



## Textile and apparel market in China

*China and the EU occupied 40% and 29% of world textile and apparel (T&A) exports respectively in 2010. The high volumes from China are mostly medium to low end products while the EU dominates the high end textiles and clothing market. Despite its strength in manufacturing, China imported USD 29.5 billion T&A products in 2010. Growth of the Chinese textile and apparel market will be driven by increase of disposable income, new applications of textiles and a fast growing online fashion market. It is innovative design, quality and application of the latest technologies that will give European SMEs the advantage when entering the Chinese market.*

### 1. Market size

China has been the biggest textile and apparel exporter in the world since 1994, occupying 40% of world exports in 2010. After China, the EU is the world's second largest exporter of textile products with a 29% share in world exports excluding intra-EU trade.

China dominates the global low to medium end market through mainly engaging in OEM manufacturing and processing while the EU continues to dominate global upmarket and high quality textiles, clothing and footwear.

This report covers the following sub-sectors in the textile and apparel industry.

Textile and apparel sectors		
Textile	Apparel	Related services*
<ul style="list-style-type: none"> <li>• Fibres: Industrial Non-industrial</li> <li>• Yarns: Man-made Natural Synthetic</li> <li>• Fabrics: Woven Non-woven Knitted fabrics</li> </ul>	<ul style="list-style-type: none"> <li>• Apparel finished products: Men's wear Women's wear Children's wear</li> <li>• Non-apparel products: Technical Household</li> <li>• Accessories</li> </ul>	<ul style="list-style-type: none"> <li>• Printing and Dyeing</li> <li>• Processing</li> <li>• Design and development</li> <li>• Logistics and distribution</li> <li>• Wholesale</li> <li>• Retail</li> </ul>

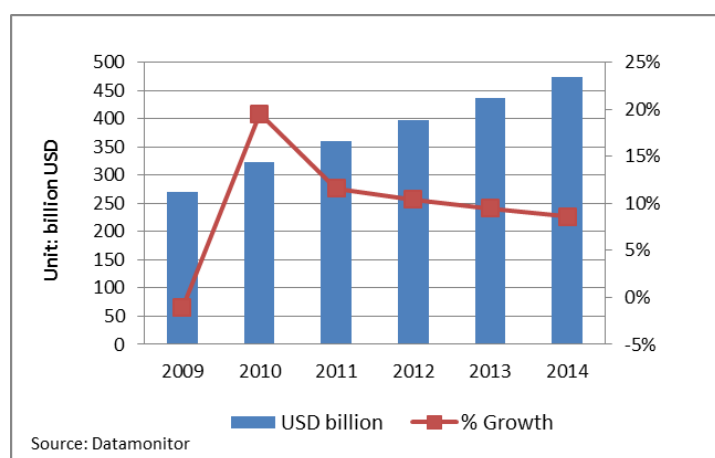
\*excluded in sector statistics

## 1.1 Textile and apparel sales in China

The Chinese textile and apparel market (excluding fibres) shrank by 1.1% in 2009 to reach a value of USD 270 billion<sup>1</sup>. In 2014, the Chinese textile and apparel market is forecast to have a value of USD 473 billion, an increase of 75.2% from 2009, with a compounded annual growth rate of 11.9%.

China's total textile and apparel exports declined 9.65% year-on-year to USD 171 billion in 2009. In the meantime, sizable Chinese manufacturers sold domestically about 80% of their textile and apparel products at a total value of CNY 2,971 billion<sup>2</sup> in 2009, up 14.69% year-on-year. Total retail value of apparel consumer goods in China rose 18.8% in 2009. Targeting a growing domestic market, international apparel retail heavy weights such as H&M, Zara and C&A each increased its number of shops in China by over 100%.

**Chart 1. China T&A market value forecast 2009 to 2014**



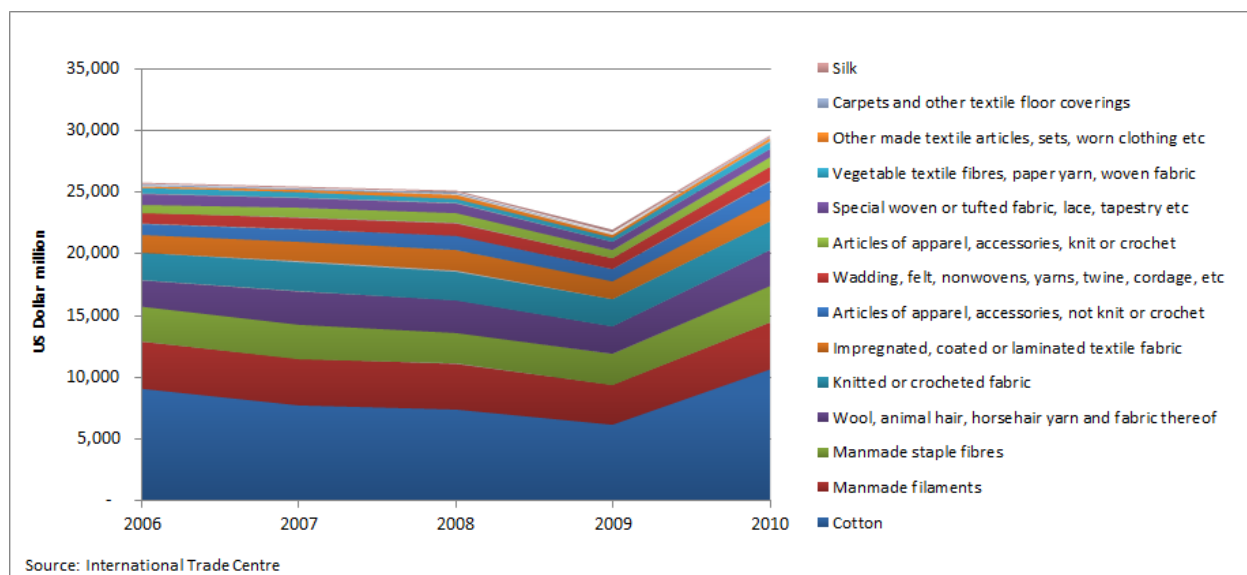
## 1.2 Textile and apparel imports in China

T&A imports only accounted for less than 5% of overall T&A market in China. Main import categories include cotton (36%), manmade filaments (13%), manmade staple (short) fibres (10.2%), wool, animal hair, horsehair yarn and fabric (9.8%).

<sup>1</sup> Source: Datamonitor, China Textile, market value defined as domestic production plus imports minus exports, all valued at manufacturer prices.

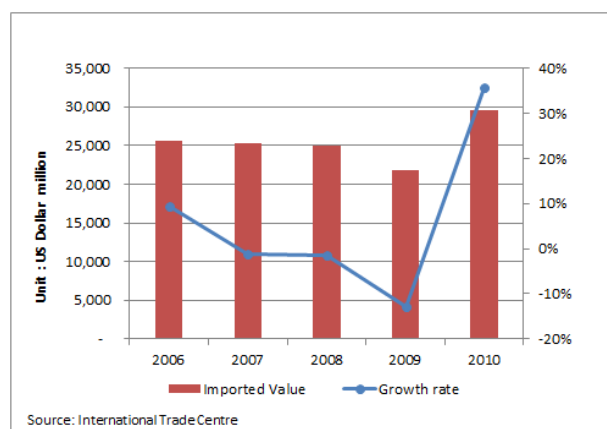
<sup>2</sup> Source: CETI, statistics also including fibres, printing & dyeing, processing and machinery in addition to textile and apparel.

