

Thailand's Textile and Garment Industry

Lecture 14
bhanupong

Course Syllabus

Lecture 14-17

The rise and fall of Thailand's export-oriented industries

We explore four major industries: processed food, information technology, textile, and automobile.

While facing non-tariff barriers imposed by developed countries, some of these industries are still leading exports of Thailand.

Does the success of these industries bode well for the resilience and dynamism of the Thai manufacturing sector?

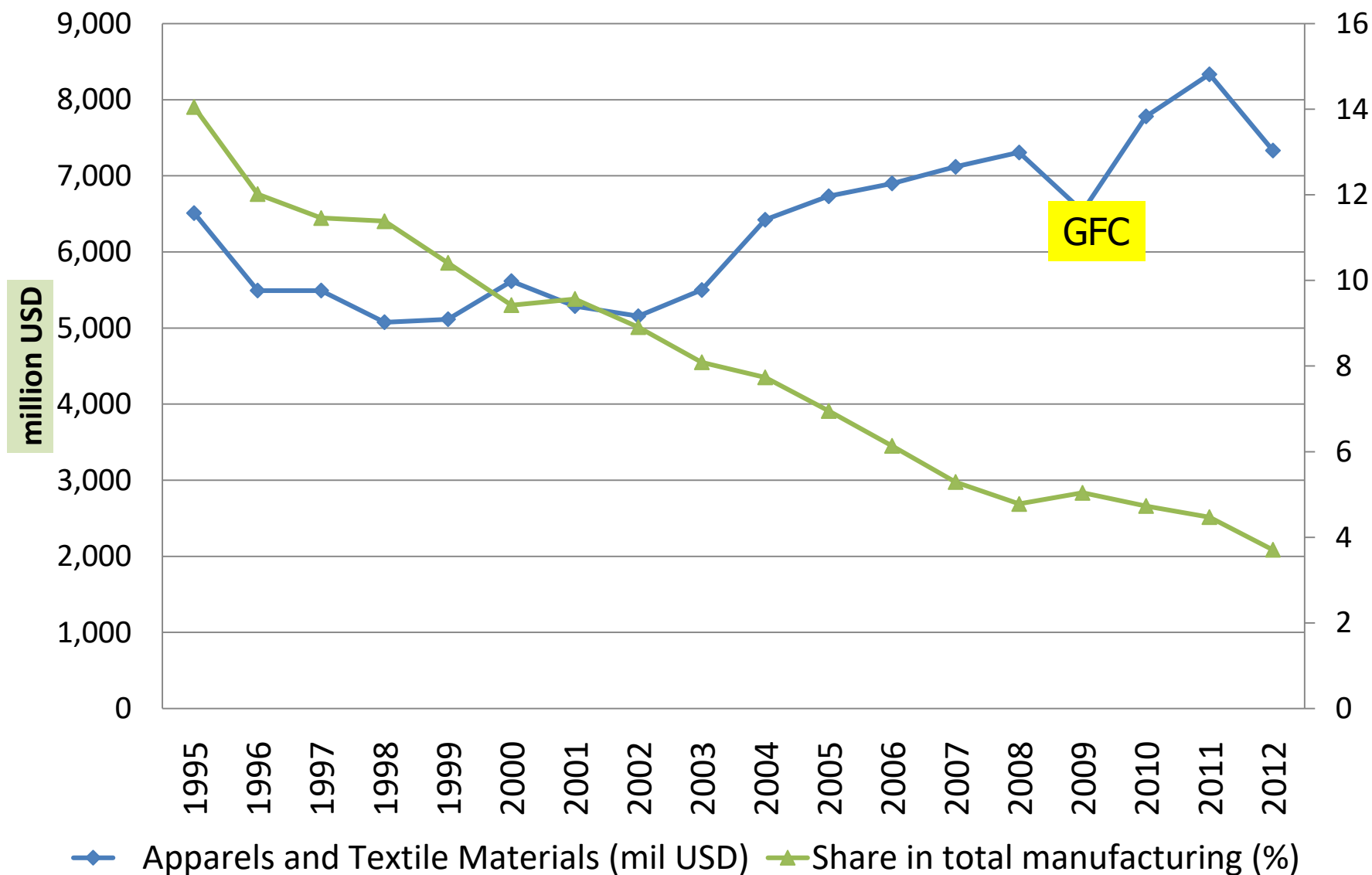
Outline

- The importance of textiles and clothing industry
- Reliance on international trade
- The role of FDI inflows and outflows
- Revealed Comparative Advantage
- The way forward

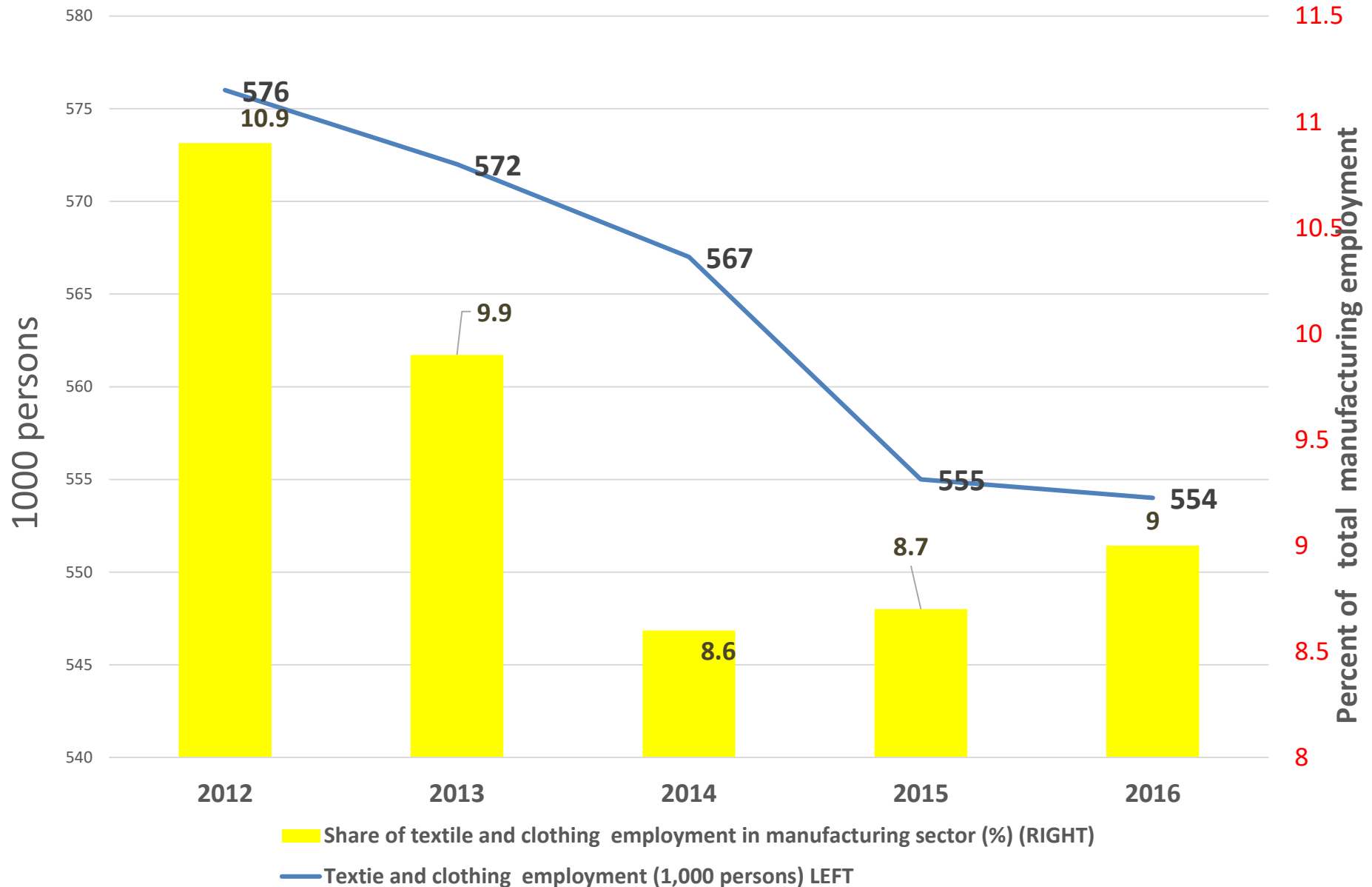
An overview of the industry prior to the GFC

- In 2007 the textile and garment industry, a labor-intensive industry, employed about one million workers and generated US\$3.16 billion (Bt119 billion).
- In 2009 Thailand's garment and textile exports made up 1.04% of the world market.
- A small country assumption can be applied to this labor-intensive industry, which cannot influence world prices and its profitability is subject to wage cost.

Exports of clothing and textile products

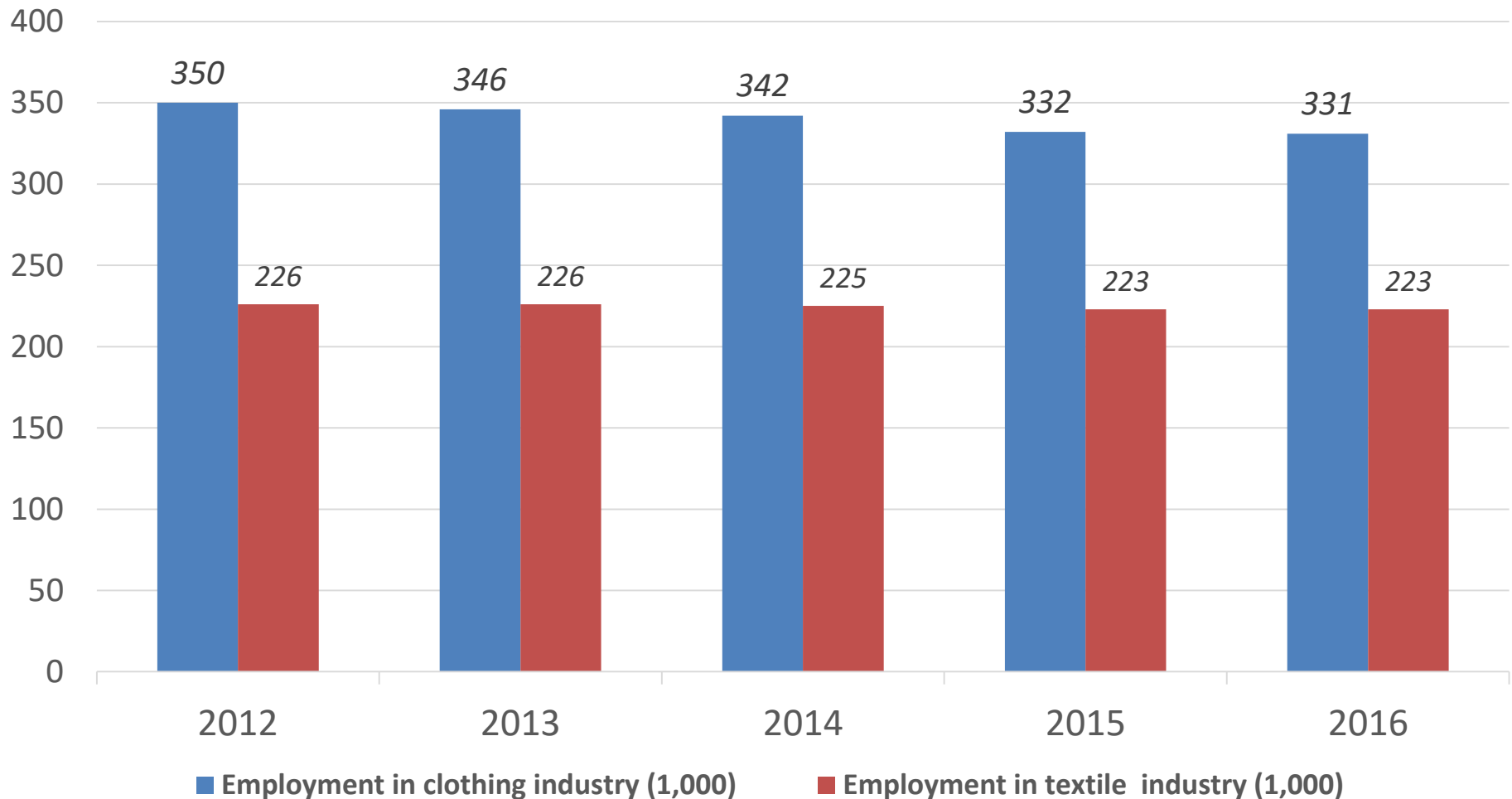


Shrinking Employment in Textile and Clothing Industry

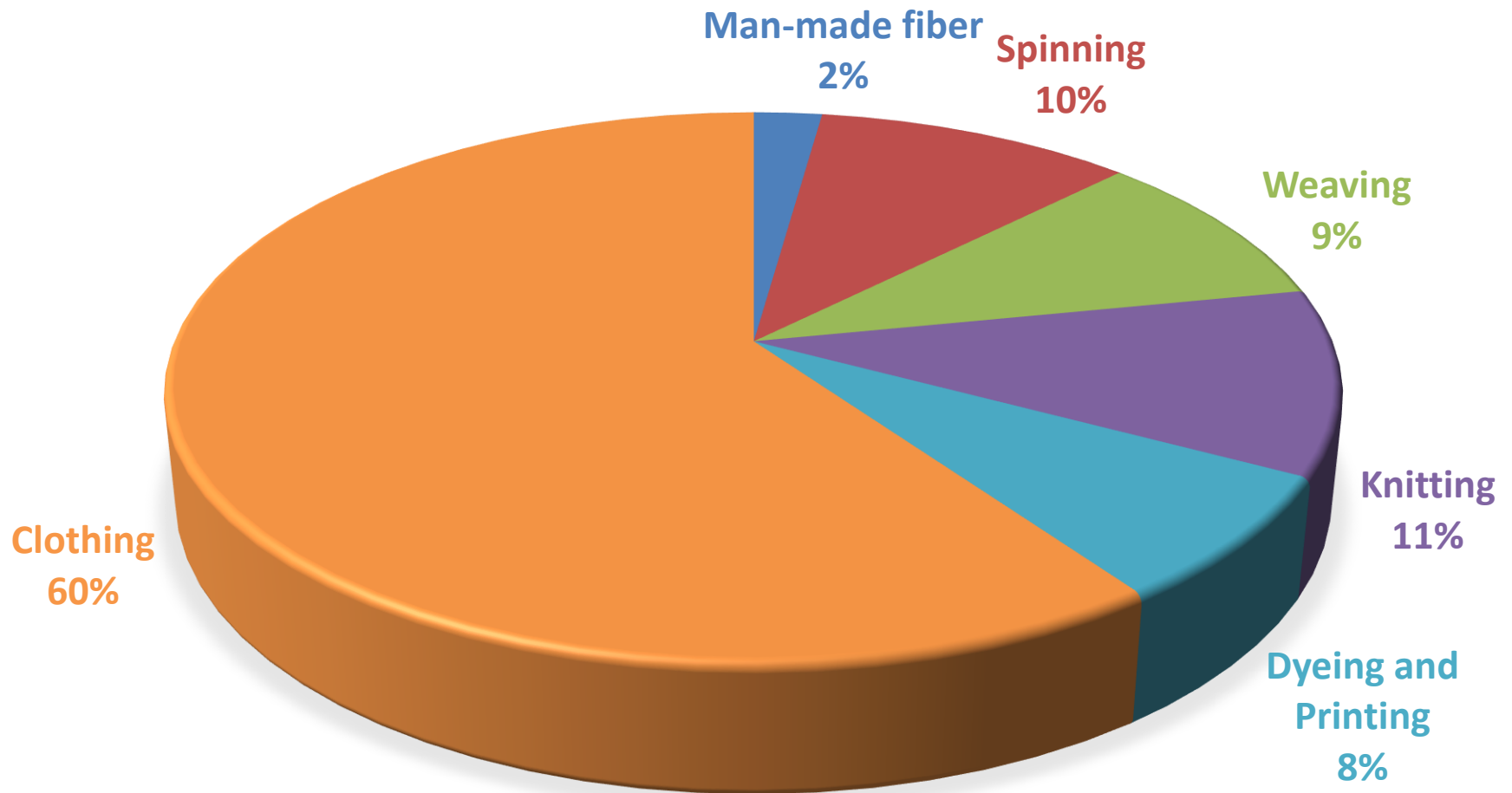


Employment Within in the Industry
Textile vs Clothing (Apparel) industries
(1,000 persons)

