

Seminar

Potential Textile and Clothing Exports
from CLMV to Japan

February 13, 2020
Phnom Penh, Cambodia

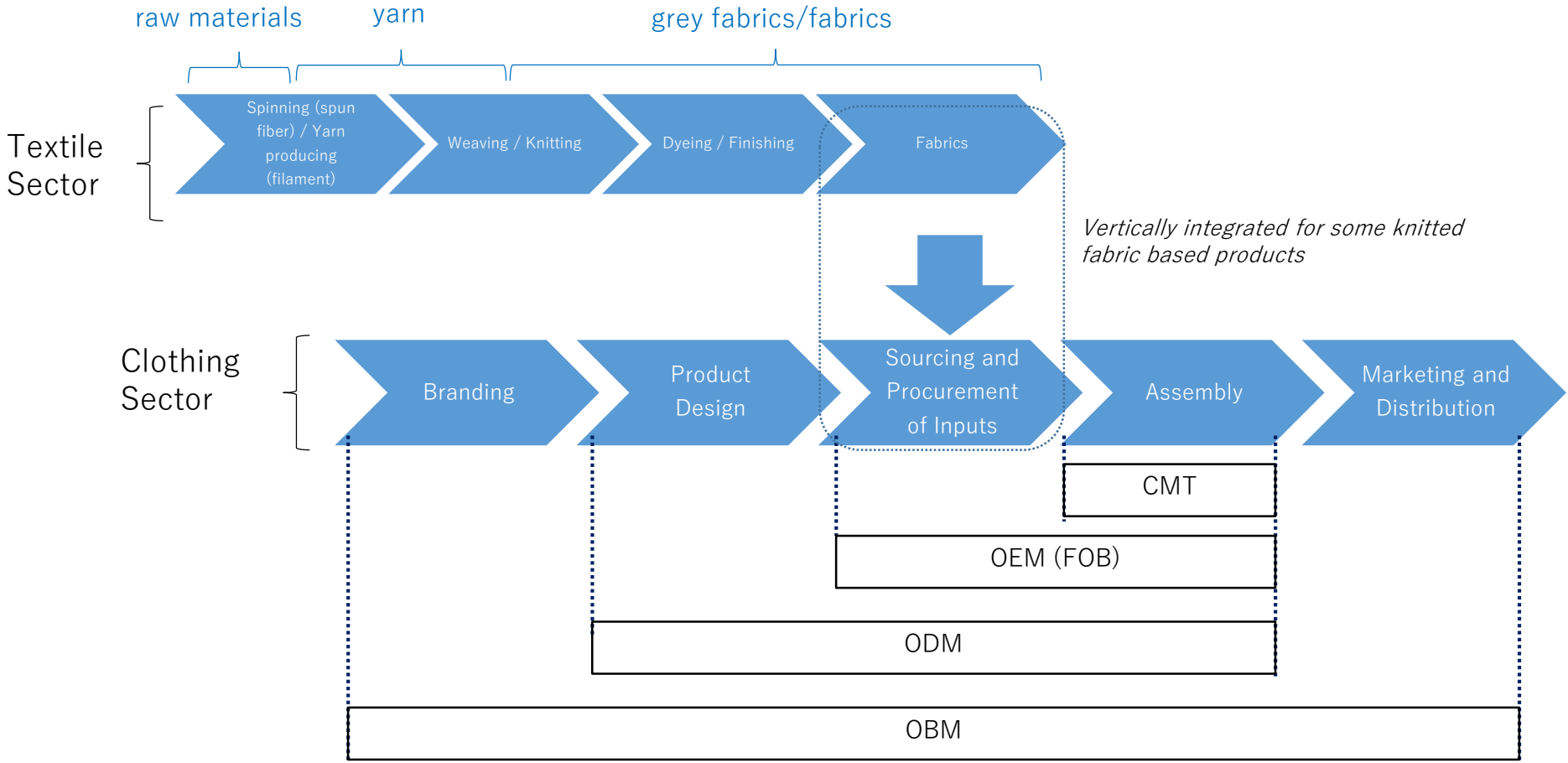
Kenta Goto
Kansai University

The Textile and Clothing Industry: An Overview

apparel industry

- The apparel sector is in general highly labor intensive, however factor intensity according to different functions are significant
- Developing countries typically participate in these chains by catering for the labour intensive assembly functions (CMT/CMP).
- Inputs (textiles sector) tends to be more capital intensive, undertaken by middle-income countries with significant capital accumulation.
- The designing, branding and marketing functions are of highly skill and knowledge intensive, typically retained by companies from developed countries

