



THE ROAD TO 2025

5 MARKET, TRADE AND INVESTMENT TRENDS

THAT WILL DEFINE THE COURSE OF

TEXTILE AND APPAREL INDUSTRY

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TEXTILE AND APPAREL SECTOR REPORT BY

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Introduction: The Road to 2025

Twelve years into the 21st century and we have seen a time like no other. A myriad of changes in the economical, technological, social and political landscape have made an irreversible impact on how businesses will function globally in the years to come. The rise of China as a Superpower, the 2008 Financial Crisis, Europe's sovereign-debt crisis, slowing down of key global economies, the tremendous growth of digital and web based technology are among the landmark events that have shaped the world.

For the textile and apparel sector, the last 12 years have been no less eventful. The major event that set the ball rolling was the phase out of Multi-Fibre Arrangement (MFA) in 2005. The fate of exporters all over the world was attuned. While Asian countries like China, Bangladesh, Vietnam, India, etc. became the major beneficiaries; countries like Italy, Spain, Mexico, Portugal, etc. faced the brunt of shifting global manufacturing chain. While the initial years were more about Asian countries exporting to the developed markets of USA, EU and Japan; by the end of first decade China and India themselves emerged as major consuming markets propelled by their large population and growing economies.

The present scenario and emerging trends are strongly indicating that by the end of first quarter of this century i.e. 2025, it is not going to be the sector that we know as of now. Changes are happening all across and at a speed never thought possible. We, at Wazir Advisors have taken up the task of crystal ball gazing for the sector into 2025. The idea is to predict the key global level trends with far reaching impact.

The first and foremost trend which emerges is that we believe the **global apparel market will cross the US\$ 2 trillion mark** from the current value of US\$ 1.1 trillion. This means an addition of US\$ 1 trillion in the market which presents a huge business opportunity for sector players. A major share of this market creation is expected to happen in China, India, Brazil and Russia where the growth of per capita spend on apparel will be higher than the growth of each economy.

In contrast, the per capita spend on apparel in USA and Europe will rise at a much slower rate. Today these regions have a large consumption base, but by 2025 we could see the reverse. The second trend expected to materialize is that the **combined size of Chinese & Indian apparel markets will become bigger than that of USA & EU.**

In China, domestic demand will increase exponentially and outpace exports while on the supply side, the output growth will slow down with an increase in manufacturing costs and a shift of focus to the value-added sectors. This will cause China's share in global trade to come down from 40%+ presently to ~35%. This brings us to the third trend that **China's increased focus on domestic supplies will create a global trade gap of US\$ 100 billion.**



Asia has already emerged as the largest manufacturer-supplier hub for textile and apparel products to the world. But now, the region is on the verge of entering into a new phase wherein its own consumption of textile and apparel products is going to become large. The fourth trend which can be visualized is that the **Intra-Asia trade itself will double to US\$ 350 billion** by 2025, making it an attractive market block for exporting nations.

Finally, the fifth trend that emerges is that the **global manufacturing value chain will attract investment worth US\$ 350 billion** to cater to the additional apparel market demand of US\$ 1 trillion by 2025.

The global macro-economic and demographic changes are very clear, and so are their implications for the textile and apparel sector. For Indian manufacturers, specifically it means a great deal – being present at the right location at the right time is vital. On one hand, high domestic consumption is going to throw up significant business opportunities, while on the other hand a slowdown in Chinese exports will provide an opportunity to exporters to fill the void, provided they are able to scale up and match the expectations of the buyers. With this potential, India will emerge as a favoured destination for investment in textile and apparel sectors, both by Indian and international companies.



Trend 1

Global Apparel Market will Cross US\$ 2 Trillion Mark

The current global apparel market is estimated at US\$ 1.1 trillion which forms nearly 1.8% of the world GDP. Almost 75% of this market is concentrated in EU-27, USA, China and Japan. In terms of population, these regions are home to only one-third of the global population, signifying high per capita spend on apparel in these developed markets. The next largest markets are Brazil, India, Russia, Canada and Australia, in descending order. The rest of the world with a population share of ~44% has a miniscule share of <7% in the global apparel market.

Present Scenario

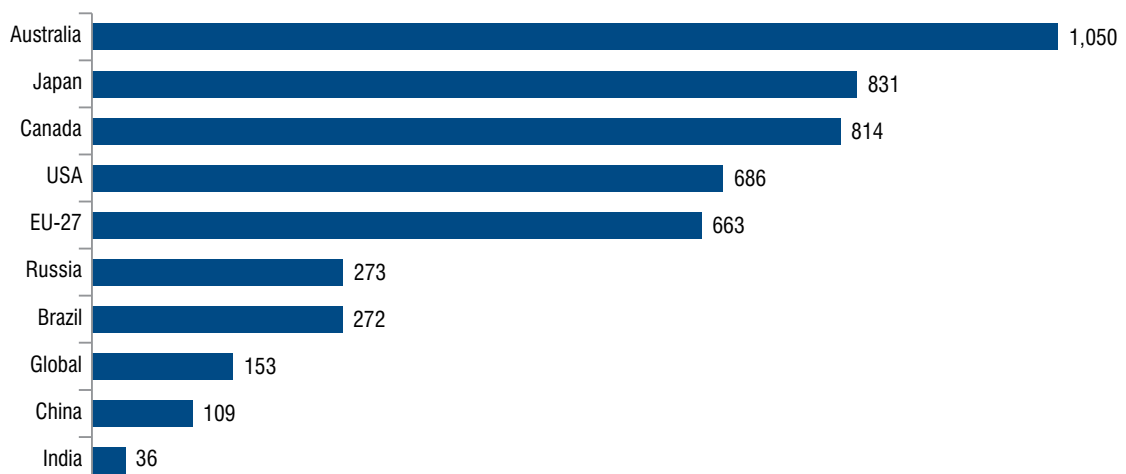
An analysis of “per capita spend on apparel” (PCA) reveals a clear demarcation between the developed and developing economies. The PCA of India is the lowest among these developing markets - only 3% of the highest one viz. Australia. Very often, comparisons are drawn between the markets of China and India; but it is interesting to note that PCA of India is only one-third of that of China. The gigantic population base of China and India has led to their inclusion among the top apparel markets, even ahead of several developed economies.

Table 1
Global Apparel Market Size 2012 (In US\$ bn.)

S. No.	Region	Apparel Market Size
1	EU-27	350
2	United States	225
3	China	150
4	Japan	110
5	Brazil	55
6	India	45
7	Russia	40
8	Canada	30
9	Australia	25
10	Rest of the world	75
Total		1,105

Figure 1

Per Capita Spend on Apparel in 2012 (In US\$)

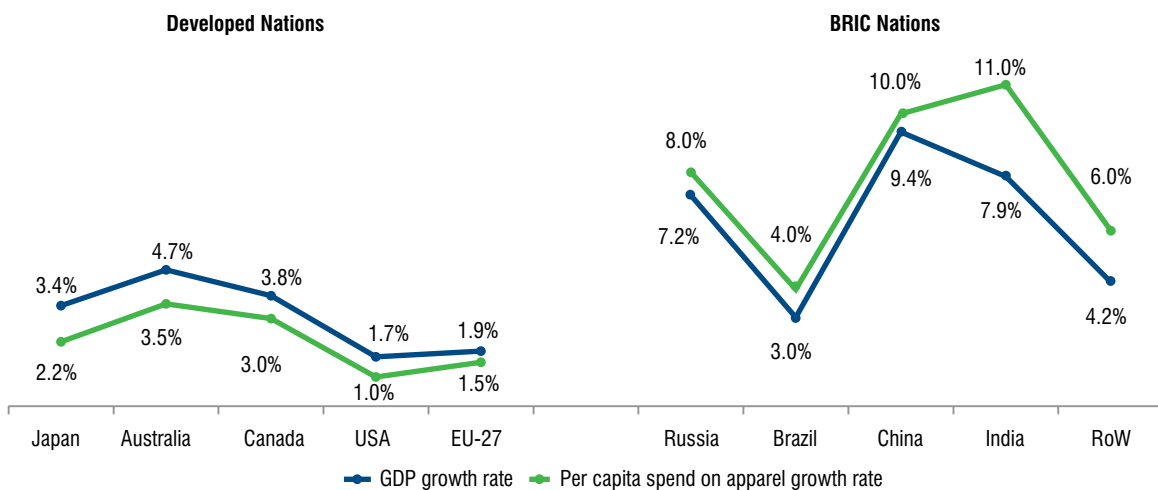


Emerging Trends and Projections for 2025

There is a positive correlation between consumer's spending on various categories and the economic stature of each country. In lesser developed economies, consumer's spending is highest on food followed by clothing, housing and other items. In developed economies, as the consumer's disposable income increases, the share of basic categories such as apparel reduces, whereas the share of new categories like entertainment, recreation, consumer durables, travel, etc. increases. Though in absolute value terms, the spend on clothing will not go down, but the increase will be slower than the overall increase in disposable income.

This consumption behavior in an aggregate form, at country level causes the spend on clothing to initially rise at a faster rate than the economic growth of the country. In developed economies, the growth of PCA slows down or stagnates, while in value terms the spending on apparel continues to grow. In line with this, it is expected that by 2025, the PCA will grow at a faster rate than the economy in Brazil, Russia, India and China; whereas it will be slower or at par with the economic growth in developed markets.

