

Business Opportunities and Challenges in The Textile and Apparel Market in China



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1. Market Size

China has the largest textile production and export industry in the world. The industry is a key player in the Chinese national economy and the international textile market as a whole. For the past several years, despite volatile economic conditions from 2008-2011, the market shares of Chinese textiles in clothes in the European Union, the United States and Japan steadily increased¹. Years later, China's textile industry is experiencing declining growth. Growth dropped 6.4 percent in 2015 compared with 2014². China attributes this decrease in industry growth, both to declining overseas orders and to labor as well as other costs rising too fast. Increasing labor costs have, to some extent, undermined the international competitive advantage of the Chinese textile industry. This has led to the growth of textile and apparel exports in other Asian countries.

Chinese textile industry has committed to improving basic research and development projects and to bolstering technical innovations. As a result, the Chinese technical textile industry has experienced rapid growth over the past decade, growing at a much faster rate compared to the whole textile industry. This industry developed relatively late in China, however, companies focused in technical textiles are growing quickly by improving their technology. With significant support from the central government, many Chinese producers in the industry are now seeking to produce high end, high value-added products.

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

1.1. Textile and Apparel Sales in China

China's textile industry maintained a moderate rise in the first quarter of 2016, although the growth of exports to the European Union (EU) and the United States recorded a sharp fall.

Chinese textile exports in the first quarter grew by 22.16% reaching EUR 24.6 billion³. The growth rate is 3.17 higher than the same period last year in percentage points. China's textile exports to the US and the EU, which set quota limits reached the sum of EUR 7.3 billion, representing a growth of only 9.7%, 47 percentage points lower than the growth rate of the same period last year.

¹ Source: China Research and Intelligence Co Ltd

² Source: China Customs statistics

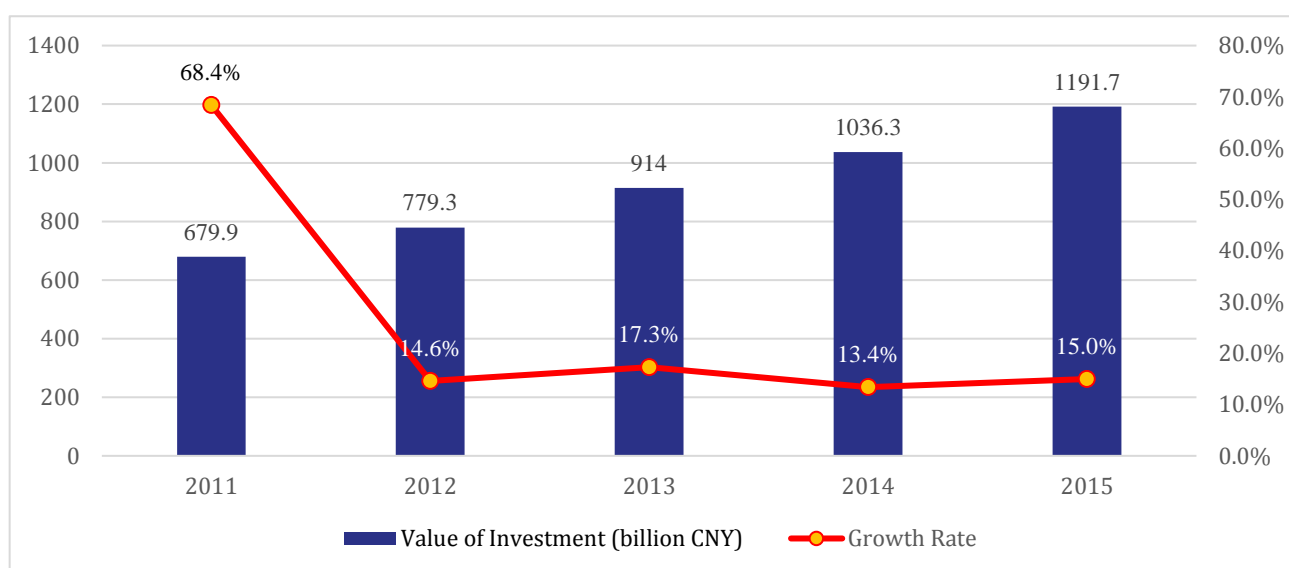
³ source: Association of Textile Industry of China

On the other hand, textile exports from Mainland China to Japan, Hong Kong, Republic of Korea and the Association of Southeast Asian Nations (ASEAN), which have no quota restrictions, jumped to 28.38%. That means 23.32 percentage points higher than the growth recorded in the same period last year. Production is expected to increase textile 20% and total exports increase 15% in 2016.

In terms of production capacity, China remains world leader. According to a 2016 study by Prof Shang Lu⁴ : “In 2014, the latest statistics available, textile fiber production in China exceeded 50 million tons, accounting for 54.36 percent of world share. By 2013, as much as 64.2 percent of the world’s chemical fibers, 64.1 percent of synthetic fibers and 26.2 percent of cotton were produced in China. On the other hand, apparel production in China reached 29.9 billion units in 2014, up 10.4 percent from 2013. Given China’s vast production capacity, it is very likely that it will remain the top apparel-sourcing destination for most EU and US fashion apparel companies for many years to come”.

Growth rates of the Chinese T&A Industry, continues Prof Shang, have showed a downward trend: “[...] output of China’s T&A industry (measured by value added) grew only 7.0 percent between 2013-2014, a significant drop from 10.3 percent between 2009-2010”. Similar patterns can be seen in all the other main indicators in the industry (sales revenue, net profit to investment), as a result of the overall slowdown of the domestic economy.

Chart 1: Investment in the China Textile and Apparel Industry



Source China National Bureau of Statistics, 2015

Notably, in a phase of structural adjustment in the T&A sector - where the ratio of apparel, home textiles and industrial textiles has turned from 51:29:20 in 2010 to 46.8: 28.6: 24.6 in 2014 and is set to become 40:27:33 by the end the XIII Five Years Plan (2016-2020)⁵ – in an effort to cut costs, manufacturers are moving from the traditional manufacturing base of the coastal regions to the inlands, where the cost of labor force is lower.

1.2. Textile and Apparel Imports in China

China T&A Trade

In 2013, the Chinese National Bureau of Statistics stated that exports of plastic coated fabrics, medical textiles, non-wovens, canvas textiles, bags and fiberglass were six categories of products whose value accounted for nearly 80 percent of the entire technical textile sector. Among them, the non-woven fabric export growth rate reached 21.2 percent. Conversely, coated fabric, non-woven fabric, glass fiber fabric, medical and health care

⁴ <https://shenglufashion.wordpress.com/2016/01/17/state-of-chinas-textile-and-apparel-ta-industry-updated-in-january-2016/>

⁵ *Idem*

textiles and paper textiles are the main imported products, accounting for 81.2 percent of the total apparel market share, it is already shifting to more value-added products, namely technical textiles. China mainly imports technical textiles from Japan, Taiwan, Korea and the United States. Constant infrastructure construction and fast development of the automotive, aerospace and health care industries in China is also driving technical textiles demand. China's central government is also supporting the industry's development through different methods and aims to increase the proportion of the technical textile industry relative to the overall textile industry. In 2015, the share of technical textiles in China reached nearly 25 percent.

The analysis of the 2013 EU-28 trade data with the world's major trading blocs confirms that China maintained its market share of textile and clothing products in the European Union at the high level of 36.7% but losing progressively, each year, more than one point compared to the previous years (38.2% in 2012, 39.4% in 2011 and 40.8% in 2010). During 2013, Europe, as a consequence of the moderate demand mainly of cheap textiles and clothing goods, China's market share of the EU's T&C imports, in relative value, has declined for a fourth consecutive year below its historical level of 2010. However, China remains the top supplier of woven apparel to the EU-28, the tendency for China seemed to be more and more textile exports whose production was facilitated by more sophisticated and productive machinery, at the expense of garments which are much more labour intensive.

The Mediterranean countries have experienced the same scenario as China. Although this area continued to be a major supplier, its share had contracted from more than 20% in 2009 to 18% in 2015.

On the export front, demand for EU clothing weakened strongly in Russia and Ukraine during 2015. The 28-nation bloc struggled to make gains regardless of a few definite trading advantages, (source: Euratex). In 2015, 57.5% of extra-EU exports went to four main defined groups: the Mediterranean countries with 13.7%, the group of autonomous countries with 11.8%, the EFTA group of countries with 14.2% and the NAFTA group with 17.8%. Woven fabrics were the major textiles exported by the EU. These represented 24.4% of total textile and clothing exports. The NAFTA zone and the Mediterranean countries are the biggest purchasers of textile goods (yarns, fabrics, knitted fabrics and special textiles). Among clothing, woven and knitted articles represented respectively 32% and 17% of total EU textile and clothing exports. These are of particular interest to developed countries. EFTA and NAFTA areas make up the two main buyers, both for woven items with 17% and 18.5% respectively and for knitted items, with 21% and 15.5%. These market shares of clothing purchases were up sharply for the NAFTA area. For the zone of emerging countries in Asia, demand was steady with a total share of purchasing of made up garments of 24.8%.

In contrast, China is still not a significant market for EU exports despite the continuous positive trend in last years, especially for textiles. The share of EU-28 clothing goods exports to China also continues to grow slightly, from 2434 million Euros in 2012, to 2.6 billion Euros in 2013, to 2.8 billion Euros in 2014 and 3,1 billion Euros in 2015 (Source: trade.ec.europa.eu).

Development in 2016

As China is undergoing an economic transformation, high-tech industries are springing up in China's developed coastal regions to replace labor-intensive industries. In the face of new challenges and opportunities, the textile industry is looking to transform by applying new technologies and business models that cover the whole industry chain, including cotton, spinning, weaving and dyeing.