**Chart 3. Value of T&A products imported by China**

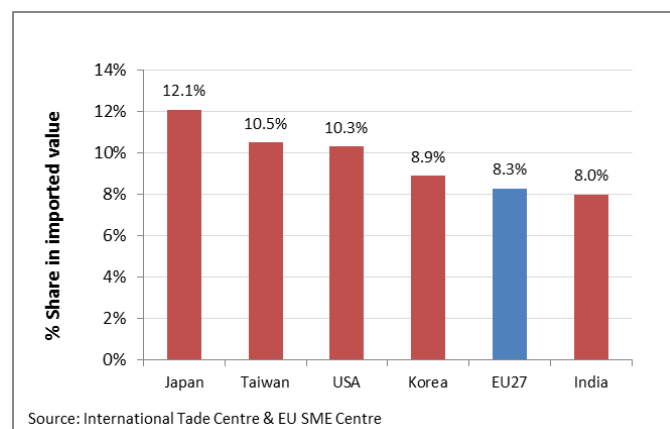


Impacted by the financial crisis, T&A imports in China declined from USD 25.6 billion in 2006 to USD 21.7 billion in 2009, hitting the bottom at a negative growth rate of 12.9%, but bounced back to a positive 36% in 2010 to USD 29.5 billion because of low base value in 2009, mild recovery of the developed economies, and an expanding domestic market.

**Chart 4. Value of T&A products imported by China from 2006 to 2010**



**Chart 5. Top T&A exporters to China 2010**



#### *Top exporters to China*

The EU member states were the fifth largest source of Chinese T&A imports, making up 8.3% of China's T&A imports by value in 2010. Among these member states the following were the largest contributors to the 8.3% of imports by value:

- Italy (3%), Germany (1.6%) and France (1%)
- The UK (0.7%), Austria and Belgium (0.4% each)
- Spain and Netherland (0.3% each)
- Portugal, Romania and Luxembourg (0.2% each), Italy (3%), Germany (1.6%) and France (1%)

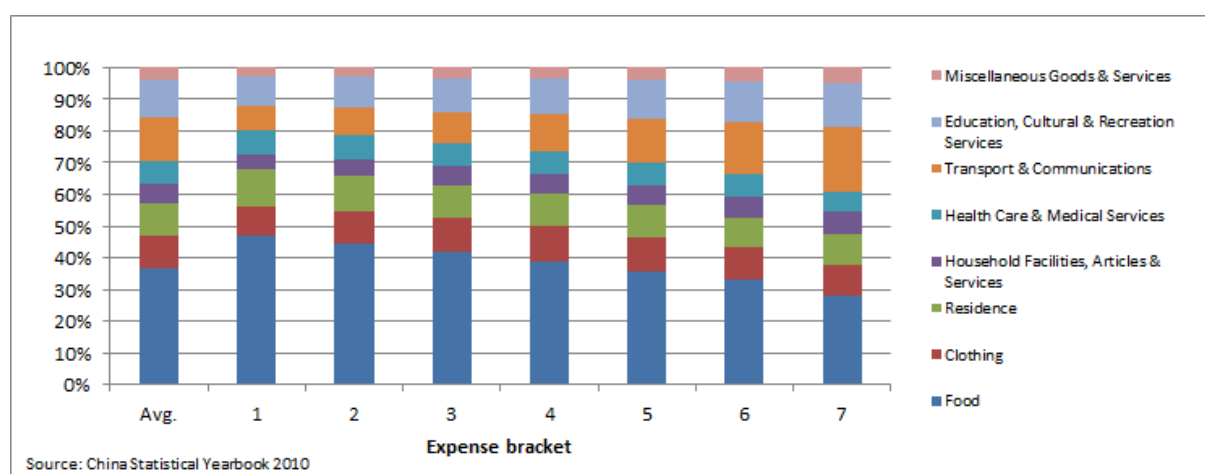
- The UK (0.7%), Austria and Belgium (0.4% each)
- Spain and the Netherlands (0.3% each)
- Portugal, Romania and Luxembourg (0.2% each)

## 2. Key growth drivers

### 2.1 Annual disposable income increase

Urban households in China across all income brackets spent around 9-10% on clothing each year. From 2001 to 2009, disposable income of urban households has grown at an average of 9.9%, and total spending on clothing has grown at a higher average of 15% from CNY 513 billion in 2006 to CNY 778 billion in 2009.

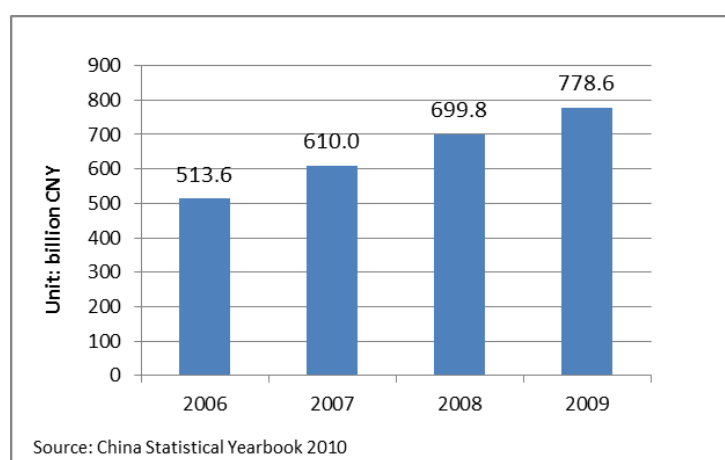
**Chart 6. Urban household per capita annual living expenditure by expense bracket (2009)**



Expense bracket:

1. < CNY 5000; 2. CNY 5000 – 7000; 3. CNY 7000 – 9000; 4. CNY 9000 - 12000
5. CNY 12000 – 15000; 6. CNY 15000 – 20000; 7. > CNY 30000

**Chart 7. Urban household clothing consumption from 2006 to 2009**



## 2.2 New applications of textile products

The development of new uses and applications for textile fibres and products in many different areas such as aerospace, automobile, healthcare, construction and architecture, transports and personal protection, will further drive demands in the textile industry. Among the world top 20 exporting countries of functional and industrial use fabrics, 10 are EU member states.

## 2.3 Fast growing online fashion market

Online purchases have been rapidly increasing in the past five years in China. By rapid, we mean an average growth rate of over 100% each year between 2005 and 2010. In a broad product sector such as fashion, the average annual growth of B2C retail is over 130% between 2005 and 2010<sup>3</sup>, an increase of 68 times from CNY 0.14bn to CNY 9.64bn in the five year period. While many powerful brick-and-mortar retailers have been laggards in their online efforts, more independent online branded fashion retail companies are quickly gaining new market share.