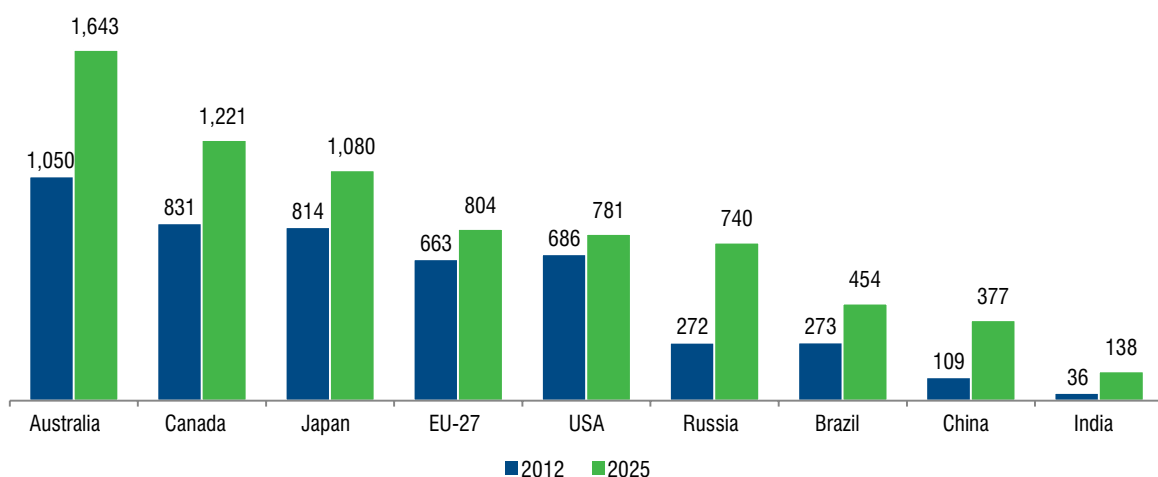
Figure 2 Annualized GDP and PCA Growth Rates in Major Markets from 2012 to 2025



Data Source for GDP projections: Centre d'Etudes Prospectives et d'Informations Internationales (CEPII), France – Baseline database 2050

Despite having the highest expected PCA growth; the actual PCA in India will remain at less than 40% of China and only 8% of Australia (having the highest PCA).

Figure 3 Change in Per Capita Spend on Apparel from 2012 to 2025 (In US\$)



The projected growth in PCA and population will cause the world apparel market to grow at a CAGR of ~5% during 2012 to 2025 to attain a size of ~US\$ 2.1 trillion by 2025.

Table 2

Apparel Market Size Projections from 2012 to 2025 (In US\$ bn.)

Region	2012	2025	CAGR
China	150	540	10%
EU-27	350	440	2%
United States	225	285	2%
India	45	200	12%
Japan	110	150	2%
Brazil	55	100	5%
Russia	40	105	8%
Canada	30	50	4%
Australia	25	45	5%
Rest of the World	75	195	8%
Global	1,105	2,110	5%

Key Takeaways

- The global apparel market will grow from US\$ 1.1 trillion in 2012 to US\$ 2.1 trillion by 2025.
- The growth rate of apparel consumption in developed countries will slow down whereas the emerging economies will drive the market growth; but per capita apparel spend in developed countries will still be far more than that of developing nations.
- China and India will be the fastest growing markets, growing in double digits.
- China will become the biggest consumer market with a mammoth share of ~27% whereas India will also show strong growth.

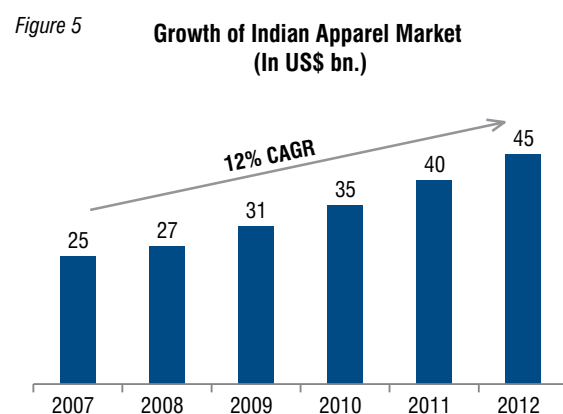
Trend 2

Combined Size of Chinese & Indian Apparel Markets will become Bigger than that of USA & EU

The Chinese and Indian markets with their huge population base and growing economies have received most attention from international companies in recent times. Whilst China has been at the forefront of attracting investments across the sectors, India is also catching up fast. The macro economic projections over the next few years show continuation of growth in both the markets. For textile and apparel manufacturing, China has developed by far the largest textile manufacturing base whilst India is a distant second. On the apparel retail side, China again leads with a significant margin. However, over next few years, the combined apparel retail economy of China and India will represent a significant proportion of the global apparel sector surpassing several traditional developed markets in size.

Present Scenario

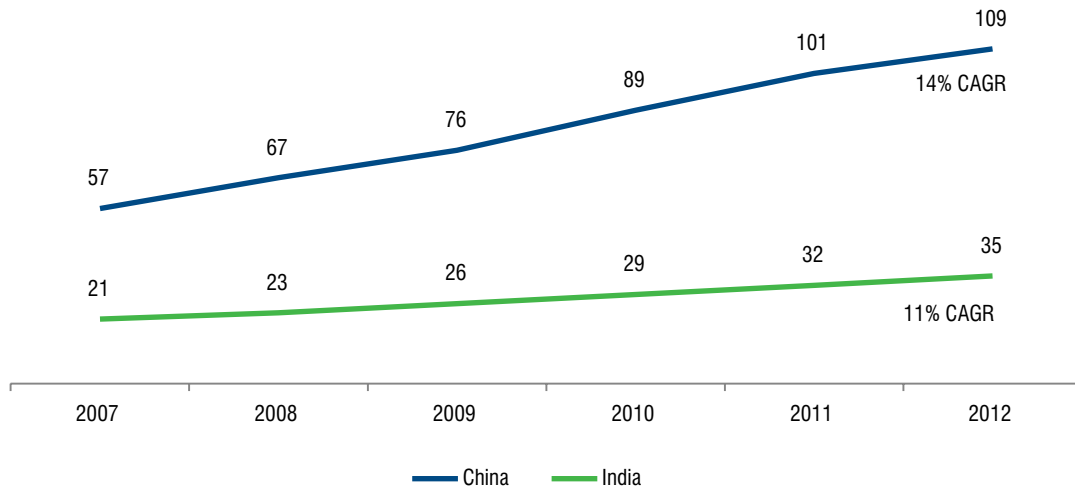
The present apparel market size of China and India are estimated to be US\$ 150 billion and US\$ 45 billion, respectively. Both markets have shown robust growth, despite global uncertainties and slackened demand. From 2007 to 2012, the Chinese market posted an annualized growth of 15% whereas the Indian market registered a somewhat lower growth of 12%. However, both the markets have performed better than the other major consumption regions (US, EU and Japan) where gloomy economic conditions led to lower demand growth, if at all.



The per capita spend on apparel in China is significantly higher than that in India. From 2007 to 2012, the per capita apparel spend in China grew at CAGR of 14% and reached US\$ 109 by 2012. During the same period in India, the growth rate registered was approximately 11% and reached US\$ 35.



Figure 6 Change in per Capita Spend on Apparel by Chinese and Indian Consumers (In US\$)



The Chinese and Indian apparel markets show a major difference in terms of market segmentation into men’s, women’s and kid’s wear. In China, womenswear is the largest category whereas in India it is the menswear. In fact, India is the only major apparel market where womenswear is not the largest category in value terms. The reason behind this anomaly is the fact that womenswear in India is largely dominated by traditional, unbranded dresses which in value terms are lower than menswear products, despite having larger volumes overall.

Figure 7 Chinese Apparel Market Segmentation

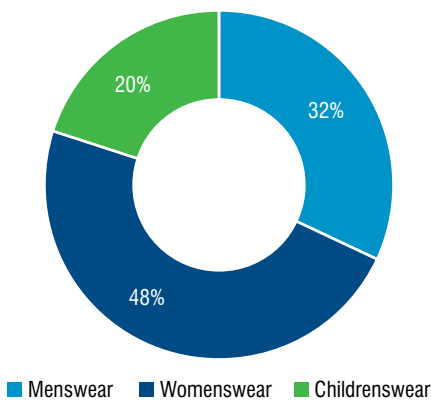
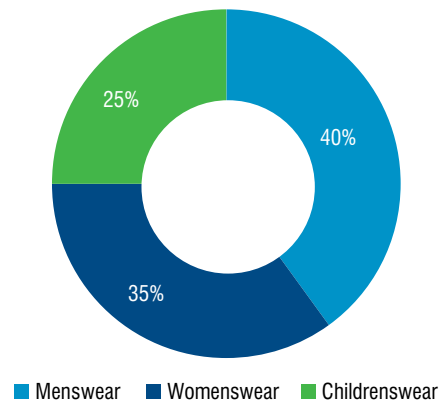


Figure 8 Indian Apparel Market Segmentation



Emerging trends and projections to 2025

The size and segmentation of Chinese and Indian markets are quite dissimilar and this will hold true for the foreseeable future. However, the emerging changes in both markets have a strong coherent undercurrent. The evolution of markets by 2025 in both the countries will be determined by the following key trends:

a. Growth of economy and consumer income will lead to continuous market growth

Both Chinese and Indian economies have been the best performing large economies in the last decade. Over the next 10-15 years, they are expected to maintain high growth rates. The current GDP of China stands in excess of US\$ 7 trillion which is expected to reach approximately US\$ 23 trillion by 2025 (projections by CEPPII, France), registering a CAGR of ~9%. During the same time, Indian economy is expected to grow at a CAGR of 8% to reach a level of US\$ 4.8 trillion by 2025 from US\$ 1.8 trillion in 2012.



