

## Enhancing the export competitiveness of the textile and clothing sector in developing countries

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**Over the years, assembling clothing has become a commodity. However, mere cut and sew operations are no longer a sustainable offering. To achieve the employment targets envisaged by governments, companies must provide additional services and diversify their client portfolios, possibly also developing their own products. To do this, they must move up the value chain. The GTEX Programme provides a theory of change for doing this - the 'smiley-curve' for value addition - and supports its implementation in the six countries it focuses on.**

The Global Textiles and Clothing (GTEX) Programme addresses common sectoral challenges observed in many developing countries. These relate to changing trade patterns due to shifting brand and retailer requirements. Relying mainly on proximity and preferential market access is no longer enough to serve clients who increasingly follow a full costing approach, selling garments at full, non-discounted prices to consumers.

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Common challenges include low market diver- sification; dependence on simple cut and sew

operations, with low service provision, low productivity levels and inadequate engineering approaches; missing national backward integration with fabrics and trims being imported; as well as social and environmental sustainability concerns. Moreover, middle management is often filled with expatriates, as companies cannot find sufficient local expertise. Also, textile- and clothing-related trade and investment support institutions are too weak to effectively enable the challenges to be addressed. Hence, the Programme works at both enterprise and institutional levels.



## *The GTEX Programme*

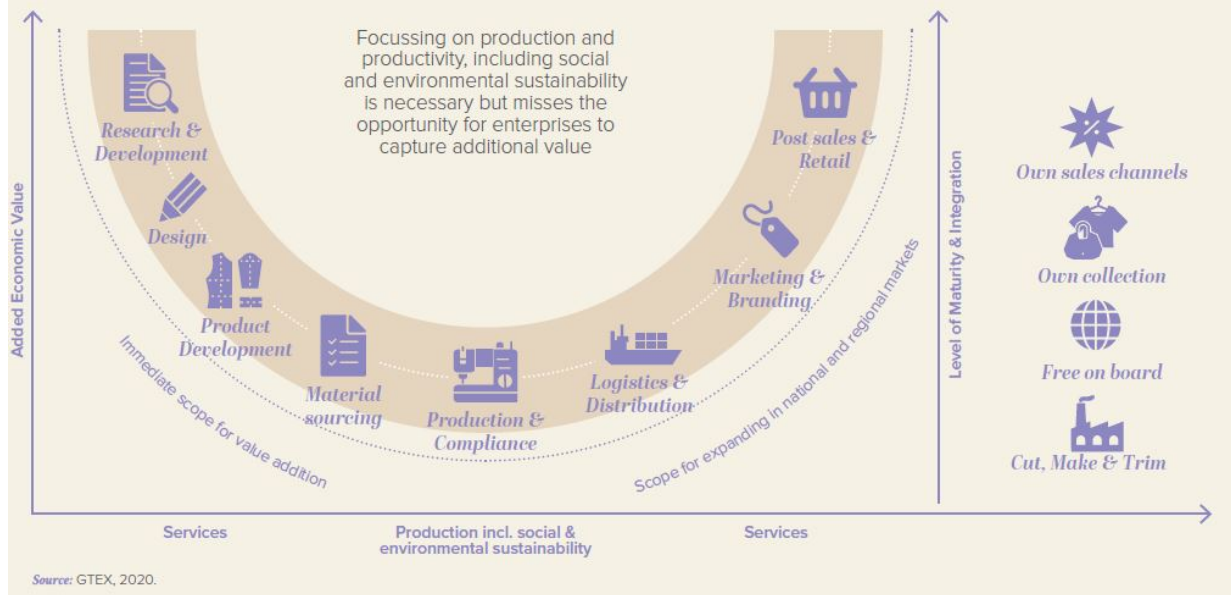
The various projects of the programme are at different stages of implementation. While work in Central Asia is already in its third phase, activities in Tunisia commenced in early 2018, work in Morocco in late 2018, Jordan in mid-2019 and Egypt in October 2019. The projects were scheduled to end in December 2021 but will likely be extended, in part due to Covid-19 disruption. Other countries with different timelines are being included – such as Madagascar in late 2019 – as opportunities arise.

The GTEX MENATEX Programme is funded by the State Secretariat for Economic Affairs (SECO) of the Swiss Confederation and the Swedish International Development Cooperation Agency (Sida), and focuses on six priority countries (Egypt, Morocco, Jordan, Kyrgyzstan, Tajikistan and Tunisia). The project in Madagascar was funded by the Department of International Development of the United Kingdom.

### **THEORY OF CHANGE**

The 'smiley-curve' for value addition in the global apparel value chain provides the basis for the Programme's theory of change. It provides a succinct overview of where and with which service offerings companies can capture value from, and add value to their operations. It also shows opportunities for closer collaboration at the regional level, to address the missing links in the value chain. The figure below shows that the most important value-adding stages are the intangible services at the pre-production (left side of the 'smiley-curve') and post-production (right side of the 'smiley-curve') stages.