The share of online B2C fashion purchases in total B2C online retail has increased from 8.78% in 2007 to 15.89% in 2010. Access Asia, a UK based market research and consulting company, estimated that this share will further grow to 22% and the total purchase value will reach CNY 137 billion by 2014.

**Table 1. Online B2C fashion purchases**

	2007	2008	2009	2010	2011e	2012e	2013e	2014e
Total value of online fashion purchase in CNY billion	0.54	1.57	4.07	9.64	20.99	44.03	78.33	137.06
% of total B2C online retail	8.78%	12.71%	14.81%	15.89%	17.41%	19.28%	20.27%	22.24%

<sup>3</sup> Online Retailing in China 2011, Access Asia

### 3. Market structure

#### 3.1 The “Made-in-China” landscape

The textile and apparel industry accounted for over 30% of manufacturing jobs in China in 2009. Private Chinese companies dominate in this labour intensive industry, accounting for 75% of total industry revenue in textile and 59% in apparel and footwear. Foreign invested enterprises (including those from Taiwan, Hong Kong and Macau) are more concentrated on apparel (40% revenue share) than textile (22% revenue share) and have a higher margin in this subsector compared to private Chinese companies. State Owned Enterprises (SOEs) have withdrawn from this sector since the 1990s, and now hold less than 3% revenue share.

**Table 2. T&A figures by type of company**

Type of company	% of total number	Market Share	Profit margin
Private Chinese company	81% (textile) 64% (apparel)	75% (textile) 59% (apparel)	5.00% (textile) 5.84% (apparel)
Foreign invested enterprises (incl. Taiwan, Hong Kong and Macau)	18% (textile) 35% (apparel)	22% (textile) 40% (apparel)	4.85% (textile) 6.31% (apparel)
State owned enterprise (SOE)	1% (textile) 1% (apparel)	3% (textile) 1% (apparel)	0.98% (textile) 5.68% (apparel)

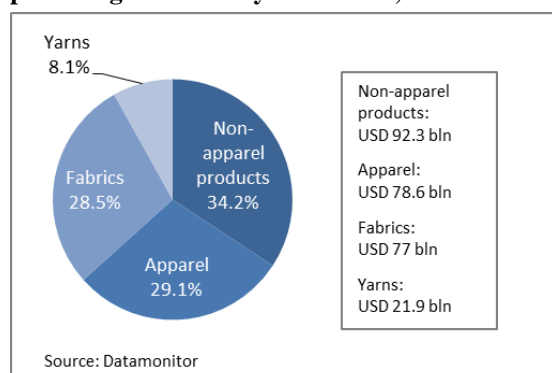
Source: China Statistics Yearbook 2010 & EU SME Centre

#### 3.2 Market segment

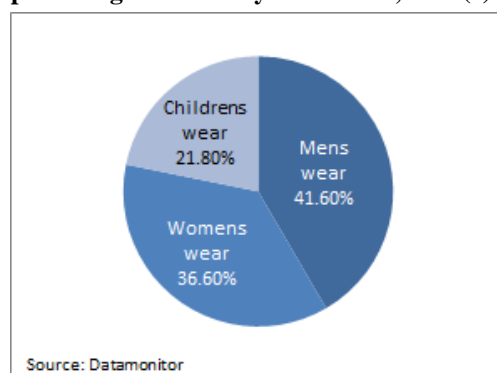
Non-apparel products make up the largest segment of the textile market in China, accounting for 34.2% of the market's total value. The apparel segment accounts for a further 29.1%<sup>4</sup>. Profit margins in both apparel and non-apparel sectors are low due to intense competition, lack of brand differentiation and low value added products.

Men's wear is the largest segment of apparel retail in China, accounting for 41.6% of the industry's total sales value, women's wear 36.6%, and children's wear a further 21.8%.

**Chart 9a. China textile market segmentation: percentage of share by sales value, 2009**



**Chart 9b. China apparel retail industry segmentation: percentage of share by sales value, 2009(e)**



<sup>4</sup> DataMonitor, China Textile

### 3.3 Manufacturing - industrial clusters

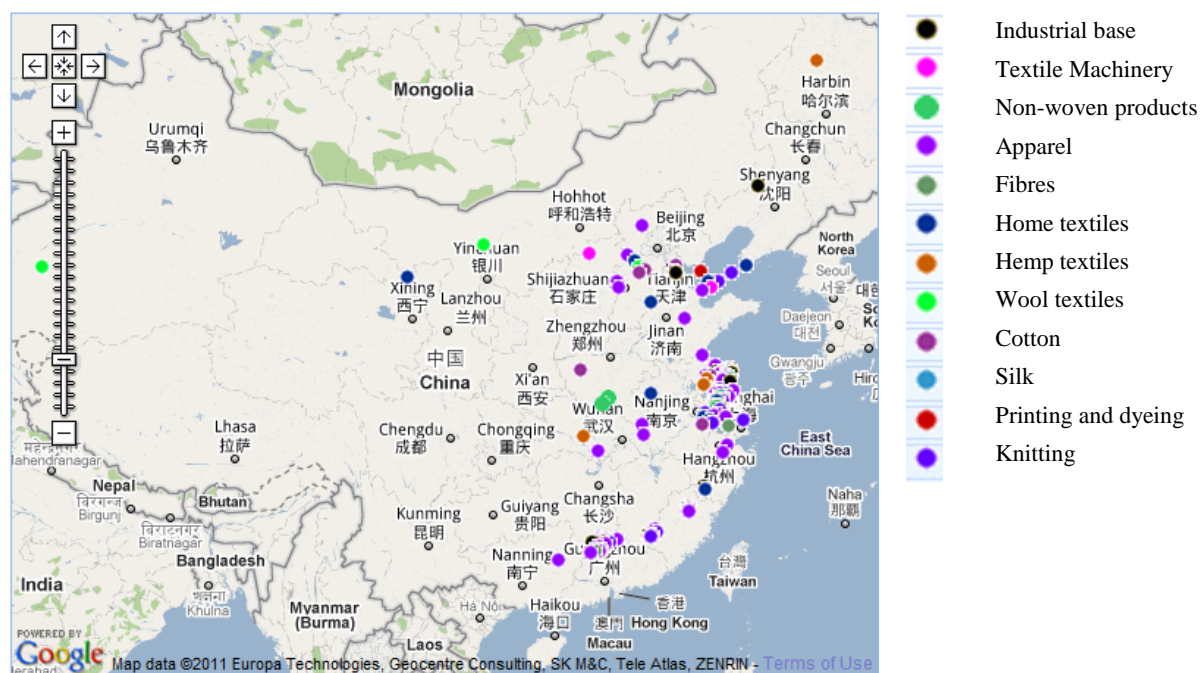
The presence of industrial clusters is one of the major characteristics of the T&A sector. By May 2011, the number of T&A industrial clusters had grown to 151 clusters (see Chart 9 Distribution of T&A clusters in China and Table 3 T&A clusters by sub-sector), from 86 in 2006. In each of the localities, hundreds of T&A manufacturers have clustered together.