Indeed, the techtextile industry developed rapidly with high-speed growth of industrial scale, continuous improvement of economic efficiency, remarkable results of technological progress and industrial transformation. Rapid developments of important sub-industries, constant expansion of application fields, have laid a solid foundation for the development of industry in the 13th Five-Year Program period. Techtextile has a high dependency on national economy. China has increased investment in infrastructure construction, environmental protection and medical healthcare along with the continuous development of society and economy as well as the thorough implementation of the "One Belt One Road" Initiative. Therefore, the huge

domestic market is still the greatest motivation for industrial development. Supply-front reform will provide a growth impetus to industrial transformation, speeding up the update of the advanced equipment and high-end capacity investment, accelerating technological transformation and new product development, promoting the industrial competitiveness, and better replacing import and participating in the international competition.

In 2016, the production, investment, and sales in Chinese techtextile industry will continue to increase at a high speed with good economic benefits and the export is expected grow at 5%, as estimated.

In terms of T&A machinery manufacturing, in 2016 China confirmed itself as the global leader. China now provides T&A machinery and equipment for 80% of domestic demand, but it is also a big potential importer of T&A machinery. Provinces of Jiangsu, Zhejiang and Guangdong account for approximately 71% of total imports of T&A machinery in the country. China focuses more on techniques and use of automation technology in T&A manufacturing, so demand for machinery and equipment will increase in the following years. Definitely it will be a good business opportunity for machinery industry from Italy (around 130 countries worldwide buy Italian machinery), Spain (where T&A machinery is growing rapidly, in which there are most small and medium sized companies, specialized in dyeing and finishing products as leading sectors in the country, followed by the spinning machinery), or Germany who still ranks fifth in export value globally for T&A machinery (Asia is the largest import market of German T&A machinery with 40%).

2. Key Growth Drivers

China has experienced an astonishing growth of its economy by doubling its per capita income every five years. In 2015, China had a population of 1.3 billion people, of which 652 million lived in urban areas. A total of 69 million households have a middleclass status and 53 million households have a middle-high class status. Each year 40 million people join the middle class, and its average GDP growth remains above 7% annually. These macroeconomic data support the great potential of the Chinese consumer market, but the main problem for European companies still do not understand the real possibilities and opportunities in the Chinese market. Innovation, added value and environment pollution appear as new challenges and offer enormous business opportunities that the T&A European companies can leverage.

Among the main factors driving the future development of the T&A Industry in China there are:

Free Trade Zones

China is a **political economy**; therefore, foreign companies aware of the political priorities of the country will have a faster path to market and will guarantee better results.

Currently it is favoring the establishment in free trade zones. China following approval and launch in 2013 of the Free Trade Zone of Shanghai, in March 2015 adopted three more areas in Guangdong, Tianjin and Fujian. Knowing the advantages offered access T&A for exhibition in the Free Zone itself and subsequent entry into the Chinese market through these customs (called express by the speed in the process), it provides a clear advantage to those European companies intending to have permanent presence in the Chinese market.

Chart 2: Free Trade Zones in China



Source: Hong Kong Trade Development Council (HKTDC)

The establishment of pilot free trade zones represents China's major move to adopt a more proactive strategy of opening up in line with the new trend of global economic development. The State Council has so far approved pilot free trade zones (FTZs) for Shanghai, Tianjin, Guangdong and Fujian.

The Chinese government sees crucial free trade zones to boost trade and encourage investment. Pilot free zones operate on what they call 'negative list', ie specific investment sectors that are outside the scope of foreign investors. In January 2015, China announced that it would allow foreign investors entry with their own private e-commerce companies by giving them access to the Free Trade Area of Shanghai as part of a pilot plan.

Annual Disposable Incomes

First it is important to be aware about **the fact of annual disposable incomes increase** every year together with consumption habits inclination in China. More Chinese and even more annual expenditure on clothing per capita in China contribute to growing trends.

Table 1: Middle Class Worldwide

| North America | | | | | |
|-----------------------|---------------------------------|-----------------------|---------------------------------|-----------------------|---------------------------------|
| 2009 | | 2020e | | 2030e | |
| Population (millions) | Middle class (% of world total) | Population (millions) | Middle class (% of world total) | Population (millions) | Middle class (% of world total) |
| | | | | | |

The Textile and Apparel Market in China

| | | | | | |
|-----------------------|---------------------------------|-----------------------|---------------------------------|-----------------------|---------------------------------|
| 338 | 18% | 333 | 10% | 322 | 7% |
| Europe | | | | | |
| 2009 | | 2020e | | 2030e | |
| Population (millions) | Middle class (% of world total) | Population (millions) | Middle class (% of world total) | Population (millions) | Middle class (% of world total) |
| 664 | 36% | 703 | 22% | 680 | 14% |
| Asia Pacific | | | | | |
| 2009 | | 2020e | | 2030e | |
| Population (millions) | Middle class (% of world total) | Population (millions) | Middle class (% of world total) | Population (millions) | Middle class (% of world total) |
| 525 | 28% | 1740 | 54% | 3228 | 66% |

Source: "Comprar en China. Recursos clave para el emprendedor" ESIC Editorial, 2016. Beatriz Irún; Homi Kharas, "the emerging middle class in developing countries", working paper no. 285 OCDE, 2010

The Table above shows percentage world middle class is being shifted to Asia Pacific, forecast gives 54% in year 2020. Compared to Europe where trend is down, with 22% middle class forecast in 2020.

In order to access the Chinese upper middle class segment, it is key to have access to objective market information, and proper professional advice in order to design an adequate penetration strategy. Properly designed strategies will take into account the characteristics of each company, will describe the right potential partners in China to allow access, will address the rules and preferred areas in the Chinese political economy, also legal issues governing trademarks and contracts, and the importance of cultural must do's such as guanxi in negotiations. The tastes of Chinese consumers are different from Europeans because of the huge cultural differences between the two worlds, but we must also take into account that current consumption habits of the generation of Chinese consumers born from the 80s onwards, which will mean a significant change in Chinese consumption parameters.

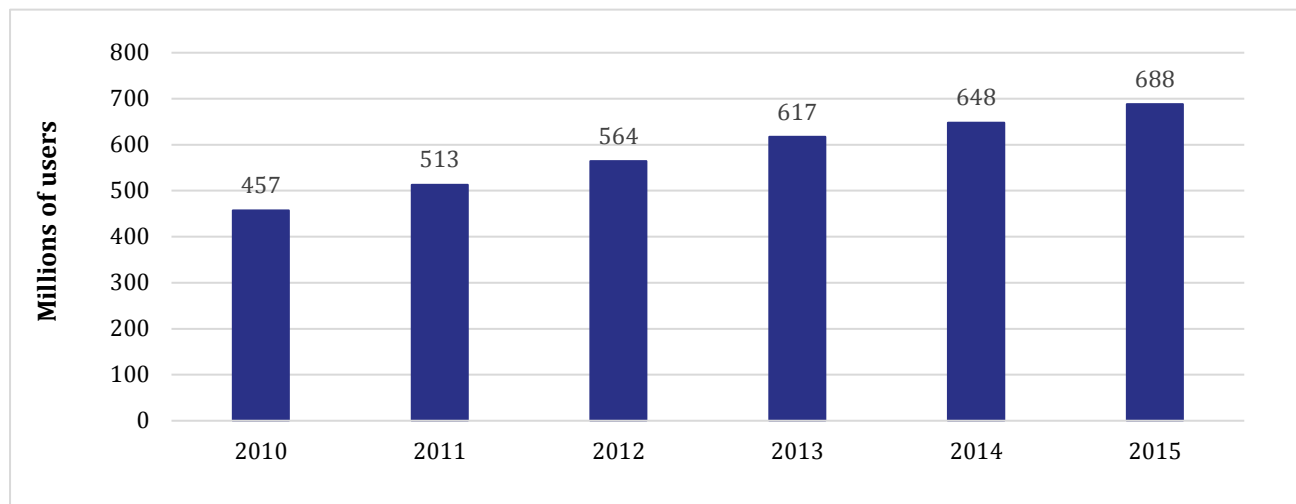
Online Chinese Market

Another important thing to consider is the **evolution of the online Chinese market**. Since 2013 China has become the world's largest Ecommerce market globally, and the country offers great opportunities for European companies that want to sell online.

China's E-commerce sector has grown at a remarkable rate during the last decade. After a slow start, the industry took off around 2004 as new payment mechanisms (predominantly [Alipay](#)) and Alibaba's platforms ([Taobao](#) and [Alibaba](#)) began to catch the attention of the fast growing number of internet and mobile phone users.

