ANALYSIS OF LEBANON'S APPAREL MARKET

TABLE OF CONTENTS

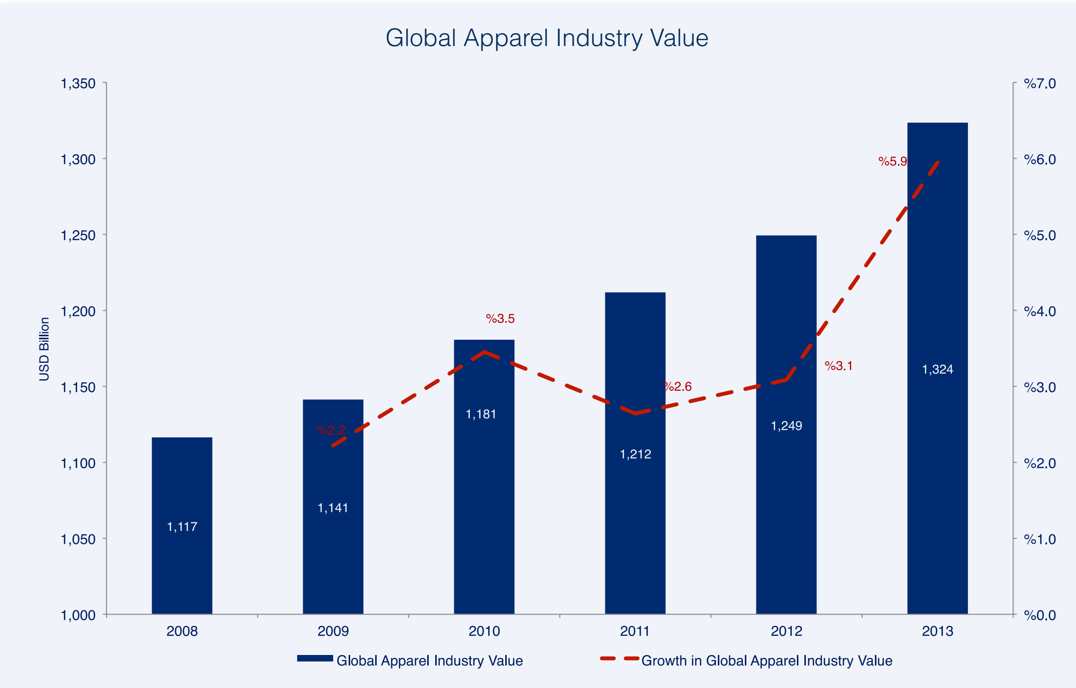
GLOBAL APPAREL MARKET

The apparel industry has been growing at a rapid pace providing employment to millions of workers in the least-developed countries. With this fast pace and growth magnitude, the apparel industry has become the backbone for many economies around the world, playing a pivotal role in terms of investments, revenues, and trade. This industry, however, is characterized by great product differentiation, short product life cycles, along with fast-paced growth coupled with an inflexible supply processes – factors that makes it susceptible to crises.

In fact, the global apparel industry witnessed two distinct crises in the past years. The first crisis is a regulatory one, and it extended over a period of ten years between 1995 and 2005. During this period, the World Trade Organization has phased out the Multi-Fiber Arrangement which devised preferential tariffs and quotas on apparel imports of the US, Canada, and many European countries.

The second crisis is an economic one, and it occurred at the time of the global recession in 2008. The recession affected apparel production, leading to factory shutdowns and sharp worker layoffs in the sector. Demand for apparel dropped specifically in Europe, US, and Japan. However, it continued to grow in emerging markets, like China, which maintained strong growth during this period, thus buffering the industry from being severely affected by the global recession.