Source: Thailand Textile Institute



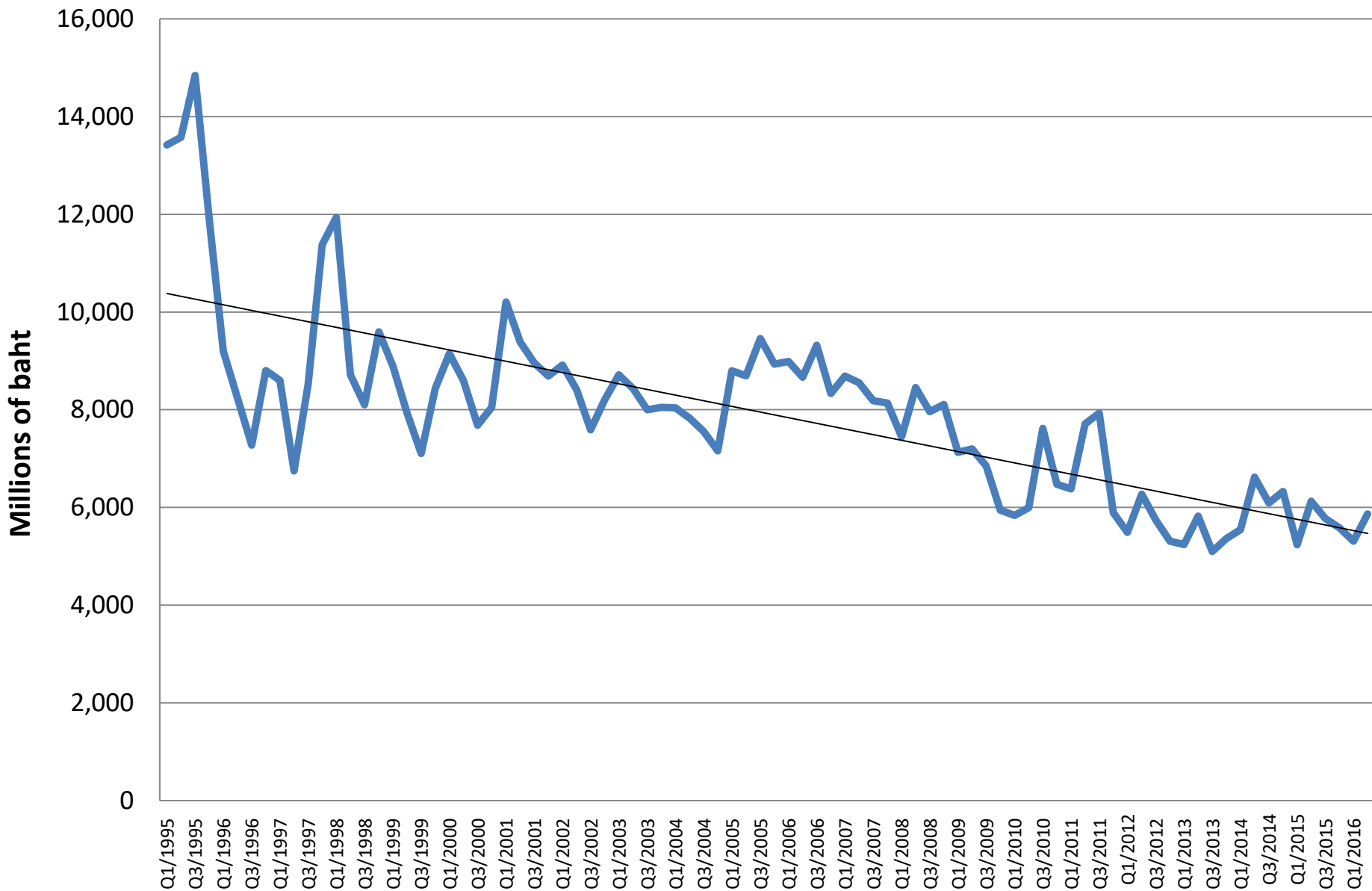
DISTRIBUTION OF WORKERS IN CLOTHING AND TEXTILE INDUSTRY: 2016



Factories, traders, and retailers

- Production: More than 2,000 companies for garment and around 2,000 for textile;
- Most factories are located around Bangkok and in Eastern Thailand
- Some in *Mae Sort*, employing migrant workers
- There are 82 registered garment export companies
- Retailers: Fruit of the Loom, Nike, Puma and others

Exports of foot ware and parts 1995-2016



Where did Thailand import textiles from?

Source: Office of Industrial Economics (OIE)

1. Fibers used in Textile Production

USA (31.8%), Australia (14.8%) and **India (9.3%)**.

2. Yarn

China (19.9%) , Japan (16.5%), Taiwan (12.3%) and **Indonesia (11.6%)**.

Extensive activities of intra-industry trade

Sources of imported textile products and machinery

3. *Fabrics:*

China (39.7%) , Taiwan (16.3%) , Japan (8%), and Hong Kong (8%).

4. *Ready-made Apparel:*

China (48%), Hong Kong (12.9%), Spain (6.1%) and Italy (5.8%).

5. *Textile Machinery:*

Germany (21.2%), Japan (18.8%), Taiwan (13.8%), China (12.9%).

Diversified sources of raw materials

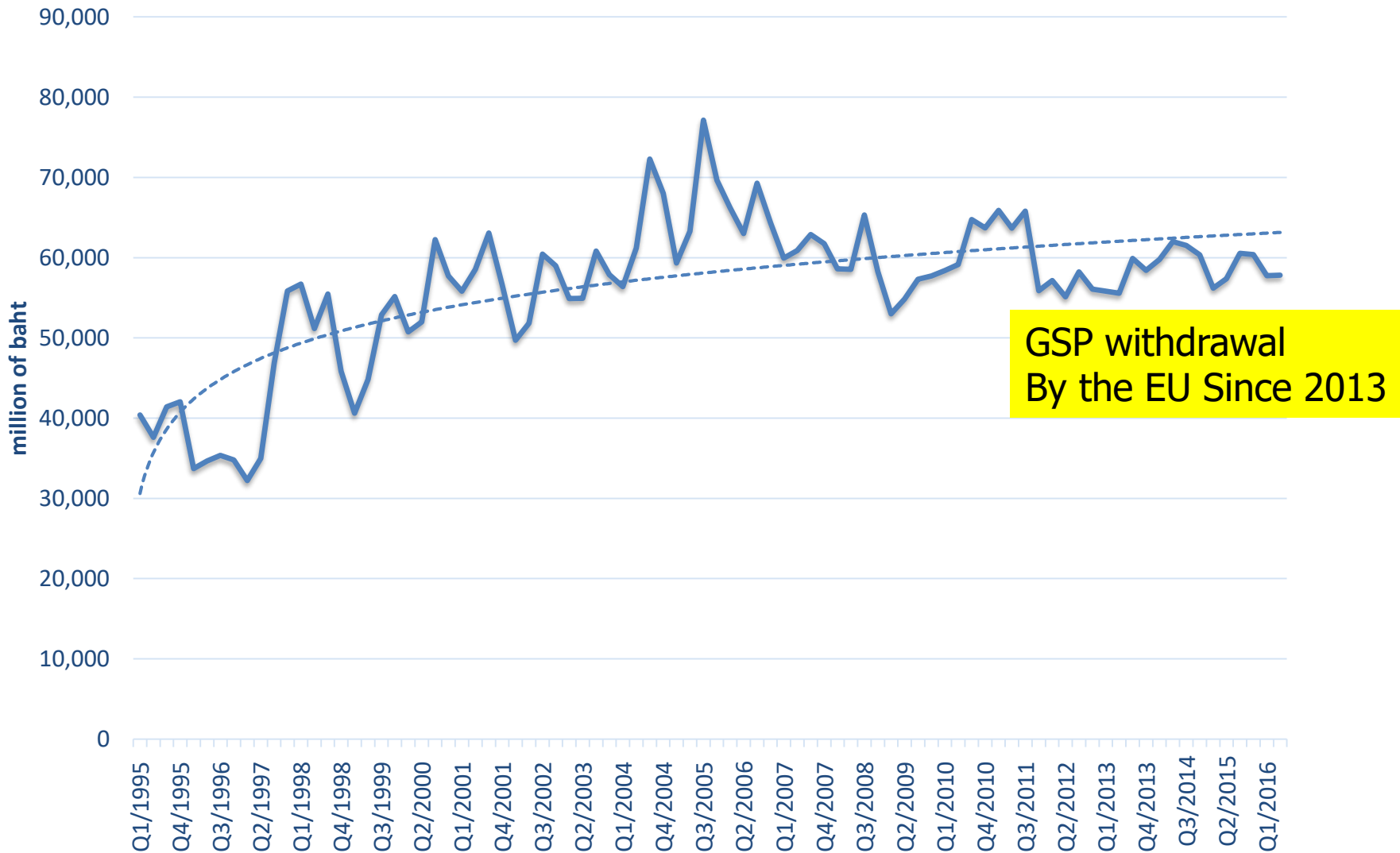
98% imported cotton input

- Thailand relies on importing cotton, yarn and fabric in order to produce garments and textiles.
- This has impact on the returns from garment exports.
- Thailand's textile industry requires much more **cotton** than the country produces itself: 500,000 tons are needed per year, but only 10,000 tons are annually produced in Thailand.
- Thus, Thailand only provides for 2% of the raw cotton used in its textile industry.

GSP withdrawal

- GSP (General Systems of Preferences) is a system of tariff reductions for developing countries exporting to the EU
- Thailand lost its GSP benefits in **2013**, as Thailand's income level was in the middle income group.
- Too early to blame the hike of minimum wage (300 baht per day) for losing world market shares in apparel.

Thailand's Exports of Apparels and Textile Materials: 1995-2016

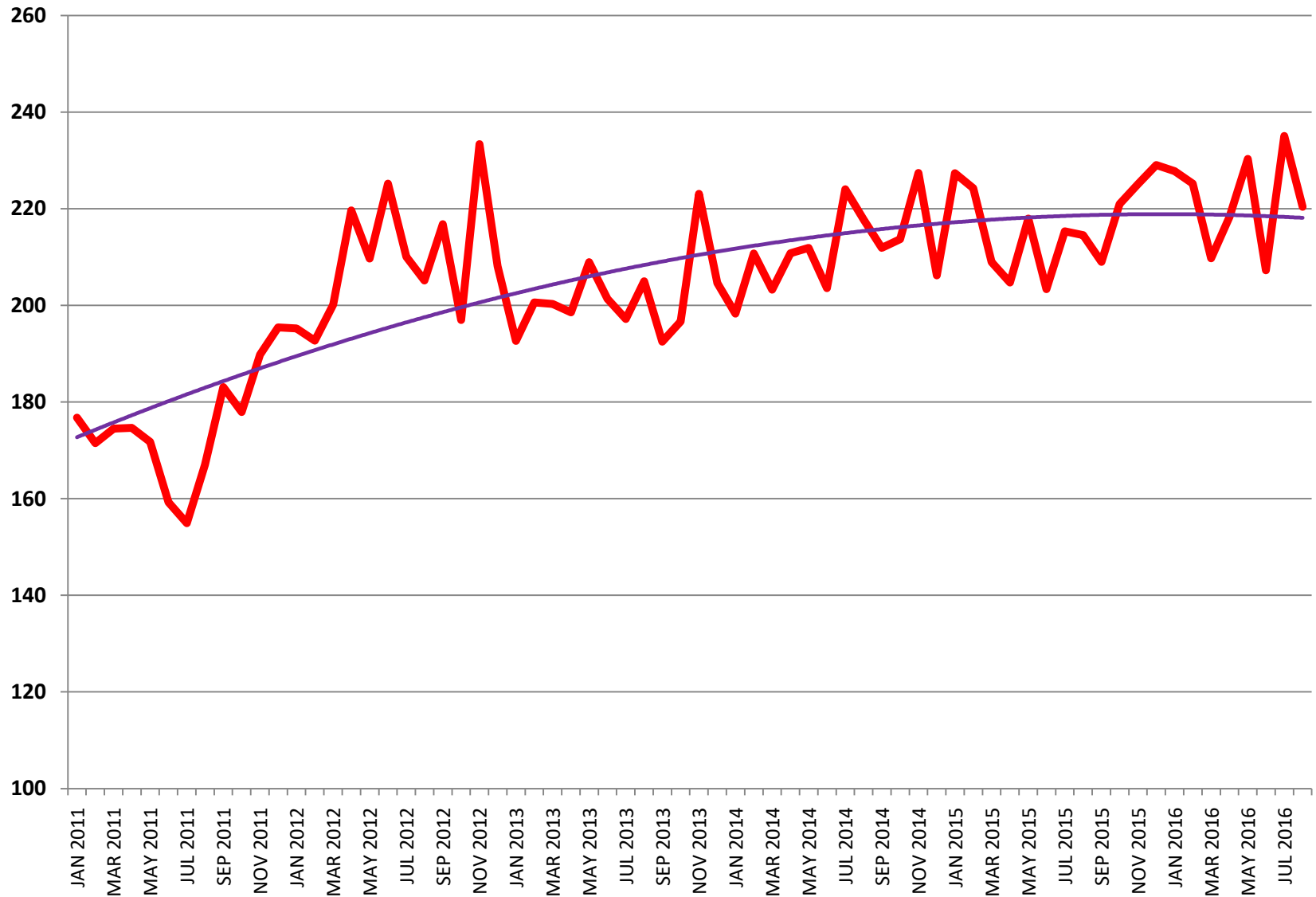


Living Wage vs Minimum Wage

Thai vs. migrant workers

- Minimum Wage per day in Bangkok: 300 Baht (9.8 USD; 7 EUR)
- ***Monthly wage per month: 7600 Baht*** (234 USD; 185 EUR).
- In reality, wages for ***Thai*** workers are often a little above the minimum wage, whilst ***migrant*** workers often get much less.
- Food: 120 baht (per day)
- Transportation: 20 baht (to the factory)
- Rent: 800 baht (per month)
- The ***living wage was around 10,000*** Baht per month (308 USD; 243 EUR), so 2,400 Baht was required above the current minimum wage.

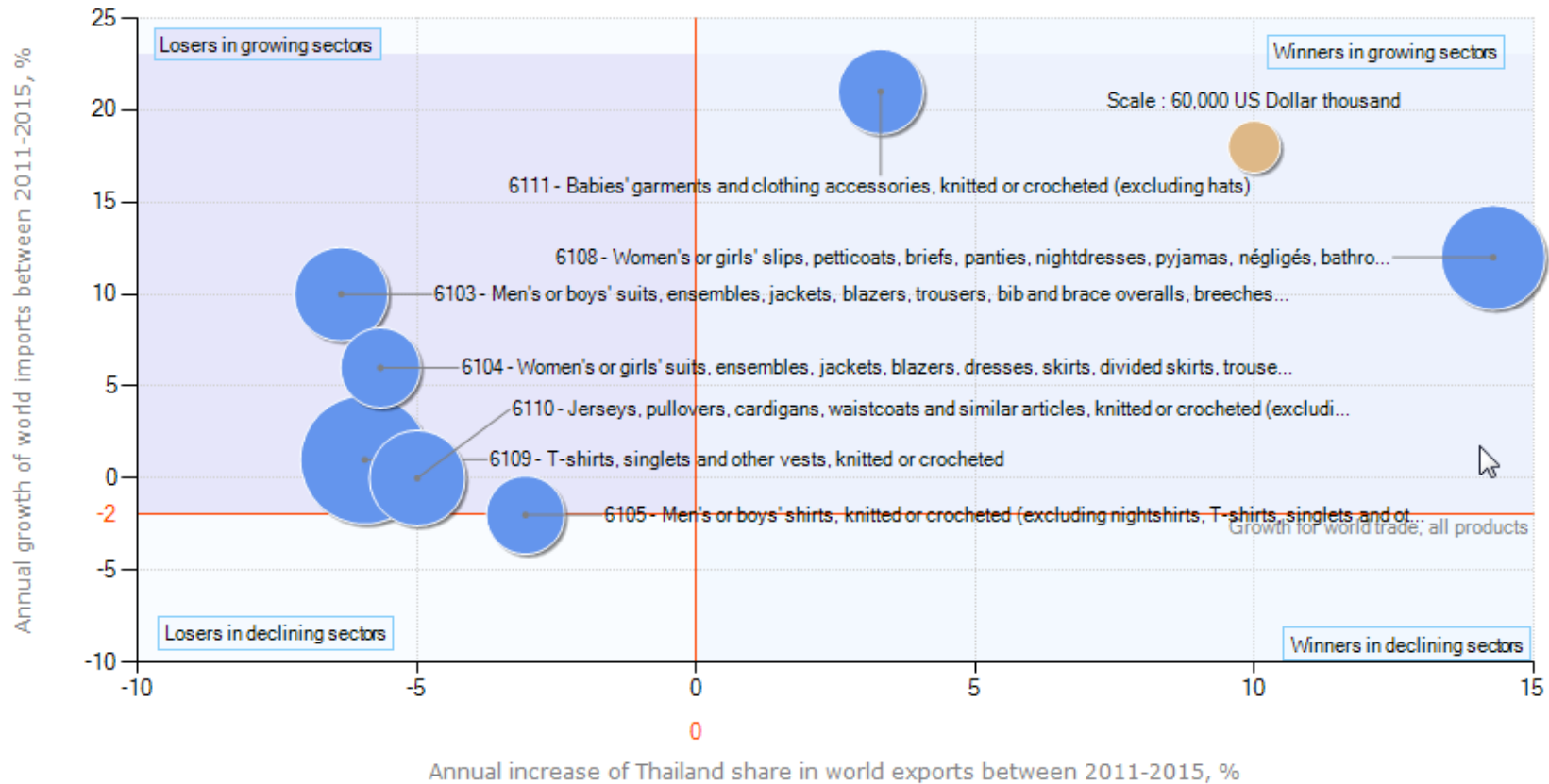
**Relative Wage Rate (W_M/W_A)
Manufacturing vs Agriculture (%)**