Figure 1: Production and Distribution Flow of the Textiles and Clothing Value Chain



Source: Fukunishi, Goto and Yamagata (2013)

The Textile and Clothing Industry of CLMV Countries

The apparel industry of CLMV

- Cambodia

Started to growth with exports towards the US since the early 2000s (BFC program). Disproportionately larger share of knitted based garments. Significant presence of FDI companies, particularly from China. Japan not traditional export destination for Cambodia.

- Laos

Still at the early stage of sectoral development. Constrained due to limited potentials in realizing scale effects.

- Myanmar

With the lifting of economic sanctions to the US and EU markets, it has been attracting significant attention, however challenges still remain in key infrastructure. Some FDI from Japan.

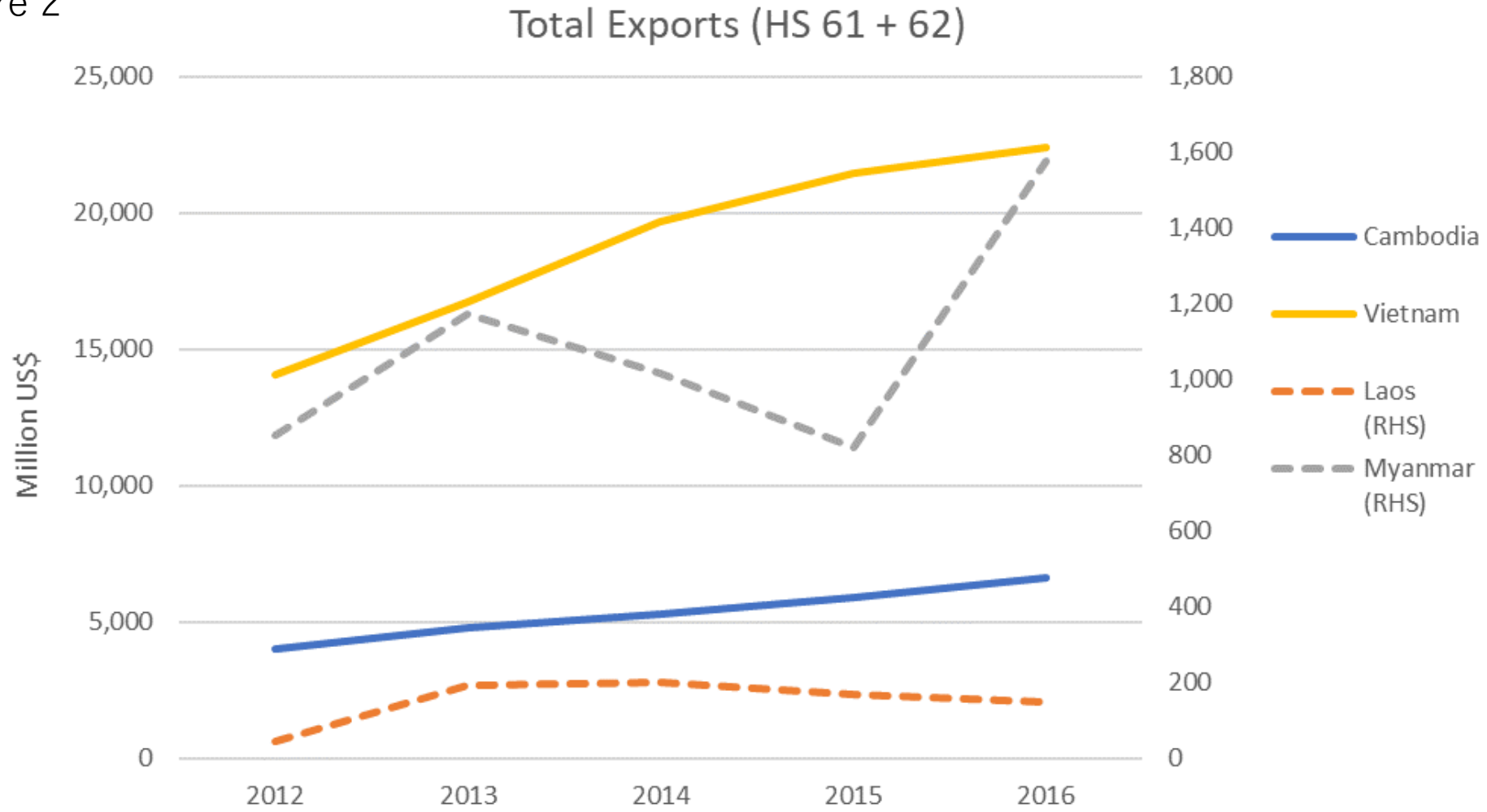
- Vietnam