Each of these clusters specialises in the production of one or more T&A products, with a rather complete textile apparel industry chain of spinning, packaging, embossing, weaving, dyeing and finishing, stitching ready-made garments and washing nearby. For policy and economic reasons, T&A clusters first concentrated in China's eastern coastal provinces, namely Zhejiang, Jiangsu, Guangdong, Fujian, Shandong and Hebei. Common features of the cluster locations are:

- Convenient transportation: close to highways or ports
- Market vicinity: close to major cities, especially Hong Kong, Guangzhou and Shanghai
- Excellent information, communication, and transportation infrastructure in the area

Since the State Council's *Textile Restructuring and Revitalization Plan* in 2009 to promote industrial transfer and optimise regional distribution, new clusters began to appear in western and middle China or less developed towns in the east coast areas such as Jiangxi, Anhui, Henan and Liaoning province (see Table 4, T&A clusters by region). In the first half of 2009, Hunan, Henan, Jiangxi, Shanxi and Anhui, the middle provinces, realised stronger growth in capital assets and profit than the industry average.

**Chart 10. Distribution of T&A clusters in China**



Source: CETI & CNTAC

**Table 3. T&A clusters by sub-sector**

Apparel	55
Industrial base	19
Home textiles	19
Knitting	17
Cotton	14
Fibre	7
Non-woven products	5
Hemp textile	5
Wool textile	3
Silk	3
Textile machinery	2
Printing and dyeing	2
	151*

\* The cluster by subsector statistics includes double counting due to overlaps of industrial clusters in Yiwu, Tong Zhou, Haining and Changshu city.

**Table 4. T&A clusters by region**

Zhejiang	37
Jiangsu	31
Guangdong	28
Fujian	15
Shandong	14
Hebei	5
Hubei	3
Hunan	2
Jiangxi	2
Anhui	1
Henan	1
Heilongjiang	1
Liaoning	1
Ningxia	1
Qinghai	1
Shanxi	1
Shanghai	1
Xinjiang	1
	146

### 3.4 Distribution channels

#### 3.4.1 Wholesale

The wholesale market plays a vital role in the textile sector by serving as a crucial link between thousands of scattered manufacturers and retailers. Wholesale markets which specialise in textiles prevail in or around major industrial clusters in China (see main players in table 5). These wholesale



markets usually focus on volume sales at low prices, but in most cases they also sell to individuals at a lower price than in a retail store.

### **3.42 Sales agent**

Many imported T&A brands rely on sales agents to gain entry to department stores, counters and specialty store outlets. This model depends heavily on the agent's existing sales channel resources and expertise on market and policy. Advantages of this model include low capital investment, quick market entry, faster brand localisation and low operational risks. Disadvantages are price mark-up, limited control of branding and pricing and difficulties in distinguishing good sales agents from poor ones.

### **3.43 Retail**

Household decoration and apparel textiles retail are mostly carried out in wholesale markets. Textiles for curtains can also be found in specialised hyper/supermarkets for home improvement.

Apparel retail is highly competitive, fragmented with low entry barriers and high entry and exit rates. High end department stores and shopping malls with extensive floor space and selling a large variety of goods are the preferred choice for most imported apparel and bedding brands.

Boutique stores carrying European designer labels have also mushroomed in first tier cities, but with limited audience due to limited number of shops and marketing. Highly differentiated products and location are key competitive factors in this form of retail.

### **3.44 Online retail**

Total number of active online shoppers in China grew by 94% between 2005 and 2008, those buying clothes online grew by 275%. Online fashion shopping is becoming a significant channel in the apparel retail market. C2C sales still dominate this channel but B2C is quickly catching up.

Apparel sales for the first half of 2009 on Taobao, China's most popular online retail platform, already equalled its total annual sales in 2008. In the case of Green Box, a Chinese online-only children's wear shop, its 2010 revenue increased 300% from 2009 to CNY 80 million, well ahead of most of its traditional counterparts.

### 3.5 Key players

**Table 5. Key players in the T&A value chain in China**

	Manufacturers	Wholesale Markets	Online Wholesale / Retail	Shopping Malls	Specialty Boutiques	Apparel Brands
Domestic	<b>Cotton &amp; yarn:</b> BROS Group Dezhou Huayuan Eco-Technology Lutai Group Shandong Weiqiao Group Zibo Yinshilai Group	<b>Guangdong:</b> Dark Horse Clothing Wholesale Shopping Mall Dongguan Humen Huanghe Fashion City Fumin Commercial Building Guangzhou Guohong Clothing Wholesale Market Guangzhou White Horse Clothing Market Pegasus Clothing Wholesale Center Shenzhen Clothing Wholesale Market Wong Pui Ling Mall Xiqiao Light Textile City	<b>Textile:</b> Alibaba.com GlobalTextiles HKTDC.com Texindex.com	<b>Beijing:</b> BHG China World Shopping Mall COFCO Plaza Fullink Plaza Joy City Maison Mode New World Shopping Mall Oriental Plaza Outlet (China) Pacific Dept. Store Scitech Plaza Solana	<b>Bedding:</b> Aussino  <b>Apparel:</b> Dutch Items Shanghai – D.I.S Lollipop (children)  <b>Children's apparel:</b> Paclantic Redhero	Bosideng Embry Form ERDOS Esprit Giordano Girdear JNBY Metersbonwe Ochirly Semir SEPTWOLVES White Collar Yishion Youngor
	<b>Printing &amp; dyeing:</b> Qingdao Phoenix Shenghong Group Yixing Leqi Group (Lucky Textile) Zhejiang Furun ZheJiang Hangmin	<b>Shanghai:</b> Liying Clothing Wholesale Market Qipu Road Professional Market	<b>Apparel:</b> Online & offline: MecoxLane (M18.com)	<b>Shanghai:</b> Brilliance Shimao International Plaza Central Plaza Grand Gateway Jinjiang Dickson Center Plaza 66 Shanghai No.1 Yaohan Shanghai Times Square Super Brand mall Xintiandi Plaza Xintiandi Shopping Mall	<b>Sports:</b> 361° Anta Lining	
	<b>Wool &amp; wool knitting:</b> Inner Mongolia Erdos Cashmere Group Jiangsu Sunshine Group Shandong Nanshan Textile Garments Shandong Ruyi Technology Group	<b>Jiangsu:</b> Changshu Strokes Mall China Eastern Silk Market In Wujiang New World International Textile Garment City Wuxi Mall Garment Specialty Stores	Online only: Vancl Menglu Masa Maso Shishang Qiyi Guangjie Online Zouxu Online HANY Greenbox	<b>Guangzhou:</b> Grandview Mall La Perle Teemall Victoria Plaza World Trade Xintiandi		
	<b>Hemp:</b> Changzhou Meiyuan Linen Textile Hunan Huasheng Group Jiangxi Enda Home Textile Xinshen Group	<b>Zhejiang:</b> China Light Textile City in Shaoxing Cixi Shengshan Apparel Fabrics and Materials Market Hangzhou Evergreen Garment Market Hangzhou Boutique Clothing Market Keqiao Textile City in Shaoxing	Retail platform: Taobao 360buy Yihaodian Redbaby			
	<b>Silk:</b> Dali China Co. Ltd. Jiangsu Huajia Group Jiangsu Xinmin Textile Science & Technology	<b>Beijing:</b> Dahongmen Clothing Wholesale Market Qinghe Wool and Textile Wholesale Market				
	<b>Knitting:</b>					