Thailand's exports of apparels and clothing accessories: *knitted or crocheted* (Product 61)

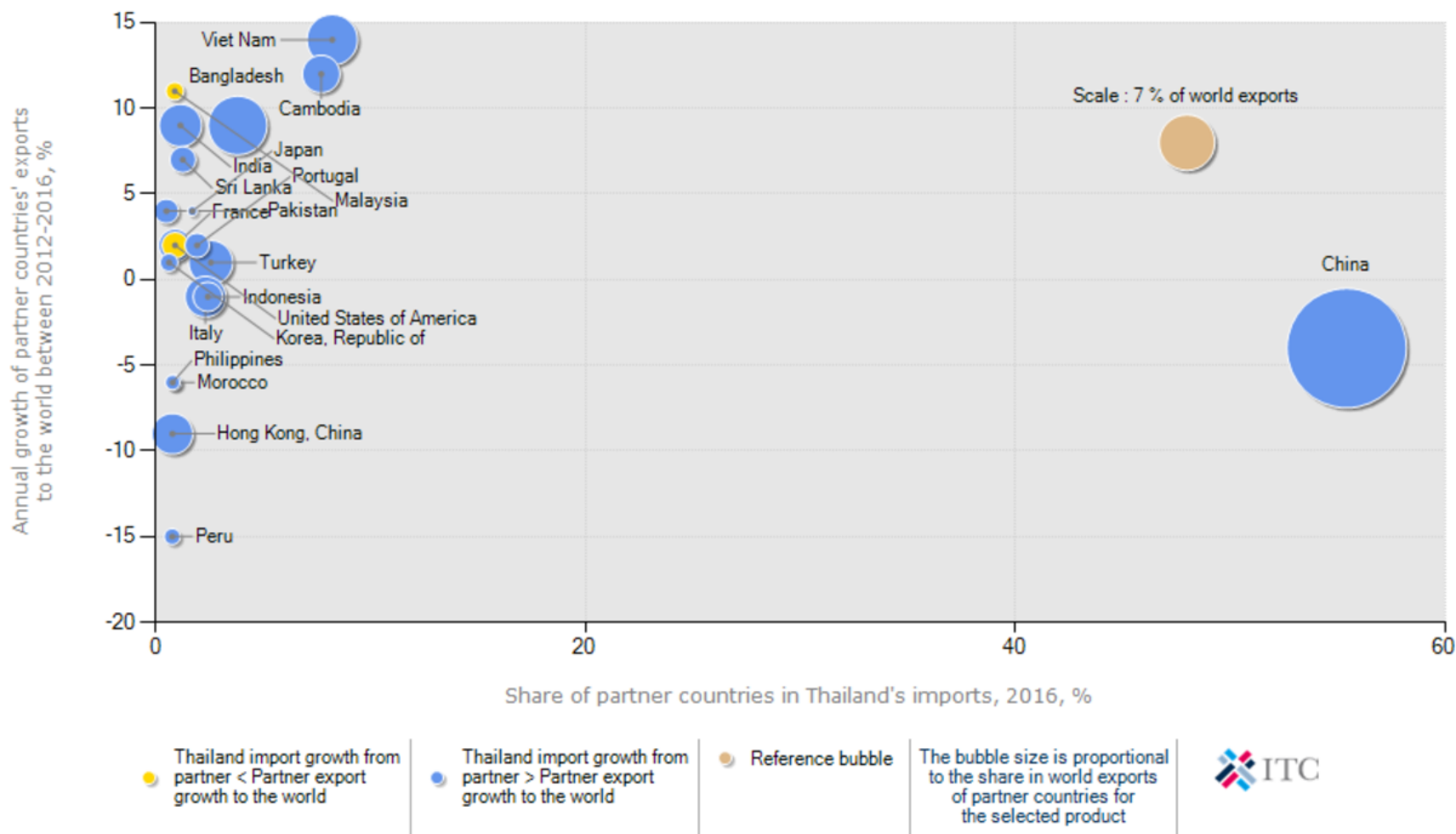
Losers in growing sectors

Growth of national supply and international demand
for products exported by Thailand in 2015



Dominance of China's Imports: product 61

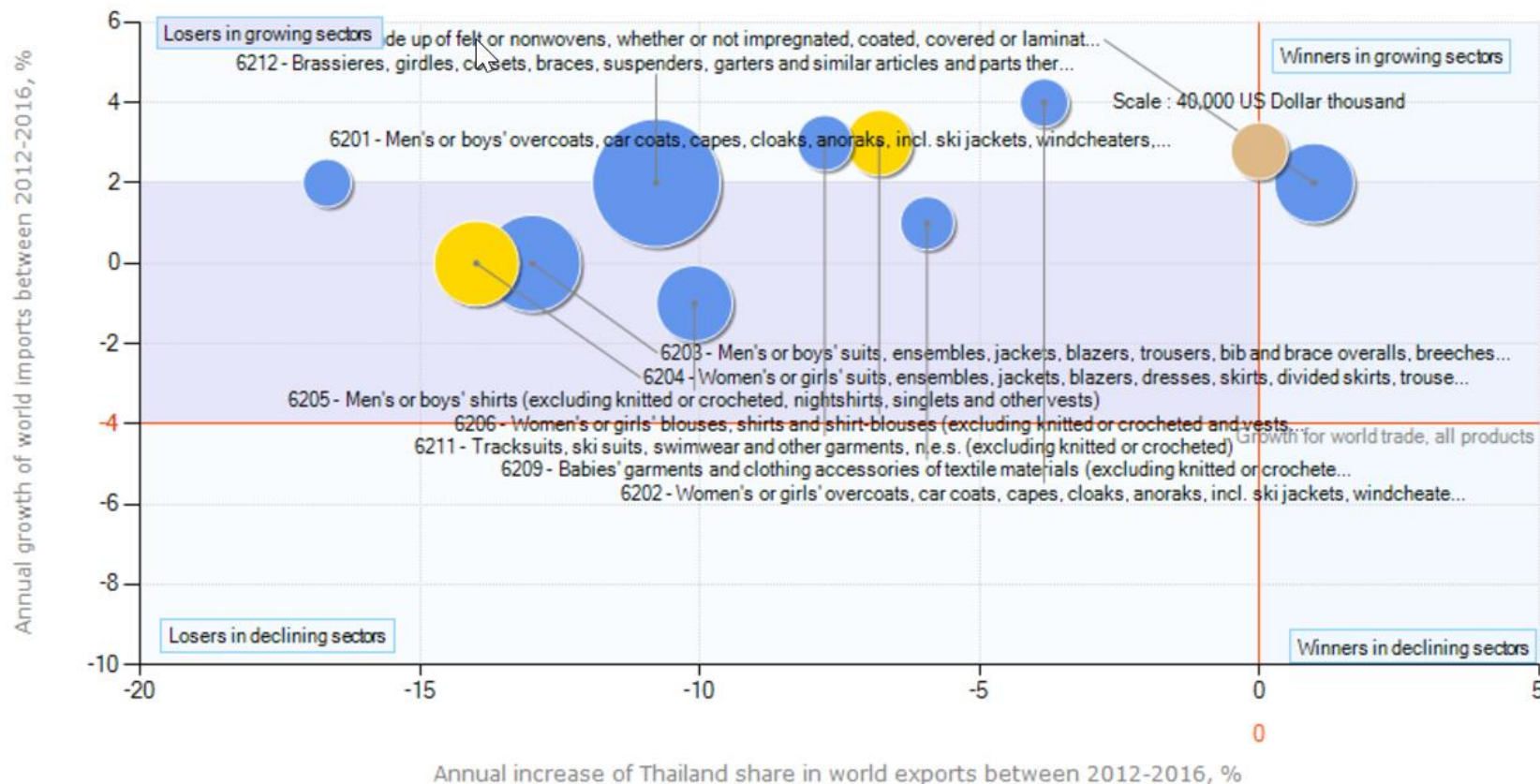
Prospects for diversification of suppliers for a product imported by Thailand in 2016
Product : 61 Articles of apparel and clothing accessories, knitted or crocheted



Thailand's exports of apparels and clothing accessories *Not knitted or crocheted* (Product 62)

Losers in growing sectors

Growth of national supply and international demand
for products exported by Thailand in 2016



Yellow bubble: Thailand is a net importer for this product

Blue bubble: Thailand is a net exporter for this product

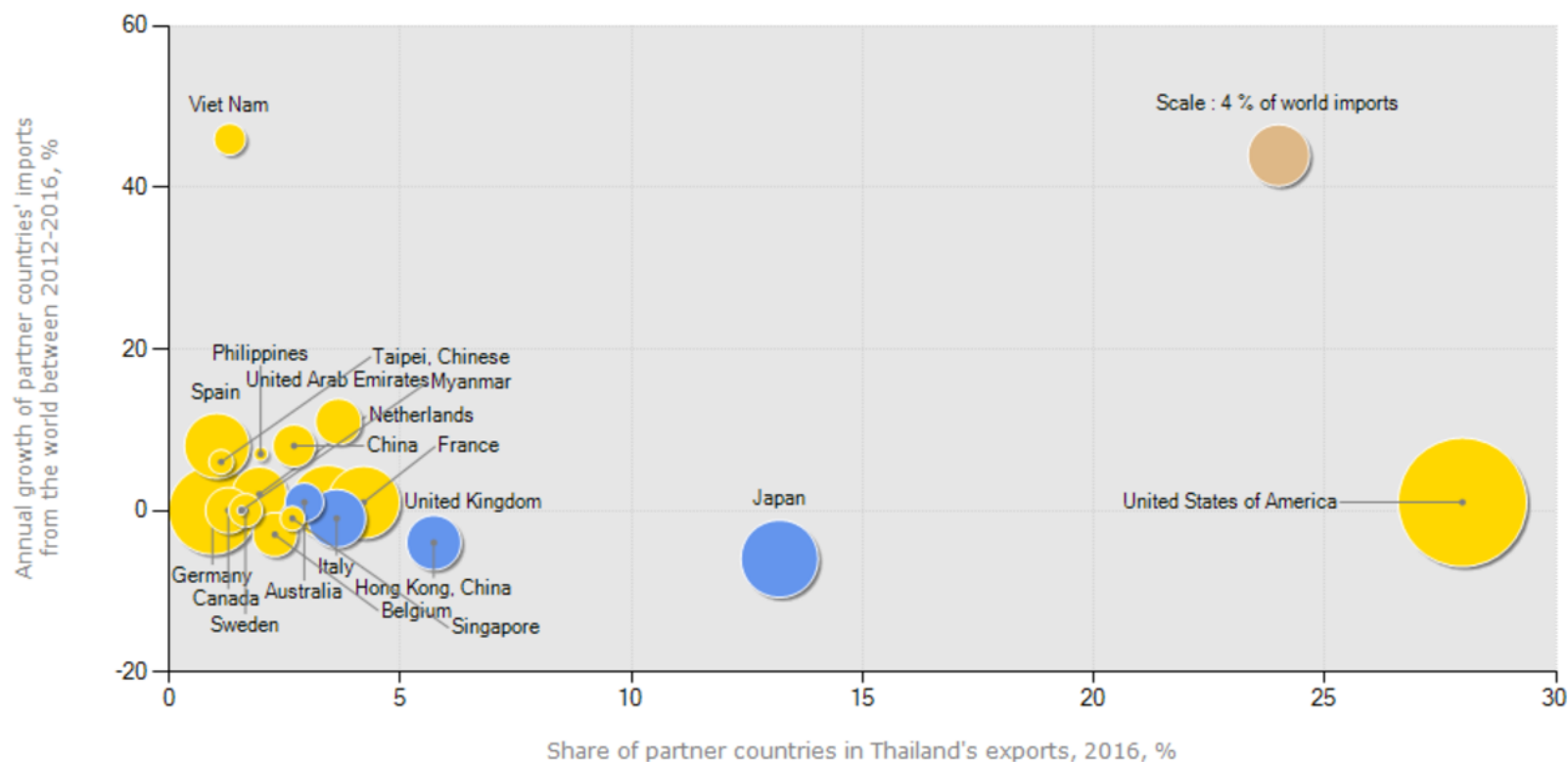
Orange bubble: Reference bubble

The bubble size is proportional to export value



Thailand's Exports of product 62

Prospects for market diversification for a product exported by Thailand in 2016
Product : 62 Articles of apparel and clothing accessories, not knitted or crocheted



Thailand export growth to partner < Partner import growth from the world



Thailand export growth to partner > Partner import growth from the world



N.A.



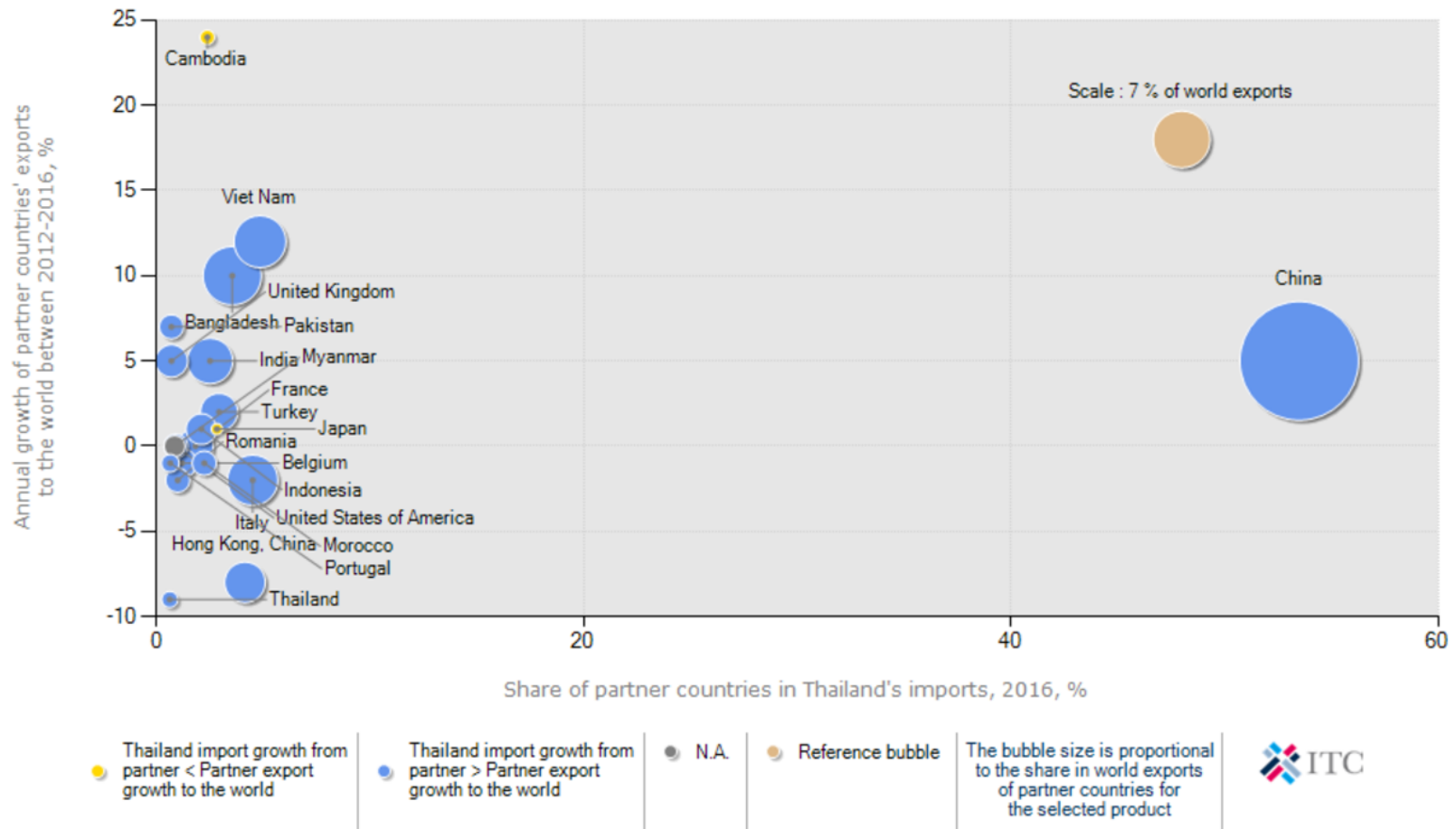
Reference bubble

The bubble size is proportional to the share in world imports of partner countries for the selected product