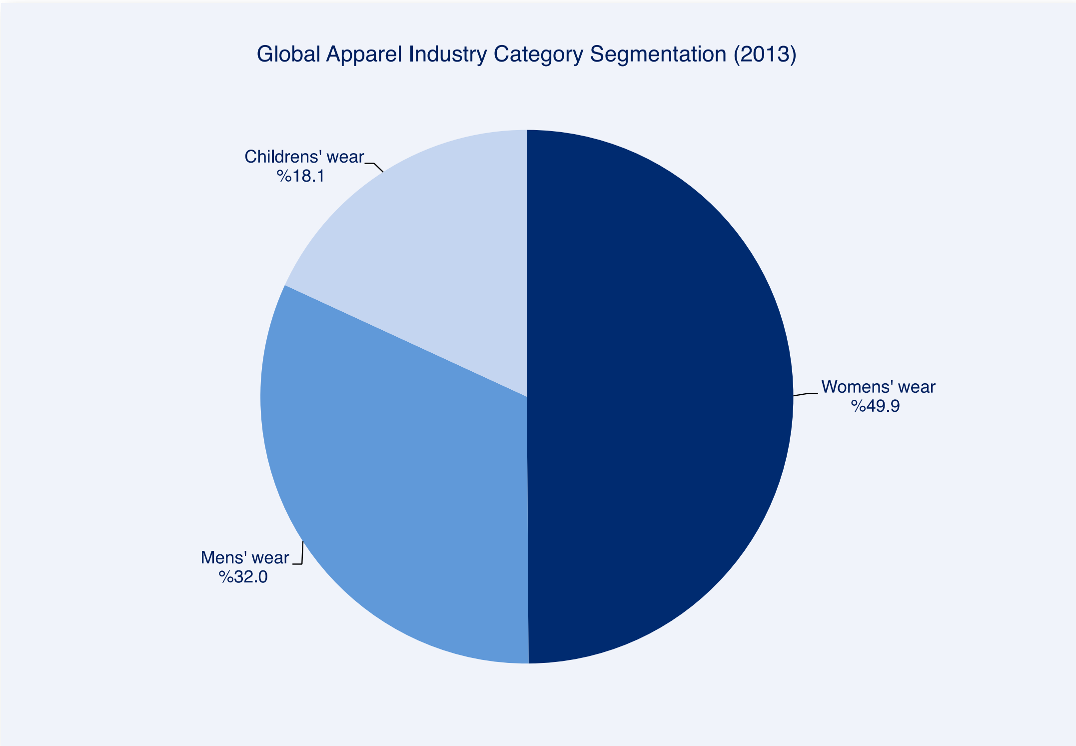
The global apparel market continues to develop today, attempting to adapt to customer trends and new technology that will allow the consumers shopping experience to be more enjoyable and ergonomic. For the period extending from 2008 to 2013, the industry is estimated to have sustained a moderate level of growth with an average annual growth rate of 3.5% with the global apparel retail industry's total revenues reaching USD 1,324 billion in 2013. The performance of the industry is forecast to accelerate, with an anticipated CAGR of 5.1% for the five-year period 2014-2018, which is expected to drive the industry to a value of USD 1,696 billion by the end of 2018.