	<p>Jiangsu Dongdu Textile Ningbo Shenzhou Knitting Qingdao Jifa Group</p> <p><b>Apparel:</b> Baoxiniao Group Bosideng Int'l Holding Co. Judger Group Xinlang Sinoer Group</p> <p><b>Chemical fibre:</b> Hengli Group Jilin Chemical Fibre Group Tongkun Group Zhejiang Huafeng Spandex</p>	<p>Tin Lok Clothing Wholesale Market</p> <p><b>Shandong:</b> Jimo City Clothing Wholesale Market</p> <p><b>Liaoning:</b> Shenyang Wuai Clothing Market</p>				
International			<p><b>Textile:</b> TEonline YNFX (yarn &amp; fibres exchange)</p> <p><b>Apparel:</b> Amazon.cn</p>	<p>Ito Yokado Lufthansa Dept. Store Parkson Raffles City Sanlitun Village Taikoo Hui Guangzhou (opening soon)</p>	<p>Bershka bread n butter Les Lucioles Plastered 8 Tang' Roulou</p>	<p><b>Luxury:</b> Amarni Burberry Chanel Gucci Prada</p> <p><b>High street fashion:</b> C&amp;A Etam Gap H&amp;M Uniqlo VERO MODA Zara</p> <p><b>Leisure:</b> Adidas Columbia New balance Nike Northface</p>

## 4. Opportunities

After over a decade of double digit growth, the Chinese textile and apparel industry is now at a crossroads. Companies in this sector have to battle challenges on many fronts: increasing cost of raw materials, labour, energy and power; inadequate supply of labour; and the credit crunch brought by the central government's recent credit tightening. For export oriented companies: weak demand from developed markets since the beginning of the financial crisis, slow recovery, currency strengthening, lower export tax rebates, and an increasing shift to lower cost countries in Asia (Vietnam, Indonesia, Bangladesh, Pakistan), Eurasia (Turkey), and Central America (Honduras) add further difficulties.

The government aims to rebalance China's economic structure by eliminating over capacity, lowering energy consumption and pollution, promoting industry upgrade and boosting domestic consumption.

Since 2008, there has been a shift in production within China, from south China to the north and interior regions where goods exit the country via the Yangtze River and nearby ports such as Shanghai and Ningbo. Chinese workers now have higher wages and more employment options near their home region.

Chinese and foreign invested companies in the sector are aiming to climb up the value chain by carrying out the following activities:

- Improve quality to stand out from competition: import automated equipment from Italy, Germany, Japan and Taiwan, with higher counts, and which are more energy efficient and emit less waste;
- Growing efforts regarding environmental protection: import 'green' dyes from Switzerland and Germany;
- Move low-value production to cheaper neighbouring countries: Vietnam and Bangladesh has seen drastic increase of orders from China;
- Cooperate with international producers/designers to make sophisticated and innovative yarns (metallic, water solvable PVA, blend), teaming up with Hong Kong retailers to expand global sales;
- Establish R&D centres in first tier cities for the development of new fibres, fabric and garment innovations.

According to CNTAC (China National Textile and Apparel Council), new projects and fixed asset investment were up 27% and 14% respectively in 2009, indicating that enterprises were able to make profit and continue investing amid the weak global economy.

Against this backdrop of industry upgrade and production shifts, European SMEs should tackle niche markets with their high value added services and products.

### 4.1 Opportunities highlighted by sub-sector

#### 4.11 Textile

Textile manufacturing is fragmented and with a large number of players. With the exception of some niche specialist fibres and yarns, most products within each category are only weakly differentiated, strengthening the competition.

### *Special fibres and yarns for functional textiles*

Technical textiles with special functions have wide applications in automobile, construction, safety, medical, geological, agricultural, environmental and chemical industries.

China's high growth in car ownership, transportation, healthcare and clean energy sectors, together with its focus on energy saving and pollution reduction in the manufacturing sector should generate opportunities for increased use of technical textiles, thus driving the demand for high-tech content fibres and yarns with special functions such as high tenacity, extreme strength, special elasticity, UV resistance, high filtration rate, high durability against erosion, moisture resistant or flame retardant.

### *Eco-dye for eco-friendly textiles*

Stricter environmental requirements posed by both government and clients are encouraging manufacturers to look for greener raw materials to improve products' environmental performance, which serve as a differentiator among competitors.

### *High-end fabrics*

China mainly produces low-end fabric with no distinguishing features. China has the largest fabric consumption capability in the world. A lack of innovation in domestic industry means that many high-end fabrics, mostly wool fabric, need to be imported from other countries. As income levels rise in China, more people will prefer higher quality garments to demonstrate their good taste and status. Fabrics from Europe are generally viewed as high quality and more stylish and are therefore in a good position to capture growing demand.

### *Textile machinery / equipment*

Industry upgrade in the traditional textile clusters and new clusters forming in the middle and western parts of China are driving demand for more advanced textile machinery that can help improve quality, productivity and reduce energy usage and emissions.

### *Design and development*

To move up the value chain and be better positioned for a world market, both Chinese companies and foreign companies in China need to invest more in the development of new fibre, fabric and garment innovations. There will be opportunities for experienced European SMEs that can offer professional design, development and consultancy services. For example, a large Chinese cashmere yarn exporter is working with Italian designers and engineers to produce cashmere coated water-soluble PVA, cashmere/metallic blends, de-haired yak and pearl fibre.

## **4.12 Apparel**

The apparel market in China is highly competitive and fragmented. According to the China Commercial Information Centre, the concentration level of the top ten brands across 16 categories averaged 37.5% in 2010, down 0.69 percentage points from 2009, a sign of increased competition.

Per capita apparel item sales grew by 137.8% between 2003 and 2009 thanks to strong increases in average wages. However, volume sales surpassed value sales due to retail price weakness, with average prices down by almost 10% across the 2003 to 2009 period<sup>5</sup>.

China's mass-market consumers have relatively small, undifferentiated wardrobes for work, social occasions (such as weddings), and gatherings with friends or family. Only a small percentage of consumers place a premium on foreign brands. Chinese shoppers seem to rely more heavily on price to form their perceptions of a product's quality than shoppers do elsewhere. However, more Chinese urban young adults (age 18-30) prefer foreign products and brands, and they shop for apparel more frequently than people in other age groups and spend larger sums. Women have the most influence on clothing purchase decisions for the whole family<sup>6</sup>.

Corporations with global deployment of R&D, sourcing, manufacturing, diversified branding, logistics and distribution networks dominate the higher end markets. European SMEs should also avoid fierce competition from many powerful local players in the mass market.