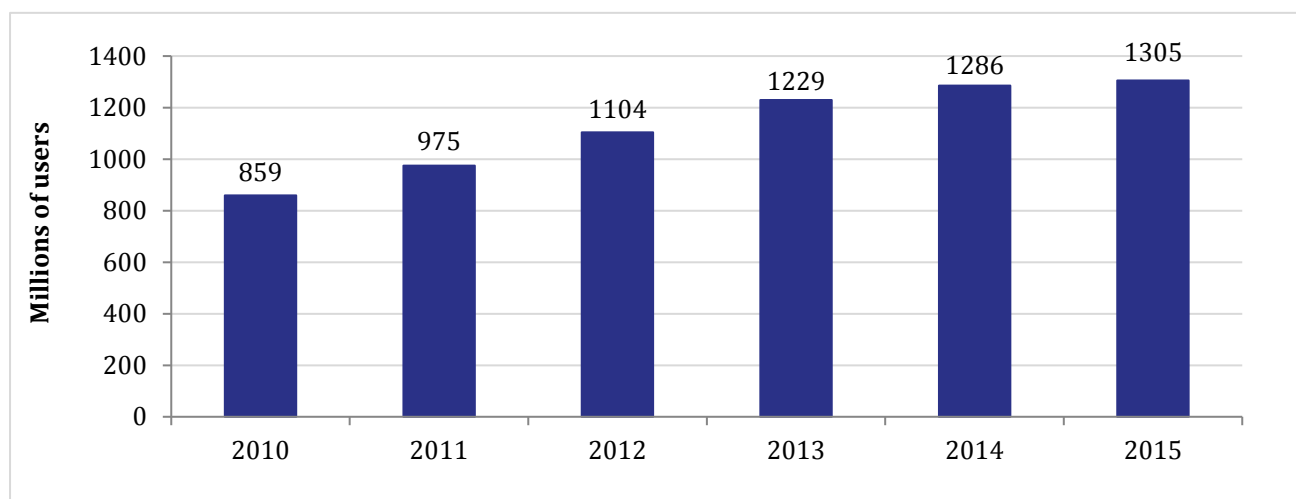
The Textile and Apparel Market in China

Chart 3: Internet Users



Source: China Internet Network Information Center (CNNIC)

Chart 4: Mobile Phone Users



Source: Ministry of Industry and Information Technology of the PRC (MIIT)

Now, after more than a decade of rapid growth, China's online retail sector has become the largest globally, having surpassed the US some two years ago. At the end of 2015, following a year-over-year (y-o-y) increase of 36.2%, the GMV⁶ of China's online shopping market reached approximately EUR 513 billion (CNY 3.8 trillion), nearly 80% bigger than the US⁷ and almost half (47%) of the world total⁸.

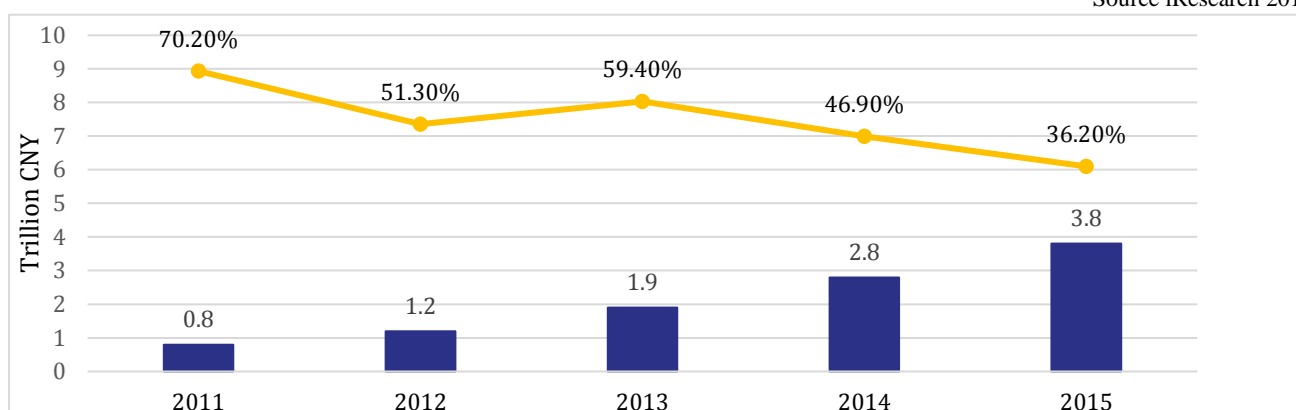
⁶ Gross merchandise volume or GMV is a term used in online retailing to indicate a total sales dollar value for merchandise sold through a particular marketplace over a certain time frame https://en.wikipedia.org/wiki/Gross_merchandise_volume.

⁷ <http://www.mckinsey.com/industries/retail/our-insights/how-savvy-social-shoppers-are-transforming-chinese-e-commerce>

⁸ <https://www.emarketer.com/Article/Worldwide-Retail-Ecommerce-Sales-Will-Reach-1915-Trillion-This-Year/1014369>

Chart 5: GMV of China's Online Shopping Market 2011-2015

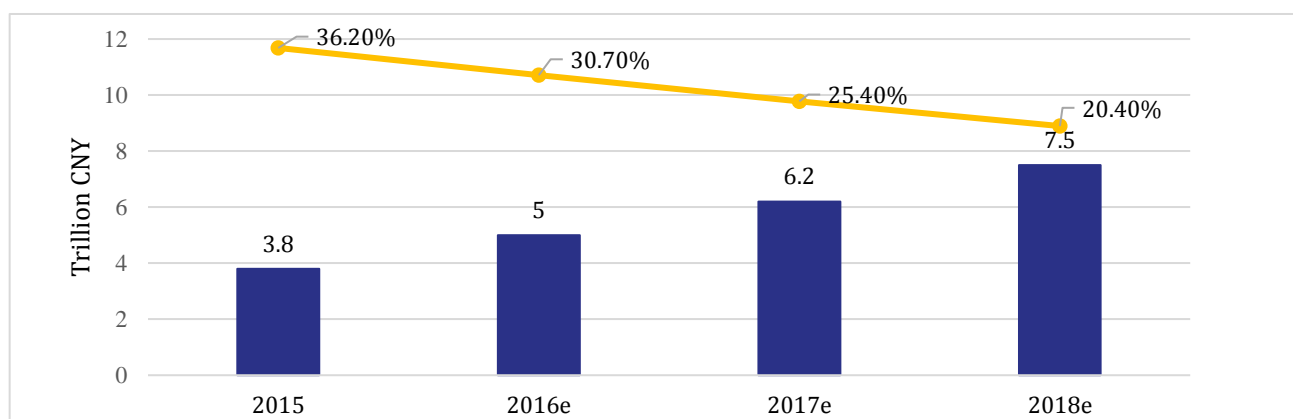
Source iResearch 2016



During the last five years, the sector has grown at a compound annual growth rate (CAGR) of 47.6%, and it is expected to continue growing in the years to come owing to, among the others, a still relatively low internet penetration⁹, rising incomes, a progressive diffusion of mobile devices, a growing appetite for foreign products as well as the rapid development of the cross-border channel.

According to iResearch (2016)¹⁰, China online retail is projected to reach approximately EUR 1 trillion (CNY 7.5 trillion) at the end of 2018. On the other hand, y-o-y growth rates are destined to diminish progressively as the market matures.

Chart 6: China e-business GMV Growth 2015- 2018*



Source iResearch 2016

New Applications of Textile Products

Demand was more complicated in techtextile industry due to the downward pressure on the economy. Specifically, market demand for infrastructure construction, environmental protection, and life health continued to maintain a high growth. Nevertheless there are fields showing a slow growth or even decline, for example, artificial leather cloth, transportation textile, tire cord fabrics, etc. According to the National Bureau of Statistics, non-woven production of enterprises, during the 12th Five-Year Program period (2011-2015). Production of non-woven was up 177% at accumulative growth rate with an average annual growth of 22.58%. In regional growth, Shangdong has surpassed Zhejiang and became the largest non-woven production province, with the application mainly concentrated on civil engineering and architecture fields, accounting for 20% of the total production in our country and continuing to maintain a rapid growth rate of 32.66% in the past eleven months (Jan.-Nov.2015). In some areas like Zhejiang, Jiangsu, Hubei, etc. nonwoven production has maintained around 10% of the growth. The tire-cord fabric production started to drop in the first half of 2014 and amounted to 717,000 tons in 2015 with a decrease of 6.56% year on year, but still enjoying the accumulative growth rate by

⁹ 52.2%, according to Internet Live Stats. USA is at 88.5%, while UK at 92.6%. Click [here](#) for the complete list.

¹⁰ http://www.iresearchchina.com/content/details7_22434.html

55.9% over 2010, with an annual growth of 5.59%.

Key Applications:

Medical and Hygienic Textiles is a field with large and robust market demand as it is closely related to life and health. The market potential is continuing to be released with the improvement of income levels and evolution of consumption ends. Regarding medical dressing, operation cloth and disposable hygienic products, China has a very big production capacity and is also the world's leading producer and exporter. The export medical and hygienic textile was more than 3 billion US dollars in 2015, registering 1.35% in year-on-year growth. Exports of medical protective clothing made of non-wovens is 0.99 billion dollars with an increase of 4.27%. However, the export of gauze, bandage and other medical dressings is 0.77 billion dollars and with a decrease of 6.28%. Enterprises producing medical dressings and medical exposure suits have to turn to overseas markets as they find difficulties with hospital procurement system in China. Pengyang town (located in Xiantao city, Hubei province) is an important medical textile product cluster. In 2015, main business income was 13.1 billion yuan and the export delivery value was 9.26 billion yuan with an increase of 9.14%, which accounted for 70.6% of total annual income.

Geo-textiles are mainly used in all kinds of infrastructure engineering and environmental protection projects. During the first half of 2015, large numbers of projects are at the stage of planning and designing with few projects coming into operation, therefore, the geo-textile industry faced some challenges. In the second half year of 2015, the orders increased dramatically and the operation system got its breath again with some growth thanks to the construction of a large number of railway and water conservancy projects. Lingcheng district (located in Dezhou city, Shandong province) is the main production base of geo-textiles with over 10 billion yuan of main business income in 2015 and 0.82 million tons of geomaterials.