Studies show that countries achieving a per capita GDP of more than US\$ 2,500 experience a spur in economic growth led by consumer spending. The Indian economy is expected to reach this target by 2020, whereas China is already well past this level.

Figure 9

China's GDP and GDP per Capita Projections

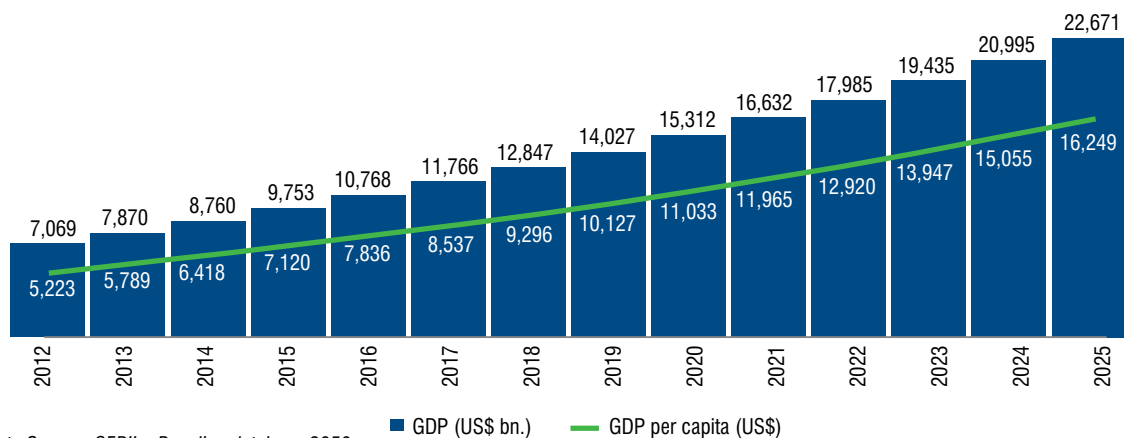
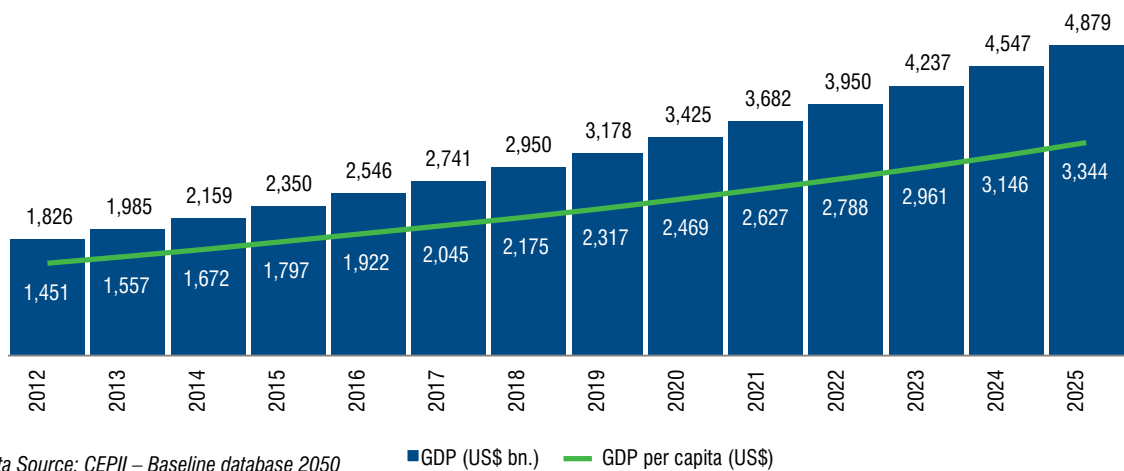


Figure 10

India's GDP and GDP per Capita Projections



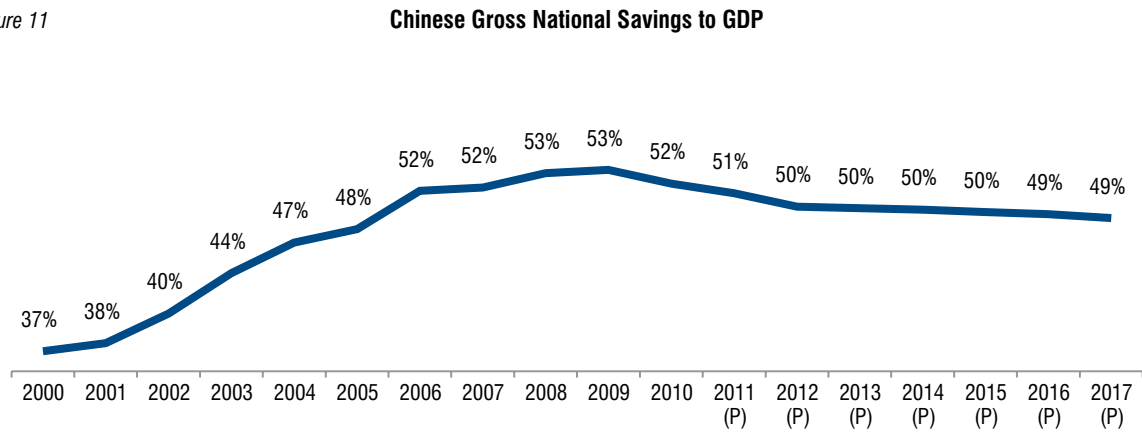
Such high economic growth will be the major driver for an increase in consumer spending on apparel in both countries.

b. Changing consumer preferences

Chinese consumer: More capable and more willing

China has a high national savings rate of more than 50%, which is well above the global average of 20%. This says a lot about Chinese consumer's self-restraint in spending, across categories. The apparel buying behavior of most Chinese consumers has historically been need driven. Impulsive buying unlike other markets is low and value for money is the key selling point for merchandize.

Figure 11



Data Source: World Economic Outlook Database, International Monetary Fund

However, the projections indicate that China is perhaps past the peak savings rate and going forward Chinese consumers will be more experimental and indulging. A recent Hong Kong Trade Development Council (HKTDC) survey revealed that Chinese consumer has already started moving beyond need and discount driven purchase. A large percentage, ~40% of the consumers, reported fashion/ trends to be one of the key motivator for buying clothes.

Figure 12



Data Source: 2012 survey by Hong Kong Trade Development Council (HKTDC)

The main reason behind the expected Chinese consumer's increasing appetite for new apparel is the ever increasing exposure to western lifestyle and increasing affordability, along with the fact that the domestic clothing market is becoming more versatile, fashionable and segmented.

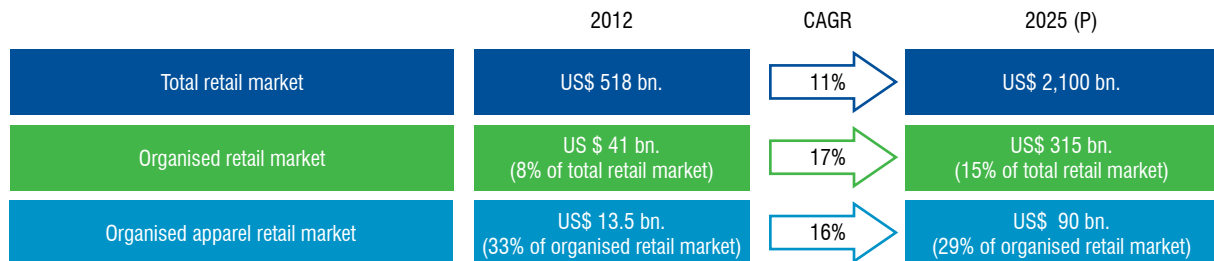
Indian consumer: Shifting to organized retailers and looking for brands

Organized retailing in India currently stands only 8% of the overall retail market of US\$ 518 billion. Within this, apparel is the single largest category with a share of ~ 33%. The vast population base and growing economy has caused global retailers and brands to actively seek Indian market participation, either on their own, or in partnership with a local player. The recent Government decision of allowing up to 51% FDI in multi-brand retail is expected to provide a boost to organized retail in India over the next few years. India's middle class, the biggest consumer class, is also waking up to the concept of large format stores where they have the option to evaluate competing products in all categories and choose value-for-money merchandise. In fact, trips to such stores have become a sort of family outing where the entire family participates in the shopping experience. With the growth in disposable incomes, favourable demographics, changing lifestyles and a high potential for penetration into urban and rural markets; the share of organized retail in India is expected to reach 15% by 2025, within which ~ 29% would be apparel.