Thailand's imports: product 62

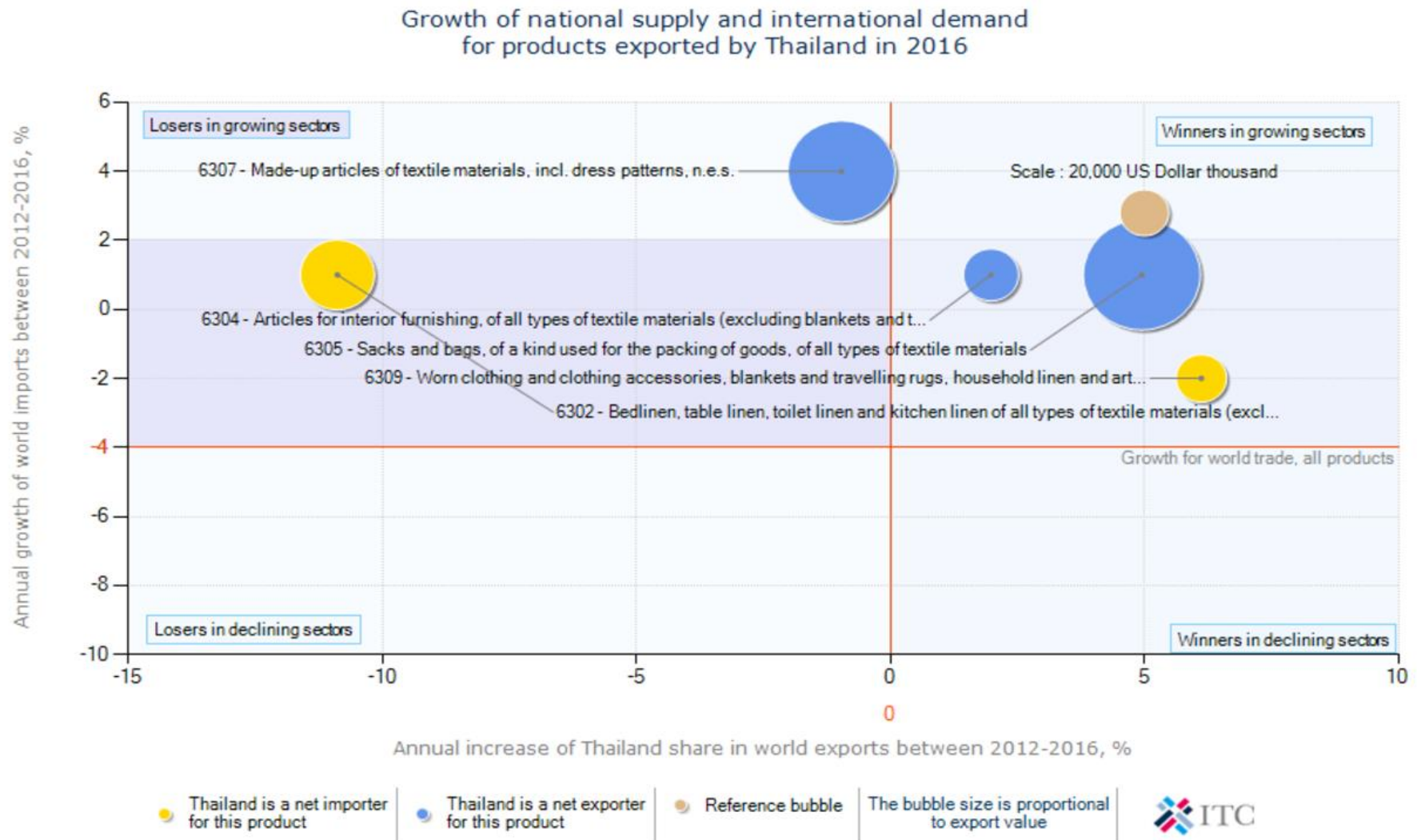
Prospects for diversification of suppliers for a product imported by Thailand in 2016
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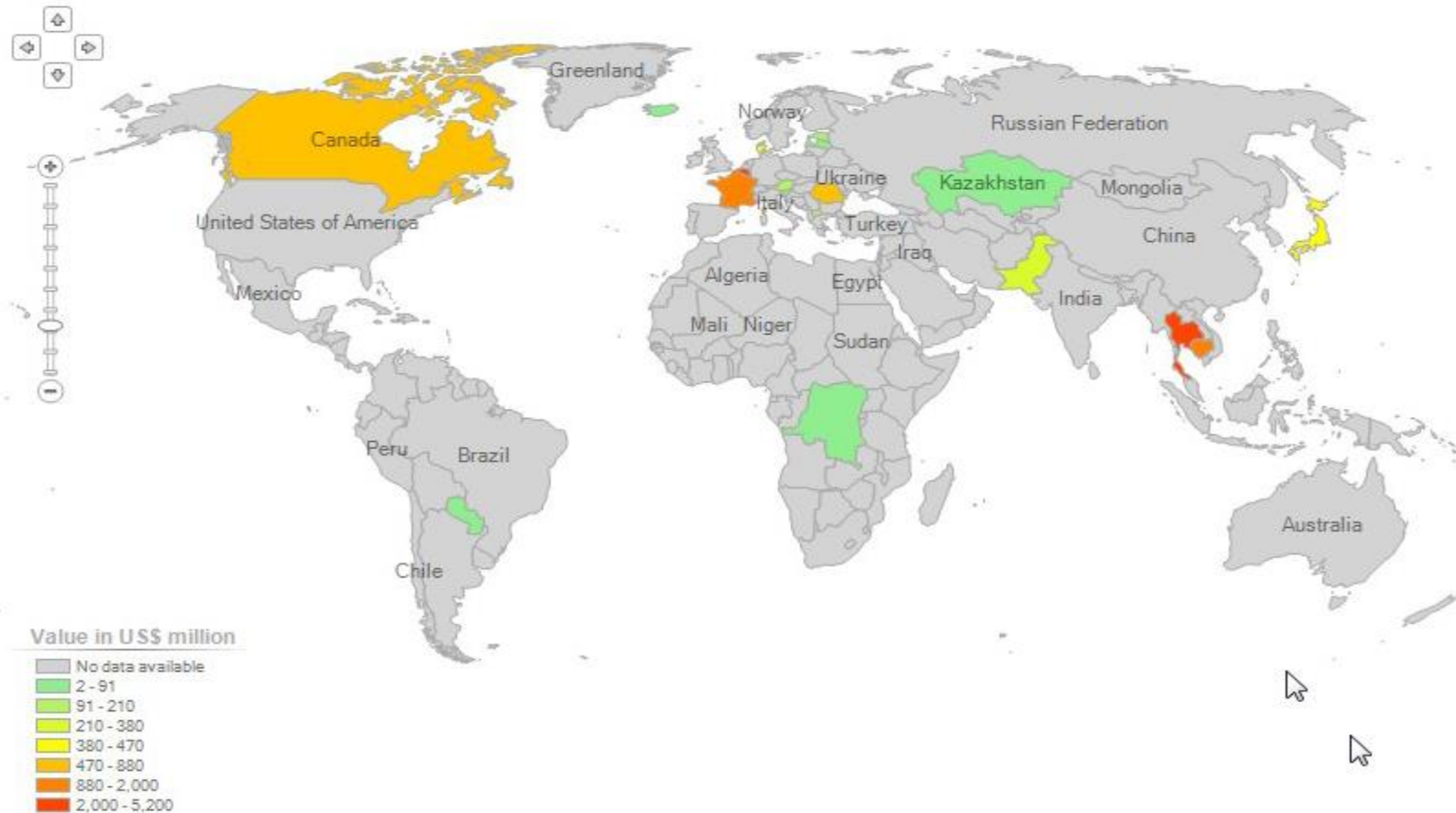
Thailand's exports: Other made-up textile articles

Product 63

Winners and losers in growing sectors



Inward FDI stock: Textiles and clothing

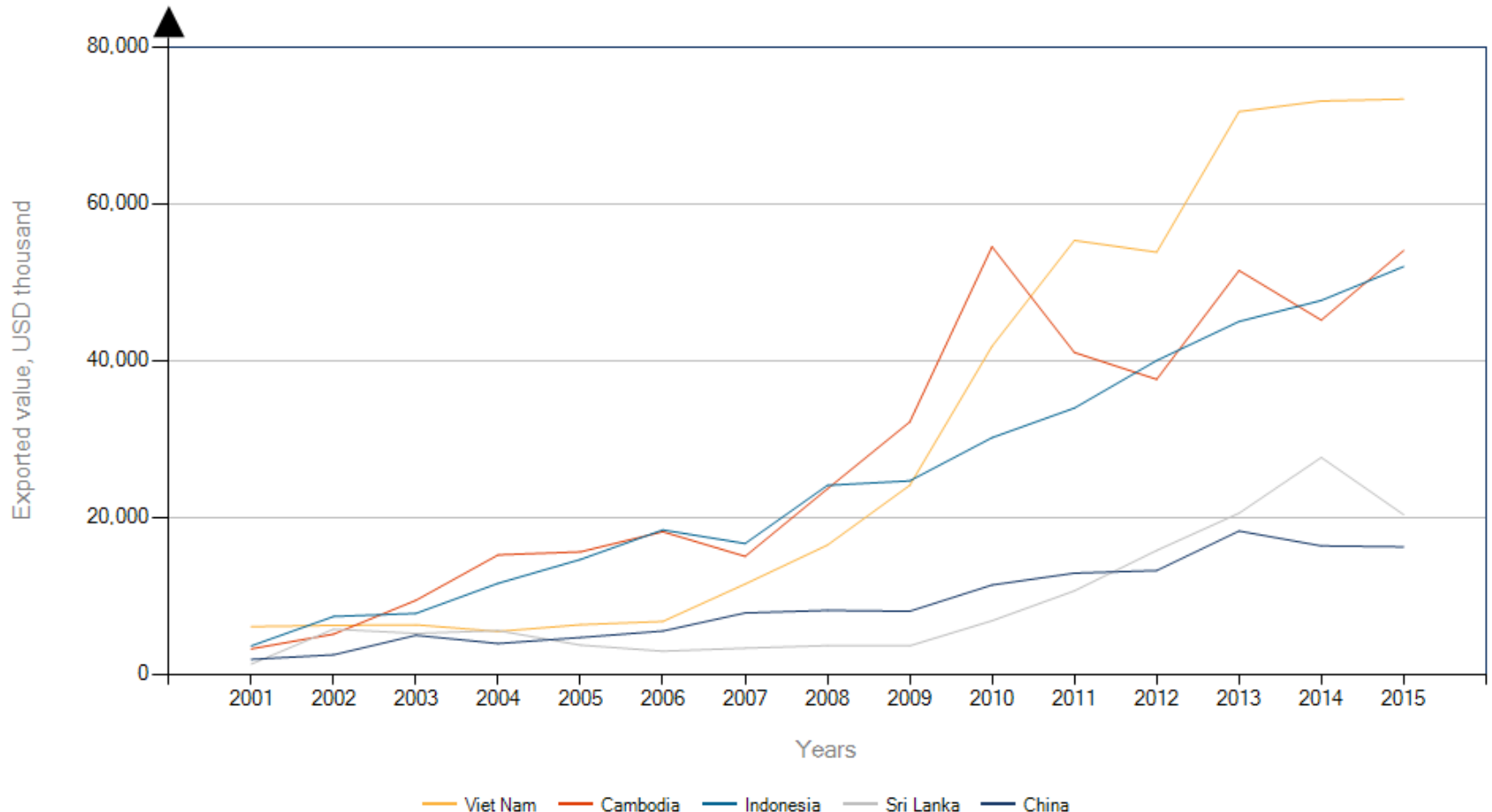


Thailand's export markets

product 60: Knitted or crocheted fabrics

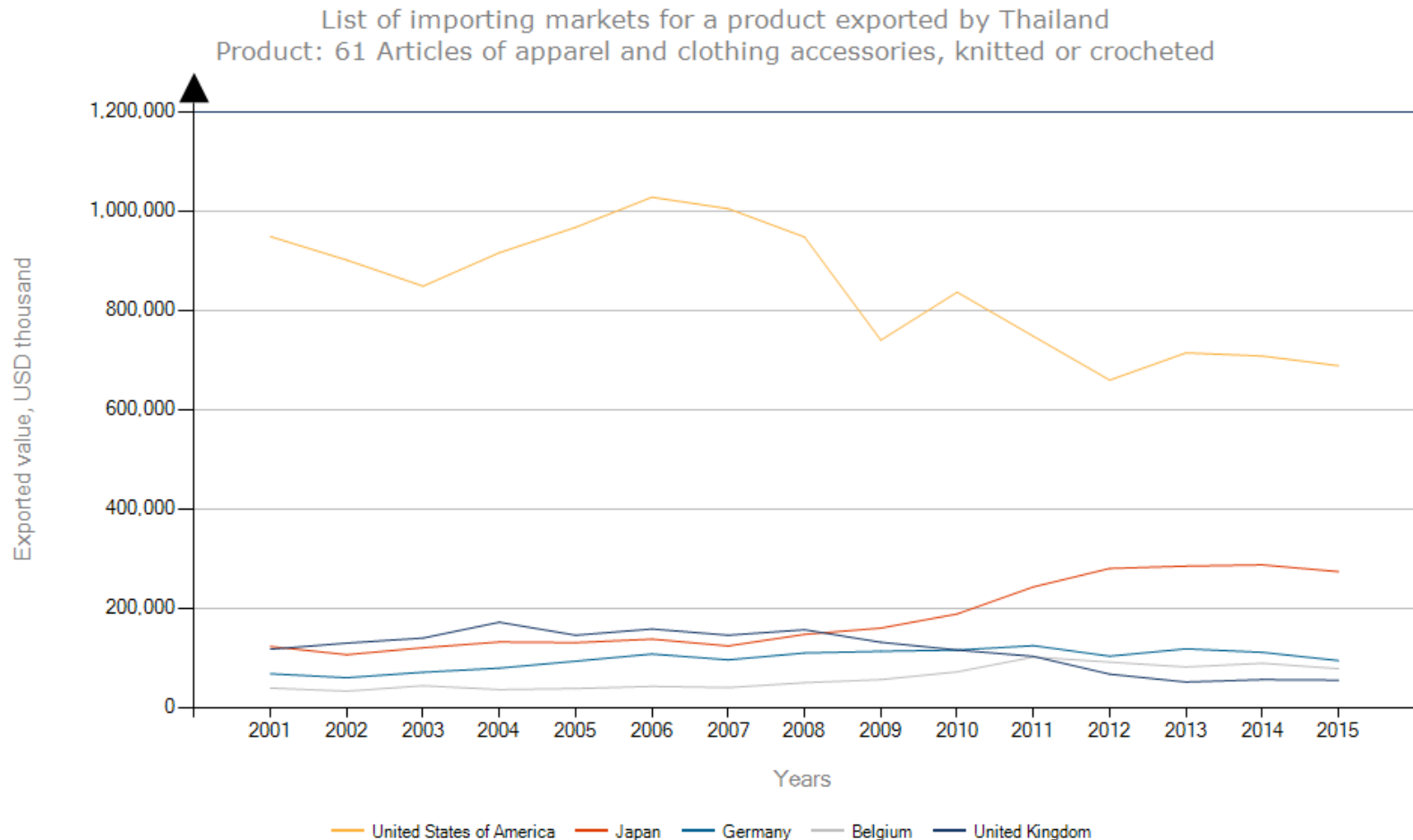
Why exporting to low-income countries?