Textiles used for filtration and separation The whole society paid close attention to the quality of atmospheric environment and the country continued to increase atmospheric environmental regulation, which has provided good opportunity for air filtration industry, for many cities were blanketed by haze or smog on and off in the whole year of 2015. The filtrating effect of bag-type dust collecting technology has reached near zero emission with four years of average service life thanks to the development of high performance fiber and the improvement of bag-type dust manufacturing technologies. Moreover, the comprehensive recycling of used bags has achieved breakthroughs with more significant advantages of the bag-type dust collecting technology. In July 2015, *Emission Standard of Air Pollutants for Cement Industry* was put into effect. Massive funds were poured into the cement industry to transform the environmental protection equipment, the market in metallurgy and electric power industry increased constantly, which has driven the rapid development of industry. Fucheng street (located in Funing county, Jiangsu province) is a high temperature filter material industry base, producing 0.2 billion square meters of filter materials in 2015 with 13.64% main business income at growth rate. According to the statistics of the member enterprises in filtration field, the main business income and total profit was up 15.67% and 32.33% respectively, and the average profit margin was 7.4%.

Textiles Used for Vehicles 2015 witnessed 24.5033 million cars produced and 24.5976 million cars sold, hitting a new record high with an increase by 3.3% and 4.7% respectively, compared to previous year data. Therefore, the economic situation runs steadily at a growth speed. Meanwhile, the sales and production of cars were 4 and 2.2 percentage points lower than that of last year. The slowdown in car market has brought some pressure for vehicle textiles.

In the long run, the traditional car industry will increase at a medium-low speed, and lightweight and new energy are two important trends for future automobile industry. The textile composite materials were widely applied in automobiles with the features of lightweight, great strength and low cost. In the future, textiles used for vehicles will have a larger growth space with the growing consumption of textile materials per car.

Cultural Aspects

The last point we must consider are the cultural aspects that contribute to market success. It is important to know how business in the Chinese market and the crucial role of factors such as *Guanxi*: the main thing is to build the relationship before doing business. Knowing the history of the country, going to the market without preconceived prejudices, being familiar with aspects of Confucianism still very present in their values as humility as a virtue, respect and obedience to the elderly and their wisdom and authority, without forgetting the breakthrough changes that are targeted at the generation born from the eighties that are current concern in China. Aspects such as *mianzi*, the reason why the Chinese avoid any confrontation and try to always keep ways to

"not lose face". The Chinese market is valuing more professionals who understand their culture and way of doing business, above professionals who come with knowledge of the language but do not have this experience.

Some Notes About the Chinese T&A Industry

Shanghai is the birthplace of Chinese textile industry being a pillar industry and contributing enormously to Shanghai's development. As China's first machine-operated textile plant – Shanghai Machine Weaving Bureau was set up in 1878, which means nearly 140-year of history. Following the founding of new China, spindles of Shanghai textile industry accounted for 47% of the national total. Until 1980s textile industry was the main important pillar industry in Shanghai by contributing 1/3 and 1/4 in the total output and profit of Shanghai industries. In 1990s, Shanghai transited from being an industrial base to the global economic center, trade center, financial center and shipping center. Shanghai textile industry has also undergone a series of reforms, adjustments and upgradings. It has shifted from extensive growth to intensive growth, from being a labor-intensive manufacturing industry to an industry of design, research & development and brand development and from being a secondary industry to a service industry. Now Shanghai textile industry is a combination of manufacturing and modern service industry. The industry also applies high tech with fashion. The competitiveness of the industry is leader in China. Shanghai has become an important center of China and global textile & apparel trade. Manufacturing center of the world textile industry is in China and manufacturing center of Chinese textile industry is in the Yangtze River Delta led by Shanghai. Shanghai textile industry also enjoys a lot of talent and very good technology. Shanghai Donghua University (originally named as China Textile University) is the largest textile college in China. Shanghai Textile Holding Corporation sets up a center research institute in Shanghai, which is the most influential and largest textile research institute in China. Shanghai Textile Holding Corporation (Shangtex) is a science & technology and brand oriented corporation dedicated to import and export. Since 1990s, given the backdrop of China's opening up and reform as well as the strategic positioning of Shanghai's development, Shangtex has taken initiative in massive restructuring and upgrading, based on the concept of "high tech and fashion", has speeded up the expansion of the traditional manufacturing industry to service value chain. Main achievements have been made in four aspects: new functional fibers and products, brand textile production and trading, fashion and design, rejuvenating textile industry, (for example concentrating on innovation projects such as providing guiding parachute fabrics and non-polluted fire ropes).

3. Market Structure

3.1. The “Made-in-China” Landscape

In the Chinese textile and apparel industry, domestic brands continue to dominate the mass market, especially in lower-tier cities and in the rural areas. China’s most valuable brands in the Hurun *Top 200 Most Valuable Chinese Brands 2014* list shows that the number of apparel brands among the Top 200s decreased from thirteen in 2013 to ten in 2014, suggesting the general slowing of the apparel market. For example, [Heilan](#) has replaced [Anta](#) to top the list of the most valuable Chinese apparel brand. Its brand value amounted to 7.8 billion CNY in 2014. Most of the brands in the list were specialised in menswear, sportswear, casual wear, with two specialised in home textile. Apparel companies in Shanghai and Jiangsu are very strong in branding (six out of the top 10 most valuable apparel brands are based in these two provinces).

Table 2: Most Valuable T&A Brands in China, 2014

| Most Valuable T&A Brands in China | | | | | |
|-----------------------------------|--------------|-------------|----------------------------|--------------------------|--------------------|
| Rank In 2014 | Rank In 2013 | Brand | Brand Value (Billion Yuan) | Major Product Category | Headquarter |
| 1 | 9 | Heilan | 7.8 | Menswear | Wuxi (Jiangsu) |
| 2 | 1 | Anta | 6.4 | Sportswear | Xiamen (Fujian) |
| 3 | 4 | Semir | 4.8 | Casual and Children Wear | Shanghai |
| 4 | 2 | Metersbonwe | 2.3 | Casual Wear | Shanghai |
| 5 | 12 | Linin | 1.7 | Sportswear | Beijing |
| 6 | 3 | Bosideng | 1.6 | Down Wear | Suzhou (Jiangsu) |
| 7 | 6 | Aokang | 1.4 | Leather Shoes | Wenzhou (Zhejiang) |
| 7 | 10 | Fuanna | 1.4 | Home Textile | Shenzhen |
| 7 | 6 | Joeone | 1.4 | Menswear | Wuxi (Jiangsu) |
| 7 | 11 | Luolai | 1.4 | Home Textile | Shanghai |

Source: Hurun Research Institute

Table 3: Hurun Most Valuable Clothing & Textile Brands 2015

| Rank | Name | Brand Value (USDm) | Change yoy | % of Market Cap |
|------|-------------|--------------------|------------|-----------------|
| 1 - | HLA | 1,800 | 41% | 17% |
| 2 - | Anta | 1,270 | 23% | 27% |
| 3 - | Semir | 770 | 0% | 15% |
| 4※ | Youngor | 730 | New | 10% |
| 5※ | Guirenniao | 560 | New | 16% |
| 6 ↓ | Metersbonwe | 470 | 26% | 16% |
| 7 - | Luolai | 370 | 64% | 22% |
| 8※ | Septwolves | 350 | New | 20% |
| 9 ↓ | Li-ning | 320 | 18% | 30% |

Source: Hurun Research Institute

The Textile and Apparel Market in China

Men's wear is the fastest growing sector of China's apparel market, and its share in the overall apparel market capacity increased, with the rise of middle class. Chinese men are paying more and more attention to appearance and fashion, and show stronger preference for apparel. The domestic men's wear market sales are expected to reach 54.1 billion EUR in 2016. The world menswear industry exceeded EUR 350 billion in 2015.

Women's wear sector is shifting from labor intensive to knowledge-intensive, with still robust market demand. In the future, women's wear enterprises will face the challenges from corporatization, branding and scale, and will focus on the operation of brands and value. Some Chinese textile companies are adopting franchise models. Things are changing in China in terms of brands construction and service vocation, trying to be much more similar to the European standards. The world womenswear industry is expected to pass EUR 347.1 billion in 2016.

In the kids' wear sector, major apparel brands are vigorously scrambling for market share. Adidas, Nike, Anta, Li Ning, 361°, Septwolves, Bosideng, Kang Nai, Yishion, Giordano have entered the kids' wear market. Semir develops Balabala, a representative brand of kids' wear. In the coming years, kids' wear will become the fastest growing apparel sector in China with the arrival of the baby boom (China has scrapped its one-child policy, allowing all couples to have two children for the first time since family planning rules were introduced more than three decades ago). The world childrenswear market was around EUR 176.2 billion in 2015, marking a 15 percent increase in five years.

Other segments are also becoming important figures. The world bridalwear market is expected to reach almost EUR 52.8 billion by 2016. Bridalwear market in China is awakening, thus giving plenty of opportunities for domestic and foreigner companies in that field. Specialized retailer shops mushroomed in main important cities like Beijing and Shanghai.