Figure 13

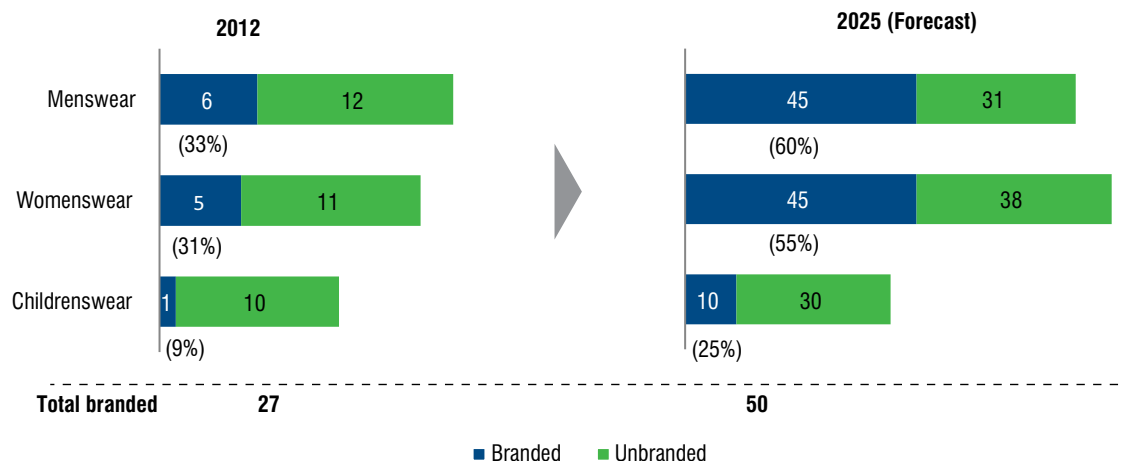
Projected Growth of Organized Apparel Retail Market in India from 2012 to 2025



The apparel brand growth in India is already a success story. The advent of brands in India around a decade ago has captured the fancy of most young and aspiring consumers. After developing a strong network in urban areas, apparel brands are now making inroads to tier II and tier III cities to achieve the next level of growth in India. From a level of ~27% share in total apparel sales today, brands will be seen capturing close to 50% share by 2025.

Figure 14

Projected Growth of Branded Apparel in Indian Market from 2012 to 2025 (In US\$ bn.)



c. Domestic brands will play an important role in market development

Domestic brands dominate the mass market in both China and India. Domestic players generally have more extensive sales channels especially in tier II and tier III cities. In both countries, domestic brands are strengthening their presence and are investing aggressively in opening their Exclusive Brand Outlets (EBOs).

Table 3

Major Domestic Apparel Brands in China and India

Chinese Brand	Stores	2011 Revenue Est. (US\$ mn.)	Indian Brand	Stores	2011 Revenue Est. (US\$ mn.)
Bosideng	~10,000	1,300	Van Heusen (licensed)	~190	160
Youngor	~1,500	770	Louis Philippe	~150	170
Li-Ning	~8,000	1,300	Allen Solly	~150	100
Metersbonwe	~3,700	1,000	Raymond	~650	200+

In China, the penetration of international brands is higher in comparison to India. However, they have focused more on the high end segment. In this segment also, Chinese brands like NE.TIGER and TRANDS are gaining recognition.

d. Online retailing to grow faster and emerge as a profitable business model

At present, online retail constitutes a small share in the overall Chinese and Indian retail market - ~4% in China and 0.2% in India. In comparison, online sales have a share of 12% and 9% of the total retail market in UK and USA, respectively.

Within the online sales, apparel retail accounts for ~7% in China and only 4% in India; while globally this figure is 18% today. Electronics is the major category sold online in both countries but categories like apparel, accessories and shoes are gaining prominence.

Table 4
Major Online Retailers in China and India

Chinese Online Retailer	2011 Revenue Est. (US\$ mn.)	Indian Online Retailer	2011 Revenue Est. (US\$ mn.)
Tmall	15,000	Jabong	150
360Buy	5,000	Myntra	100
Amazon China	960	Yepme	30
Vancl	560	Yebhi	20
Yihaodian	430	Fashion & you	11

With an increase in internet penetration, smart phone users and credit card usage along with online retailers offering deep discounts and developing innovative models to tap rural markets (e.g. cash on delivery), online retailing, specifically for apparel is poised for an unprecedented growth.

Table 5
Projected Chinese Online Apparel Market

In US\$ bn.	2012	2025(P)	CAGR
Apparel market size	150	540	10%
Online apparel sales	9	65	16%
Share of online apparel sales	6%	12%	

Table 6
Projected Indian Online Apparel Market

In US\$ bn.	2012	2025(P)	CAGR
Apparel market size	45	200	12%
Online apparel sales	0.4	8	26%
Share of online apparel sales	1%	4%	

In both countries, the demand for clothing is expected to outpace the overall growth of each economy. As discussed above, it is projected that the per capita spend on apparel in China will rise from the current value of US\$ 109 (2012) to US\$ 377 by 2025 thereby registering a CAGR of 10%. In India the growth will be from US\$ 36 (2012) to US\$ 138 by 2025, with a CAGR of 11%. This in value terms would cause the market size in China to swell from US\$ 150 billion in 2012 to US\$ 540 billion by 2025, whereas India's apparel market size will reach US\$ 200 billion by 2025 from US\$ 45 billion in 2012.

On one hand, these two economies will drive the growth of global apparel consumption and on the other traditional markets of USA and EU will witness slower growth rates on account of market maturity and weaker economic growth. It is expected that by 2025, the cumulative size of Indian and Chinese markets will overtake that of USA and EU.



Table 7

Projected Apparel Market Size of China/India and USA/EU in 2025

Region	2012 market size (US\$ bn.)	Expected growth rate 2012 to 2025	2025 market size (US\$ bn.)
India	45	12%	200
China	150	10%	540
India and China combined	195	11%	740
USA	225	2%	285
EU-27	350	2%	440
USA and EU-27 combined	575	2%	725

Key Takeaways

- China and India are expected to be the major growth centers for apparel consumption by 2025.
- The key trends which will enable this high growth level in both countries are:
 - » High growth of economy and consumer income
 - » Chinese consumer's changing preference to buy more for fashion than replacement purpose and Indian consumer's increasing exposure to organized retail and branded merchandise
 - » Market development supported by expansion of domestic brands, which have the bandwidth and exposure to go deep into the markets
 - » High growth of online retail
- It is expected that the combined apparel market size of China and India will become US\$ 740 billion by 2025 and surpass the combined market size of USA and Europe, which will be US\$ 725 billion in 2025.

Trend 3

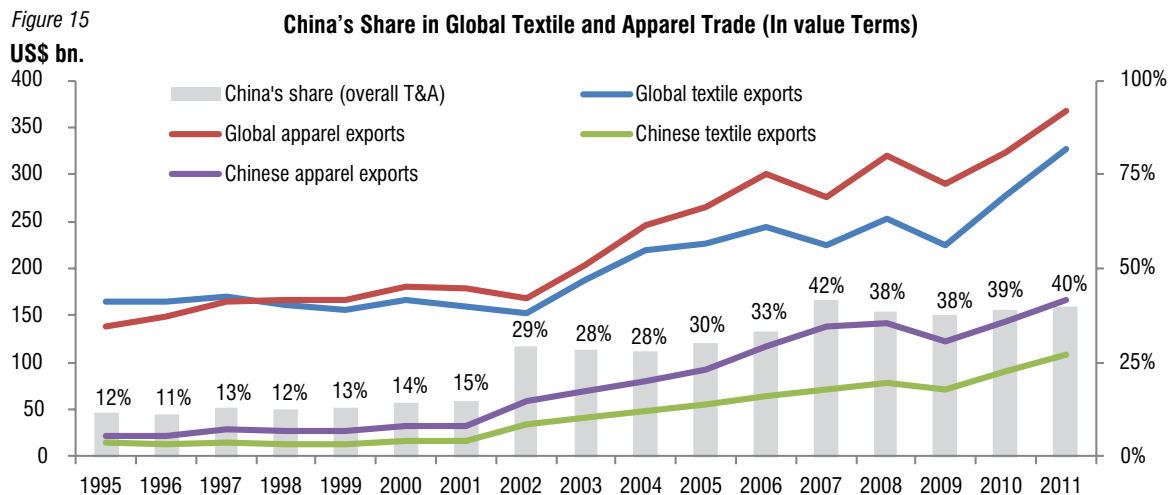
China's Increased Focus on Domestic Supplies will Create a Global Trade Gap of US\$ 100 Billion

China has gained the title of “the world’s factory” with the help of its huge population, cheap labour rates, low manufacturing costs and infrastructure availability for mass production. Higher productivity of workers and commendable Government support are the markers of China’s progress and its emergence as an economically developed society. Focus on mass export has resulted in large investments from within the country as well as FDI in the sector. In textiles and clothing specifically, China has dominated the global trade over the last two decades.

Exports have played an important role in China’s economic success but today, China is starting to turn the corner in becoming an economy where private consumption will replace investment as the major driver of GDP growth and eventually constitute the largest share of GDP. China is at the zenith of its growth cycle where high levels of investment will turn into consumption over time creating significant structural changes in the export oriented sectors, like textile and clothing differing significantly from where it stands today.

Present Scenario

China is the single largest exporter of textiles and clothing in the world with a mammoth 40% share of the global trade, which was around US\$700 billion in 2011 in value terms.



Data Source: UN Comtrade database

The textile and clothing manufacturing infrastructure in China is the largest with almost no peer – India coming at a distant second position.



