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Analysis of the Brazilian Apparel Market as a Potential Export Destination for the Sri Lankan Apparel Sector.

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Abstract: Apparel export industry is the most significant and dynamic contributor for Sri Lankan economy. Sri Lanka is among the top apparel producing countries in the world relative to its population. Brazil is one of the countries which is identified as most important with this trade with Sri Lanka. This study specially point outs to identify the opportunities in the Brazil market for Sri Lanka apparel exports, especially considering to the HS code 61 and 62 export items. This study is carried out to verify the requirement of identifying opportunities in the Brazil market in Sri Lankan apparel exports.

The required secondary data were extracted from the ITC calculations based on UN COMTRADE statistics. Further, HS code 61 and HS code 62 product items were selected in this study. Descriptive data analysis method was used in this study. It is found that the Brazilians perceive international clothing as very high quality and sophisticated. The countries like Sri Lanka who export to Brazil may have to adapt their clothing selection to the Brazilian culture, demands and needs. The main competitive factors were found to be quality, design, customer service and price. While brand names still play only a minor role in the home textile sector. Brazilians are interested in high quality and are willing to pay higher prices for such products.

The main barrier for the Sri Lankan apparel exporters is the high tariff rates imposed by Brazil. Sri Lanka has also not offered any tariff preferences on imported products. Our products are always charged the highest prevailing tariff rate compared to tariff applicable for other countries. Sri Lanka experiences a high tariff rate of 35% for the products. Sri Lankan products have become less competitive in Brazil market due to non-existence of trade agreements with Brazil. Hence, it is emphasized that we should work

closely with relevant agencies such as the Sri Lanka High Commission in Brazil to solve the prevailing issues related to exports and to start discussing the possibility of a bilateral trade agreement with Brazil.

Key Words - Apparel Sector, Brazilian Market, Export Destination, HS Code

Introduction

The apparel export industry is the most significant and dynamic contributor to Sri Lanka's economy. The industry has grown over the last three decades and has become the number one foreign exchange earner, and it employs about 15% of the country's workforce, accounting for about half of the country's total exports, Sri Lanka is also among the top apparel producing countries in the world relative to its population. Brazil is one of the member countries in the BRICS group. These countries are identified as the best developing economies in the future.

Brazil imports commodities for two reasons: direct consumption and as inputs for domestic production. In fact, more than half of the goods imported by Brazil are intermediate products used as inputs in domestic production. Further, the demand for imported goods varies according to different regions in Brazil. Among all the Brazilian regions, the South East and Southern regions are considered as the country's wealthiest and most developed with the most diversified consumption patterns, making them highly attractive markets. So, generally exporters of high value added products will be at a greater advantage in catering to these regions. (EDB, 2012) The apparel sector in Brazil is most important sector within the industrial sector. Brazil has many international brands on its market: of these Abercrombie and Fitch, A/X Armani Exchange, Calvin Klein, Diane von Furstenberg, Diesel, DKNY Jeans, Dolce

and Gabbana, Giorgio Armani , Hugo Boss , Juicy Couture , Lacoste , Levi's ,Mango, Max Mara and Ommy Hilfiger are the most important among international brands. (EDB, 2012)

Therefore gaining an indepth understanding of the Brazilian economy as a trading partner is important. This study specially focuses on identifying the potential opportunities in the Brazilian market for Sri Lankan apparel exports: especially considering HS code 61 and 62 export items.

Theoretical framework

There are two main theories adopted regarding the apparel sector, especially garment manufacturing. These are the "Latecomer Countries" the "Flying Geese" model developed by Akamatsu (1962) and the modified neo-classical view put forward by the World Bank (1993) in its consideration of the rapid growth in East Asia. (Kelegama, 2009) The former argument that the "flying geese" is one of the simplest and easiest industrialization routes adopted by latecomer economies: imitating and copying the strategies and policies of leaders. The latter argues that the origin and development of garment manufacturing in latecomer economies is based on increasing returns to such industries.

If a country wants to be a best exporting country, that country exports high quality goods and services. The apparel industry of Sri Lanka is aiming to be the best supplier of clothing, not only with regard to quality, price and speed but also design and innovation execution, logistics and compliance with ethical standards. Industry leaders are striving to exceed customer expectations in a bid to raise the country's competitive position in the global market.

The textile and clothing industry generally termed apparel industry, is important in economic and social terms, in the short-run by providing incomes, jobs, especially for women, and foreign currency receipts and in the long-run by providing countries the opportunity for sustained economic development in those countries through adopting appropriate policies and institutions to enhance the dynamic effects

of growth in textiles and clothing manufacture and exports.