List of importing markets for a product exported by Thailand
Product: 60 Knitted or crocheted fabrics



Export markets of apparel and clothing (product 61)

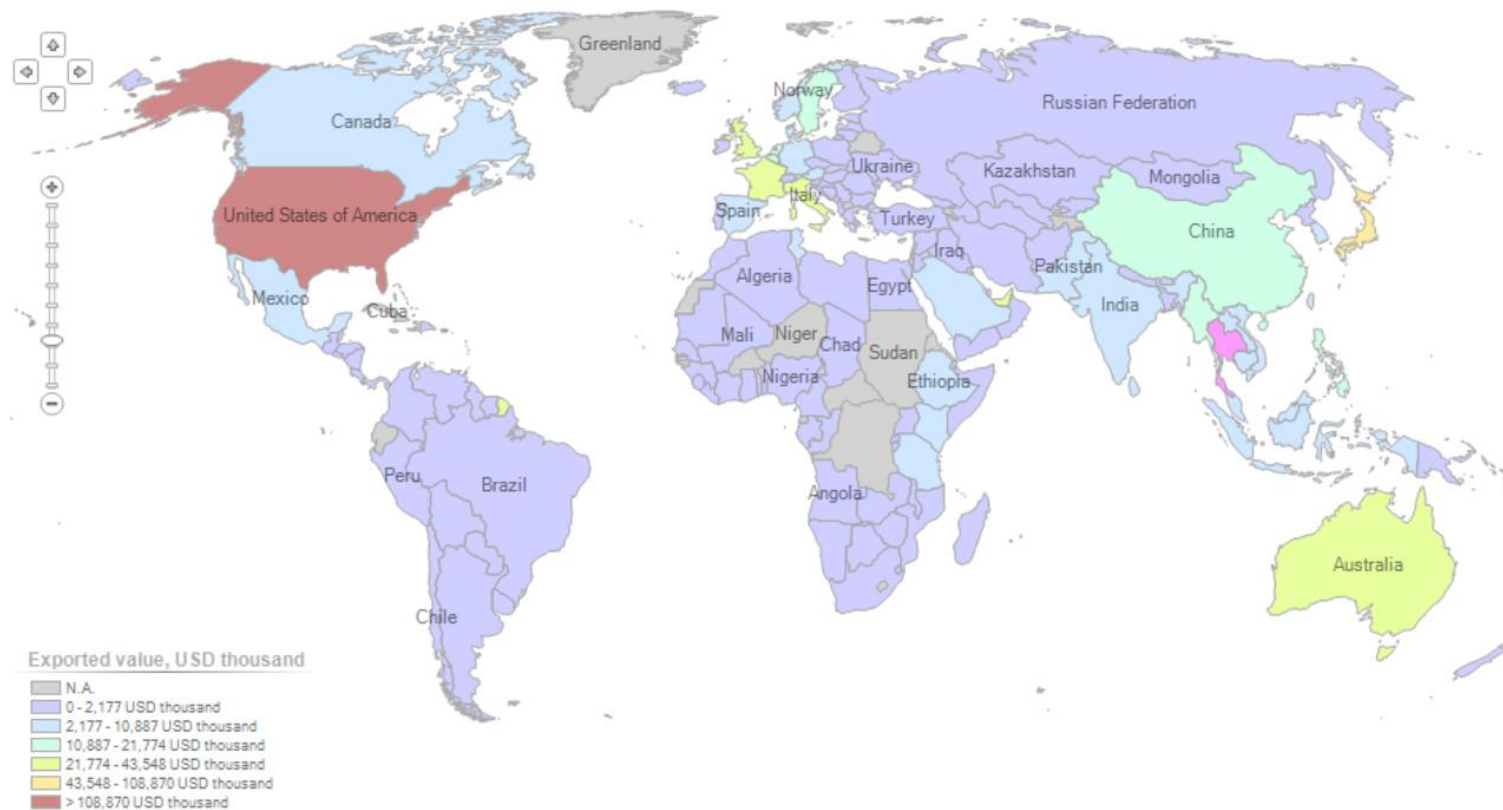
Why exporting to high-income countries?



Thailand's market for product 62: Apparel in 2016

List of importing markets for a product exported by Thailand in 2016

Product : 62 Articles of apparel and clothing accessories, not knitted or crocheted

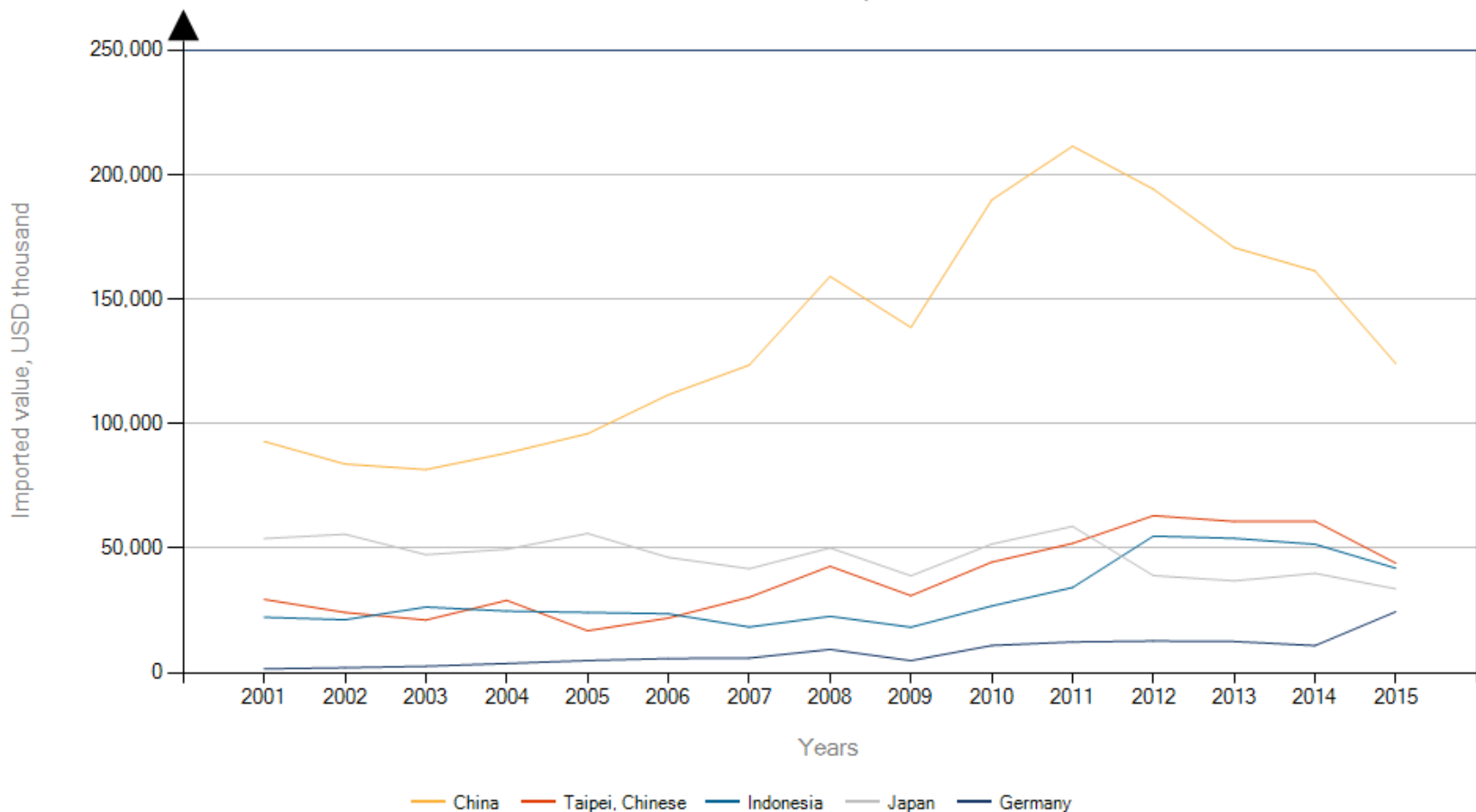


Thailand's sources of imports (product 55)

Man-made staple fibers

Why importing from high income countries?

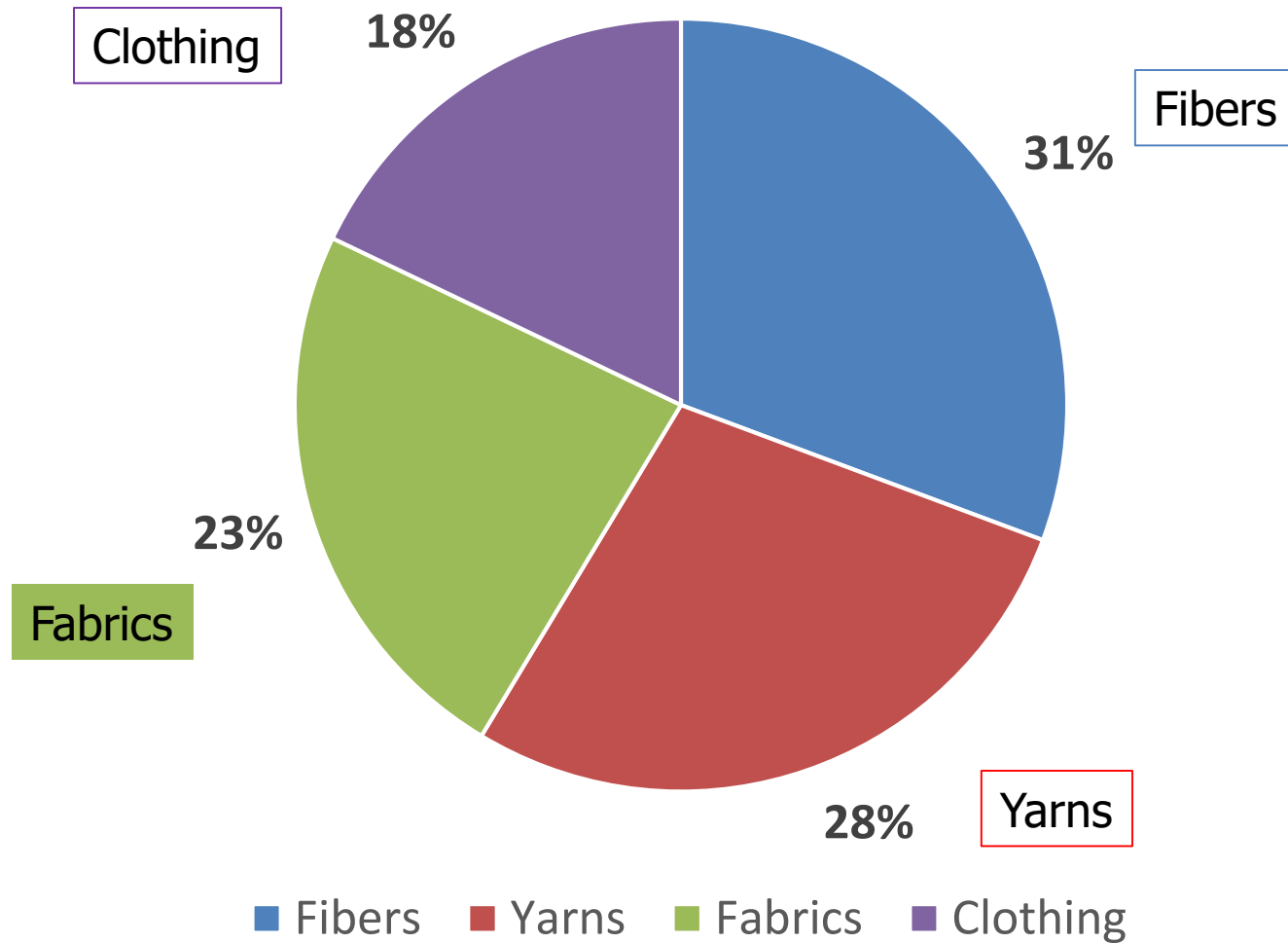
List of supplying markets for a product imported by Thailand
Product: 55 Man-made staple fibres



Vertical integration and logistics cost

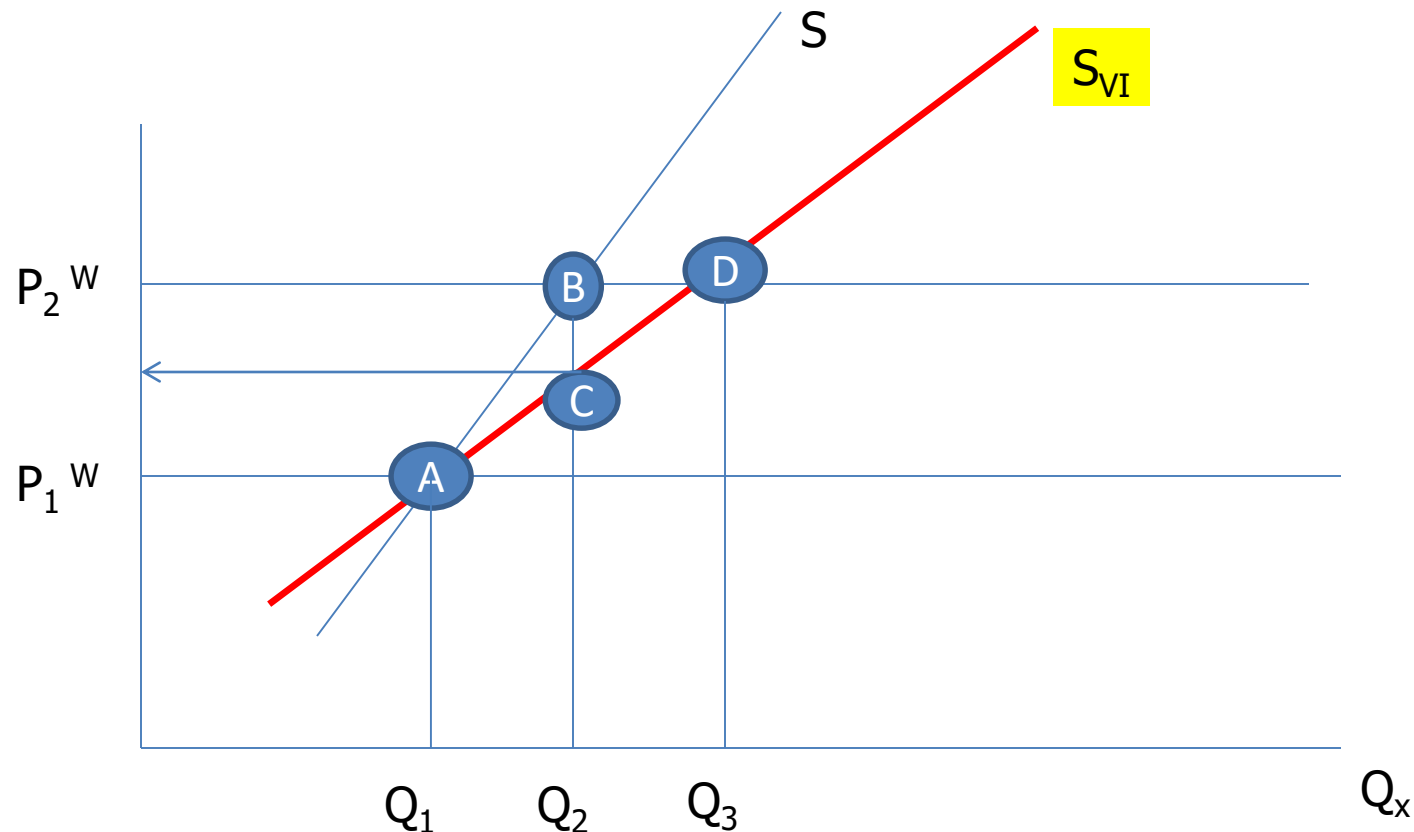
- From spinning to fabrics, from fabrics to garments: integrated textile business
- The Thai factories spin, weave, dye, finish and fabricate products for consumers in Thailand and abroad in the US and Europe, such as Wal-Mart and Calvin Klein.
- By integrating production from spinning to fabrics, Thai firms are able to cut ***logistics cost and inventories***.
- It can ***react quickly*** to any change in customer needs.