Table 8

China's Textile and Apparel Sector Key Indicators

Cotton production (2012/13)	7,400 mn. kg
Cotton imports (2012/13)	3,050 mn. kg
Acrylic fiber production capacity (2012)	750 mn. kg
Nylon fiber production capacity (2012)	2,550 mn. kg
Polyester filament production capacity (2012)	28,700 mn. kg
Polyester staple fiber production capacity (2012)	14,400 mn. kg
Installed Spindles (2011 end)	120 mn.
Installed OE rotors (2011 end)	2.5 mn.
Installed Shuttleless looms (2011 end)	650 thousand
Exports of textile items (2011)	US\$ 86 bn.
Exports of woven apparel (2011)	US\$ 74 bn.
Exports of knitted apparel (2011)	US\$ 93 bn.
Exports of home textiles (2011)	US\$ 23 bn.

Data Source: National Cotton Council, PCI, ITMF and UN comtrade

Emerging Trends and Projections for 2025

Demand Side Changes

Domestic demand of apparel in China is slated for a high growth. As discussed above, the per capita spend on apparel in China is expected to grow from US\$ 109 in 2012 to US\$ 377 by 2025; whereas the total apparel market will rise from US\$150 billion in 2012 to US\$ 540 billion in 2025, thereby registering a CAGR of 10% (please refer Figure 3 and Table 2). Such a demand will put pressure on exports and increase imports as well.

Supply Side Changes

a. Shift of focus to innovation driven industry and service sectors

Chinese Government is taking initiatives to reinforce higher productivity and greater income. The main steps taken include increasing minimum wages, further opening financial markets and increasing competition in the economy to help expand private-sector activity for boosting employment and accelerating household-income. These initiatives are targeted towards shifting to advanced industries and service sector. From a GDP split of Industry: Service: Agriculture which stands at 47:44:9 today, it is projected that by 2025 the split will be 46:46:8. By 2030, the service sector will overtake the industry sector.

The rise in manufacturing cost and a natural transition towards becoming a developed economy, China will concentrate on innovation driven industries like Aerospace, Artificial Intelligence, Biotechnology, Information Systems, Photonics, Nanotechnology, Nuclear Physics, Robotics, etc. Basic textiles and apparel industry will no longer be the prime focus of Government as it used to be since the 1990's for enhancing exports and generating employment. This will eventually result in a slower growth of textile and apparel output, to a level of 5-6% from 7% currently.

b. Rise in manufacturing cost

China is no longer a low cost destination as it used to be at the turn of century. China's labour pool is shrinking due to increase in median age and reduced flow of migrant labour from rural areas, exerting upward pressure on wages. The wages across sectors and regions in China have grown in double digits over the last couple of years. For a labour intensive sector like textile and clothing, this can put a brake on the fast growth in manufacturing output recorded historically.

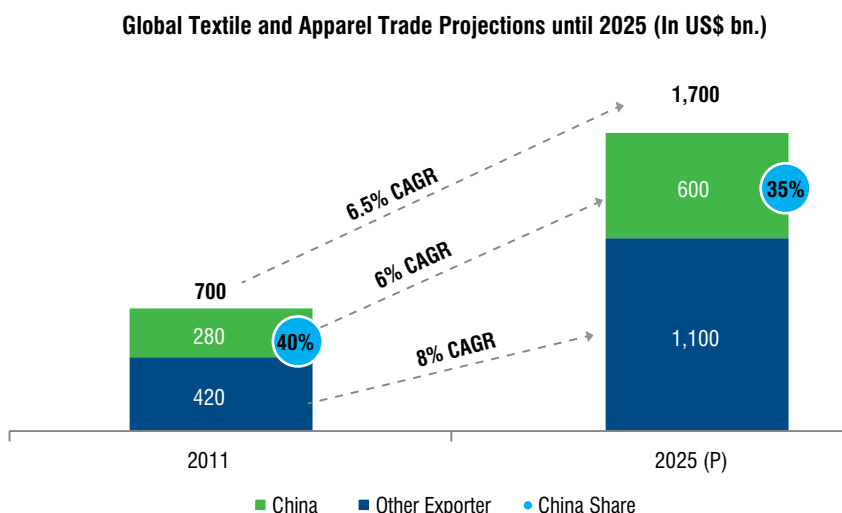
c. Trade agreement with region

China has also entered into several trade agreements with South-east and East Asian countries where manpower costs are lower than that in China. Going forward, China is expected to support investment in overall infrastructure and specifically manufacturing capacities which will ultimately cater to China's own domestic demand for apparel.



Despite all the indicators for a slowdown, it is important to express that China with its vast land-base, plentiful resources, manpower strength and large existing manufacturing set up will continue to be the single largest textile and apparel global manufacturer in the foreseeable future. Exports will only slowdown to the extent that China's domestic market will become increasingly attractive for its local firms.

Figure 16



The share of Chinese exports in global trade is expected to reduce from 40% currently to around 35% by 2025. The global trade in textiles and clothing during this period is expected to grow from around US\$ 700 billion in 2011 to US\$ 1,700 billion by 2025 at a CAGR of 6.5%, whereas Chinese exports will lag behind registering a growth of ~ 6%.

Such a long term slowdown is in contrast to a regime of high growth attained by Chinese exports over the last two decades. This lower-than-market performance will create a vacuum of US\$ ~108 billion by 2025. China's loss of share in global trade will throw up opportunities for other exporting nations like India, Bangladesh, Pakistan, Vietnam, etc. to take up the market share. But, the main issue to be addressed is lack of textile capability and scale outside China.

Key Takeaways

- Chinese textile and apparel exports have dominated the global trade in last decade or so, with a share in the range of ~40% in recent years.
- Apparently, China has attained the maximum share in global trade in recent years which is expected to come down in the next 15 years.
- With economic growth, China's domestic demand will outpace its export demand whereas on the supply side, the growth in output is expected to slow down from 7% to a more consistent 5-6% per annum.
- The vacuum created by slowdown in Chinese exports is estimated to be US\$ 100 billion plus by 2025. China's loss of share in global trade will throw up opportunities for other exporting nations like India, Bangladesh, Pakistan, Vietnam, etc.
- For Indian exporters, it is important to realize the potential and undertake suitable product and infrastructure expansion drives to meet the demands which China may no longer cater to exclusively. As in the case of China, this trend may also encourage FDI in manufacturing by large global manufacturers. Indian companies can also have an opportunity to partner with companies whose preferred entry mode is JVs and M&As.

Trend 4

Intra-Asia Trade will Double to US\$ 350 Billion

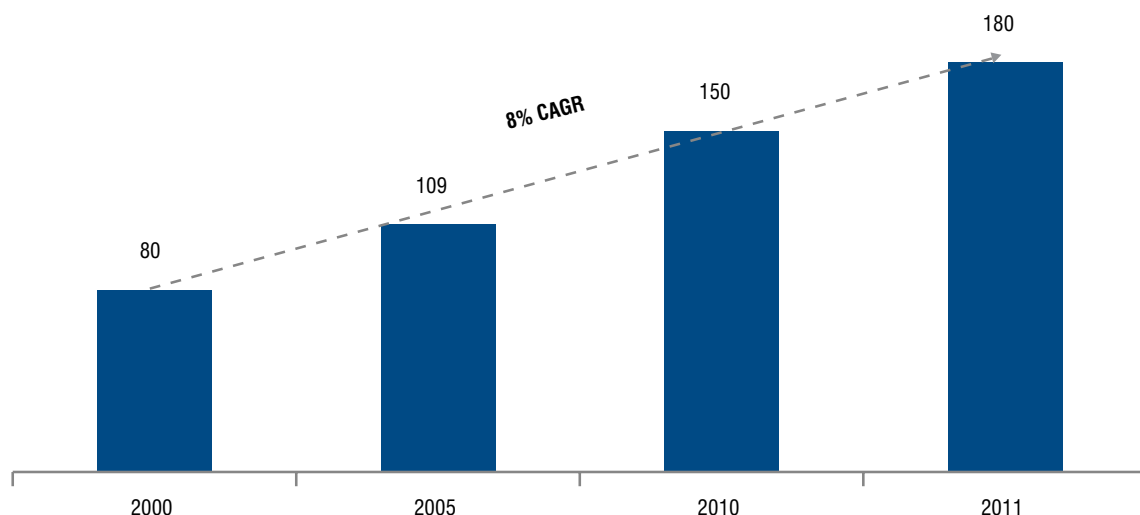
Asia has emerged as the major manufacturer-supplier of textile and apparel products to the developed and developing world. The shift of manufacturing to this part of the globe has been continuous over so many years. The region is on the verge of entering into a new phase wherein its own consumption of textile and apparel products is going to become very large.

Present Scenario

The last decade has seen a significant rise in the intra-Asia trade of textile and apparel products. In the year 2000, it accounted for ~20% of the global exports of textile and apparel whereas by 2011 it has risen to 27%. Currently, the intra-Asia trade stands at a massive US\$ 180 billion, which has grown steadily over the last 10 years with a CAGR of 8%.

Figure 17

Historic Growth of Intra-Asia Textile and Apparel Trade (In US\$ bn.)



Data Source: UN comtrade database

However this trade is skewed towards a handful of countries in East and South Asia. China (along with Hong Kong) dominates this trade with a majority share of ~65%. It is also importing significant quantum of commodities from the rest of Asia. Other major suppliers include India, South Korea and Japan with a share of 7%, 5% and 4% respectively in the overall intra-Asia textile and apparel exports.