Table 4: Most Popular Brands in China

| Most popular Brands in China | | |
|-------------------------------------|--|---|
| Products | Leading Brands Overseas | Leading Brands Domestic |
| Menswear | <i>Ermenegildo Zegna, Dunhill, Hugo Boss, Armani, Valentino, Ralph Lauren, Cerruti, Tissot</i> | <i>Youngor, Firs, Septwolves, Lilang, Kingboxing, Romon, SevenBrand, Conch, Rouse, Verri, Didiboy, Upper, Artsdon, Sinoer</i> |
| Womenswear | <i>Dior, Chanel, Prada, Gucci, Celine, Only, Etam, Longchamp, Esprit, Max Mara, Versace, Trussardi, Burberry, Michael Kors, Marc Jacobs, Furla, Fendi, Coach</i> | <i>White Collar, Fiona Chen, Kaiser, Lily, Girdear, JNBY, Peacebird, Sierli, Gloria, Zuc Zug, Sheme, Hodo, Shanghai Tang*</i> |
| Children's Wear | <i>Mickey's, Les Enphants, BobDog, Bossini Kids, Esprit Kids, Zara Kids</i> | <i>Balabala, Paclantic, Goodbaby, Wahahakids, Boshiwa, Yaduo, Yeeshow, Shuihaier, M-linge, Hodo</i> |
| Casualwear | <i>Jack&Jones, Levi's, Tommy, Wrangler, Tony wear, Uniqlo, Baleno, Jeanswest, U2, Zara, Mango, Giordano, Bossini, H&M, C&A</i> | <i>Metersbonwe, Tonlion, Boboo, Fairwhale, Exception, Semir, Yishion, Urban Revivo</i> |
| Sportswear | <i>Nike, Adidas, Puma, Umbro, Reebok, Converse, Mizuno, Fila, Kappa, New Balance</i> | <i>Li-Ning, Anta, Peak, 361, Xtep, Adivon, Wanddanu,</i> |
| Underswear | <i>Triumph, Calvin Klein, Wacoal, Embry Form, Pierre Cardin, Chilier, Audrey, Aubade, Ordifen, Esprit underwear</i> | <i>Aimer, Sunflora, Gujin, Maniform, Three Gun, Gracewell, Yiselle, AB</i> |

Source: Hurun Research Institute, compiled by Suoyou Consulting

3.2. Market Segment

Non-apparel products make up the largest segment of the textile market in China, accounting for 35% of the market's total value. The apparel segment accounts for a further 30%¹¹. Profit margins in both apparel and non-apparel sectors are low due to intense competition, lack of brand differentiation and low value added products.

Women wear is the major contributor to total apparel sales. Its growth rate is still ahead of the overall apparel sales growth. Chinese consumers are prudent when spending on luxury apparel. Meanwhile, affordable luxury apparel at relatively cheaper prices is becoming popular. Retailers are looking for new brands made in Europe with high quality level but reasonable prices to target middle class. That brings plenty of opportunities for European small and medium sized companies which brands are not yet well known in China.

Outdoor apparel is growing fast. Chinese consumers' growing interest in outdoor activities has underpinned the strong growth of outdoor apparel.

Fast fashion players have continued their growth in China. Apart from adopting aggressive expansion strategy, they have pursued multibrand strategy to capture larger market share in the Chinese market. We can see men and women wear including shoes and accessories in their shops. They are looking to widen their range of products to consumers. There are also opportunities for Chinese brands looking for products made in Europe with their own brands to increase their brand recognition in the domestic market. That means new opportunities for European factories interested to do brandsourcing for Chinese players.

We detect also a sales decrease in sportswear retailers. They had increased very fast their sales points during last years, and as a consequence, distribution channels became oversized. This brings also plenty of opportunities for European brands, as shops are often keen to offer commercial shop area to both Chinese and European companies.

Other opportunities from Chinese T&A industry come from producers. Some Chinese T&A manufacturers that historically have acted as OEM are now trying to access the European market in some of these ways:

- Direct access to final European consumers in a B2B relationship. For example by building strong relationships directly with customers in order to establishing a representative office in Europe. This is done with the objective of eliminating traders in between, and being able to reach the market faster and improving the quality of their services;
- Creating a new brand belonging to their companies but designed in Europe. With this strategy, they maintain production in their Chinese factories but trying a direct relationship with European final customers in a B2C way;
- Buying a distribution channel with the intention to target, through their outlets in Europe, local consumers and sell their products made in China directly under their new European brand.

This quality jump from Chinese producers, who historically produced for other brands, are looking for their own brands with European smell for final consumers worldwide as a design goal, and a step further in their strategies to sell their own brands to consumers.

3.3. Manufacturing - Industrial Clusters

The presence of industrial clusters is one of the major characteristics of the T&A sector. 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,

¹¹ Source, Datamonitor.

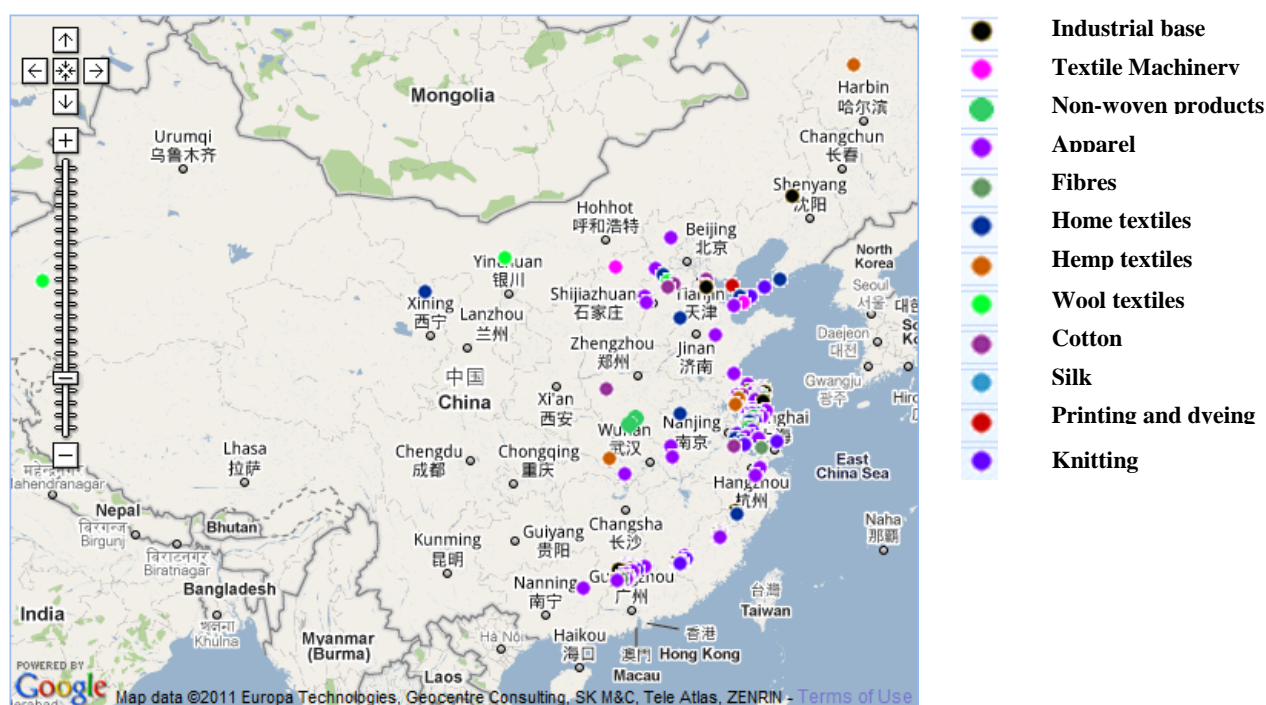
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namely Zhejiang, Jiangsu, Guangdong, Fujian, Shandong and Hebei. Common features of the cluster locations are:

- 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 Chart 8, T&A clusters by region). Years later, as a result of "go west" policy, Hunan, Henan, Jiangxi, Shanxi and Anhui, the middle provinces, realised stronger growth in capital assets and profit than the industry average.

Chart 7: Distribution Of T&A Clusters in China



| T&A Clusters | | | |
|--------------------|----|-----------|----|
| By Sub-sector | | By Region | |
| Apparel | 55 | Zhejiang | 37 |
| Industrial base | 19 | Jiangsu | 31 |
| Home textiles | 19 | Guangdong | 28 |
| Knitting | 17 | Fujian | 15 |
| Cotton | 14 | Shandong | 14 |
| Fibre | 7 | Hebei | 5 |
| Non-woven products | 5 | Hubei | 3 |
| Hemp textile | 5 | Hunan | 2 |
| Wool textile | 3 | Jiangxi | 2 |
| Silk | 3 | Anhui | 1 |

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| | | | |
|--|-------------|--------------|------------|
| Textile machinery | 2 | Henan | 1 |
| Printing and dyeing | 2 | Heilongjiang | 1 |
| Total | 151* | Liaoning | 1 |
| * The cluster by subsector statistics includes double counting due to overlaps of industrial clusters in Yiwu, Tong Zhou, Haining and Changshu city. | | Ningxia | 1 |
| | | Qinghai | 1 |
| | | Shanxi | 1 |
| | | Shanghai | 1 |
| | | Xinjiang | 1 |
| | | Total | 146 |

Source: CETI & CNTAC

3.4. Distribution Channels

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. Textiles wholesale markets prevail in or around major industrial clusters in China. 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.

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 others. Be careful when choosing this channel with exclusivity agreements or other conditions required by Chinese sales agents.

Retail

Household decoration and apparel textiles for 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. Facing the overall economic slowdown from overseas players, Chinese apparel retailers have expanded their product range to maintain growth.

Some retailers have sought to attract more customers by introducing foreign fashion brands. Boutique stores carrying European designer labels are increasing in first tier cities. Most of locations are in malls but few Chinese brands such as Septwolves, Semir or Lining have city street locations. For foreigner shops will be located in Malls without any doubt avoiding location business risks. Most of retail sales are concentrating online and malls. For foreigner brands a complete strategy for market acces combining online and off line opening shops in commercial malls will be recommendable. Franchising is a new business oportunity. Still not developed as franchise in Europe, Chinese investors understand as license agreement brand expansion cooperation. They don't understand why they should pay any money for a European brand not well known in China, which is why Chinese investors do not yet understand concepts such as royalties or canon.

As Chinese consumers increasingly demand for fashionable and quality products, foreign players have increased their investment in China over recent years. In terms of store numbers, China is one of the most important

international markets for fast fashion brands such as Zara, Uniqlo, H&M or C&A. New Chinese brands such as Urban Revivo is rapidly coming to the scene of fast fashion domestic market.