## The GTEX theory of change Extracting value added from the textile and clothing value chain ▼



Over the years, assembling clothing has become a commodity. Consequently, the ‘smiley-curve’ has become increasingly steeper, reflecting a declining share of value addition in assembly tasks. Hence, performing only simple cut and sew operations is not a desirable and sustainable position for many companies. While productivity, lean processes and social and environmental compliance on the factory floor are necessary to consolidate the existing client base and to lay the foundation for starting to move up the value chain, they are not sufficient to grow and to achieve the employment targets envisaged by the respective governments. In fact, relying only on temporary cost advantages would be dangerous. Thus, companies must move beyond production, and provide additional services, while diversifying their client portfolios.

**FOCUS  
GTEX**

The Global Textiles and Clothing Programme (GTEX) and its related work in the Middle East and North Africa (MENATEX) promotes textile and clothing exports from Kyrgyzstan and Tajikistan, as well as from Egypt, Jordan, Morocco and Tunisia. By enhancing the export competitiveness of the sector, the Programme expects to increase exports and subsequently employment.

### BUILDING SME COMPETITIVENESS TO MOVE UP THE VALUE CHAIN

Applying these insights, GTEX/MENATEX helps companies in developing countries to build the capacity to fulfil critical functions along the value chain, to meet identified market requirements. Taking over additional functions, companies will be able to move from simple cut and sew operations toward a full package offering and, in some cases, to developing their own products. Value addition through service provision starts with production processes, by introducing lean manufacturing techniques and ensuring companies’ social and environmental performance. Pre-production, the Programme builds the skills to start sourcing the fabrics and trims they require in new sourcing

destinations, and provides product development and design training. Post-production, it focusses on creating marketing and branding know-how, and creates linkages to new clients in diversified markets.

Moving up the right side of the 'smiley-curve' requires in-depth market and consumer knowledge, a known brand name in the targeted consumer segment, and physical or virtual sales outlets in target markets. Hardly any companies have the required knowledge, skills, and sales networks in traditional export markets. Therefore, the Programme helps a few companies with their own product offerings to add value at the post-production stage, by focussing on the home country and gradually expanding within the region.

In Tajikistan - an early starter with the Programme - beneficiary companies have reported additional exports of USD 18.6 million since 2018. This represents 15% of the sector's employment, with an average salary increase of 10.5% in 2019.

The Programme also fosters collaboration among companies, based on strong synergies, representing an attitudinal shift away from working in isolation. In Tunisia, companies created two collaboration consortia. One among lingerie manufacturers jointly sourced material, leading to a 10% reduction of input costs. Another jointly assembled a collection for presentation at the next trade fair.

The Programme also supports a mentoring approach between large 'champion' and smaller companies. Champions gain, as they create additional trustworthy opportunities for outsourcing, with the programme incentivising additional linkages. Initially perceived as challenging, the Covid-19 crisis has shown that this novel approach can work. In Morocco and Tunisia, some larger companies that had access to the right PPE fabrics and skills coached smaller ones to produce regulation-compliant facemasks.

## **AN IMPROVED INSTITUTIONAL ECO-SYSTEM TO SUPPORT THE SECTOR**

The Programme can work with only a small sample of companies in each country, so to ensure sustainability, it builds the capacity of T&C (textile & clothing) support institutions. Following assessment, the Programme supports institutions in preparing performance improvement roadmaps and new service portfolios for companies. Academic and vocational training institutions are also sustainably linked to the industry through closer partnerships. For example, in Tunisia a partnership between the sector association (FTTH) and the ESSECT business school allowed master's and PhD students to work with T&C companies, while providing the sector with scientific research work. Also, the Programme facilitated collaboration between FTTH and l'École nationale d'ingénieurs de Monastir (ENIM) to adapt the 'Ingénieur en Habillement' diploma to the changing needs of the industry. In Kyrgyzstan and Tajikistan, local universities established garment training centres to serve the industry, providing academic and technical education.

## **A GLOBAL COMPONENT ON KNOWLEDGE MANAGEMENT AND REGIONAL COLLABORATION**

For MENA countries, the approach also offers opportunities for closer collaboration at a regional level, as none of the countries, with the partial exception of Egypt, can offer an integrated national value-chain. This is challenging, though, since stakeholders see themselves as competitors, rather than collaborators. At the enterprise level, however, the Programme has created a number of promising linkages.

These include a Tunisian company setting up production facilities in Egypt to export duty-free to the US market, as well as Moroccan and Tunisian companies sourcing fabrics from Egypt to benefit from regional cumulation, to fulfil the EU market's double-transformation Rules of Origin requirements. The Programme highlights these benefits to encourage mutually beneficial collaboration at a larger

scale.

## **COVID-19 RESPONSE AND ADJUSTMENTS**

The global pandemic and its related supply and demand shocks will have implications for the Programme. Targets will need to be adjusted, as markets are heavily disrupted and clothing sales are expected to remain low in the months to come. Nevertheless, the overall approach remains valid as it addresses the major weaknesses in the T&C industry, making suppliers more competitive and resilient to shocks.

The crisis requires companies, brands and retailers to innovate with new processes, and to develop partnerships. Hence, the Programme advises companies on how to modernize their costing and pricing systems, among others, enabling them to work with brands and retailers so that garments can be sold to consumers at non-discounted prices.

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