Table 9

Intra-Asia Trade of Textile and Apparel (2011 data)

Region	Intra- AsiaTrade	Major Exporters (exports to Asia, in US\$ bn.)	Key Categories
East Asia China, Hong Kong, Japan, Macau, Mongolia, North Korea, Taiwan, South Korea	Exports: US\$ 140 bn. Imports: US\$ 90 bn.	China & HK (118)	All types of fabrics and apparel
		South Korea (9)	Synthetics - woven and knits
		Japan (7)	Specialty fibers and fabrics
		Taiwan (5)	Synthetic fabrics
South Asia Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, Sri Lanka	Exports: US\$ 19 bn. Imports: US\$ 18 bn.	India (12)	Cotton textiles
		Pakistan(4)	Cotton yarn & home textiles
		Bangladesh (2.5)	Garments
South-east Asia Brunei, Burma, Cambodia, East Timor, Indonesia, Laos, Malaysia, Papua New Guinea, Philippines, Singapore, Thailand, Vietnam	Exports: US\$ 13 bn. Imports: US\$ 25 bn.	Indonesia(4.5)	Synthetic & specialty yarn
		Thailand (4)	Synthetic textiles
West Asia Afghanistan, Armenia, Azerbaijan, Bahrain, Georgia, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Oman, Qatar, Saudi Arabia, Syria, Turkey, United Arab Emirates, Yemen	Exports: US\$ 6 bn. Imports: US\$ 30 bn.	Turkey (4)	High end cotton fabrics and garments, carpets
Central Asia: Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan	Exports: US\$ 2 bn. Imports: US\$ 8 bn.		

Emerging Trends and Projections for 2025

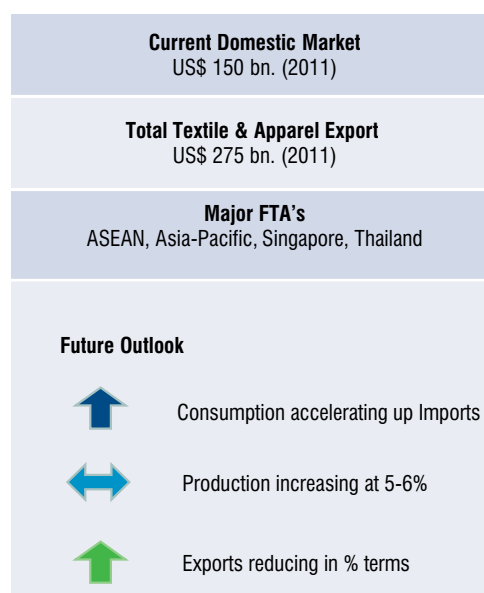
Four of the largest trade partners in Asia will determine the shape of intra-Asia trade by 2025 viz. China, India, South Korea and Japan. These countries have cumulative exports of US\$ 335 billion and cumulative domestic markets of US\$ 335 billion as well.

China

China, as discussed above, has been the largest exporter of textile and apparel products over the last decade or so, occupying a global share of ~40%. The current domestic market in China stands at US\$ 150 billion.

Outlook

Increased focus of China from exports to domestic consumption, as well as the ageing of its working population, will result in lower export growth going forward. At the same time, China will continue to move up the value chain with greater emphasis on R&D and higher value-added sectors. This will give a chance to other manufacturing countries like India to gain export market share provided they can position themselves, in terms of capacity and infrastructure, to meet this opportunity.



India

India is the second largest producer of textile and apparel after China. The current domestic consumption stands at US\$ 45 billion, as against an export basket of US\$ 34 billion.

Outlook

India's domestic consumption will be the major driving force for textiles, backed by strong economic growth prospects and growing per capita income. With high investment in manufacturing and anticipated increase in technology adoption, production is expected to increase significantly to cater to the growing domestic demand and also to the steady rise in exports.

Strong domestic and export market demand and a conducive policy environment will allow the Indian textile and apparel industry to achieve high growth.

South Korea

At present, there are ~6,000 textile and apparel companies in South Korea representing > 10% of the total manufacturing activity. The country's total export in 2011 is estimated at US\$ 16 billion. Its major export market is China which accounts for nearly 25% of its textile and apparel exports.

Outlook



South Korea has been aggressively pursuing free trade agreements so as to strengthen international cooperation and increase the exports. However, increasing manufacturing costs have caused manufacturers to look for alternative international destinations mainly in South-East Asia.



Japan



Japan has a huge domestic apparel market which currently stands at US\$ 110 billion and total exports stands at US\$ 10 billion. Exports to Asia accounts for nearly 70% of the total exports, of which China alone accounts for more than 60% of exports.

Outlook

Slow economic growth, high manufacturing cost and an ageing population is expected to negatively impact the production. Consumption and net trade is expected to remain unchanged owing to these weak fundamental factors.

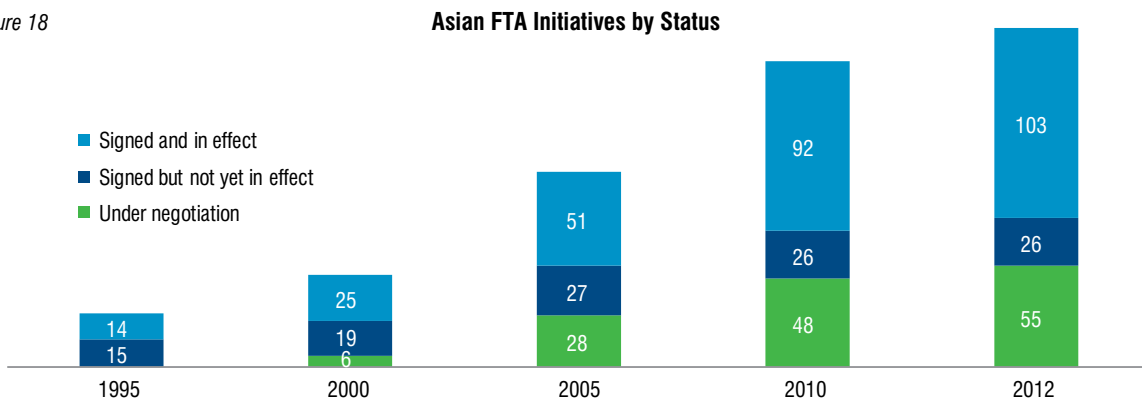
Current Domestic Market US\$ 45 bn. (2011-12)
Total Textile & Apparel Export US\$ 34 bn. (2011-12)
Major FTA's ASEAN, SAFTA, Korea, Singapore, Japan
Future Outlook
 Production accelerating beyond 2016 Consumption accelerating beyond 2016 Exports accelerating beyond 2016
 Imports steady but lower in % terms

Current Domestic Market US\$ 30 bn. (2011)
Total Textile & Apparel Export US\$ 16 bn. (2011)
Major FTA's ASEAN, EFTA, Chile, Singapore and India
Future Outlook
 Production and exports could rise
 Consumption Imports less from China

Current Domestic Market US\$ 110 bn. (2011)
Total Textile & Apparel Export US\$ 10 bn. (2011)
Major FTA's ASEAN, India, Indonesia, Thailand, Vietnam
Future Outlook
 Consumption and Exports all flat Imports steady state
 Production less in volume, but higher value added output

Another important influence for trade over the next few years will be the trade agreements between Asian countries. India and China, the major emerging Asian powerhouses, have either signed or are contemplating trade agreements with exporting countries like Bangladesh, Vietnam, Cambodia, Myanmar, Sri Lanka, etc. All other Asian countries are also covered under at least one FTA. Apparel and textiles are among the beneficiary segments in almost all such agreements. This will help in increasing intra-Asia trade (and investment) by creation of a larger regional supply chain and market base.

Figure 18



Data Source: Asia Regional Integration Center, data as of Sept. 2012

Major Projected Intra-Asia Trade Routes by 2025

China

China will remain the largest supplier of textile and apparel products to countries like Japan, Hong Kong, South Korea, India and Bangladesh.

At present, China's trade to Japan is US\$ 28 billion. However, as Japan's domestic market is slowing down and also due to strained political relations between the two countries, it is estimated that at the best the trade will stagnate.

The trade between China & Hong Kong currently stands at US\$ 24 billion. Regional trade usually accounts for 8% to 10% of China's total trade which is expected to reduce over time.

The trade between South Korea and China is expected to increase with the finalization of a free trade agreement between the two countries. High growth momentum will be maintained between India and China as Indian domestic demand will grow for products like coated fabrics, synthetic textiles and technical textiles from China. Also, Bangladesh's garment industry will require continued support of imports of textiles from China.

Supplier	Market	Present scenario	Projected scenario
China & HK	Japan	US\$ 28 bn. 8%	~US\$ 30 bn. 0%
China & HK	China & HK (internal)	US\$ 24 bn. -2%	~US\$ 35 bn. 3%
China & HK	S. Korea	US\$ 7 bn. 5%	~US\$ 15 bn. 6%
China & HK	India	US\$ 4 bn. 19%	~US\$ 18 bn. 12%
China & HK	Bangladesh	US\$ 4 bn. 4%	~US\$ 18 bn. 12%
China & HK	Others	US\$ 52 bn. 5%	~US\$ 90 bn. 4%

Legend: Trade in 2011 (light blue), CAGR: 2007 to 2011 (green), Trade in 2025 (grey), CAGR to 2025 (orange)

India

As China will increase its focus on value added products, India will emerge as a major supplier of basic textile and apparel products. Fibres and yarns will again remain a large trade category.

Indian trade with Bangladesh will continue its growth to cater to the fibre and textile demand of Bangladesh's garment industry. Investment by Indian garment players will further increase fabric exports to Bangladesh.