Textile and Clothing Production in 2016 (1,000 tons)



Vertical integration (from textile to apparel) has lower logistic and inventory cost

It also provides rapid supply response (from textile to apparel)

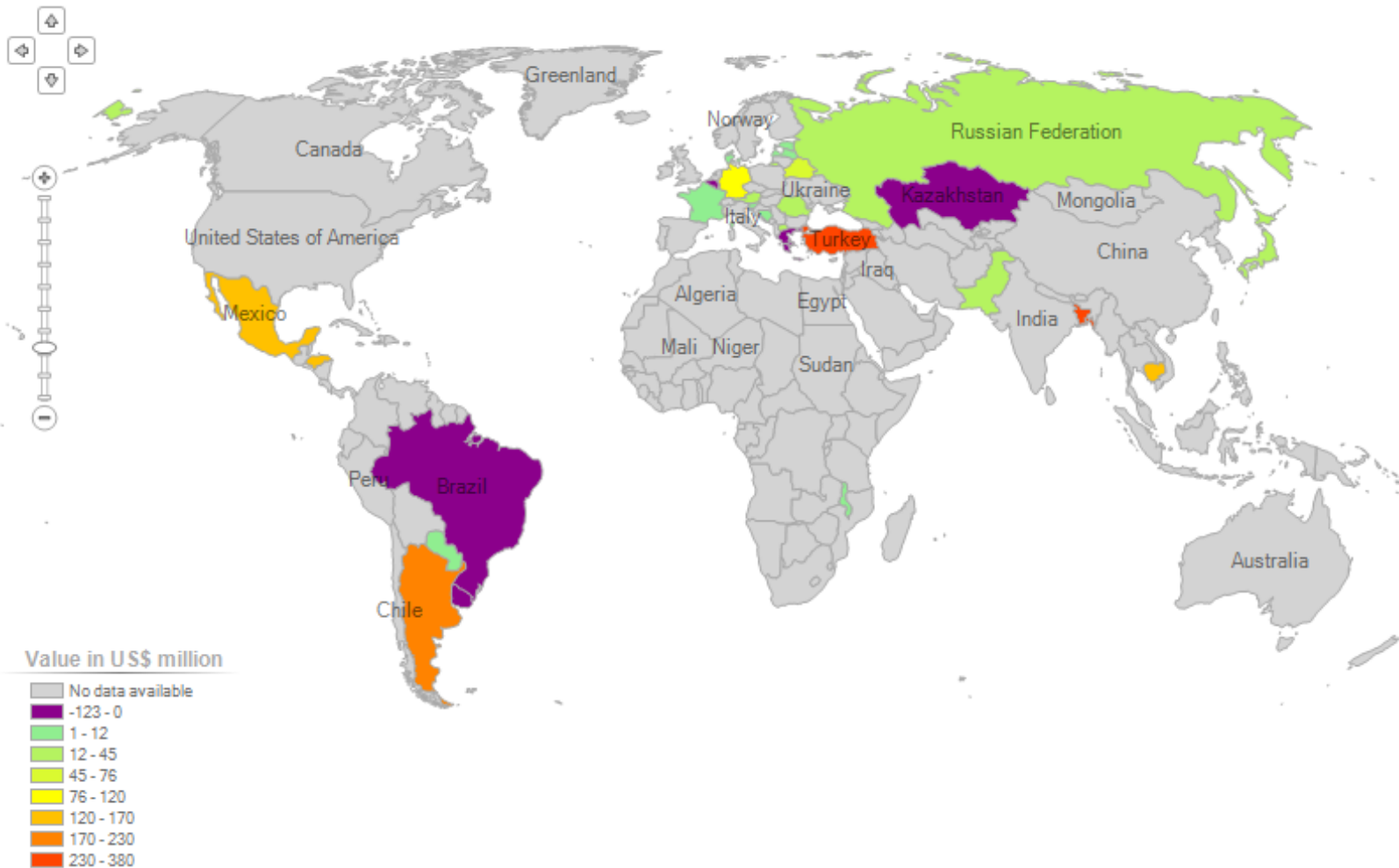


Dynamic supply response is good, but cost control is also important
Otherwise supply S_v shifts upward. Hence Labor productivity must be raised

Surviving strategy

- The industry faces rising wage rates, losing its low cost advantage to other labor abundant economies.
- The textile and garment industry has lowered manufacturing costs by **moving labor-intensive** operations to neighboring countries in order to enjoy tax privileges for exporting to US and European markets.
- With high wages, the technology in FDI host countries must be different from home country's factory.
- In case of car industry, Nissan production plants in Japan use higher K/L than its' plants in India.
- There is a certain degree of elasticity of substitution between labor and capital goods.

Countries attracting FDI in textiles, clothing, and leather (in 2013)



A new strategy for the industry

- Thailand is already the production base of upstream and downstream textile industry and what the industry must do is develop **value-added textile** and garment products.
- Should Thailand build up its brand name if it wants greater world recognition like Italian-made products?

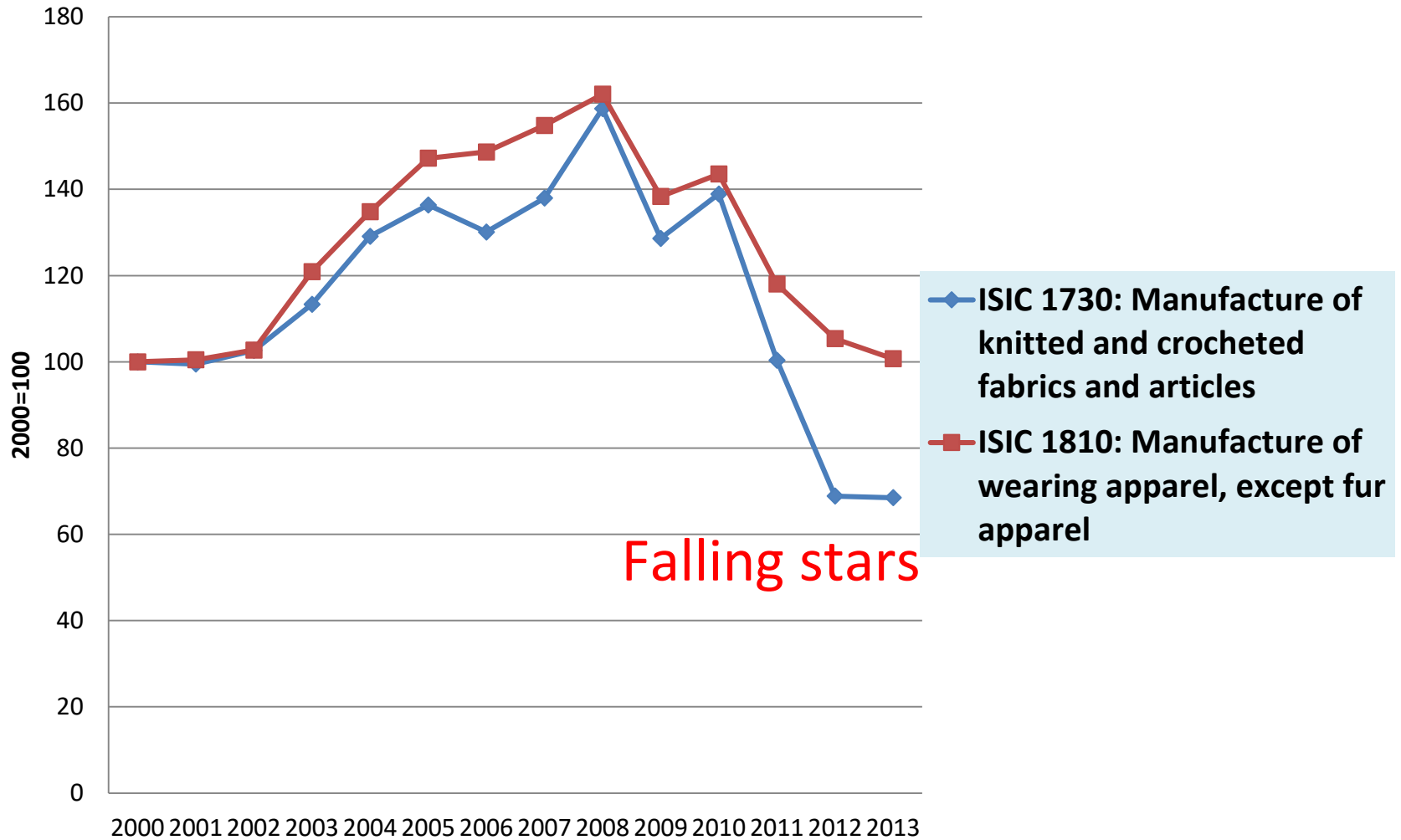
The industry has already encountered problems more than a decade

- Textile and wearing apparel industries were severely affected by the baht appreciation
- Domestic market was threatened by an influx of inferior quality products from China.
- Local producers tried to adjust by cutting costs and focusing more on export markets.
- Thai textile and garment exporters are committed to raising export revenue to 20 billion USD in 2016 and *shifting* their focus on producing more fashion and design products.

Product diversification

- **Ready-made apparel exports** declined due to the continued baht appreciation and exchange rate volatility, causing exporters reluctance to accept export orders.
- However, **other textile products** grew in 2007: brassieres, girdles and accessories, fabric, yarn and synthetic fiber, household and furnishing textiles, synthetic fiber and embroidered and lace fabrics.

Production Index: Ultra export orientation



Moving clothing factories to neighboring countries: seeking new export platforms

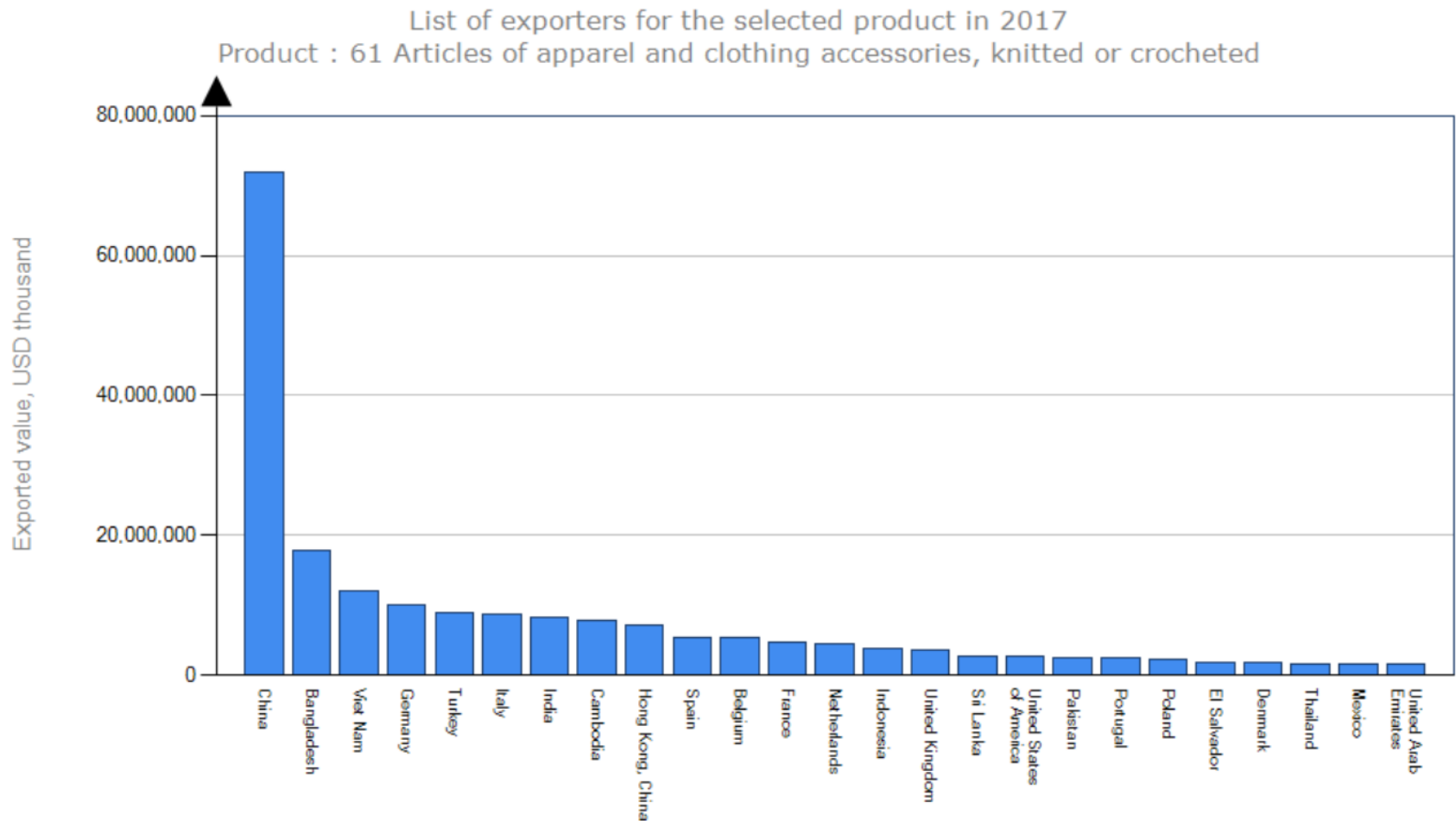
- In Laos, Cambodia, Myanmar, and Vietnam, factories are **exempt from taxes**, so they can export to Europe with cost advantages compared to manufacturers in China, where they have to pay **15%** tariff.
- The Japan-Thailand Economic Partnership Agreement (JTEPA) has allowed Thai manufacturers to export to **Japan** with a 15% handicap against Chinese manufacturers.

Trade preferences and competition

- Those tariff preferences help strengthen price competitiveness of Thai products against rivals from China in the key export markets.
- China is the world's biggest exporter, facing increases in production costs.
- China, Bangladesh and India are the world's top textile producers and are also major consumers.
- Pakistan and Southeast Asia are important and growing players.
- **Given a shortage of labor in Thailand, more investment expansion by Thai producers is likely in Myanmar, Lao PDR, and Cambodia.**

China, Bangladesh, Vietnam, Indonesia,

Product 61



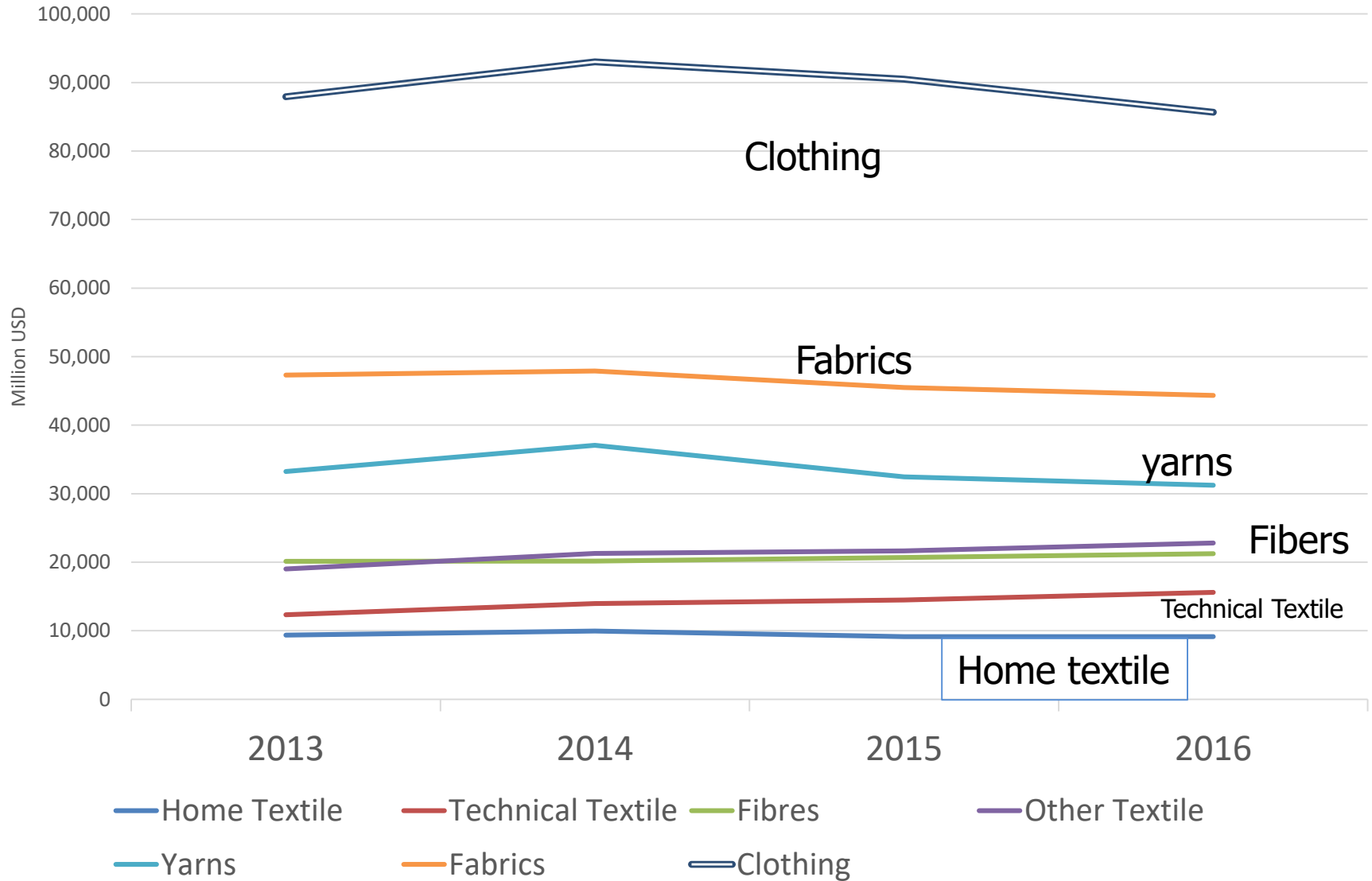
Chemicals and textile dyes: Why imports?

- The global textile dyes and chemicals market was worth \$16 billion, and Asia accounts for some 45 percent of total consumption, much of it destined for export markets.
- ***Stricter environmental standards*** required by Western countries are prompting consolidation and innovation in the industry, which requires imported textile **dyes** and **chemicals**.

