CEO of Clothesource Ltd, a UK-based consultancy that works with prominent fashion retailers including Gap, Marks & Spencer, Next, and The Limited, is another observer who believes the notion of garment manufacturing leaving China is nothing but a myth.

"What happens is that the world market is growing, meaning a lot of manufacturers gain a larger share, with some of these manufacturers being ones outside China owned by Chinese companies," he said.

Flanagan explained that while factories in China are consolidating, "virtually 100% of Chinese-owned garment manufacturing enterprises have stayed."

He stressed that while it is sensible for Chinese manufacturers to worry about continually increasing wages undermining the competitiveness of China's garment production on the world stage, it is clear that wages elsewhere in Asia are increasing at a similar pace, with these places being far behind China in terms of efficiency and infrastructure.

"Much of this nonsense about everyone leaving China comes from garment manufacturers in Bangladesh, India and Vietnam, who like to say that because they want to keep people interested in their countries," Flanagan said.

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to the local manufacturers, triggering their decline.

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ufacturing will be leaving Indonesia sooner or later" and as a result, stopped lending

India on the up

That said, executives in competing outsource locations can back up their arguments with figures as well.

"Our sourcing business from India has tripled over the last two years," said Ashesh Amin, chief operating officer (COO) of Adrianna Papell, a US-based women apparel and accessory brand. "Lead time for supplying orders [by Chinese factories] has increased by 10% to 20% and their prices have gone up by 6% to 8%."

According to Amin, there has indeed been a trend of moving away from China, but it started as late as last October, accelerating after the Chinese New Year in February, with garment workers moving to less tedious jobs. "We used to ship fabric from India to China but now we are looking for the same to be manufactured in India," he said.

Amin said a comparatively weak Indian rupee and lower energy costs have also made India a cheaper destination for apparel sourcing internationally. "Indian companies are also importing more machinery and getting their plants modernised," he said.

India's Apparel Export Promotion Council (APEC) anticipates a 10% export growth in the financial year ending March 2015, which would bring Indian apparel exports up to US\$16.5bn.

Bangladesh bullish

Bangladesh apparel producers are equally bullish. Faruque Hassan, a former vice president of the Bangladesh Garment Manufacturers and Exporters Association (BGMEA), said companies are investing in factory upgrades and safety measures to tap into the new opportunities, created by an increasingly costly China.

However, he noted challenges that are hindering Bangladesh's ability to take advantage of this sourcing shift include its political instability and the need to maintain quality and logistics improvements.

To reap the full benefits, he told just-style: "We need to boost workers' skills and port handling capacity, and improve the Dhaka-Chittagong highway."

Mohammed Atiqul Islam, president of the BGMEA, said unreliable energy utilities were another obstacle impeding Bangladesh as it strove to increase its global market share for apparel, which is now only 5%, compared with China's 38%, he said.

Unless Bangladesh improves its productivity and efficiency, it will lose its advantage as a low-cost garment producer, he noted. "Otherwise, countries like India, Vietnam, Cambodia, Sri Lanka and Myanmar will take the advantage," he told just-style. If Bangladesh succeeds, "we can then export to China as well."

Bangladesh is now the world's second biggest garment exporter, after China, employing 4.5m workers in around 4,500 factories. Apparel shipments grew by an annualised 3.16% to US\$18.62bn in the first nine months to March this year, according to the country's Export Promotion Bureau.

Dr Khondaker Golam Moazzem, an additional research director at Dhaka-based think-tank Centre for Policy Dialogue, argued that additional sourcing shifts from China would depend on how Bangladesh can tackle its domestic political uncertainty and external factors, notably currency volatility. "There's no rock-solid guarantee that orders will shift to Bangladesh only because buyers move away from China," he told just-style.

With additional reporting by Raghavendra Verma and AZM Anas.

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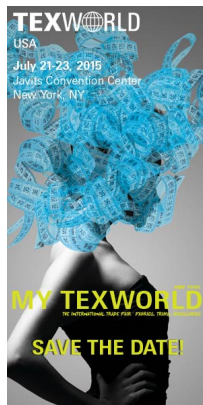


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