Supplier	Market	Present scenario	Projected scenario
India	China	US\$ 3 bn. 32%	~US\$ 15 bn. 12%
India	Bangladesh	US\$ 1 bn. 34%	~US\$ 7 bn. 15%
India	Others	US\$ 8 bn. 13%	~US\$ 21 bn. 7%

Legend: Trade in 2011 (light blue), CAGR: 2007 to 2011 (green), Trade in 2025 (grey), CAGR to 2025 (orange)

Others

Japan’s output of textiles will reduce because of increasing costs. Taiwan will become another manufacturing base to cater to growing Chinese market. Investment by China in Taiwan and FTA will help grow the trade.

Bangladesh, South Korea, other South-east Asian countries, including Myanmar will improve their intra-Asia trade, mainly to and from China.

Other large Asian exporters - Turkey and Pakistan will continue to focus on their traditional buyers such as EU and USA, respectively; while their share in Asian trade will also grow.

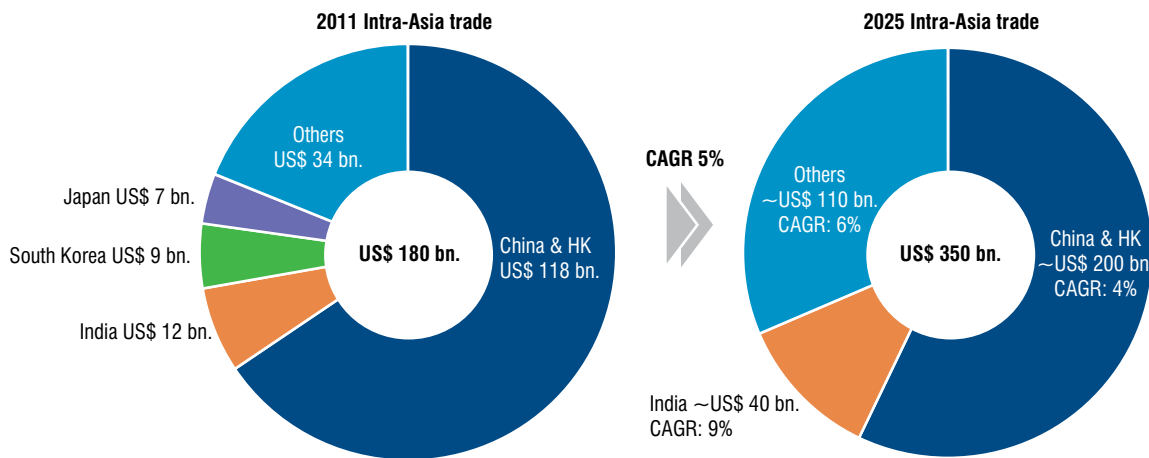
At an overall level, the intra-Asia trade of textile and apparel products is expected to grow from US\$ 180 billion in 2011 to US\$ 350 billion by 2025 registering a CAGR of 5%. China will remain the biggest exporter, however its share will come down from ~66% to ~55% and other exporting countries like India will get an opportunity to gain export market share.

Supplier	Market	Present scenario	Projected scenario
Japan	China	US\$ 4 bn. 7%	~US\$ 8 bn. 5%
Taiwan	China	US\$ 4 bn. 5%	~US\$ 12 bn. 8%

■ Trade in 2011 ■ CAGR: 2007 to 2011 ■ Trade in 2025 ■ CAGR to 2025

Figure 19

Projected Intra-Asia Textile and Apparel Trade by 2025



Key Takeaways

- The total Intra-Asia trade of textile and apparel will grow from US\$ 180 billion in 2011 to ~US\$ 350 billion by 2025.
- China will remain the biggest exporter, but with a rising cost base and an increased focus on domestic consumption, other exporting countries like India will get an opportunity to gain export market share.
- By 2025, Indian textile and apparel Intra-Asia exports will be ~3.5 times the current value of US\$ 12 billion.

Trend 5

Global Textile and Apparel Manufacturing Value Chain will Attract Investment Worth US\$ 350 Billion

The manufacturing value chain from yarn spinning up to garment manufacturing operation is a capital-intensive affair. In the very first stage i.e. yarn spinning, the investment to turnover ratio is almost 1:1 which improves at the fabric stage (weaving/knitting and processing) to become ~1:1.5 and finally at the garment stage becomes 1:4. To generate a Value of Production (VoP) of US\$ 100 million at garment stage, an investment of ~ US\$ 85 million is required for production of equivalent volumes of yarn, fabric and garments. This investment covers all capital expenditure including – land, building, machinery, miscellaneous fixed assets, etc. In order to cater to the increase in global apparel demand by 2025, significant investment will be required for new capacity addition. Industry will also need to allow for the replacement /modernization of the existing machinery.

Present Scenario

The textile sector has attracted significant investment in recent years. The machinery shipment data for the year 2011 indicates a major upswing since the lows of 2008 and 2009. The marked improvement in investments is on account of a gradual revival in economy, demand increase from developed countries since the 2008-09 financial crisis and an apparent strong demand from many emerging countries.

Table 10

Global Textile Machinery Shipments

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Spindles (mn.)	3.5	8.2	10.5	9.9	11.7	12.8	8.6	7.1	12.5	14.3
OE rotors ('000s)	363	348	415	374	352	576	196	145	451	572
Texturing spindles ('000s)	150	232	406	315	231	254	168	251	582	828
Shuttleless looms ('000s)	71	63	64	54	67	68	45	43	107	154
Waterjet looms ('000s)	18	15	19	9	14	17	12	12	73	113
Circular knits ('000s)	9	10	23	31	28	27	21	25	34	29
Electronic flat knit ('000s)	10	9	12	11	14	22	20	18	51	70
Knits processing										
Washing	-	-	-	-	-	-	12	12	20	8
Stenter	-	-	-	-	-	-	50	52	78	68
Woven processing										
Mercerizer	-	-	-	-	-	-	16	10	18	24
Washing	-	-	-	-	-	-	35	20	18	30
Dyeing	-	-	-	-	-	-	16	14	14	14
Stenter	-	-	-	-	-	-	90	115	80	62
Bleaching	-	-	-	-	-	-	20	10	15	24
Sanforizer	-	-	-	-	-	-	10	9	9	8

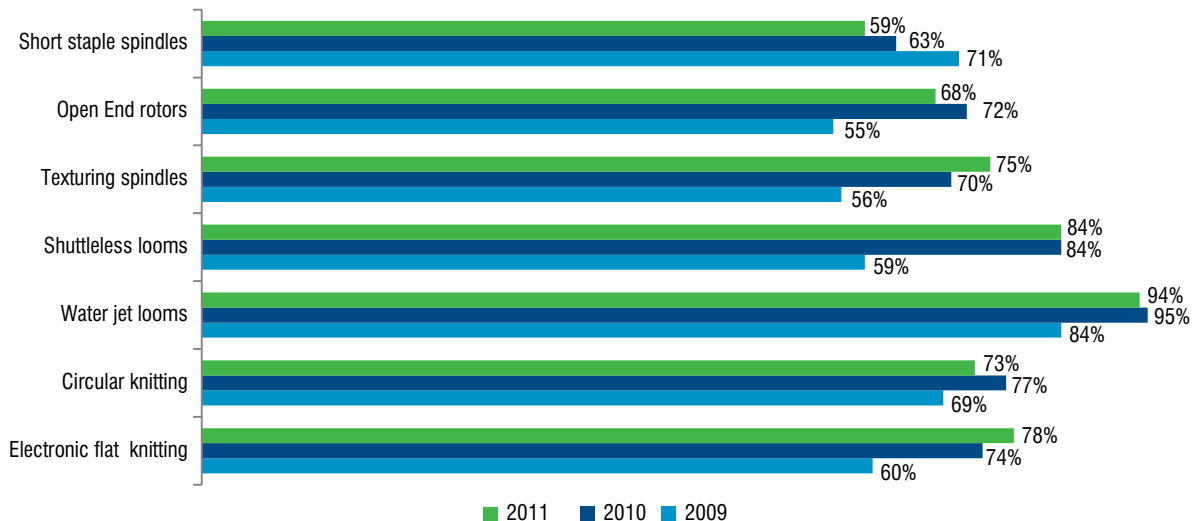
Data Source: ITMF



An analysis of the data reveals that almost 70 to 75% shipment of each type of machines has been to China. No other country is even close to developing the kind of manufacturing set up which has been established by China over the last 15 years.

Figure 20

Share of Textile Machinery Shipments to China

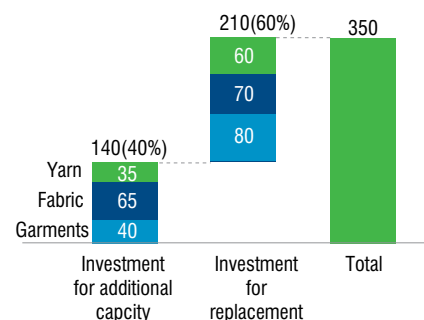


Data Source: ITMF

Emerging Trends and Projections for 2025

The additional global apparel demand by 2025 is projected to be US\$ 1 trillion, moving as discussed above from a market size of US\$ 1.1 trillion in 2012 to US\$ 2.1 trillion in 2025. This growth will be on account of an increase in both value (price) and volume. It is estimated that the long term global price inflation at retail level will grow by 3% annually whereas the balance of market growth will be on account of additional consumption. This implies that additional manufacturing capacity will be required to cater to a market demand of ~ US\$ 410 billion (retail level). Moving backwards in the value chain, this number converts to ~ US\$ 165 billion of VoP at garment level from 2012 to 2025. Going by the analogy mentioned earlier, an investment of ~ US\$ 142 billion will be required to create the entire manufacturing infrastructure – from yarn to garments.