Technical textiles: Other textiles (ISIC 1729)

- Apart from apparel, a major driver for the industry is demand for “**technical textiles**” or fabrics used in cars, mattress covers, bags, tents and parachutes, among others.
- In the medical field, chemicals are incorporated in surgeons’ gowns to repel blood and dirt, raising the hygiene level.
- As Asia’s spending power rises, “people want different products and that’s going to lead to the development of a whole new market for technical textiles which didn’t exist before”
- The market for ***technical textiles*** is likely to grow by 20 percent per year over the next decade.
- Thai companies must ride the growth by moving up to higher value-added products.

Exports of Textile and Clothing



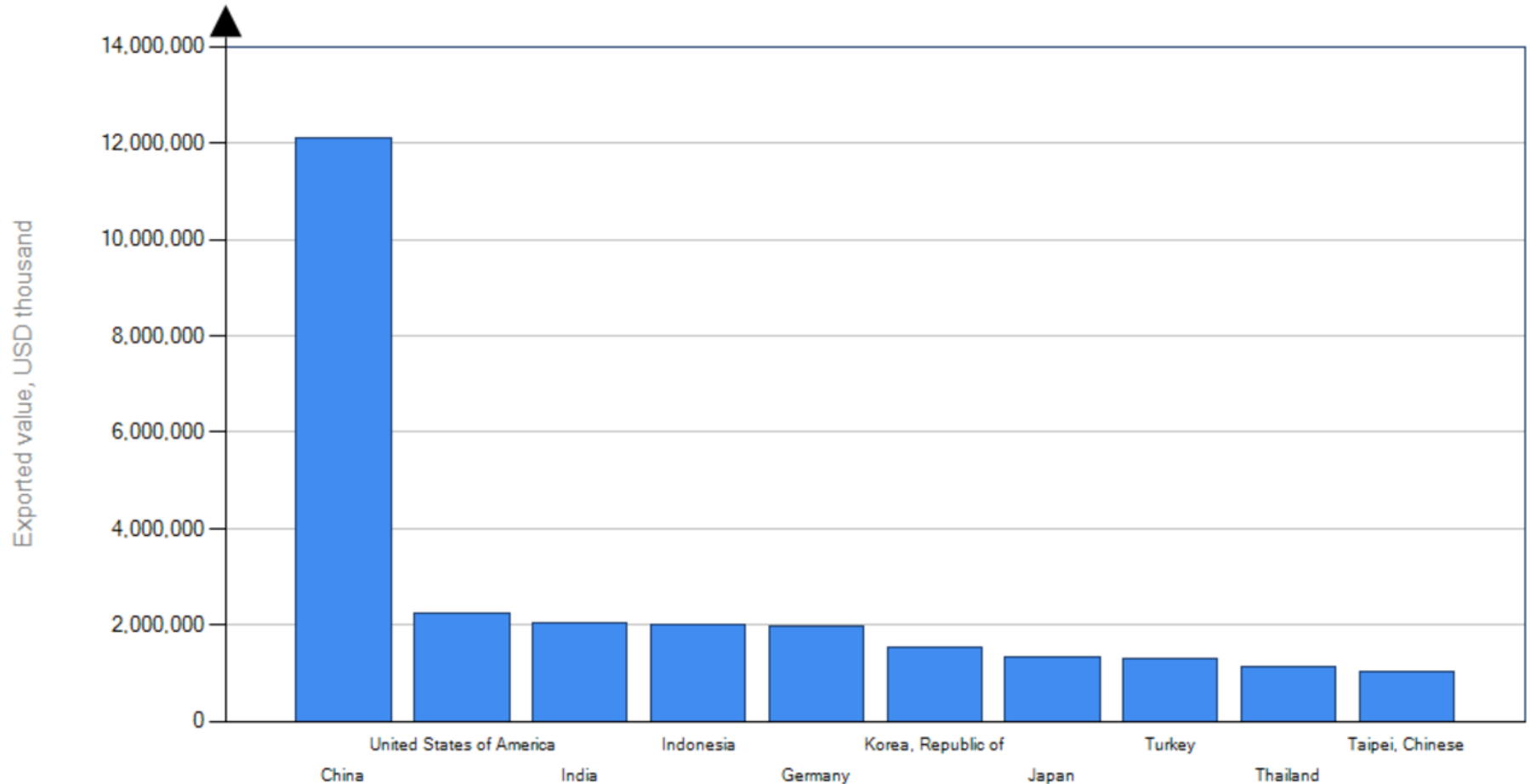
Top importers of Thailand's product 55

List of importing markets for a product exported by Thailand
Product: 55 Man-made staple fibres



Top-10 world Exporters of Product 55: Man-made fibers

List of exporters for the selected product in 2016
Product : 55 Man-made staple fibres



Nonwovens

- Innovation in the textile industry has led to **two new growth categories** — **nonwovens** and **technical textiles**.
- **Nonwovens** are fiber-based products made of fabric that is compressed, heated or tangled. Envelopes, facial wipes, mops and medical scrubs are nonwovens.

Technical textiles

- **Technical textiles** are manufactured for **non-aesthetic purposes**, where **FUNCTION is the primary criterion**.
- Products include protective clothing for firefighters, welders and astronauts; medical applications such as implants; and geotextiles that include reinforcements for embankments.
- Technical textiles have become one of the hottest growth categories for the industry.

Revealed Comparative Advantage

- **Balassa** (1965) measure of relative export performance by country and industry, defined as a country's share of world exports of a good divided by its share of total world exports.
- The Balassa index measures the degree of specialisation of export products.

Revealed Comparative Advantage

- If the Balassa index for a product is more than 1, it means that product involves specialisation.
- ***If it is less than 1 it means that no specialisation is involved in the product.***
- The index for country i good j is $RCA_{ij} = 100(X_{ij}/X_{wj})/(X_{it}/X_{wt})$ where X_{ij} is exports by country i (w =world) of good j (t =total for all goods).

Specialization index (RCA)

Greater or less than unity

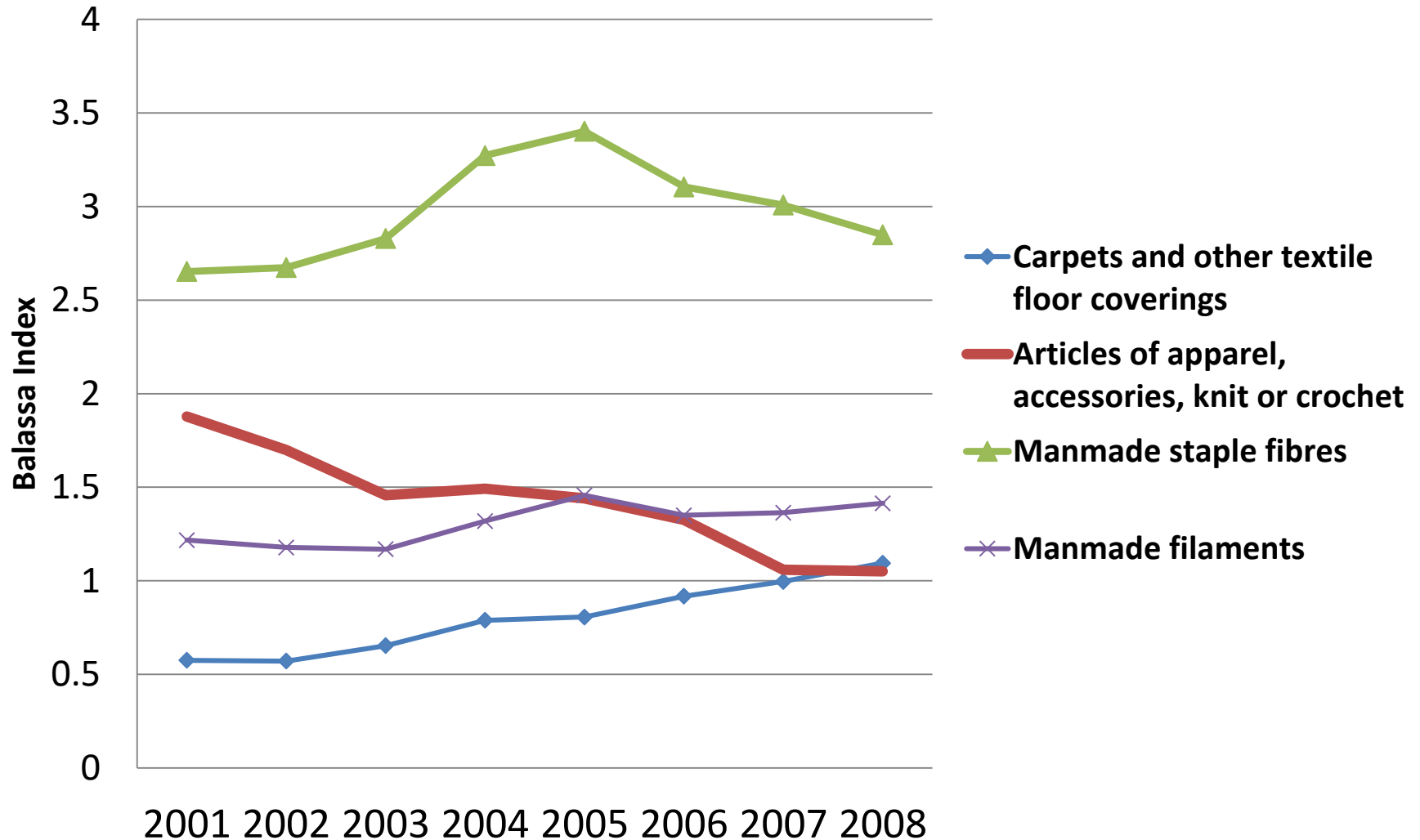
$$RCA = \frac{\text{Share of textile in total exports of Thailand}}{\text{Share of textile trade in total world trade values of all commodities}}$$

If $RCA_j > 1$, the country is said to have a *revealed* comparative advantage in industry j , since this industry is more important the country's exports than for the exports of the world.

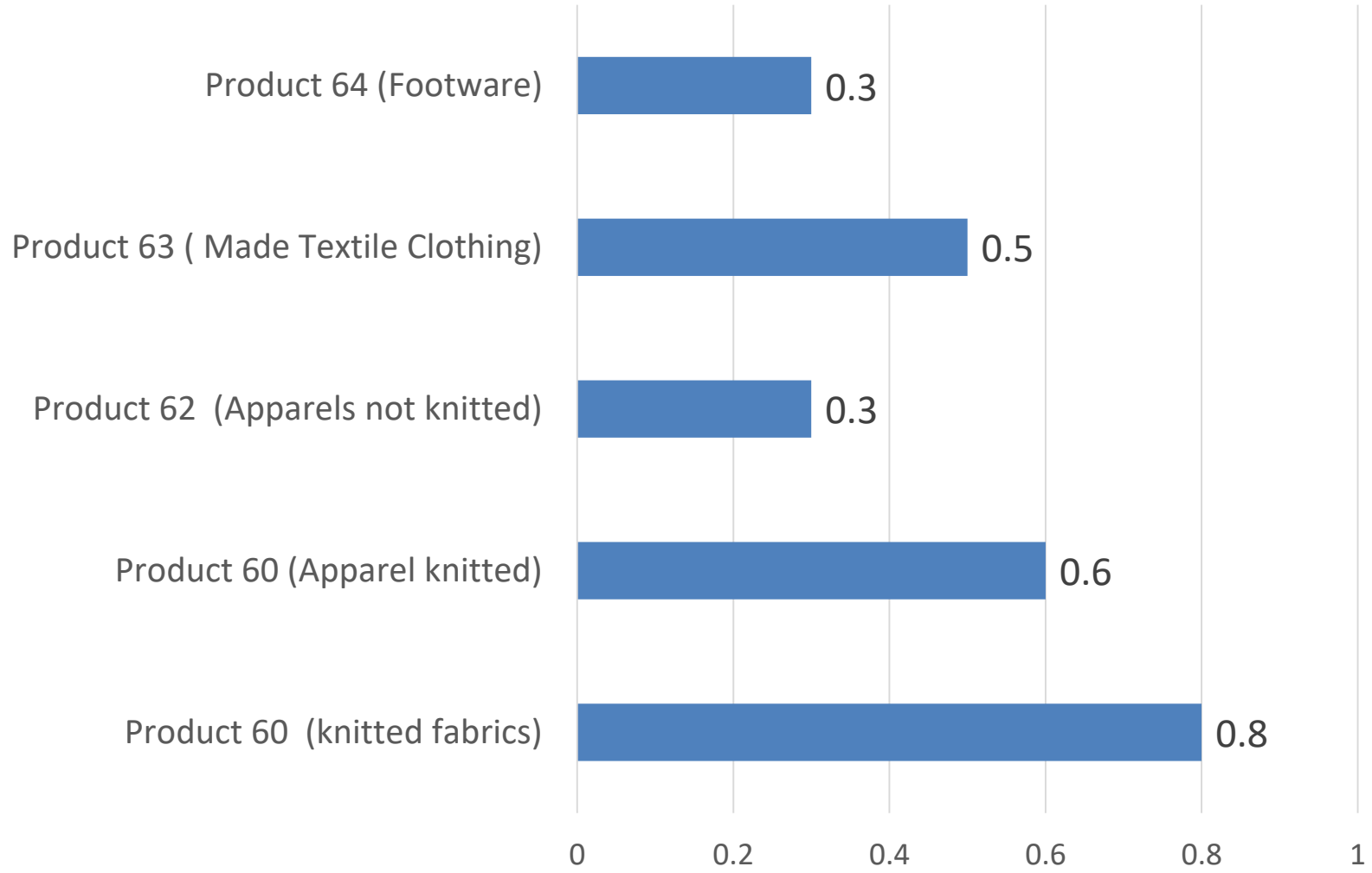
One should compare the share of textile exports in Thailand's total exports with the share of textile exports in the world's total exports.

The Balassa index is therefore essentially an export share of the commodity in the country's total export normalized by that commodity's share in total world trade.

Revealed Comparative Advantage 2001-2008



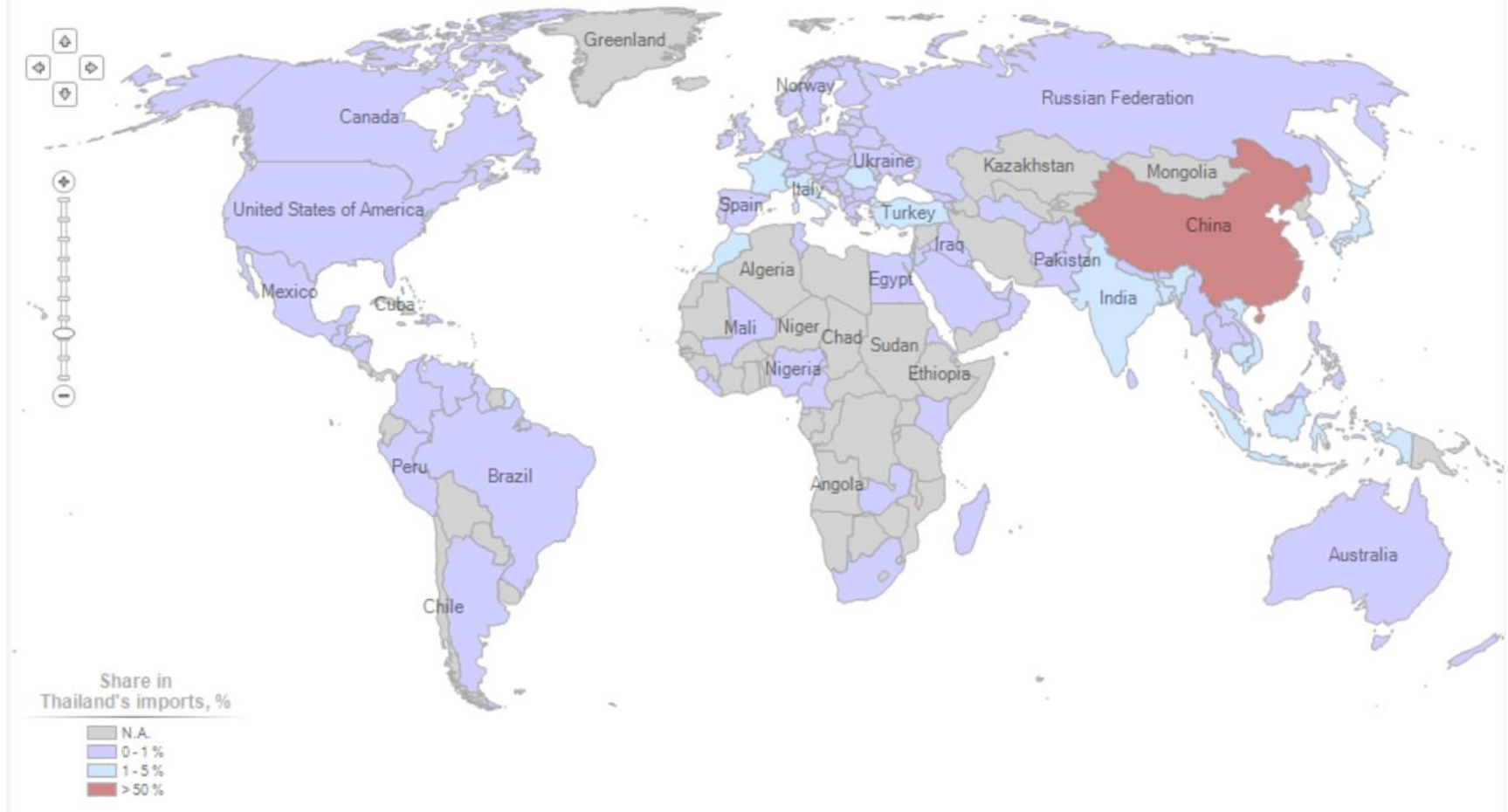
Revealed Comparative Advantage Index: 2016