The export oriented clothing industry started to growth with exports to the Japanese market in the 1990s. When the BTA with the US came into effect, it grew even stronger (with Japan's share decreasing). Current challenges are to cope with rising wages and labor shortages. Main exporters are SOEs/former SOEs.

Table 1: World ranking of clothing exports				Year: 2016	
Rank		HS61	Rank		HS62
1	China	74,413,440,500	1	China	72,064,923,620
2	Viet Nam	10,801,483,624	2	Italy	12,169,423,822
3	Turkey	8,849,343,720	3	Viet Nam	11,608,485,853
4	Germany	8,184,283,586	4	India	9,051,089,148
5	India	7,910,076,151	5	Germany	8,845,745,421
6	Italy	7,862,754,659	6	Spain	7,442,315,201
7	China, Hong Kong SAR	7,769,868,782	7	China, Hong Kong SAR	7,145,873,821
8	Cambodia	6,108,118,705	8	Turkey	5,925,409,782
9	Belgium	5,044,627,049	9	France	5,688,556,987
10	Spain	4,840,797,919	10	United Kingdom	4,472,621,816
56	Japan	204,013,864	23	Myanmar	1,482,858,947
66	Myanmar	92,435,307	36	Cambodia	519,079,754
78	Lao People's Dem. Rep.	42,675,730	49	Japan	249,294,582
			69	Lao People's Dem. Rep.	106,560,024
Note: Bangladesh is not included.					
Source: UNComtrade					