Figure 21 Projected Investments in Global Textile and Apparel Sector -2012 to 2025 (In US\$ bn.)



On the other hand, the existing manufacturing infrastructure (as well as that being added annually) will be required to be replaced/upgraded gradually. The estimation of such an investment is possible considering the average age of machinery in each sector and the level of replacement/upgradation compliance actually being followed by the industry. This works out to be ~ US\$ 210 billion in the 13 year period between 2012 and 2025. Hence, the total investment required till 2025 in the global textile and apparel manufacturing sector is estimated at US\$ 350 billion.

Key Takeaways

- An investment of ~ US\$ 350 billion will be required in the global textile and apparel manufacturing value chain to cater to the additional apparel market demand of ~ US\$ 1 trillion by 2025.
- This level of investment will be required to create additional capacities (share of investment - 40%) as well as for replacement/upgradation of the machinery (share of investment - 60%).

Implications of these Trends on Indian Companies

Market growth

By 2025, the Indian domestic apparel consumption is expected to touch US\$ 200 billion, surpassing that of several large consumers like Japan, Brazil and Russia. The market in 2025 will be more than 4 times of its 2012 value of US\$ 45 billion, adding US\$ 155 billion in process making it one of the most attractive destinations for brands and retailers. This attractiveness will bring major changes in the manufacturing and retail landscape in India:

- For international brands and retailers, India will become a high priority market. With slower growth in their home countries, retailers looking to expand globally will vie for share in Indian market.
- The market opportunity will enable emergence of strong domestic brands which will stand a chance to benefit from their indigenous supply chains and understanding of local trade dynamics.
- In order to increase their market share, retailers and brands will have to focus beyond Tier I Indian cities - to smaller cities and towns where larger proportion of India's population exists. The price sensitivity of this population will cause brands and retailers to develop low cost business models in which e-commerce will play a major role.
- On the manufacturing side, focus on domestic market over the next decade can bring unparalleled growth, provided the business model of manufacturers is geared to tap the opportunities which will appear in various market segments. The key will be to develop a supply chain which can cater to international as well as emerging Indian buyers.
- Manufacturers will be required to enhance their customer focus through value added services, which may include inventory management, product development and IT enabled tracking.
- As the brands and retailers will grow large within the country, they will look for manufacturers with economies of scale who can cater to large orders timely. Strategic tie-ups between such manufacturers and buyers will happen which will enhance stability and efficiency in the overall sector.

Trade growth

The trend that China's share in global exports will reduce over the next few years will provide an opportunity for Indian exporters to take up the available share. They need to be ready to undertake suitable investments for product and infrastructure expansion to meet the demand which China may no longer cater exclusively.

In order to capture the opportunity provided by the rise of Asia as a strong trade bloc for textile and apparel exports, it will be important for Indian textile exporters to have business tie-ups in countries like Bangladesh, Vietnam, Myanmar, etc. On one hand these countries will be attractive export destinations for Indian fibre manufacturers, spinners and fabric manufacturers as their import values will rise significantly over time. Whereas on the other hand, they will also be good investment destinations for Indian companies to take advantage of lower manufacturing costs. From such countries Indian players will not only get preferential access to large markets, but FTAs with India will enable them to cater Indian markets as well.

Investment growth

India's emergence as a credible alternate to China for manufacturing and exports will enhance inflow of FDI into India by large global manufacturers. Indian companies will thus be provided with an opportunity to partner with international companies preferring partnerships as the entry mode. Till date European and US based companies have been the major international investors in Indian textile and apparel sector. In near future, the sector is expected to attract investments from Chinese companies as well, to tap India's domestic market and export potential.

Since the Indian production (for domestic and exports) is poised for a growth faster than the global average; a significant share of this investment will happen in India. The opportunity will be across the value chain and in multiple product segments. This would also translate into major business opportunity for machinery suppliers and supporting businesses (chemicals, consumables, logistics, etc.).

Continuous investments will result in improvement of operational efficiencies thereby enhancing the profitability level. On a macro level this will create a positive sentiment in the overall industry boosting the sector image.



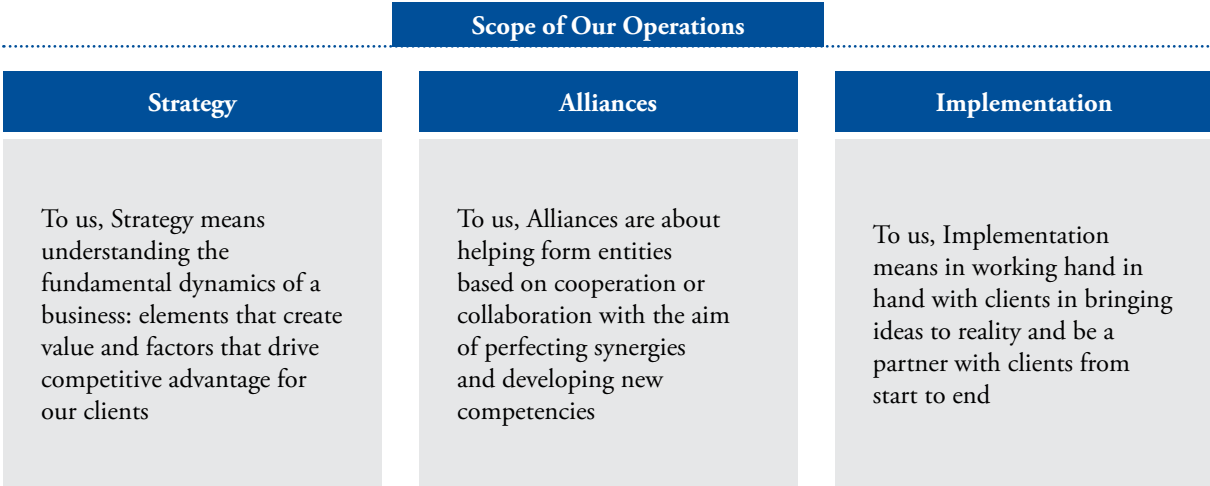
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Wazir Advisors is a management consulting firm which advises Indian and International companies on business strategies, mergers and acquisitions, joint ventures, funding and investments. Wazir advises clients which offer products or services in consumer-focused sectors –Textile and Apparel, Retail, Food, FMCG, Consumer Durables, Media & Entertainment, Healthcare and Education.

Having worked with various national and international stakeholders –private players, investor groups, public sector organizations, government & development bodies; Wazir has a good understanding of business dynamics in its sectors of expertise.

Wazir supports its clients to compete in consumer markets through a multi-channel approach and enables them to take the right decisions – from strategy, to implementation, to value delivery.

With a team of experienced professionals, Wazir offers a comprehensive range of services to its clients to create, compete and develop their businesses in exciting and challenging markets. Wazir’s team comprises engineers, MBAs, financial experts and economists from reputed institutes who have worked across industries.



Wazir also has an Africa based subsidiary – Wazir Africa, which has done a number of assignments in African continent. Apart from this, Wazir has high-placed partners in key global regions of US, Europe, Japan and Turkey for facilitating cross-border businesses. This helps in responding to business requirements and challenges immediately and cost-effectively.



Wazir's service offerings:

Wazir offers to develop practical business strategies along with its clients to help them grow profitably and sustainably, and help implement these through organic and inorganic means, through partnerships and alliances, and also assist in funding it from value adding sources. Our services include:

Strategic Advisory Services

- Corporate strategy
- Business performance enhancement strategy
- Market entry strategy
- Marketing and distribution strategy
- Sector growth strategy

Market Research

- Consumer surveys
- Trade research
- Market intelligence
- Customer feedback & relationship management

Implementation Assistance

- Apparel factory re-engineering
- Productivity improvement for apparel factories
- Cluster and textile parks development
- Supply chain optimization
- Training for operators, supervisors and middle management

Support for Investments

- Cross border investments
- Company due-diligence
- Location analysis
- Partner search - M&A and JV, other forms of business partnerships
- Feasibility studies and bankable Detailed Project Report (DPR) preparation

Policy Support for Govt. and Development Bodies

- Policy formulation
- Policy evaluation
- Establishment of industry support centers

Thought Leadership

- Knowledge partner in conferences organized by government and trade bodies

Wazir's International Partners

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Access International Capital (AIC) is a cross-border strategic transaction advisory group formed in 1998, with presence in USA, EU, Far East and South Asia. AIC's global team of strategic thinkers, country specialists and industry experts create Strategic Cross-Border Transactions through deep understanding of industry verticals.

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Care Consulting is a Turkey based strategic and operational consulting firm founded by Yakup Gungor in 2007. Its services include strategic and structural consultancy, operational consultancy, supply supports, strategic partnerships, critical personnel search, creating market potential and investment support.

Infinity Creations - Japan

Infinity Creations was established in Japan in 1982 by Indian entrepreneur, Atul Parekh and one of Japan's creative designers, Kazuo Ogawa. Infinity Creations has expertise in gems & jewellery and fashion segments with connects at highest level in these industries.

PCI Xylenes & Polyesters Ltd - US, Europe, Far East Countries, South East Countries

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