Concept stores (multilabel) bringing together talented designers, locally and internationally, have responded to the needs of increasingly sophisticated Chinese consumers, specially in main cities as Beijing, who are much more comfortable wearing brands with personal style and individuality. An example will be the new store opening in Beijing in Nali Patio very soon (Sanlitun area). Pop-up shops are coming to main cities as well bringing fresh air and fast fashion concepts to Chinese consumers and being an opportunity for European companies to test their collections showing to Chinese consumers before entering a long term strategy opening their own shops in China.

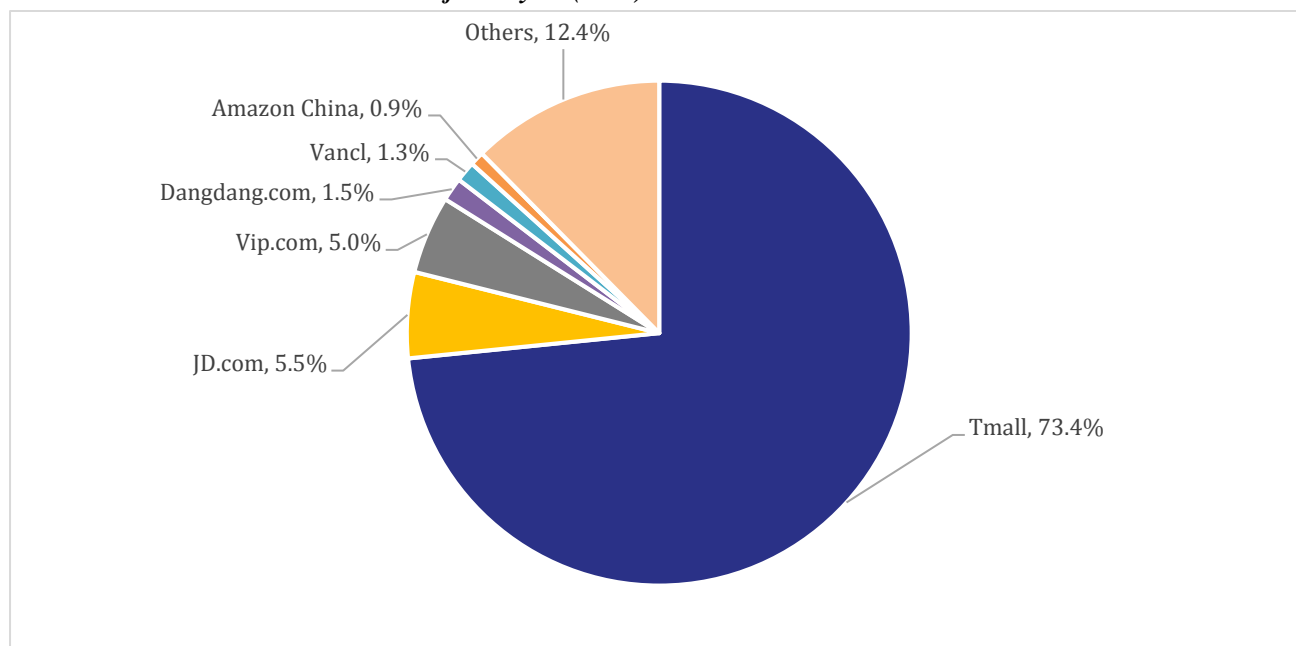
Other emerging new retail formats as discount stores, outlets, and multi-brand stores are gaining increasing attention over recent years in Chinese market.

Online Retail

A huge number of new companies are established in online business during the last years. The main reasons are the global figures e-commerce brings to them. Market share is for domestic companies, who know very well e-commerce tools and social media in order to reach Chinese consumers. Wechat, created in 2011, became a very important tool for companies' communication in 2016 and also is a new way setting private shopping clubs, having then an important role as marketplace. Stablishing "showrooms" is becoming a popular phenomenon that consists in opening physical stores in shopping malls and department stores. They are like "fitting rooms" for consumers to try on products before they purchase online.

Regarding online players, with a market share of 73.4%, Tmall stays as the the leader in the B2C T&A online retailing. Following are JD.com and VIP.com with 5.5% and 5% market share, respectively. Given the increasing popularity of online shopping, many foreign T&A retailers have set up online stores on third-party e-commerce platforms such as Tmall. For example, in 2014 brands such as Zara, Topshop, Burberry or Hugo Boss opened T-mall stores.

Chart 8: China B2C E-commerce – Major Players (2015)



Source: Fung Group, 2014 *China's Apparel Market*

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 Players | | | | | |
| <p>Cotton & yarn: BROS Group Dezhou Huayuan Eco-Technology Lutai Group Shandong Weiqiao Group Zibo Yinshilai Group Yifeng International holdings co ltd</p> <p>Printing & dyeing: Qingdao Phoenix Shenghong Group Yixing Leqi Group (Lucky Textile) Zhejiang Furun ZheJiang Hangmin</p> <p>Wool & wool knitting: Yteq Inner Mongolia Erdos Cashmere Group Jiangsu Sunshine Group Shandong Nanshan Textile Garments Shandong Ruyi Technology Group</p> <p>Hemp: Changzhou Meiyuan Linen Textile Hunan Huasheng Group Jiangxi Enda Home Textile Xinshen Group</p> <p>Silk: Dali China Co. Ltd. Jiangsu Huajia Group</p> | <p>Guangdong: 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</p> <p>Shanghai: Liyong Clothing Wholesale Market Qipu Road Professional Market</p> <p>Jiangsu: Changshu Strokes Mall China Eastern Silk Market In Wujiang New World International Textile Garment City Wuxi Mall Garment Specialty Stores</p> <p>Zhejiang: China Light Textile City in Shaoxing Cixi Shengshan Apparel Fabrics and Materials Market Hangzhou Evergreen Garment Market</p> | <p>Textile: Alibaba.com GlobalTextiles HKTDC.com Texindex.com</p> <p>Apparel: Online & offline: MecoxLane (M18.com)</p> <p>Online only: Vancl Menglu Masa Maso Shishang Qiyi Guangjie Online Zouxu Online HANY Greenbox Opec Secoo</p> <p>Retail platform: Taobao Tmall JD.com 360buy Yihaodian Redbaby Wangfujing</p> | <p>Beijing: BHG China World Shopping Mall COFCO Plaza Fullink Plaza Takiloo Mall Joy City Maison Mode New World Shopping Mall Oriental Plaza Outlet (China) Pacific Dept. Store Scitech Plaza Solana</p> <p>Shanghai: Brilliance Shimao International Plaza Central Plaza Grand Gateway 66 Jinjiang Dickson Center Shanghai No.1 Yaohan Shanghai Times Square Super Brand mall Xintiandi Plaza Xintiandi Shopping Mall</p> <p>Guangzhou: Grandview Mall La Perle Teemall Victoria Plaza World Trade Xintiandi</p> | <p>Bedding: Aussino</p> <p>Apparel: Dutch Items Shanghai – D.I.S Lollipop (children) Comptoires-de-Cottonniers BySelvage</p> <p>Underwear: Misskoyo Lingerie Bandgewoo</p> <p>Children’s apparel: Paclantic Redhero</p> <p>Based Chinese’s Designers (brands): Exception Fiona Chen Zuc Zug (organic cotton concept)</p> | <p>Bosideng Embry Form ERDOS Esprit Giordano Girdear JNBY Metersbonwe Ochirly Semir SEPTWOLVES White Collar Yishion Youngor Urban Revivo</p> <p>Sports: 361° Anta Lining</p> |

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| | | | | | |
|---|---|---|---|---|--|
| <p>Jiangsu Xinmin Textile Science & Technology</p> <p>Knitting:</p> <p>Jiangsu Dongdu Textile</p> <p>Ningbo Shenzhou Knitting</p> <p>Qingdao Jifa Group</p> <p>Apparel:</p> <p>Baoxiniao Group</p> <p>Bosideng Int'l Holding Co.</p> <p>Judger Group</p> <p>Xinlang Sinoer Group</p> <p>Chemical fibre:</p> <p>Hengli Group</p> <p>Jilin Chemical Fibre Group</p> <p>Tongkun Group</p> <p>Zhejiang Huafeng Spandex</p> | <p>Hangzhou Boutique Clothing Market</p> <p>Keqiao Textile City in Shaoxing</p> <p>Beijing:</p> <p>Dahongmen Clothing Wholesale Market</p> <p>Qinghe Wool and Textile Wholesale Market (清河的毛纺织品市场)</p> <p>Tin Lok Clothing Wholesale Market</p> <p>Muxiyuan Fabric Market</p> <p>Daxin (大新纺织城)</p> <p>Gong Zhu Fen</p> <p>Yonhe market</p> <p>Shandong:</p> <p>Jimo City Clothing Wholesale Market</p> <p>Liaoning:</p> <p>Shenyang Wuai Clothing Market</p> | | | | |
| International Players | | | | | |
| | | <p>Textile:</p> <p>TEonline</p> <p>YNFX (yarn & fibres exchange)</p> <p>Apparel:</p> <p>Amazon.cn</p> | <p>Ito Yokado</p> <p>Lufthansa Dept. Store</p> <p>Parkson</p> <p>Raffles City</p> <p>Takiloo Beijing</p> <p>Taikoo Hui Guangzhou (opening soon)</p> | <p>Bershka</p> <p>bread n butter</p> <p>Les Lucioles</p> <p>Plastered 8</p> <p>Tang' Roulou</p> | <p>Luxury:</p> <p>Amarni</p> <p>Burberry</p> <p>Chanel</p> <p>Gucci</p> <p>Prada</p> <p>Versace</p> <p>Valentino</p> <p>Dolce Gabbana</p> <p>Shanghai Tang</p> <p>High street fashion:</p> <p>C&A</p> <p>Etam</p> <p>Gap</p> <p>H&M</p> <p>Uniqlo</p> <p>VERO MODA</p> <p>Zara</p> <p>Shana</p> <p>Leisure:</p> |