#### *Specialty boutiques*

Small, quality manufacturers who specialise in particular product lines consumed by young urban adults may have opportunities to occupy a niche market. For example, in the kids' wear segment that is benefiting from a recent uptick in the birth rate in China and parents' willingness to spend on the finer things for their children. As mentioned before, highly differentiated products and location are key competitive factors.

#### *Online boutiques*

Online shops can help overcome the physical access limitation of a traditional retail outlet. Success of many independent online brands proved that the high growth of online apparel purchases will provide opportunities for those who are prepared. The key success factors for European SMEs will be:

- Insights in the local market;
- Clearly defined target groups;
- High value added and differentiated products;
- Effective online and offline marketing;
- Consistent logistics and after-sale services.

#### *Design and development*

Quality and constant roll out of new and innovative products are key success factors in this sub-sector. Less than 10% of Chinese companies in the T&A sector have their own brands. Most companies engage in OEM, ODM and processing. More Chinese enterprises are seeking to cooperate with experienced European designers, or to buyout established European brands together with their design and development studios.

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<sup>5</sup> Fashion & apparel retailing in China 2010: a market analysis, Access Asia Limited, 2009.

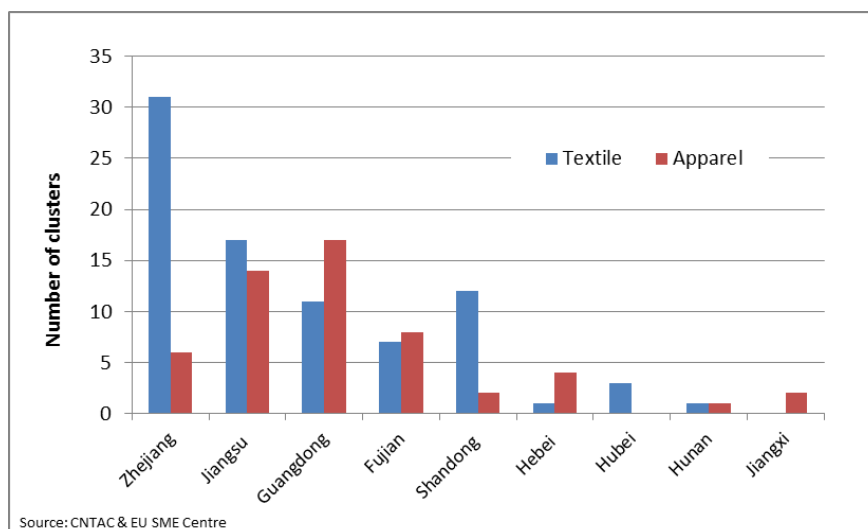
<sup>6</sup> Special reports: merging market consumers, McKinsey 2007.

## 4.2 Opportunities by region

### 4.2.1 Textile

The Pearl River Delta and Yangtze River Delta still hold the highest number of T&A manufacturing clusters.

**Chart 11. Textile and apparel clusters by region**



Among the 55 apparel clusters, 17 are located in Guangdong province and 14 in Jiangsu, followed by 8 in Fujian, 6 in Zhejiang and 4 in Hebei.

Among the 96 textile clusters, 31 or nearly one-third are located in Zhejiang and 17 in Jiangsu, followed by 12 in Shandong, 11 in Guangdong and 7 in Fujian.

Driven by cost and encouraged by the government, newly developed clusters are growing faster in mid and west Chinese provinces including Hubei, Hunan, Jiangxi, Anhui, Henan, Heilongjiang, Liaoning, Ningxia, Qinghai, Shanxi and Xinjiang.

R&D centres are usually located in first tier cities, namely Beijing, Shanghai, Guangzhou and Shenzhen for better access to human resources.

### 4.2.2 Apparel

There are strong levels of competition in the first tier<sup>7</sup> and second tier cities<sup>8</sup>, driving retailers to up their plans for regional expansion.

In addition to new stores, there is a steady stream of new foreign and domestic entrants adding to the competitive frenzy. Smaller, successful brands and chains will likely become targets for increased mergers and acquisitions activity in a market that will need to begin consolidation<sup>9</sup>.

<sup>7</sup> Beijing, Shanghai, Guangzhou, and Shenzhen.

<sup>8</sup> Chengdu, Chongqing, Dalian, Hangzhou, Ningbo, Kunming, Nanjing, Suzhou, Qingdao, Tianjin, Zhuhai, Wuhan, Xiamen and Shaanxi

<sup>9</sup> Fashion & Apparel Retailing in China 2010, Access Asia.

For online retailers, a survey conducted by China IntelliConsulting Corp. in September 2009 also pointed at the first tier and the eastern coastal cities as leading markets in terms of size and per capita consumption.

	Number of online shoppers	Total apparel purchase online 2008 (C2C+B2C)	Per capita online consumption on apparel
Beijing, Shanghai, Shenzhen and Guangzhou	7.95 million	CNY 8.7 billion (EUR 0.96 billion)	CNY 1,094 (EUR 122)
Ten eastern coastal cities of Dalian, Tianjin, Qingdao, Nanjing, Suzhou, Wuxi, Hangzhou, Ningbo, Xiamen and Foshan	4 million	CNY 4.6 billion (EUR 0.51 billion)	CNY 1,150 (EUR 128)
Four central provincial capitals of Shijiazhuang, Zhengzhou, Wuhan and Changsha	1.45 million	CNY 1.5 billion (EUR 0.17 billion)	CNY 1,034 (EUR 115)
Three western cities of Chengdu, Chongqing and Xi'an	2.6 million	CNY 2.3 billion (EUR 0.26 billion)	CNY 885 (EUR 98)

Source: China IntelliConsulting Corp.; Access Asia, Online Retailing in China 2011

## 5. Challenges in the market

### 5.1 Legal and regulatory barriers

This sector is open to private and international players and there are limited regulatory barriers. For online retail however there are significant barriers, including the need to acquire content provider and commercial website licences<sup>10</sup>. The latter is particularly difficult for foreign invested enterprises (FIEs) to obtain. To sell online, FIEs may have to consider going through third party platforms such as Taobao (B2C) or Alibaba (B2B)<sup>11</sup>.

#### *Standards and certification*

For both textile and apparel products GB (national level standards) and industry standards will apply depending on the product. European importers may therefore have to self-declare conformity to relevant Chinese standards depending on the product<sup>12</sup>. Imported apparel may be tested based on its performance for safety, hygienic and environmental factors as outlined in GB 18401 and other relevant GB Standards. Textiles used for safety purposes may also need mandatory conformity testing according to relevant Chinese regulations.

#### *Customs*

All textile and apparel products will be subject to AQSIQ inspection procedures but not all will be tested. However, if tested and found to be in non-compliance with Chinese standards, the products in question will be destroyed or returned.

<sup>10</sup> These licences are required if the website is based on a server in China.

<sup>11</sup> [www.taobao.com](http://www.taobao.com); [www.alibaba.com](http://www.alibaba.com)

<sup>12</sup> For example, GB 18401, GB 5296.4 which cover general quality and safety requirements and labelling for textiles and apparel.



