



PSF 2011: China continues to be key to apparel sourcing

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China will continue to be key to the sourcing strategies of apparel retailers and brands, according to industry executives speaking at the Prime Source Forum in Hong Kong over the past few days.

"Which other country has the manpower or competitive potential to take up the slack if exporters did need or want to dilute their reliance on China?" asks David Dodwell, CEO of Strategic Access Ltd.

Citing a recent study by the Trade Development Council, he points out that China currently accounts for 38% of US garment imports, while the second largest supplier, Vietnam, accounts for just 7.8%. The same applies to footwear, but here the contrast is even more extreme: 76% of US footwear imports come from China, followed by Vietnam with just 7.4%.

"Any shift of manufacturing to any of those other locations is, I would argue, of little consequence to the importance of China in most people's supply chain," Dodwell says.

He adds that the size and skill of the Chinese workforce - its labour pool of 777m people is nearly 20 times larger than Mexico's 47m, for example - means the migration of business from China is unlikely since "there simply isn't the capacity elsewhere to absorb the shift."

"I would not write China off by far," agrees Veit Geise, VP of Asia Sourcing at VF Asia Ltd. In his view, the only thing that makes any other country competitive with China is price, "and if this price gap gets smaller, the sourcing decision would tend to be for China."

His assessment of what makes China so competitive is based on ten points that sourcing managers look at when they decide to place an order. On this basis, China scores six out of ten, beating the competition when it comes to product execution, reliability (on-time performance, delivery), flexibility (smaller orders, quick changes of capacity), speed to market, and claims settlements.

As far as payment terms, political and geo-political stability, and compliance are concerned, there is no clear-cut winner. So the only area where China falls short is price.

Despite ongoing worries about rising wages in the country - labour costs in China are estimated to have risen by 30% in the last year alone, with a 20% rise in minimum wages from 1 April coming on top of a 30% increase on 1 July last year - executives note China's infrastructure for trim and fabric supply also gives it a leading edge.

Dr Harry Lee, CEO of TAL Apparel, points out that the government's 12th Five-Year Economic Plan includes a doubling of wages as one of its objectives. But he believes "the cost of fabric and trim supply will still make China very efficient," adding: "As far as supply is concerned, we should still get efficient supply from China for some time."

Likewise, Geise explains that from the US perspective, when "you buy your fabric and your trims in China, make the garment in China, and ship it to the US, there is no faster formula anywhere in Asia."

David Dodwell believes there's still plenty of untapped potential in China. "The reality is that if exporters in the Pearl River Delta are thinking about relocating anywhere, it's not to another country but to another region of China."

It's a view shared by Professor Dr Helmut Merkel, managing shareholder at EurAsia Global Concept Ltd.

"I do not realistically see a short-term option to move capacity out of China," he told Prime Source Forum delegates. "Only the coastal belt from north to south is really industrialised and there are a lot of areas in the north of China which are still untouched.

"In its five-year plan China wants to balance more between this coastal belt and the rural areas, which is a challenge but they've invested billions into the infrastructure to do that."

"The way to survive along the coast is to become a high-tech, high capital value added industry, and who says the apparel industry can't be that with the appropriate investment, machinery, and with added sophistication in research and development?" challenges Edwin Keh, lecturer at the Wharton Business School at the University of Pennsylvania and former SVP, COO of Wal-Mart Global Procurement.

"This is the type of industry that will be welcomed and encouraged in this part of the Delta."

And the reality is that even if the world wants to run away from China, are India, Bangladesh, Pakistan, Vietnam or Indonesia ready to double or triple their capacity in both the long and short term?

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