ITCB

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Choices for Developing Countries in Setting National Brand Strategies

Presentation by
Munir Ahmad
Executive Director
International Textiles and Clothing Bureau (ITCB)
Geneva

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Let me begin by extending my deep gratitude to the organizers of the 2nd China (Dalian) International Garment and Textile Fair for inviting me to this CGIF summit. I am delighted to be here and am looking forward to learning from the experience of such an eminent list of speakers and participants.

I have been asked to speak on the subject of strategic choices for developing countries in setting up national brand names. In so doing, I shall seek to offer some reflections by placing them in the context and characteristics of trade in textiles and clothing.

As to the context, we all know that much of textile trade had long been under the pervading influence of quota restrictions. For years, developing countries toiled for an end to this discriminatory system. We at the ITCB provided the framework and the platform for these efforts. Our work bore fruit and at the end of 2004 the world was able to say goodbye to the most glaring distortion that had plagued the textile sector for over forty years.

Let me hasten to add, though, that the end of the quota system does not mean the end of all the problems of the sector. Textile and clothing products remain subject to much higher rates of tariff than most other industrial goods. However, many exporting countries enjoy duty-free access to main developed country markets. It is provided either under free trade area (FTA) agreements or through autonomous preferential schemes. By a conservative count, some 60 billion dollars worth of US and extra-EU imports, alone, is accounted for by these duty-free programmes. An outstanding feature of these schemes is their origin rules. These are so designed as to effectively create captive markets for yarn and fabric producers in the US and the EU. This happens because duty exemption is granted on condition that the apparel products exported by those preference-receiving countries are produced by using US/EU yarns and fabrics or by assembling apparel parts produced in the US or the EU. By our analysis [again on a very conservative basis because the data classification system does not allow getting to the true extent of trade in apparel parts] these preference-receiving countries are thus obliged to import about $20 billion of US and EU yarns and fabrics. Add to this the value of related services that go with it, the benefit accruing to these major developed countries is in fact much higher.

That is however not the subject for my remarks in this forum. Returning to the context of textile and clothing trade let me recall that the end of the quota system resulted in freeing the unused potential of many developing countries. Chinese enterprises produced spectacular results. In two years following the abolition of quotas, i.e., 2005 and 2006, China's textile and clothing exports to the US and EU markets (combined) advanced by over $23 billion. Consequently, at the end of 2006, China increased its share of US and EU imports of textiles and clothing to some 29% each. Chinese enterprises can justifiably be proud of their stellar achievement.

Some other developing countries that had also been held back by quotas made handsome gains, too. Equally important is the fact that some countries which feared for their competitiveness in the post-quota environment defied predictions and have been forging ahead – for example, Bangladesh, Cambodia, Egypt, Indonesia and Vietnam.

The picture has not all been rosy, however. It has been a time of considerable uncertainty, pressure and change for many. Moreover, overall, the markets have not been very buoyant. Seen in terms of quantities, US and EU import growth in the post-quota years remained below historical averages. Thus, in the US, the quantity of textile and clothing imports[1] increased by an average of 5.4% in the two post-quota years of 2005 and 2006. This rate is less than half of the yearly average increase of 11% recorded during the period 1995-2004. EU imports[2] increased 6.5% in 2005-2006 against the yearly average of 7.4% during 1995-2004.

Lest you may term this account to be irrelevant to the subject that I have been asked to speak on, let me say that my purpose in bringing these

[1] Textiles and clothing defined as under the MFA
[2] Defined as in Section XI of the Harmonized System (excluding however the agricultural raw materials such as raw silk, cotton, wool and some other vegetable fibres which also fall under Section XI of the HS but are not commonly treated as textiles or clothing)

numbers to you is to emphasize that the unit values realized by developing countries on their exports have continued to remain under immense strain. And that is the context that I want to bring to the table in commenting on the options for setting brand name strategies, because one of the reasons behind falling unit prices appears to be that most developing countries find themselves competing largely on price. Producing under recognizable brands is one way to obtain better value. A good brand after all represents a guarantee for quality and consistency, such that the customer is persuaded to offer additional price for.

In this connection, I wish to present to you only a couple of statistics. It is remarkable that the average import unit price of clothing realized in the US market as far back as 1997 was $ 3.77 per square meter equivalent (SME). Since then, however, it has been on a declining path. In 1998, the unit price came down to an average of 3.74 per SME; in 1999 to $3.60; in 2000 to $3.57; in 2001 to $3.51; in 2002 to $3.3; in 2003 to $3.24; in 2004 to $3.25. In 2005, it hit rock bottom at $3.12, i.e., fully 17% lower than in 1997. In 2006, it recovered only marginally to $3.18 per SME. On the EU market, too, the average unit price of clothing has been on a similar declining path, although it is difficult to compare the EU situation due to fluctuations in exchange rates.

Let us pause here and reflect: Isn’t it that if only the unit prices of 1997 was realized in 2006 too, the volume of clothing imported into the US and EU in 2006 could have yielded $24 billion more than it did? Such has been the impact of declining unit price realization!

For those of you who may be interested in this, the average unit price realized on Chinese export of clothing to the US in 1997 was $4.74 per SME and in 2000 $4.84. In 2001, it declined to $4.72; in 2002 to $3.57; in 2003 to $ 3.17; in 2004 to $3.00; in 2005 to $2.57. In 2006, the unit price recovered, but only partially, to $2.85 per SME. And in the first six months of 2007, also, it has been $2.85 per SME.