Source: Global Apparel Retail Report, MarketLine

GLOBAL APPAREL MARKET

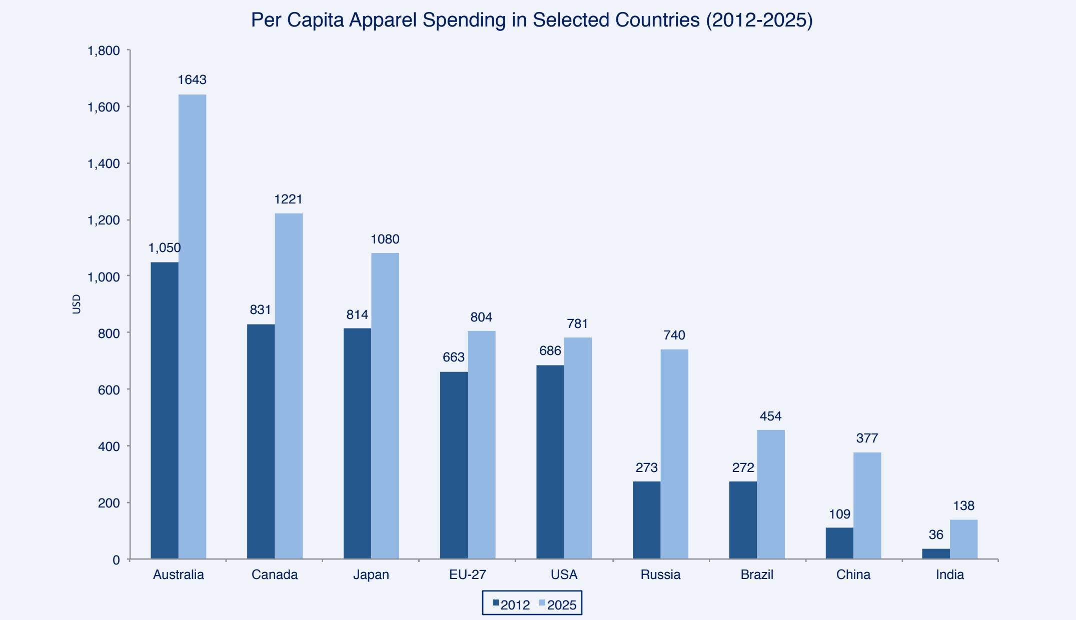
When it comes to category segmentation, women’s wear constitutes the largest segment of the global apparel industry with 49.9% share of the industry's total value in 2013. It is followed by men’s wear segment which accounts for 32.0% of the industry during the same year. The remaining 18.1% of the industry is accounted for children’s wear.



Source: Global Apparel Retail Report, MarketLine

GLOBAL APPAREL MARKET

The apparel spending per capita in 2012 and a forecast for 2025 show a clear difference in spending between developed and developing economies. India's per capita apparel spending was the lowest among developing markets in 2012 at USD 36 and is estimated to increase to USD 138 by 2025. On the other hand, Australia had the highest per capital apparel spending at USD 1,050 in 2012 and is estimated to increase to USD 1,643 by 2025. With a global average spending per capita of USD 153 in 2012, each of Japan, Canada USA, EU-27, Brazil and Russia's per capital apparel spending falls above this average, while China's and India's per capita apparel spending goes below the global average.



Source: Statista

GLOBAL APPAREL MARKET

When it comes to apparel trade, the US is currently the biggest apparel importing country, with its apparel imports reaching USD 91.0 billion in 2013. It is followed by Japan which ranks second in terms of the value of apparel imports, having imported USD 33.6 billion in 2013. Hong Kong ranks third with USD 16.5 billion of apparel imports, followed by Canada (USD 9.9 billion), Russia (USD 9.0 billion), and Korea (USD 7.5 billion). On the other hand, China is by far the world's biggest apparel exporter, accounting for USD 177.4 billion of total apparel exports. In fact, China's apparel export shares increased from about 9% in 1990 to around 43% percent in 2013. China is followed by Bangladesh, which recorded USD 23.5 billion in total apparel exports. It is noteworthy that this increased activity is attributed to the fact that many established brands and retailers have shifted their manufacturing to China and Bangladesh over the past few years, hence allowing the Bangladeshi garment manufacturing industry to advance.

Top Apparel Importers (2013)		
Country	Rank	Imports (USD Billion)
United States	1	91.0
Japan	2	33.6
Hong Kong	3	16.5
Canada	4	9.9
Russia	5	9.0
Korea	6	7.5
Australia	7	6.3
Switzerland	8	5.9
China	9	5.3
UAE	10	3.9
Saudi Arabia	11	3.4
Mexico	12	3.2
Turkey	13	3.1
Singapore	14	2.9