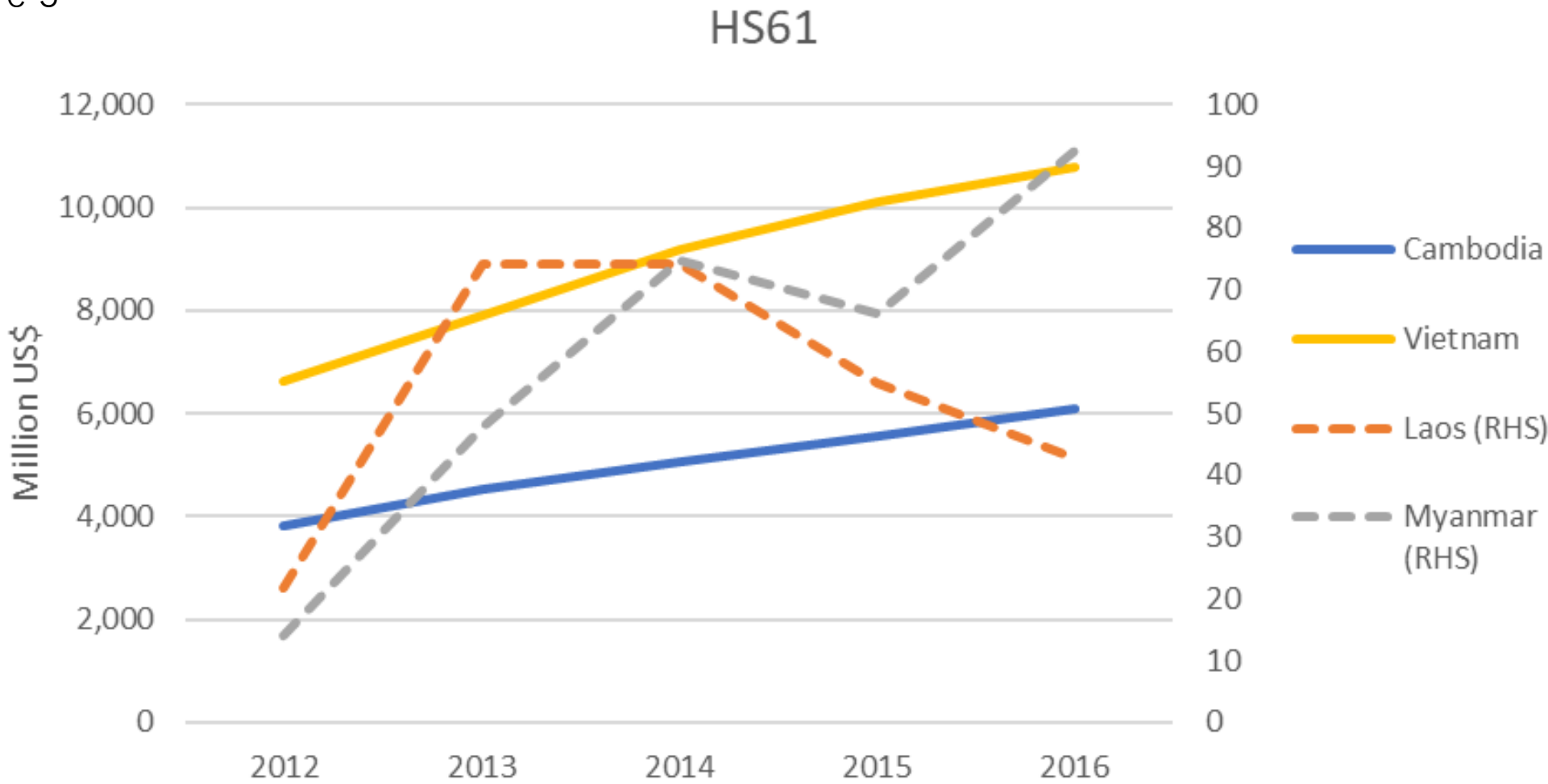
Table 2: overview						Million US\$
		2012	2013	2014	2015	2016
HS61 (knitted)	Cambodia	3,799	4,541	5,077	5,550	6,108
	Laos	22	74	74	55	43
	Myanmar	14	48	75	66	92
	Vietnam	6,640	7,917	9,181	10,111	10,801
HS62 (woven)	Cambodia	206	265	243	366	519
	Laos	25	120	128	114	107
	Myanmar	839	1,126	941	754	1,483
	Vietnam	7,439	8,829	10,518	11,323	11,608
Total	Cambodia	4,006	4,806	5,320	5,916	6,627
	Laos	46	194	202	169	149
	Myanmar	853	1,174	1,016	820	1,575
	Vietnam	14,079	16,745	19,699	21,434	22,410
Source: UNComtrade						