Thailand's imports of product 62

List of supplying markets for a product imported by Thailand in 2016

Product : 62 Articles of apparel and clothing accessories, not knitted or crocheted

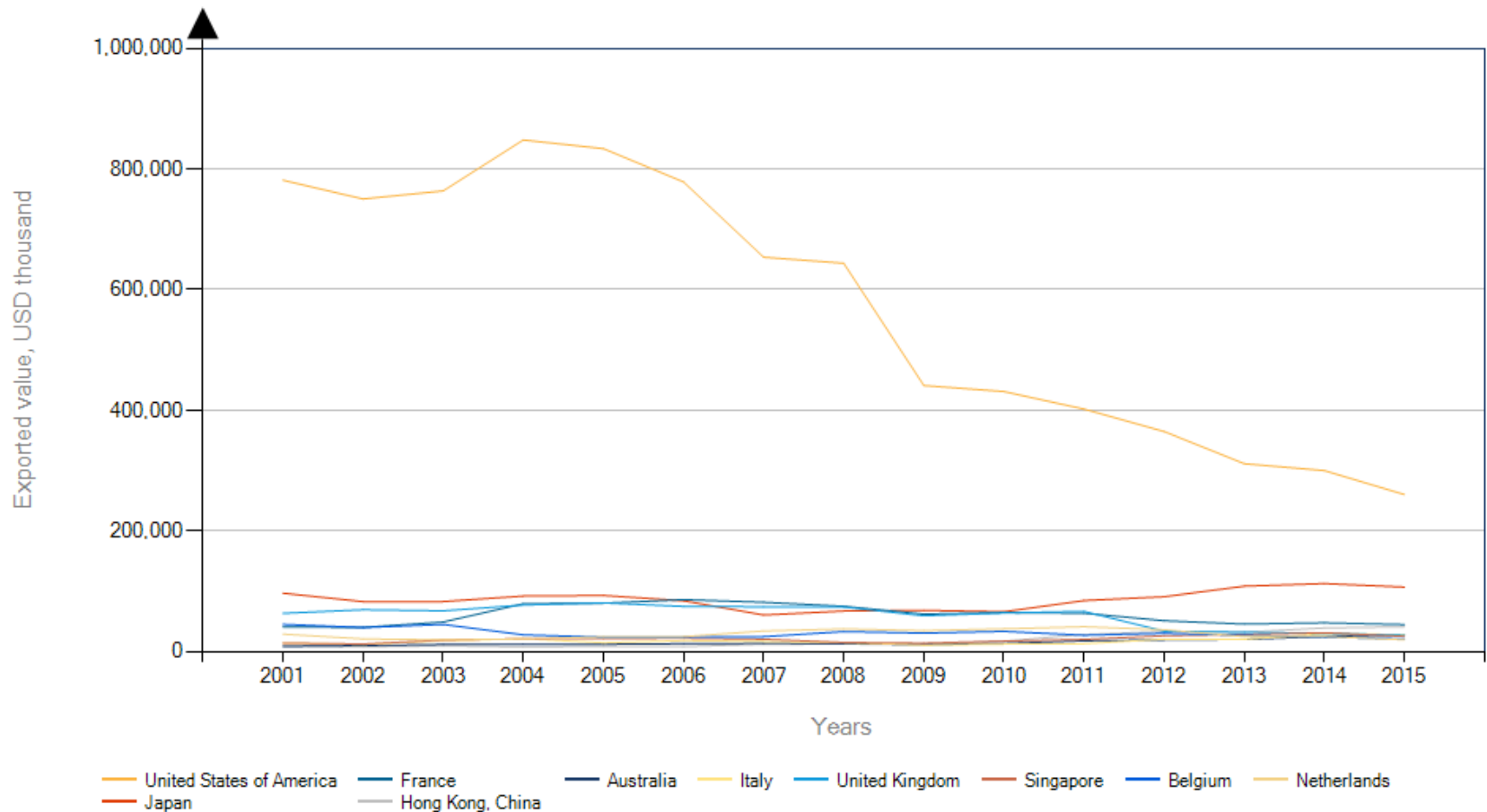


Textile: A falling star

- **The booming garment industry in China had led Chinese producers to focus more on their home market, which would create opportunities for Thai businesses.**
- More than 90% of Japan's garment imports come from China, leaving the Japanese market open if China switches focus away from Japan.

Thailand's exports of apparel and clothing (Product 62 not knitted) 2001-2015

List of importing markets for a product exported by Thailand
Product: 62 Articles of apparel and clothing accessories, not knitted or crocheted



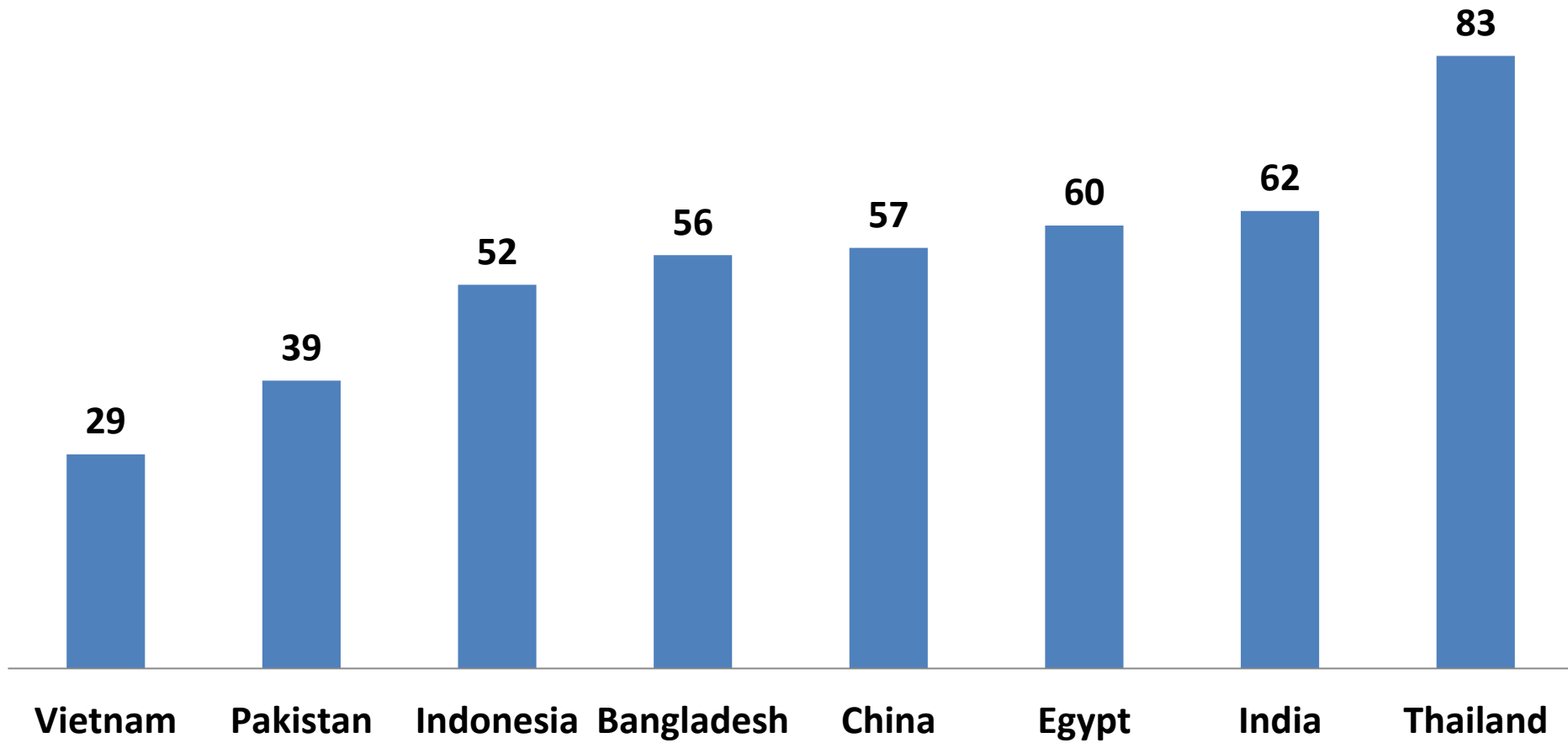
How to attract FDI

- Textile production costs in Vietnam were 19.5 per-cent lower than those in Thailand, because of import-duty exemptions for raw materials, cheaper labor and lower energy costs.
- Thai workers in all sectors earn average wages of US\$14 (Bt479) per day
- Workers in Vietnam and Pakistan earn the least: \$3.7 a day.
- Depreciation of the dong and appreciation of the baht divert FDI from Thailand to Vietnam.

Where to invest

- Expanding foreign markets encourage outflow of Thai FDI.
- In the 2007 study by the Industrial Economics Office: Operators in the textile and clothing industries **should shift to invest in Vietnam, China and India**, to reduce their production costs and boost their competitiveness in international markets.
- Besides investing in Vietnam, the study indicated that Thai operators could reduce their production costs **10.6 %** if they made their products **in China** and reduce the cost by **5.1 %** in **India**.
- (Is this 2007 research still valid these days?)

wage rate per hour (US cents)



More than tax incentives

- China and India, despite having higher production costs and fewer tax privileges than Vietnam, are more attractive in terms of larger-sized markets and infrastructure.
- What are other factors attracting foreign direct investment?

Research subsidy yields product differentiation

- Board of Investment (BoI) approved incentives for *Innovation Textile Research Co* for its 20-million-baht investment in a research and innovation factory in Samut Prakarn.
- Innovation Textile Research will develop textiles and garments, with distinctive features such as *UV protection, freer air flow and a cotton-like ability to absorb perspiration easily.*
- Technical spillovers deserve public subsidy (positive externality rule).

Innovation Textile Research Company

- In the first three years *the innovation textile research company* plans to develop garments using special materials that can ***reduce the wearer's urge to smoke.***
- It also manufactures fabric used for wound bandages.
- In the future, the Thai company plans to develop and patent **garments** able to **capture solar energy** to serve travelers, and license the technology to other entrepreneurs.

Retreat: Falling share of garments in the US market

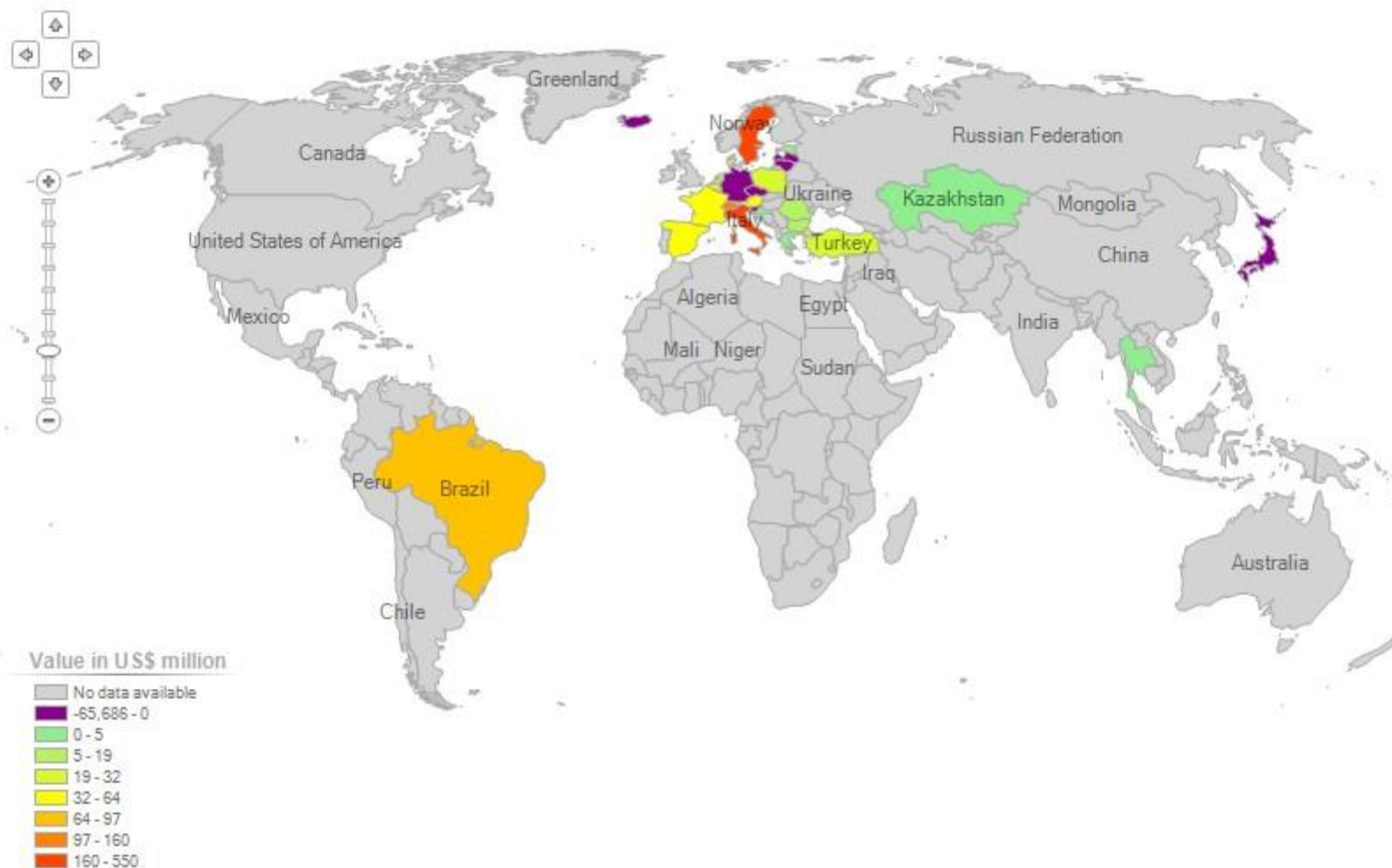
- According to the Thailand Textile Institute, the market share of Thai-made clothing in the US has been falling steadily and is now 3.4%, down from **double digits** several years ago, due to intensified price competition from products shipped from China, Vietnam, Cambodia and Bangladesh.
- Nominal wages rise faster than labor productivity growth in garment industry (labor-intensive product).

Outflows of FDI

- Myanmar, Laos and Bangladesh are among the countries where the Thai Garment Manufacturers Association (TGMA) is encouraging members to invest
- Of the 1,600 factories in Thailand's garment industry, at least **five are moving to foreign countries**, where low-wage workforces are plentiful, with planned investments of 200 million baht each. Those five are among the 80 large-scale garment factories located in the country, including Cambodia.

Countries investing abroad in sector: Textiles, clothing and leather

Outward FDI flow 2011



Thai Garment Manufacturers Association (TGMA): **labor shortage crisis**

- "We would call this period a labor crisis. Right now we have a shortage of 50,000 to 60,000 people in the industry, and it should definitely reach 60,000 by next year," said the TGMA president.
- A main contributor to the shortage is the fact that prices of agricultural products have been increasing, shifting labor from the garment sector to farming.
- Thailand has 400,000 people working in the garment industry.
- Can immigrant workers ease the labor shortage?

Conclusion

- The importance of textiles and clothing industry reflects in mass employment, due to the nature of the industry: labor-intensive technology.
- Competitive characteristics are market and product diversification.
- Specialization index (RCA Index) shows losing competitiveness and lesser degree of specialization.
- The role of FDI has changed from increasing outflows, to declining inflows and increasing outflows
- Cost disadvantages in the industry are labor shortage, high wage rate and the lack of labor productivity growth, caused by the slowdown of FDI.