

Regional Supply Chain Remains a Key Feature of World Textile and Apparel Trade¹

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While textile and apparel is well-known as a global sector, the latest statistics show that world textile and apparel trade patterns remain largely regional-based. As detailed in this article, the newest development of the regional textile and apparel supply chains is closely associated with fashion brands and retailers' shifting sourcing strategies and influenced by related free trade agreements.

Table 1 Regional Textile and Apparel Trade Patterns (2000-2019)

	2000	2005	2010	2015	2017	2018	2019
Textile exports							
Asia to Asia	54.0%	48.1%	45.9%	49.0%	51.2%	51.5%	56.4%
EU27 to EU27	72.0%	70.8%	69.3%	68.8%	69.0%	68.7%	68.6%
WH to WH	79.6%	82.2%	79.6%	80.8%	80.4%	80.3%	79.0%
Textile imports							
Asia from Asia	69.6%	73.2%	77.3%	80.7%	80.5%	81.3%	85.0%
EU27 from EU27	68.3%	66.4%	58.0%	55.2%	54.9%	54.6%	54.6%
WH from WH	46.6%	38.6%	30.2%	26.2%	25.3%	23.1%	22.0%
Apparel exports							
Asia to Asia	32.3%	26.8%	22.6%	24.3%	25.9%	27.2%	25.5%
EU27 to EU27	76.9%	77.6%	76.7%	74.8%	75.7%	75.7%	75.1%
WH to WH	93.6%	92.3%	87.3%	87.2%	89.3%	87.7%	86.1%
Apparel imports							
Asia from Asia	90.7%	90.9%	89.4%	86.4%	85.5%	84.2%	86.4%
EU27 from EU27	43.6%	39.5%	32.0%	32.5%	33.4%	33.3%	37.4%
WH from WH	35.8%	25.8%	16.7%	15.3%	15.9%	15.7%	15.5%

Data source: UNComtrade (2021); Note: "WH" refers to Western Hemisphere, which includes countries in North, Central, and South America.

In general, three primary textile and apparel regional supply chains are operating in the world today:

Asia: within this regional supply chain, more economically advanced Asian countries (such as Japan, South Korea, and China) supply textile raw material to the less economically developed countries in the region (such as Vietnam, Bangladesh, and Cambodia). Based on relatively lower wages, the less developed countries typically undertake the most labor-intensive processes of apparel manufacturing and then export finished apparel to leading consumer markets worldwide, which include the United States and Western Europe.

Europe: within this regional supply chain, developed countries in Southern and Western Europe such as Italy, France, and Germany, serve as the primary textile suppliers. Regarding apparel manufacturing in

¹ Lu, Sheng. (2021). Regional supply chains still shape textile and apparel trade. *Just-Style*. https://www.just-style.com/analysis/regional-supply-chains-still-shape-textile-and-apparel-trade_id140572.aspx

the EU, products for the mass markets are typically produced by developing countries in Southern and Eastern Europe such as Poland and Romania. In contrast, high-end luxury products are mostly produced by Southern and Western European countries such as Italy and France. Furthermore, a high portion of finished apparel is shipped to developed EU members such as Germany, France, and Italy for consumption. Notably, despite Brexit, the UK remains a critical player in this EU regional textile and apparel supply chain.

Western-Hemisphere (WH): within this regional supply chain, the United States serves as the leading textile supplier, whereas developing countries in North, Central, and South America (such as Mexico and countries in the Caribbean region) assemble imported textiles from the United States or elsewhere into apparel. The majority of clothing produced in the area is eventually exported to the United States or Canada.

While these three primary regional textile and apparel supply chains share many features, they also face unique opportunities and challenges. Notably, three particular regional textile and apparel trade flows are critical to watch:

First, Asian countries are increasingly sourcing textile raw material from within the region. As shown in Table 1, as much as 85% of Asian countries' textile imports came from other Asian countries in 2019, a substantial increase from only 70% in the 2000s. **This result reflects the formation of an ever more integrated regional textile and apparel supply chain in Asia.** However, as Asian countries become more economically integrated, textile and apparel producers in other parts of the world could find it more challenging to get involved in the region. Notably, with the recent reaching of several mega free trade agreements among countries in the Asia-Pacific region, such as the Regional Comprehensive Economic Partnership (RCEP), the pattern of "Made in Asia for Asia" is likely to strengthen further.