The casual observers of the textile scene may perhaps be tempted to conclude that the reason behind this phenomenon of declining prices is the relaxation and, then, elimination of the quota system and with that the quota prices. While that might largely be true, it is only a part of the story. The other, and in my view the bigger, part of the equation has been the emergence of mega retailers and marketers, and the power that they have come to muster in setting the bargain.

And that brings me to the essential point that I believe merits deep consideration in establishing any brand strategies, especially, by developing countries.

It is well-known that, for some time, an increasing share of trade is being accounted for by these so-called mega retailers. For example, the names of Wal-Mart, Tesco, H&M, Zara, Carrefour and many others readily spring to mind. Such mega retailers have been taking an ever-increasing share of the retail pie, including through mergers and acquisitions not only in their home markets but also internationally. At the second rung are the large departmental stores. The combined and expanding reach of these big retailers exerts tremendous pressure on the entire supply chain, whether it is the manner in which exporters organize their businesses or the way they set their prices. To put it candidly, the real "clout" now is in the hands of mega retailers.

Indeed the big international retailers are also on the expansion trail to a number of developing countries, notably China, India, Indonesia and others.

When it comes to brands, here, too, the emergence of mega retailers is responsible for a pronounced shift. The largest retailers often acquire independent brands. As a result, the old distinctions between commercial and designer brands are getting blurred. In fact, the consumers are led to consider these large retailers themselves as brands.

Consequently, there has emerged an interesting mix of retail and brand formats. There are retailers selling under their own private labels or store brands. There are retailers selling multiple brands. There are retailers marketing exclusive brands that are owned by different suppliers. And there are niche retailers and boutiques. Behind each of these formats, the products concerned may be manufactured in any number of geographical locations or countries.

Allow me then to bring some order to what I have been saying. If one were to try and classify the brands, it could be done as follows:

- First, private labels or brands developed or acquired by specific retailers and sold by them through their own stores or sales channels.

- Second, exclusive brands created by suppliers exclusively for particular retailers.

- Third, niche brands created and owned by suppliers for target consumers and are sold either exclusively at own stores or through selected channels.

- Finally, global or national brands; given the nature of textile and clothing products, however, it is hard to develop such highly recognizable brands in this sector.

Survey and research results by marketing research companies suggest that in tandem with the growth of mega retailers and the evolution of retailing away from traditional small scale sale formats, there has been a shift towards private (or store) and exclusive brands.

At this point, if I can be excused the candour of my remark, allow me to say that most developing country producers in fact proudly advertise themselves as being producers for this and that well-known foreign brands. Such have become the mindsets!

But does this, i.e., the emergence of giants at the retail scene, mean that all is lost to developing countries; that they are condemned to remain at the mercy of large buyers in developed countries in what has essentially become a buyers' market; and therefore to produce and supply largely under brands owned by developed country concerns? It need not be so. There is still ample scope and potential in developing countries to exploit.

Of course there can be no denying that the entire system of quotas that had regulated much of trade in textiles and clothing was predicated on the notion of low prices that developing countries were able to offer in this labour-intensive sector. Little wonder then that in most cases developing country products have come to be seen as "cheap" and, by implication, of "low quality" and low on innovation. Such stereotypes cannot be cast off overnight. It is bound to take time, effort and persistence. Nor must one underestimate the potential downside effects of motivated propaganda by entrenched interests in the major markets. And here I am referring to the recent media hype not only around the recall of Chinese toys but also around reports that New Zealand has ordered investigation into allegations that imported children's clothes from China contained levels of the chemical 'formaldehyde' at levels of up to 900 times those regarded as safe and can cause skin rashes, irritation and allergic reactions.

Given these handicaps, it is foremost to work on changing the mindset in developing countries, selecting the target market and consumer segment carefully, and nourish and nurture the “image” of one’s product.

Then, first, I believe there will be huge potential within developing countries to promote brands, including by building around “lifestyles” portrayed in the achievements of their national icons, such as artists, sportspersons, and other celebrities.

Second, it cannot be emphasized enough that the growth areas of the future will lie in developing countries’ own markets, especially the larger ones among them such as China, India, Indonesia and others. Local companies in these countries’ domestic markets do already create and market their own brands without much of the baggage that goes with marketing internationally. In fact in many a case these companies are known and highly regarded for their brands, especially in upstream textile products. It is important to encourage such national champions in specific product segments to consolidate and strengthen their brand positions on the local markets. The advantage of the home turf should also enable them to respect and integrate local needs and tastes. Industry associations and responsible governmental bodies could extend a helping hand in such efforts by providing research and related assistance. National champions may, in addition, try to tie up with other players within their regions and create mutual synergies around major manufacturing clusters. It is encouraging that some companies are already doing so. In time and with experience, the brands thus created could in turn be tied up with larger players in major developed country markets.

And third, why not, in addition to brands created organically or in-house, there must also be scope to expand through acquisition of recognized and valuable foreign brands, assimilate the expertise coming with such acquisitions and build on the strengths thus gathered.

In closing, let me say that, in textiles and clothing, developing countries have come a long way, although there are many challenges that still lie ahead. A successful conclusion of the WTO Doha Round, especially with regard to the cutting of tariffs, is bound to open further possibilities of growth in the sector. It is time for them to position themselves to take advantage of those opportunities. China can provide a leading role in this regard. Its invitation to consider the choices for brand strategies for developing countries is a welcome initiative. As I said earlier, if only the average unit prices of 1997 could be realized in 2006 too, the volume of clothing that was actually imported into the US and EU in 2006 would have yielded $24 billion more than it did. Such is the magnitude of the opportunities involved! Successful brand strategies can be a catalyst.

I thank you for your attention, and I also thank once again the organizers and sponsors of this event for their excellent initiative.

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