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| | | | | | |
|--|--|--|--|--|--|
| | | | | | Adidas Columbia New balance Nike Northface |
| Main Chinese manufacturers in T&A industry | | | | | |
| <p>Youngor Group, Yinxian located and listed in Shanghai stockmarket. Their own brands Mayor, Youngor, Gy y Hemp Family and they also distribute one american license Hart Schaffner Marx</p> <p>Hongdou (HoDo) Group (Jiangsu Province)</p> <p>Heilan Group (Jiangyin) focus on wool production they distribute Autason Chinese Brand for menswear formal suit.</p> <p>Shanshan Investment Holding (Shanghai headoffice), belonging to this group thirteen companies like Ningbo Shanshan Clothing, Jic Garment or Le Coq Clothing.</p> <p>Bosideng International Holdings Limited (own brands like Bosideng, Snow Flying, Combo o Bengen. First opening shop in London in 2012. Listed in Hong Kong stockmarket)</p> <p>Jiangsu Sunshine Group (fashion own brands examples belonging to this group are Sunshine, Venetia y Pompei).</p> <p>Shandong Ruyi Group (Jining. Company listed in Shanghai stockmarket, in 2013 acquired one of the main important textile companies from Pakistan Massod Textile Mills, listed in Karachi).</p> <p>Anta Group (own stated company, listed in Hong Kong stockmarket, bought Fila license in 2010 for China and sponsored NBA stars in last years).</p> <p>Qindao Jifa Group (knitwear specialized, producing OEM and exporting more than twenty countries, their own brand is Jifa).</p> <p>Xinlang-Sinoer Group (menswear, Zhucheng located and listed in Shenzhen stockmarket. Recently launched their own men suitwear' s brand Chinour, target high level)</p> | | | | | |

4. Opportunities

Global T&A sector is forecast to develop with the following trends:

- Growing at an average of 5% per year reaching 2.855 billion Euros by 2025;
- Developed countries growth rate will slow and big emerging countries like China or India will be the key growth drivers;
- Processing activities for export will switch partly from China to other countries. Bangladesh and Vietnam are possible destinations of this shift;
- Global T&A value chain will attract investment worth 309 billion Euros over the period 2012-2025.

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. On the other hand, it is also a sweet moment for domestic consumption, being at the highest levels of consumer average spending on clothing. For export oriented companies: weak demand from developed markets (Companies that used to buy in China now also buy from other Southeast Asian countries), even slow recovery, currency strengthening with CNY appreciation compared with Euro or USD, lower export tax rebates, and an increasing shift to lower cost countries in Asia (Vietnam, Indonesia, Bangladesh, Pakistan), Eurasia (Turkey), and Central America add further difficulties. The government requirement asking for high value in T&A domestic production and less pollution is driving investments in the Chinese T&A manufacturing sector. In addition, the “Go West” policy¹² also contributed to factories migration to the west looking for lower salaries. Chinese and foreign invested companies in the industry 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, more energy efficient and more environment aware;
- Growing efforts regarding environmental protection: import ‘green’ dyes from Switzerland and Germany;
- Move low-value production to cheaper neighbouring west provinces in China or other countries: Vietnam and Bangladesh have seen a 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.
- Having own brands with improved designs. Aim to market brands, not only in domestic market but also in international markets. Achieving this goal needs a big effort with global designers and having a very clear strategy and story telling for their brands.

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: Textiles

China’s imports to the EU in Textile and Clothing have been witnessing a steady decline, over the last five years, especially in garment sector. In 2010, its market share of EU textiles and clothing imports ranked 40.8%, nevertheless in 2015 this had fallen to 35% (Source: Euratex).

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.

¹² https://en.wikipedia.org/wiki/China_Western_Development

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. Innovation is still reaching the domestic industry meaning 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. Chinese manufacturers are looking for "European appealing" designers with the objective to create their own brands but producing in China and go ahead a step further as wholesalers in global markets. Some of them are another step further in the distribution channel by acquiring or setting up their own retail channel covering the whole process from factory to consumers.

Another trend we have to take into account is the global colour fashion, for example Pantone for 2016 Rose Quartz and Serenity and their impact in fashion, textile and apparel, and other expressions such as decor, furniture design, etc.

Fast Fashion Trend

Fast fashion is a relatively new term that refers to the ability of big-box apparel retailers to quickly design and mass-produce clothes inspired by high-fashion runway looks. While it used to take months for items to get from the runway to retailers, this new trend has made it possible for new looks to get into stores in as few as two weeks.

Manufacturing and Marketing Speed: As implied its ability to get from the runway to retailers in a very short amount of time. Though a quick supply chain is an important component, there's more than just quick designers and manufacturers at work here. The key to fast fashion is capitalizing on current fashion trends that consumers learn about online. Quickly posting localized content ensures customers around the world can find runway-inspired looks while they're still hot and leading online activity.

The Power of Familiarity: Another reason this trend has worked so well is that it uses familiar aesthetics to sell completely new products.

In a world of new technologies where all young people are accustomed to immediacy. Having answers to their questions immediately, the role that speed will acquire in the industry it is very important. Fast fashion will be much more fast in future.

4.2. Opportunities Highlighted by Sub-sector: Apparel

China's mass-market consumers have small budgets and low cultural awareness for purpose clothing (work, social occasions such as weddings, and gatherings with friends or family). But the percentage of consumers valuing foreign brands is increasing. Chinese shoppers seem to rely more heavily on price to form their perceptions of a product's quality than shoppers do elsewhere. Higher incomes for middle class and online platforms development in the last years contribute to better business opportunities for the fashion industry and especially for foreign brands coming to Chinese market. Online platforms retailers are looking for high quality brands made in Europe still unknown in China to wide their margin. However, more Chinese urban young adults (age 18-30) prefer foreign products and well known brands, and they shop for apparel more frequently than people in other age groups and spend larger sums, but for online retailers these very well known brands give them less and less margin profits. Brands from Europe have a huge opportunity in this business reaching Chinese market both online market and offline market establishing some shops as room fit.

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 parents are spending much more than before and after "one child policy" in 2015 child market will be increased during the following years. As mentioned before, highly differentiated products and location are key competitive factors, choosing "street shops policy" or "shops located in malls" and choosing the right commercial spaces to be placed will be the success key.

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 would provide opportunities for those who are prepared. The key success factors for European SMEs will be:

- Understand online Chinese market, its key players, and developing strong professional relationships with them in order to understanding their needs and business;
- Having permanent presence in the Chinese market;
- Clearly defined target groups;
- High value added and differentiated products;
- Effective online and offline marketing;
- Consistent logistics and after-sale services.

As online Chinese market have plenty of opportunities, many Chinese investors are coming to this segment without backexperience in this field but with enough money to invest, it is clear that they are approaching European brands with their company presentation trying to sign agreements for European brand distribution in China. It is very important for Europeans to identify exactly what kind of Chinese companies we are doing business with, in order to manage expectations according to the real situation. They could use well known market places such as Alibaba or Amazon but it doesn't mean that we are going to do business directly with them.

Design and Development

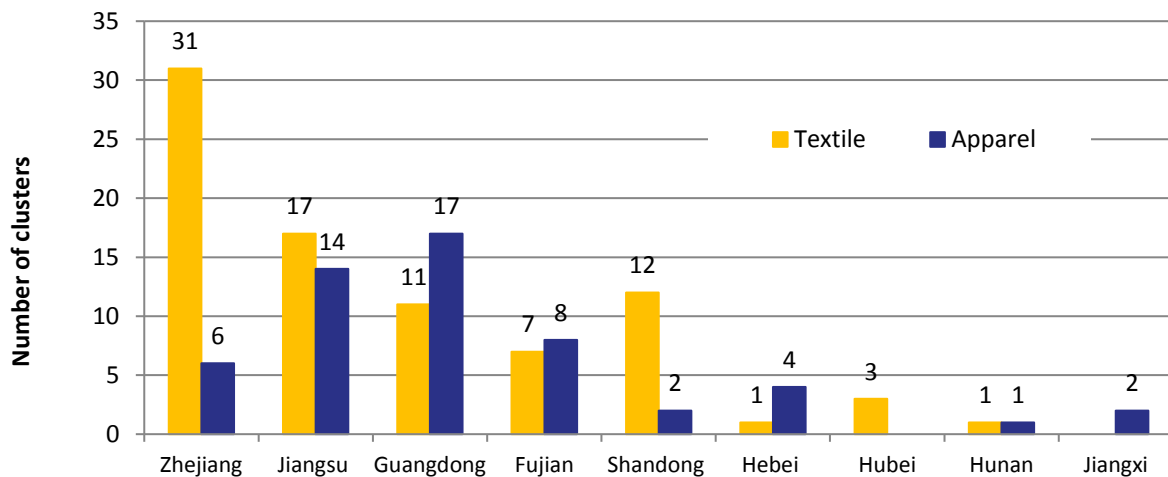
Quality and constant roll out of new and innovative products are key success factors in this sub-sector. Less than 10% of Chinese companies in the T&A sector have their own brands. Most companies engage in OEM, ODM and processing. More Chinese enterprises are seeking to cooperate with experienced European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

4.3. Opportunities by Region

Textile

The Pearl River Delta and Yangtze River Delta still hold the highest number of T&A manufacturing clusters. Transforming clothing sector in China is being developed under two major forces, namely technological upgrading and participation in regional production network. Special focus has been given to articulate how institutional support featured by open-up policy encourages firms to enter the global market, and subsequently the initiatives from the access motivate firms to upgrade technology and capacity through learning, adoption and innovation.