### *IPR issue*

Counterfeiting or imitation of brand name products is rampant in China while IPR legislation is still in the developing stage and IPR enforcement is weak. Proper trademark registration and short innovation cycles will help mitigate the risks.

## **5.2 Market barriers**

### *Local competition*

Rivalry among existing competitors is increasing due to decelerated sector growth rate from a compound annual growth rate (CAGR) of over 20% from between 2004 and 2009 to around 10% in recent years. European companies will be competing with other foreign exporters such as the USA, Japan and Korea in the high-end market. In the meantime, local companies already enjoy a ready network of trading partners and are actively trying to upgrade to international standards through more investment in R&D or JV establishment. European SMEs will be less familiar with the local business environment and customer preferences, and will therefore need to quickly adapt and leverage their product innovations and global network.

### *Fragmented distribution channel*

Wholesale markets are mostly dominated by low and medium-end products. Because of a lack of national distributors, European SMEs have to deal with local distributors in each region which is a heavy tap on an SME's limited resources. It is not easy to find a sales agent who is able to both execute a high-end product image and have strong connections with different sales channels.

## **5.3 Operational challenges**

Operational challenges highlighted by companies in this sector include:

- Difficult to find and retain qualified engineers or product designers;
- Short supply of quality retail spaces for middle to high-end apparel retailers;
- Volatile cotton price putting pressure on companies' cashflow and inventory management.

## 6. Report summary

	Textile	Apparel
Opportunities	<ul style="list-style-type: none"> <li>● Hi-tech specialist fibre and yarn</li> <li>● Eco-dye</li> <li>● Hi-end fabrics</li> <li>● Automatic and greener textile machinery</li> <li>● Design and development services</li> </ul>	<ul style="list-style-type: none"> <li>● Brand buyout</li> <li>● Specialty boutiques</li> <li>● Online boutiques</li> <li>● Design and development services</li> </ul>
Legal barriers	<ul style="list-style-type: none"> <li>● Few if any restrictions</li> <li>● Online retail for websites based on servers in China will require content provider and commercial website licences</li> </ul>	
Taxes applicable	<ul style="list-style-type: none"> <li>● Corporation tax 25%</li> <li>● VAT 17%</li> <li>● City Maintenance and Construction Tax 1 - 7% of VAT depending on location</li> <li>● Education surcharge 3% of VAT</li> </ul>	
Certification requirements	<ul style="list-style-type: none"> <li>● Self-declaration of conformity to relevant Chinese standards for textiles</li> <li>● Both GB standards and industry standards will apply depending on the product</li> <li>● Textiles used for safety purposes may need mandatory conformity testing according to relevant Chinese regulations</li> <li>● Labelling standards will apply</li> </ul>	<ul style="list-style-type: none"> <li>● Self-declaration of conformity with relevant Chinese standards such as GB 18401, GB 5296.4, etc</li> <li>● Imported apparel will be tested based on its performance for safety, hygienic and environmental factors as outlined in GB 18401 and other relevant GB standards</li> <li>● Industry specific standards also apply</li> <li>● Labelling standards will apply</li> <li>● Imported apparel in non-compliance with Chinese standards will be destroyed or returned</li> </ul>
Market challenges	<ul style="list-style-type: none"> <li>● Fragmented with a large number of players</li> <li>● Commoditisation</li> <li>● Volatile cotton and other commodity prices</li> </ul>	<ul style="list-style-type: none"> <li>● Intense competition in the domestic market putting downward pressure on prices and profits</li> <li>● Commoditisation</li> <li>● Short supply of quality retail spaces</li> </ul>
Success factors	<ul style="list-style-type: none"> <li>● Advanced technology and products</li> <li>● Technical expertise and knowledge</li> <li>● Economies of scale</li> </ul>	<ul style="list-style-type: none"> <li>● Quality and branding</li> <li>● Adapted to local market</li> <li>● Effective distribution channels</li> <li>● Frequent new product development</li> <li>● Economies of scale</li> <li>● Proximity to key markets</li> </ul>

**Resources**

Further reading
<p><b>12th five year plan – goals of the textile industry</b>  <a href="http://www.adsaleata.com/Publicity/ePub/lang-eng/article-6832/asid-73/Article.aspx">http://www.adsaleata.com/Publicity/ePub/lang-eng/article-6832/asid-73/Article.aspx</a>            Published by: Journal for Asia on Textile and Apparel            Accessed on: 7 June 2011</p>
<p><b>Study on Textile EU-Chinese standards</b>            In-depth comparison (including testing methods) of selected standards applying to textile and clothing products in Europe, internationally and in China.  <a href="http://www.citeve.pt/bin-cache/XPQC1DD5C94336DF7273C88ZKU.pdf">http://www.citeve.pt/bin-cache/XPQC1DD5C94336DF7273C88ZKU.pdf</a>            Published by: EU-China Trade Project            Accessed on: 7 June 2011</p>
<p><b>China Garment, Accessories and Fabric Market</b>  <a href="http://www.ice.gov.it/paes/asia/cina/upload/174/China%20Garment,%20Accessoriesand%20Fabric%20Market%20Research-20100323.pdf">http://www.ice.gov.it/paes/asia/cina/upload/174/China%20Garment,%20Accessoriesand%20Fabric%20Market%20Research-20100323.pdf</a>            Published by: Italian Trade Commission            Accessed on: 7 June 2011</p>
<p><b>CEEI Textile Market Access Study - Final Report (1999)</b>            Trade in textile products between China and the EU (Page 41-48)  <a href="http://trade.ec.europa.eu/doclib/docs/2005/march/tradoc_112051.pdf">http://trade.ec.europa.eu/doclib/docs/2005/march/tradoc_112051.pdf</a>            Published by: CENTRE D'ETUDES ECONOMIQUES ET INSTITUTIONNELLES - C.E.E.I.            Accessed on: 7 June 2011</p>
<p><b>Special reports: merging market consumers, McKinsey 2007</b>            How half of the world shops: Apparels in Brazil, China and India  <a href="http://www.dea.univr.it/documenti/Avviso/all/all202394.pdf">http://www.dea.univr.it/documenti/Avviso/all/all202394.pdf</a>            Published by: McKinsey            Accessed on: 8 June 2011</p>
<p><b>Report on China's Textile Industry Operation 2010-2011</b> (Paid report)  <a href="http://www.researchandmarkets.com/research/a9d236/report_on_chinas_textile_industry_operation_2010">http://www.researchandmarkets.com/research/a9d236/report_on_chinas_textile_industry_operation_2010</a>            Published by: China Research &amp; Intelligence, April 2011</p>

**Exhibitions**

A series of textile trade fairs organised by Messe Frankfurt Ltd:  
[http://www.messefrankfurt.com.hk/fair\\_list.aspx?industry\\_id=1](http://www.messefrankfurt.com.hk/fair_list.aspx?industry_id=1)

**Yarn Expo Autumn**

Aug 29-31, 2011, Shanghai

**Intertextile Shanghai Home Textile**

Aug 29-31, 2011, Shanghai

**Interstoff Asia Essential – Autumn**

Oct 6-8, 2011, Hong Kong

**Intertextile Shanghai Apparel Fabrics**

Oct 18-21, 2011, Shanghai;

**Intertextile Shanghai Home Textiles - Spring**

Feb 12-Mar 02, 2012, Shanghai

**Interstoff Asia Essential – Spring**

Mar 14-16, 2012, Hong Kong

**Intertextile Guangzhou Home Textiles China**

Mar 18-21, 2012

**Intertextile Beijing Apparel Fabrics**

Mar 28-30, 2012, Beijing

**Cinte Techtexil China**

Oct 22-24, 2012, Shanghai

Messe Frankfurt (Shanghai) Co., Ltd

Tel: +86-21 6160 8555;

info@china.messefrankfurt.com

Messe Frankfurt (HK) Ltd.