Figure 2



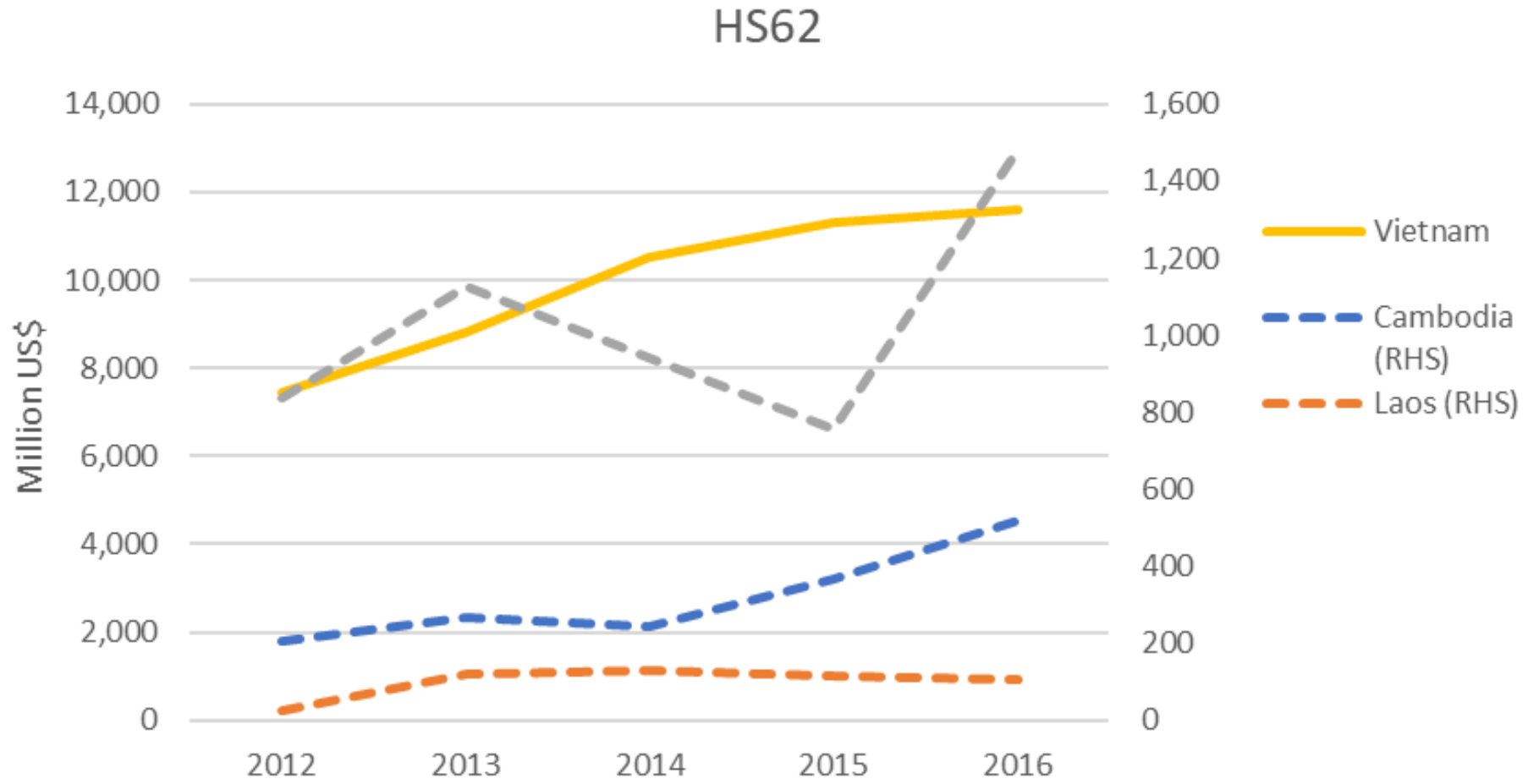
Source: UNComtrade

Figure 3



Source: UNComtrade

Figure 4



Source: UNComtrade

Promoting Exports in a Globalized Economy

Vertically Integrated Sector and
the Internationally Fragmentated Sector

Understand the different types of potential sectors for export promotion is crucial

1. **Vertically Integrated Sector** – a sector in which the production of the product is locally (domestically) integrated (lets call this **VIS**)
2. **Internationally Fragmented Sector** – a sector in which the production of the product is globally (internationally) fragmented (lets call this **IFS**)

The Vertically Integrated Sector (VIS)

The good-old vertical trade structure

The “*Sixth*-Industrialization”

- An local (domestic) based production and distribution system (which can also be confined within one particular company)
- Usage of “local resources”
- Differentiated products
- Story based branding

The Internationally Fragmented Sector (IFS)

The new dimensions of “globalization”