The apparel industry is very important to a handful of countries, in terms of trade, GDP and employment and has contributed significantly in several other countries. The apparel industry provides opportunities for export diversification and expansion of manufactured exports for low-income countries that can exploit their labour cost advantage and fill emerging niches and meet increasing buyer demand. (Keane and Willem, 2008) There are also dynamic effects of apparel manufacture and these effects are greater, the more linkages that have been built up between the garment industry and local textile suppliers.

Objectives of the Study

Western countries are currently the major destination for Sri Lankan' exports especially apparel exports, where EU and USA together absorb nearly 50% of the country's total exports. (Export Performance Report 2012). In such a situation, the world economic crisis prevailing in these countries will negatively impact the export earning of Sri Lanka. As a result developing countries like Sri Lanka want concentrate on developing strategies to diversify their exports to other markets or other countries, especially BRICS and other emerging markets where the potential is high for this purpose. This study was carried out to fulfill this requirement of identifying opportunities in the Brazilian market for Sri Lankan apparel exports.

Materials and Methods

Secondary data was used in this study. The required data were extracted from the ITC calculations based on UN COMTRADE statistics. Further, I selected HS codes 61 and 62 product items for this study. HS code 61 product description is articles of apparel, accessories, knit or crochet and HS code 62 is articles of apparel, accessories, that are not knit or crochet.

Data analysis and Results

Apparel is the main export category in Sri Lanka which has good potential to capture markets around the world. As the situation in Table 01 show more than US\$ three million worth of apparel in the categories HS

61 and HS 62 are exported by Sri Lanka each year. According to Table 01 HS 61 (Articles of apparel, accessories, knit or crochet) has a slightly larger market share, as compared with HS 62 (Articles of apparel, accessories, not knit or crochet).

The export of apparel and clothing accessories not knitted or crocheted (HS 62) and knitted or crocheted of apparel and clothing accessories (HS 61) represented a large proportion of total Sri Lankan apparel exports to the world and were valued at US \$ 2.9 billion in 2004 and increased to US \$ 3.2 billion in 2008. As Table 01, shows the export value increased considerably from 2008 to 2012.

Table 01: Sri Lanka’s Exports of Apparel to World

(HS 61 & HS 62), value in US\$ ‘000

Source: ITC calculations based on UN COMTRADE statistics

Brazil is the world’s sixth largest textile producer and the sector consists of over 30,000 companies, employing 1.65 million workers. Investments in the sector are still low compared to pre-crisis numbers but ended at US\$ 850 million in 2009. Moreover, the growth rate of consumer expenditure on clothing increased by 20.5% from 2005 to 2009, and the expected growth rate of consumer expenditure within the industry from 2010 to 2020 are expected to be 36.3%. (EDB, 2012) Brazil is currently the 28th destination for Sri Lanka’s exports of apparel. Table 02 illustrates that Sri Lanka only caters for a small share of the Brazilian market. It also shows that the Sri Lanka’s market share remained almost constant in the period prior to 2012 though it showed a significant increase in 2012.

Table 02: Sri Lanka’s share in Brazil Market.

	2007	2008	2009	2010	2011	2012
Total Size of the Brazil Import Market. (US\$ Millions)	120,620	173,196	127,647	180,458	226,243	223,149
Sri Lanka Exports to Brazil (US\$ Millions)	17.1	22.8	18.1	23.7	29.9	47.5
Sri Lanka shares in the Brazil Market (%)	0.014	0.013	0.014	0.013	0.013	0.021

Source: ITC calculations based on UN COMTRADE statistics

According Table 03, export share of these products remained almost the same during the time period considered, even though the exports values increased. Relating to HS code 62 product items there was a drop in 2009 and a subsequent increase in 2010. In year 2012 Sri Lankan export value increased significantly reaching more than US \$ 4 million.

HS Code	2008	2009	2010	2011	2012
HS 61	1,667,609	1,581,368	1,634,380	2,111,620	1,965,208
HS 62	1,604,831	1,538,523	1,534,829	1,874,164	1,810,917
Total	3,282,440	3,119,891	3,178,209	3,985,784	3,776,125

Table 03: Sri Lanka’s share in Brazil Market (HS61 and HS62)

Item	2008		2009		2010		2011		2012		Ave. Gro. Rate(%)
	HS 61	HS 62	HS 61	HS 62	HS 61	HS 62	HS 61	HS 62	HS 61	HS 62	
Total Imports to Brazil US \$ '000	246027	447733	303631	463441	456620	616386	721614	999538	932811	1244415	
Export by Sri Lanka to Brazil US \$ '000	1207	954	1447	404	2587	1261	4287	1571	4736	4108	
Sri Lanka’s Share	0.5%	0.21%	0.48%	0.09%	0.57%	0.2%	0.59%	0.16%	0.51%	0.03%	

Source: ITC calculations based on UN COMTRADE statistics

Brazil is basically satisfying its apparel requirements via local production while importing the shortfall from other trading nations. The main supplying partners are China, Bangladesh, India and Peru. Sri Lanka remains as the 22nd destination for supplying apparel to Brazil. Even though Sri Lanka only has a small portion of the Brazilian market and a low ranking for its contribution, it is observable that import values from Sri Lanka have improved noticeably in the past five years’. In 2012 import value from Sri Lanka was more than US\$ 5 million.