Tel: +852-2802 7728;

info@hongkong.messefrankfurt.com

**SHANGHAITEX 2011**

<http://www.shanghaitexonline.com/STX11/Main/lang-eng/Information.aspx>

The International Exhibition on Textile Industry (ShanghaiTex) is held biennially in Shanghai since 1984, it is a known exchange platform of trading information for manufacturers of both textile machinery and textile products.

June 14-17, 2011, Shanghai

Tel: +852-2811 8897

Email: textile@adsale.com.hk

**Première Vision China**

<http://premierevision.cn/?page=01&lang=en>

Première Vision China provides opportunity for Chinese Fashion professionals to choose unique fabrics that will meet their needs and will make all the difference in their collections.

Oct 20-21, 2011

Tel : +86-21-5111 3070;

Email: espacechina@premierevision.cn

**CIAMI 2011**

<http://www.ciamichina.com/CIAMI11/Main/lang-eng/Information.aspx>

The 2nd China International Advanced Material Industry Exhibition

Nov 1-3, 2011, Shanghai , China

Tel: +86-21-5187 9766;

Email: ciami@adsale.com.hk

**Yiwu H&G 2011**

<http://www.yiwutex.com/YIWU11/Main/lang-eng/Information.aspx>

The 12th China (Yiwu) International Exhibition on Hosiery, Knitting, Dyeing & Finishing Machinery

November 23- 25, 2011, Yiwu, Zhejiang, China

Tel: +86-21 5187 9766-216 / 224

Email: textile@adsale.com.hk

**China International Clothing & Accessories Fair (CHIC)**<http://en.chiconline.com.cn>

CHIC is the largest and one of the most important fashion fairs in Asia. CHIC is a comprehensive event, integrating forum, award, trend release and seminars participated by franchisers, dealers and distributors around the world.

March 26-29, 2012, Beijing

Tel: +86-10-6505 3207 / 6505 1039

Email: [huangqiong@cwtc.com](mailto:huangqiong@cwtc.com)

**China (Beijing) International Exhibition on Furniture, Home Fashion & Decorations**<http://www.homefashionbj.com/HFD11/Main/lang-eng/Information.aspx>

Jun 22-24, 2012, Beijing, China

Tel: +86-21-5187 9766;

Email: [hfd@adsale.com.hk](mailto:hfd@adsale.com.hk)

**Useful websites****The China Textile Economic Information (CTEI) Website**

CTEI is an official portal website sponsored by China National Textile and Apparel Council (CNTAC) on the Chinese textile & apparel industry. It provides textile information, industrial economic analysis and management services such as online expert Q&A and knowledge base search.

<http://english.ctei.gov.cn>

**Journal for Asia on Textile and Apparel**

Market news, technology information and management insights within and outside China on Textile and Apparel sector.

<http://www.adsaleata.com/Publicity/lang-eng/MainPage.aspx>

**Emerging Textiles**

Global Fibre, Textile and Clothing Market Information: statistical reports about the global fibre, textile and apparel markets, up to date prices on yarns and fibres in Asia and the latest apparel sourcing information including US/EU import prices and country of origin comparison.

<http://www.emergingtextiles.com/>

**Market Access Database – a useful trade tool provided by the European Union**

The Market Access Database is an important tool of the European Union's Market Access Strategy aimed at helping EU businesses overcome trade barriers and thereby develop their activities overseas.

The Market Access Database is a free, interactive online service providing Information about Market Access conditions such as tariffs, exporter's guide, statistical data, and trade barrier regulations in non-EU countries.

**Note:** Access to the Sectorial and Trade Barriers Database, SPS Database, Statistics and Studies sections is free. However, information in the Exporter's Guide and Applied Tariffs sections is restricted to users in the Member States of the European Union and Acceding or Candidate Countries. If the computer on which your browser is running is not directly connected to the internet via an Internet Service Provider located in one of those countries, then you are prohibited from viewing the Exporter's Guide and Applied Tariffs data for any purpose.

<http://madb.europa.eu/mkaccdb2/indexPubli.htm>

**China Chemical & Fibre Economic Information Network (CCFEI)**

Market analysis, statistics, prices, plant news and industry dynamics, covering chemicals, polyester, nylon, acrylic, viscose, spandex, polypropylene and textiles.

<http://www.ccfeci.net/Default.aspx>

**China National Garment Association (CNGA)**

Non-profit association for garment related industry research, information, industry and promotion services

<http://www.cnga.org.cn/engl/index.asp>

**Ministry of Commerce (MOFCOM)**

An executive agency of the State Council of China. Responsible for formulating policy on foreign trade, export and import regulations, foreign direct investments, consumer protection, market competition and negotiating bilateral and multilateral trade agreements.

<http://english.mofcom.gov.cn>

**EU Commission: DG Trade**

A large number of guides, research reports and policy documents for all sectors and trading partners.

<http://trade.ec.europa.eu/doclib>

**China IPR SME Helpdesk**

Useful advice and guides on how to protect IPR in China.

[www.china-iprhelpdesk.eu](http://www.china-iprhelpdesk.eu)

**International Trade Centre: Trademap**

Trade statistics for international business development

Import & export values, volumes, growth rates, market shares, graphs and more.

<http://www.trademap.org>



**Contact the Centre at:**

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37 Maizidian West Street  
Chaoyang District  
Beijing, 100125

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The EU SME Centre assists European SMEs to export to China by providing a comprehensive range of free, hands-on support services including the provision of information, confidential advice, networking events and training. The Centre also acts as a platform facilitating coordination amongst Member State and European public and private sector service providers to SMEs.

The Centre's range of free services cover:

- Business Development – provision of market information, business and marketing advice
- Legal – legal information, 'ask the expert' initial consultations and practical manuals
- Standards – standards and conformity requirements when exporting to China
- HR and Training – industry and horizontal training programmes
- Access to a service providers directory and information databases
- Hot-desking – free, temporary office space in the EU SME Centre to explore local business opportunities
- Any other practical support services to EU SMEs wishing to export to or invest in China.

[www.eusmecentre.org.cn](http://www.eusmecentre.org.cn)  
[enquiries@eusmecentre.org.cn](mailto:enquiries@eusmecentre.org.cn)

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**Date:** August, 2011



The EU SME Centre is a project funded by the European Union.