Fragmentation and Agglomeration

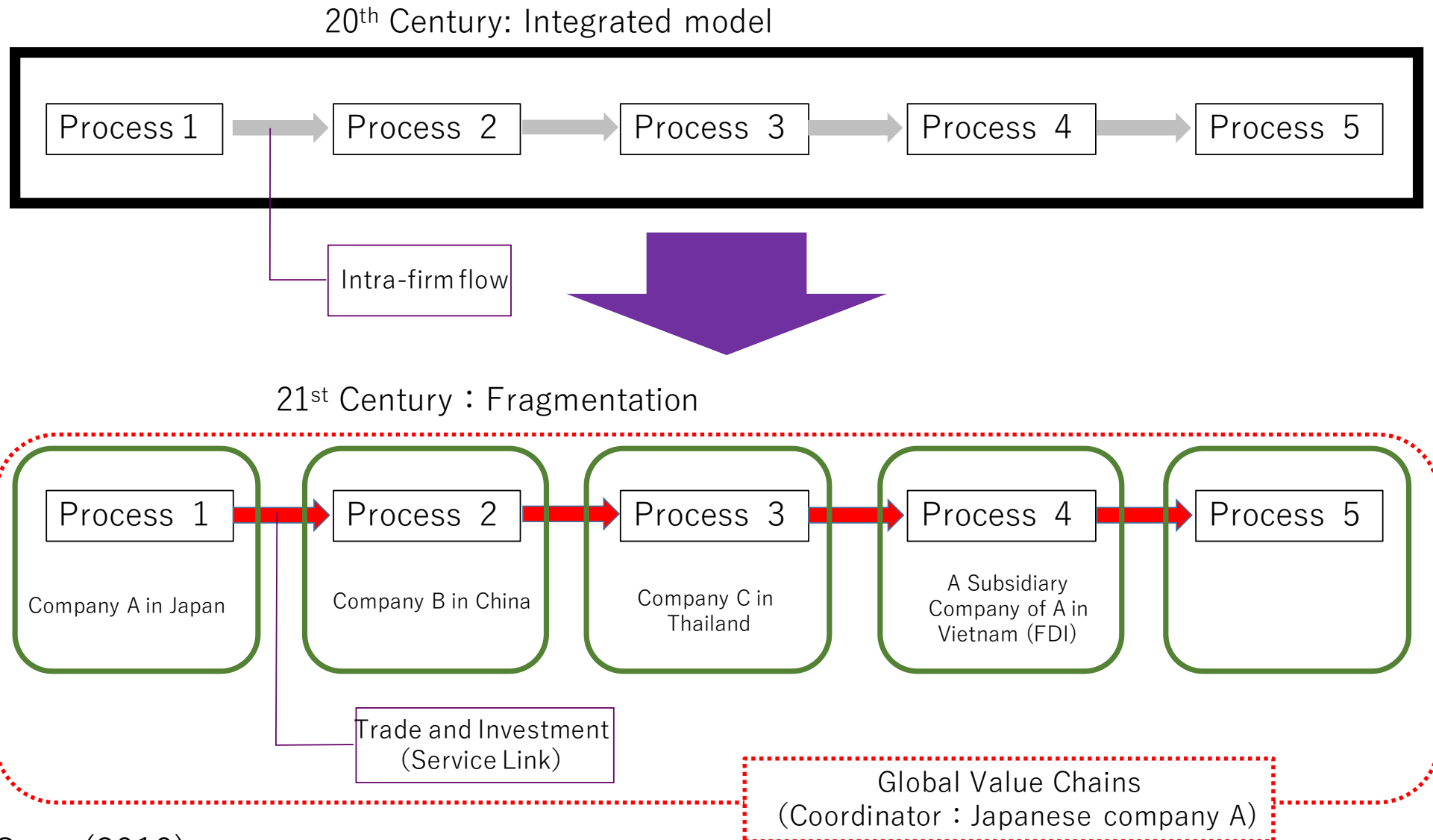
- Main drivers of contemporary international production and distribution networks: strategic behavior of multinational enterprises
- ⇒ “Sliced up” the production chains (fragmentation), and started relocated these “production blocks” according to changes in home factor prices vis-à-vis foreign factor prices (sometimes leading to agglomeration) (Kimura and Ando 2005)
- Progress in ICT and reductions in transportation costs (90s)

Coordinators are key

- Coordination of GVCs are most important
 - entry of other firms into the chain
 - allocation of functions and profits along the chain
 - product specification
 - other key terms and conditions, such as prices and delivery
- Buyer driven chains and supplier driven chains
 - Buyer driven: Apparel, Foodstuff
 - Supplier driven: Automobiles, Electronics

The change – an illustrative example

Figure 5



Source: Goto (2019)

