

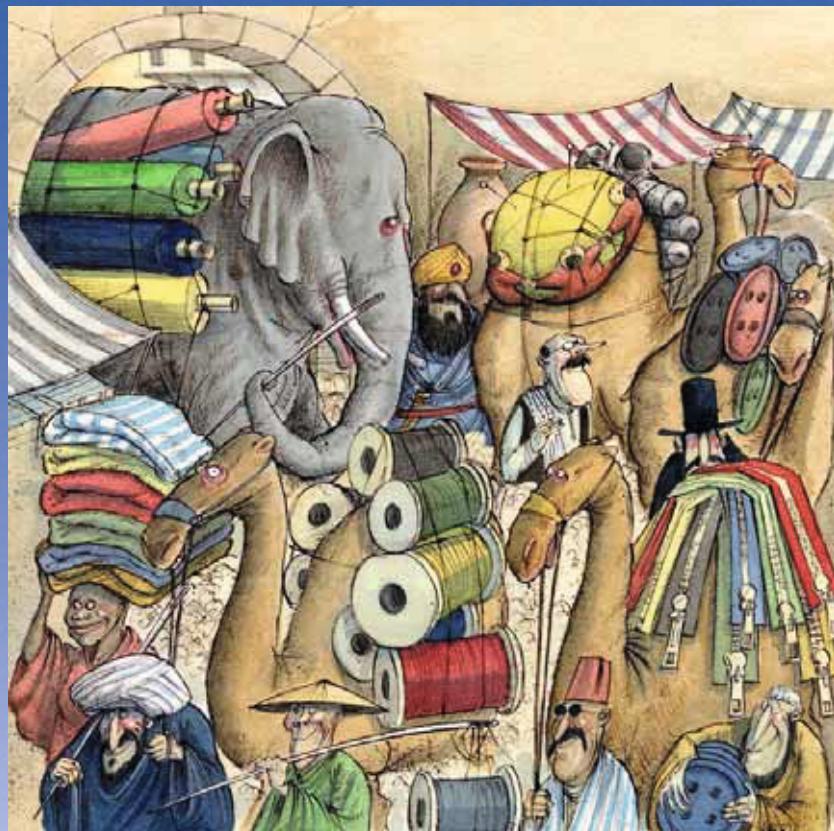


International Trade Centre
UNCTAD / WTO



Source-it

*Global material sourcing for
the clothing industry*





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Geneva 2005

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Source-it – Global material sourcing for the clothing industry

Geneva: ITC, 2005. xvi, 201 p.

Guide dealing with dynamics of the global textiles and clothing supply chain, and why and how garment manufacturers need to develop alternative sourcing and supply management approaches – reviews historical background; discusses Chinese advantage in the international garment industry; explains different stages involved in material sourcing process; deals with fabric and trim sourcing; discusses politics of trade; includes case studies; appendices cover preferential access to the EU, summary of United States rules of origin, measures and conversions, and shipping terms/Incoterms; also includes glossary of related terms.

Descriptors: **Clothing, Textiles, Textile fabrics, Supply chain, Supply management, Value chain, Agreement on Textiles and Clothing**

English, French, Spanish (separate editions)

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Foreword

The textile and clothing (T&C) sector faces tremendous future challenges as the legal framework that has governed imports from developing countries for the past four decades prepares for monumental change. In the past, developing countries were limited in their export efforts by quantitative restrictions determined by stringent bilaterally negotiated quotas stipulated in binding agreements. From 2005 onwards, imports from World Trade Organization (WTO) member countries will no longer be restricted by quotas. Quantitative limits on T&C exports from developing countries will be abolished and trade will be governed by General Agreement on Tariffs and Trade (GATT)/WTO rules. Although tariffs will still be in place, the liberalization of the T&C sector by means of quota abolition is a decisive step towards free trade. But just what does the liberalization of the T&C sector mean to the market and its players?

Because of phasing out of the quota system, existing trade patterns are already changing. T&C players need to anticipate market changes and prepare their businesses accordingly, developing medium- and long-term strategies that take account of a new legal environment and changing business realities. Countries, industries and companies that neglect the post-2005 legal framework changes will be at a serious disadvantage. All the more so as retailers and buyers in the EU and the United States of America are already preparing to exploit the opportunities which the post-2005 system will offer.

After quota phase-out, buyer requirements will increase, forcing developing country garment manufacturers to take over new functions in the value chain, including sourcing and supply management. This is a difficult task for many garment-exporting developing countries as most lack vertically integrated industry and consequently operate under cut-make-trim (CMT) terms. Manufacturers in most developing countries still depend on imported yarn, fabric, trims and other inputs in order to produce export-oriented apparel. For example, in Bangladesh around 70% of the FOB value of a woven shirt is made up of imported inputs.