Second, the EU intra-region trade pattern for textile and apparel stays relatively strong and stable.

Intra-region trade refers to trade flows between EU members. Table 1 shows that 54.6% of EU(27) members' textile imports and 37.4% of their apparel imports came from within the EU(27) region in 2019. This pattern only slightly changed over the past decade. In other words, despite the reported increasing competition from Asian suppliers, many of which even enjoy duty-free market access to the EU market (such as through the EU Everything But Arms program), a substantial share of apparel sold in the EU markets are still locally made.

EU consumers' preferences for "slow fashion" (i.e., purchasing less but for more durable products with higher quality) may contribute to the stable EU intra-region trade pattern. Many EU consumers also see textile and apparel as cultural products and do NOT shop simply for the price. This explains why Western EU countries such as Italy, Germany, and France rank the top apparel producers and exporters in the EU region despite their high wage and production costs.

Meanwhile, as another component of the regional supply chain, 69% of EU (27) members' textile exports and 75% of their apparel exports also went to other EU countries in 2019. This result implies that keeping a competitive edge in the local EU market will remain the top business priority for most EU textile and apparel manufacturers.

Third, the Western Hemisphere (WH) supply chain faces significant challenges despite the seemingly growing popularity of "near-sourcing." On the one hand, textile and apparel exporters in the Western-

Hemisphere still rely heavily on the regional market. In 2019, respectively, as much as 79% of textiles and 86% of apparel exports from countries in the Western Hemisphere went to the same region.

However, on the other hand, **the Western-Hemisphere supply chain is facing increasing competition from Asian suppliers.** For example, in 2019, only 22% of North, South, and Central American countries' textile imports and 15% of their apparel imports came from within the Western Hemisphere, a new record low in ten years. Similarly, in the first eleven months of 2020, only 15.7% of US apparel imports came from the Western Hemisphere, down from 17.1% in 2019 before the pandemic. The limited local textile production capacity and the high production cost are the two notable factors that discourage US fashion brands and retailers from committing to more "near-sourcing" from the Western Hemisphere

In comparison, Asian countries supplied a new record high of 62.2% of textiles and 75% apparel to countries in the Western Hemisphere in 2019, up from 49.1% and 71.1% ten years ago. **This trend suggests that as the competitiveness of "Factory Asia" continues to improve, even regional trade agreements (such as USMCA and CAFTA-DR) and their restrictive "yarn-forward" rules of origin have limits to protect the Western Hemisphere supply chain.**

Looking into the future, the reaching and implementation of several new free trade agreements and the COVID impacts will continue to shape the regional textile and apparel trade patterns.

- In Asia, **the reaching of RCEP is likely to accelerate the negotiation of other regional trade deals that involve vital players**, such as the China-South Korea-Japan Free Trade Agreement. These new programs could promote the regional supply chain integration further, should they offer additional preferential duty benefits and unify the rules of origin of existing Asia-based trade agreements.
- After **Brexit**, the United Kingdom (UK) may seek to reduce its "EU exposure" and deepen the trade ties with non-EU countries, such as the United States. As an interesting move, the UK also recently expressed its interest in joining the Comprehensive Progressive Agreement of the Trans-Pacific Partnership (CPTPP). However, EU members currently serve as the largest source of imports and the top export market for many UK-based textile and apparel companies. **Whether Brexit will help the UK textile and apparel companies diversify their supply chains will be interesting to watch.**
- In **Western Hemisphere**, many say that the reaching of RCEP creates new pressure for the new Biden administration to consider joining the CPTPP and strengthening economic ties with countries in the Asia-Pacific region. Notably, several USMCA and CAFTA-DR members, such as Mexico, also have RCEP or CPTPP membership. **Apparel producers in these Western Hemisphere countries may find it more rewarding to access the cheaper textile raw material from Asia through CPTPP or RCEP rather than claiming the duty-saving benefits for finished garments under USMCA or CAFTA-DR.** Like it or not, the Biden administration's inaction will also have consequences.