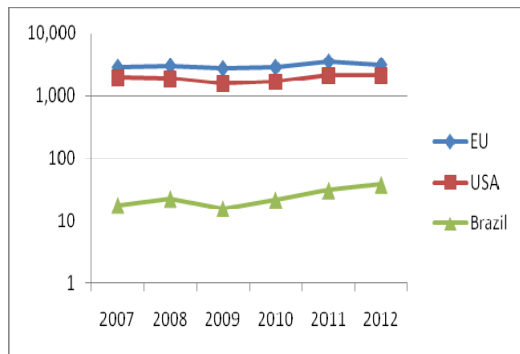
Table 04: Imports of Articles of apparel, accessories, knit or crochet or not knit or crochet

(HS 61 & 62) by Brazil (Value in US\$ - US Dollars Thousands)

Exporters	2007	2008	2009	2010	2011
World	486,213	693,760	767,072	1,073,006	1,721,152
China	261,106	380,656	451,432	643,421	1,038,976
Bangladesh	16,367	39,364	50,287	70,476	116,708
India	23,729	38,596	38,881	68,828	104,232
Peru	1,200	10,142	18,217	39,709	73,101
Hong Kong, China	18,109	14,446	14,460	22,082	61,350
Indonesia	10,660	15,069	20,659	23,077	32,201
Argentina	12,140	20,787	19,762	22,288	31,255
Viet Nam	5,016	9,960	13,152	16,439	28,981
Italy	20,586	21,919	16,714	18,281	27,149
Paraguay	4,115	6,502	6,538	12,322	17,876
Portugal	5,757	7,833	8,257	12,937	16,263
Cambodia	3,753	5,485	8,870	8,196	16,023
Thailand	3,755	6,493	10,453	10,319	14,494
Uruguay	6,735	9,781	11,965	10,698	13,939
Pakistan	4,959	6,731	6,862	9,270	12,591
Turkey	6,567	6,657	7,222	8,901	12,108
Spain	10,092	12,143	9,125	10,000	11,915
United States of America	5,415	7,054	6,800	9,454	10,696
Mexico	1,084	2,896	1,912	3,572	8,728
Morocco	2,010	2,390	1,939	3,145	5,987
Sri Lanka	1,671	2,161	1,851	3,848	5,858
Malaysia	9,268	10,853	8,605	2,727	4,949
Chinese Taipei	2,572	2,704	2,984	3,847	4,542

Source: ITC calculations based on UN COMTRADE statistics

Graph 01: Sri Lanka's exports to USA, EU and Brazil over the period of 2008 to 2012



Source: ITC calculations based on UN COMTRADE statistics

As graph 01 shows Sri Lanka's exports to Brazil have been growing at a faster rate compared to exports to EU and USA. Furthermore our exports to Brazil show a continuous increase, except for a minor decrease in 2009, over the selected time period. Therefore concentrating on the Brazilian market could provide greater opportunities to increase Sri Lankan exports significantly.

For these products also our main competing countries have very low tariff rate such as Argentina (0%), Peru (0%), Mexico (28%) and Paraguay (0%). Sri Lanka experiences a high tariff rate of 35% for the products. (Sri Lanka Custom, 2011)

Conclusions and Suggestions

Brazilians perceive international clothing as being of very high quality and sophisticated, so they have a very clear consumer preference for such products. Therefore, countries which export to Brazil may need to adapt their clothing exports according to the Brazilian culture, demands and needs. The main competitive factors are quality, design, customer service and price. While brand names still play only a minor role in the home textile sector, Brazilians are interested in high quality and are willing to pay higher prices for such products.

Sri Lankan products are well accepted in the main markets in the world such as European Union, USA, Middle East etc. We could therefore use this advantage in promoting products to the Brazilian market.

The main barrier to Sri Lankan apparel exporters is the high tariff rates imposed by Brazil. Sri Lanka is also not offered any tariff preferences on imported products. Our products are always charged the highest prevailing tariff rate compared to the tariffs applicable to other countries.

Sri Lankan products remain less competitive in the Brazilian market due to the non-existence of trade agreements with Brazil. India has already signed an agreement with Brazil in June 2009. So it is important to work with relevant agencies such as the Sri Lanka High Commission in Brazil to solve the prevailing issues related to exports and to start discussing the possibility of a bilateral trade agreement with Brazil.

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