Currently the retailers of finished products or their agents source these inputs on behalf of their developing country garment manufacturers. In the future, however, these operations will increasingly be passed on from the retailer or their agents to the factories which will be expected to offer full package services. Alarmingly, because of the quota system and all its implications, most developing country apparel manufacturers are sorely lacking in the necessary business relations, skills or knowledge that effective management of the supply side of the production process will require.

The objective of this ITC book is to assist garment manufacturers in developing countries and transitional economies as they begin to develop their supply management operations and full package services. It is a key resource outlining the skills and knowledge which will be necessary for those wishing to perform independent sourcing and supply operations.

In many cases, however, the book alone will not be sufficient. ITC will therefore conduct training seminars on this subject in developing countries, targeting decision-makers from the business sector, apparel and textile associations, as well as financial and related industry institutions. Topics to be addressed will include the dynamics of the global T&C supply chain, and why and how garment manufacturers need to develop alternative sourcing and supply management approaches. In addition, basic training for future supply managers, merchandisers and garment sourcing training personnel can also be provided if requested.

Because of regional trading schemes and corresponding rules of origin requirements, regional sourcing is expected to increase in importance in the coming years. To further support regional sourcing and overcome the current absence of a competitive supplier base, a database on regional textile, trims and related industry suppliers in South Asia and ASEAN countries has been developed and will be available on the ITC T&C website.

Overall, it appears likely that the anticipated changes in the T&C sector will result in greater risks and challenges rather than opportunities, particularly for smaller exporters in least developed countries (LDCs) and smaller vulnerable economies. Comprehensive preparation is a must to manage these risks, and concrete action must be taken to secure existing or penetrate additional markets.

How developing country manufacturers can prepare for the post-2005 scenario is addressed by ITC's trade-related technical assistance approach for the clothing sector. Clothing manufacturing small and medium-sized enterprises (SMEs) are faced with six major trade-related needs:

- Lack of a clear sector strategy to confront future challenges;
- Insufficient understanding about competitors;
- Absence of fabric and trim sourcing skills to become 'full package' suppliers;
- Insufficient understanding of changing world markets;
- Insufficient understanding of the importance of e-commerce and how to respond to new 'e' requirements of buyers;
- Lack of product and market development skills and approaches, particularly in penetration of fast-growing southern hemisphere markets.

ITC offers technical assistance solutions using a wide range of tools and services to help build the capacity of T&C related trade support institutions (TSIs) and to assist clothing manufacturing SMEs to benefit from growing international markets. ITC's response to the above mentioned six major challenges is as follows:

Sector strategy development (The Shape). ITC guides concerned ministries and clothing sector associations in creating a comprehensive approach towards establishing a national clothing strategy via a 10-step structured thinking process known as 'The Shape'. T&C stakeholders who follow the steps will be able to assess and diagnose their industry's value chain, define problem-solving actions, and exploit export and sourcing opportunities. A two-workshop process conducted under ITC supervision also assists in strategy implementation.

Understanding own and competitors' performances (The FiT). ITC helps enterprises to benchmark themselves against major competitors, using a software-based benchmarking tool called 'The FiT'. SMEs receive clear performance ratings in key competitiveness areas, indicating strong areas to exploit and weak areas to improve. ITC trains T&C associations in using the tool and maintains a global benchmarking database.

Developing fabric sourcing skills to become 'full package' suppliers. This book and accompanying training material will assist developing country clothing manufacturers to develop their sourcing skills both theoretically and in practical training workshops. ITC's regional fabric and trims sourcing database is available on request. Moreover, ITC organizes regular sourcing missions to identify new suppliers of fabrics and accessories.

Understanding changing markets and satisfying customer demand. ITC's website provides business information, data analysis and answers to most of the uncertainties faced by those in the T&C sector. ITC workshops held in developing countries will assist T&C stakeholders to understand future competitiveness requirements and how to confront them successfully. Finally, ITC develops and implements tailor-made projects addressing specific needs with regard to customer demands relating to product and market development, including design.

Applying e-applications in the T&C sector. ITC has published a business guide on business e-applications used in the T&C sector, providing an overview of technology developments and 'e' requirements imposed by Western buyers. The findings can be disseminated during workshops. In addition, advice and training on how to adapt to these new requirements and the development of tailor-made solutions can be provided.

Implementing tailor-made market penetration approaches in line with buyer requirements. ITC helps countries to develop tailor-made projects to improve sector competitiveness. This includes any or all of the above-mentioned items as well as other product and market development activities. As future growing markets are found in other developing countries, South-South trade development becomes increasingly important for the T&C sector.

More information can be found on the ITC T&C website at www.intracen.org/textilesandclothing.

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