Service Link Costs and Agglomeration

1. Service link costs – too high, then no fragmentation

2. Agglomeration

- ① Increasing Returns
- ② Home Market Effects

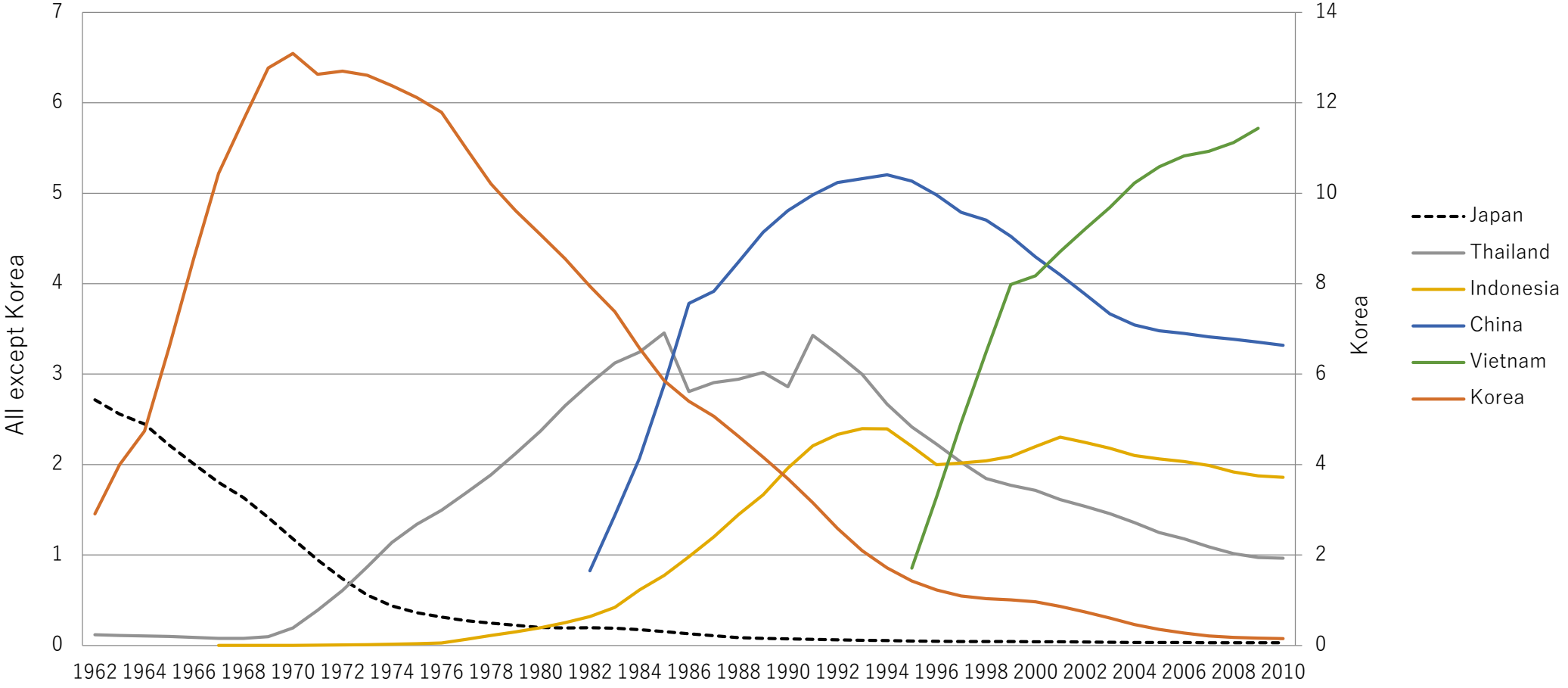
Thinking ahead for an attractive
strategy

export strategies should be consistent with comparative advantages

- The patterns of international trade: Most of it can be explained by the **theory of comparative advantage**
- Cf. Heckscher-Ohlin Model - Explaining the trade patterns between countries based on differences of resource endowments
- Export promotion strategies must be consistent with **dynamic comparative advantages**

changes in RCA

Figure 6



Source: Goto (2014), using data from UN Comtrade

“Upgrading” as a core concept for CMLV countries

3 types of “upgrading”

1. **Process** (technical efficiency)
2. **Product** (higher value added contents)
3. **Function** (changes in *factor intensity*)

Key strategic issues

- What type of “upgrading” are most important?
- How could that type of “upgrading” be realized?
- What are the policy leverages?