Chart 9: Textile and Apparel Clusters by Region



Source: CNTAC & EU SME Centre

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 such as Beijing, Shanghai, Guangzhou and Shenzhen for better access to human resources.

Apparel

There are even more in 2016 strong levels of competition in the first tier¹³ and second tier cities¹⁴, 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 the market.

5. Challenges

5.1. Legal and Regulatory Barriers

This sector is open to private and international players and there are Government policies that encourage investments as mentioned in Key Growth driver of this report.

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 product¹⁵. 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.

Be noticed about the advantages to enter European T&A products through Free Trade Zones and special regulations and easy going customs to boost online business.

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.

For online business it is a must to offer as much guarantees as possible to retailer. Providing original certificates from European brands directly signed by factories and being directly in touch European companies with Chinese distributors will help for transparency business.

¹³ Beijing, Shanghai, Guangzhou, and Shenzhen.

¹⁴ Chengdu, Chongqing, Dalian, Hangzhou, Ningbo, Kunming, Nanjing, Suzhou, Qingdao, Tianjin, Zhuhai, Wuhan, Xiamen and Shaanxi

¹⁵ For example, GB 18401, GB 5296.4 which cover general quality and safety requirements and labelling for textiles and apparel.

For more information regarding IPR issues, including time and costs for the registration of your trade mark, please refer to the China IPR SME Helpdesk. This project supports EU SMEs to both protect and enforce their Intellectual Property Rights (IPR) in or relating to mainland China, Hong Kong, Macao and Taiwan through the provision of free information and services. These take the form of jargon-free, first-line, confidential advice on intellectual property and related issues, plus training, materials and online resources.

Reach their experts at: <http://www.china-iprhelpdesk.eu/>.

5.2. Market Barriers

Local Competition

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. European SMEs have to deal with local distributors in each region, which is a heavy tap on an SME's limited resources. It is still not easy in 2017 to find a sales agent who is able to both execute a high-end product image and have strong connections with different sales channels. It is recommendable to understand the Chinese market before establishing a long term strategy for SME's companies, being in touch with European experts in that field established for long term in Chinese market having strong connections with sales channels and manufacturers will be short way to profit business opportunities.

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. Conclusions

Some advices to SMEs considering accessing the market:

- Have a permanent presence in the country because changes are constant and fast. Perhaps companies need to adapt initial strategy. Only with a daily market presence, necessary corrections can be detected to the initial strategy, and be able to redirect it appropriately;
- Create an on-line platform for consumer information and showroom in one of the free trade zones, which allow you to share costs for market access so that it is possible to extend the European brands to the Chinese ultimate consumer that they can buy through a B2C online platform. The benefit will also be true in logistics costs grouped operations;

- There is a trend in China to associate into “elite clubs” of similar interests. These clubs work like private purchasing clubs. Access to these clubs is relatively easy and brand awareness can have a relatively low cost and high impact. This approach we consider to be suitable for European brands willing to raise brand awareness.

Table 6: Opportunites and Challenges in the Textile and Apparel Market in China

| | Textile | Apparel |
|-----------------------------------|--|--|
| Opportunities | <ul style="list-style-type: none"> • Hi-tech specialist fibre and yarn • Eco-dye • Hi-end fabrics • Automatic and greener textile machinery • Design and development services • Online retail and Free Trade Zones Government regulations • Chinese manufacturers looking for JV or business cooperation with European manufacturers or retailers • New social media tools for business in China, such as wechat • Higher middle- class anxious to buy brands, open minded for foreigners brands associated with better quality | <ul style="list-style-type: none"> • Brand buyout • Specialty boutiques • Online boutiques • Design and development services • Online retail and Free Trade Zones Government regulations • Chinese manufacturers looking for JV or business cooperation with European manufacturers or retailers • New social media tools for business in China, such as wechat • Higher middle- class anxious to buy brands, open minded for foreigners brands associated with better quality |
| Legal barriers | <ul style="list-style-type: none"> • Few if any restrictions • Checking brand registration and for Europeans companies choose and register both European and Chinese names for brands • Being able to establish a WFOE (100% foreigner owned company) in China if European companies would like to open shops or directly distribute their products in China • Social media requirements for foreigners operating in China (requirements for setting up a wechat sales group) | |
| Taxes applicable | <ul style="list-style-type: none"> • Corporation tax 25% • VAT 17% • City Maintenance and Construction Tax 1 - 7% of VAT depending on location • Education surcharge 3% of VAT | |
| Certification requirements | <ul style="list-style-type: none"> • Self-declaration of conformity to relevant Chinese standards for textiles • Both GB standards and industry standards will apply depending on the product • Textiles used for safety purposes may need mandatory conformity testing according to relevant Chinese regulations • Labelling standards will apply | <ul style="list-style-type: none"> • Self-declaration of conformity with relevant Chinese standards such as GB 18401, GB 5296.4, etc • 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 • Industry specific standards also apply • Labelling standards will apply • Imported apparel in non-compliance with Chinese standards will be destroyed or returned |
| Market challenges | <ul style="list-style-type: none"> • Fragmented with a large number of players • Commoditisation • Volatile cotton and other commodity prices • Intense competition in Chinese market, domestic and foreigner brands | <ul style="list-style-type: none"> • Intense competition in the domestic market putting downward pressure on prices and profits • Commoditisation • Short supply of quality retail spaces. It is very important to identify where are located the best places. |
| Success factors | <ul style="list-style-type: none"> • Design and adapting fashion to new Chinese consumers much more similar to global T&A markets (fast fashion and online distribution as global phenomenon also in China) • Advanced technology and products • Technical expertise and knowledge • Economies of scale | <ul style="list-style-type: none"> • Design and adapting fashion to new Chinese consumers much more similar to global T&A markets (fast fashion and online distribution as global phenomenon also in China) • Quality and branding • Adapted to local market • Effective distribution channels • Frequent new product development • Economies of scale • Proximity to key markets |

7. Annexes

7.1. Useful Websites

Useful Websites

China Chamber of Commerce for import and export of Textile and Apparel

www.ccct.org.cn

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/mkacddb2/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>

| |
|---|
| <p>Ministry of Commerce (MOFCOM)</p> <p>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.</p> <p>http://english.mofcom.gov.cn</p> |
| <p>EU Commission: DG Trade</p> <p>A large number of guides, research reports and policy documents for all sectors and trading partners.</p> <p>http://trade.ec.europa.eu/doclib</p> |
| <p>China IPR SME Helpdesk</p> <p>Useful advice and guides on how to protect IPR in China.</p> <p>www.china-iprhelpdesk.eu</p> |
| <p>International Trade Centre: Trademap</p> <p>Trade statistics for international business development</p> <p>Import & export values, volumes, growth rates, market shares, graphs and more.</p> <p>http://www.trademap.org</p> |

7.2. Exhibitions

| Relevant Exhibitions |
|--|
| <p>Yiwutex - China Yiwu International Exhibition on Textile Machinery</p> <p>Date: June 13-15, 2017</p> <p>City: Yiwu</p> <p>Website: http://www.yiwutex.com/YIWUTEX17/Home/lang-eng/Information.aspx</p> |
| <p>Intertextile Shanghai Home Textiles</p> <p>Date: August 23-26, 2017</p> <p>City: Shanghai</p> <p>Website: http://intertextile-shanghai-hometextiles-autumn.hk.messefrankfurt.com/shanghai/en/visitors/welcome.html</p> |
| <p>CHIC – China International Fashion Fair</p> <p>Date: October 11-13, 2017</p> <p>City: Shanghai</p> <p>Website: http://en.chiconline.com.cn/2017autumn/5.html</p> |
| <p>CINTE TECHTEXTIL CHINA- China International Nonwovens, Tectextiles And Machinery Exhibition And Conference</p> <p>Date: October, 2018</p> <p>City: Shanghai</p> <p>Website: http://cinte-techtextil-china.hk.messefrankfurt.com/shanghai/en/visitors/welcome.html</p> |

ITMA ASIA and CITME International Exhibition of Textile and Textile Machinery

Date: TBC

City: Shanghai

Website: <http://www.itmaasia.com/>

SHANGHAITEX - Multinational Exhibition on Textile Industry

Date: November 27-30, 2017

City: Shanghai

Website: <http://www.eventseye.com/fairs/f-shanghaitex-2441-1.html>

About the EU SME Centre

The EU SME Centre helps EU SMEs get ready for China by providing them with a range of information, advice, training and support services. To find out more, visit: www.eusmecentre.org.cn.



Need more help?

The EU SME Centre provides a range of **China Business Solutions**, including:

- Tailored China market research
- Company verification
- Customised step-by-step guide to exporting to China
- Importer/distributor search, and others

Read more about China Business Solutions at www.eusmecentre.org.cn/solutions or contact info@eusmecentre.org.cn. To submit your enquiries directly to our experts, go to *Ask-the-Expert* www.eusmecentre.org.cn/expert.

Further readings...

The EU SME Centre has over 100 reports, guidelines and case studies in its **Knowledge Centre**, the following may be relevant to you:

- Individual Income Tax in China
- Tax Liability for Non-Resident Enterprises Engaging in Service Provision
- China Enterprise Income Tax
- Establishment and Operation of a Representative Office
- Establishment of a Foreign Invested Enterprise in China
- Repatriation and Reinvestment of the Assets of Foreign Invested Enterprise in China

Access the Knowledge Centre here: www.eusmecentre.org.cn/knowledge-centre.



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