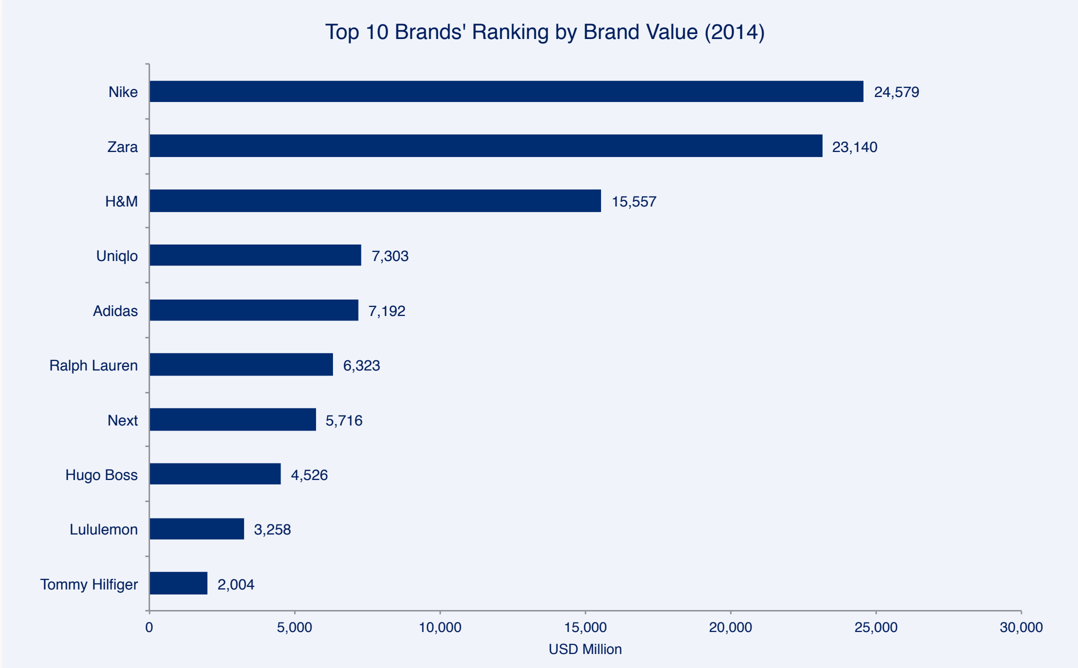
Source: World Trade Organization

Top Apparel Exporters (2013)		
Country	Rank	Exports (USD Billion)
China	1	177.4
Bangladesh	2	23.5
Hong Kong	3	21.9
Viet Nam	4	17.2
India	5	16.8
Turkey	6	15.4
Indonesia	7	7.7
United States	8	5.9
Cambodia	9	5.1
Malaysia	10	4.6
Pakistan	11	4.5
Mexico	12	4.5
Sri Lanka	13	4.5
Thailand	14	4.1

Source: World Trade Organization

GLOBAL APPAREL MARKET

The major players in the apparel industry include the American multinational company Nike which ranked first in terms of its brand value in 2014 with USD 24.6 billion. Second came the Spanish retailer Zara recording a total brand value of USD 23.1 billion. Swedish company H&M and the Japanese brand Uniqlo came next, having achieved a total brand value of USD 15.6 billion and USD 7.3 billion in 2014 respectively. German Adidas ranked fifth in 2014 achieving a total brand value of USD 7.2 billion. It was followed by the American brand Ralph Lauren with a brand value of USD 6.3 billion during the same year.



Source: Statista

GLOBAL APPAREL MARKET

In the latest Retail Apparel Index, A.T. Kearney, the global management consulting firm identified the top 10 developing countries for their clothing retail industries. Countries are ranked in terms of three metrics namely market attractiveness, retail development, and country risk. Within each metric, a country's value is indexed from zero to 100. A score of zero indicates inefficiency while 100 indicates high efficiency.

China remains the top apparel market due to its market size and strong growth in clothing sales. Three trends have shaped China's apparel market: the rise of e-commerce, a boom in fast fashion, and the evolution of the luxury market. Meanwhile, Latin America and the Middle East continue to offer regional opportunities. In fact, the Middle East remains an attractive apparel market, with the UAE (2nd), Kuwait (4th) and Saudi Arabia (6th) leading the way. Apparel retailers that have entered the Middle East range from mid-price to luxury, including Muji, Destination Maternity, Prada, and Furla. Many retailers test the UAE before venturing into the other markets due to its ease of doing business, sizeable retail segment, large expat community, and tourism. Online sales are still in their infancy but internet and smartphone penetration is high. E-commerce in the Middle East and North Africa is expected to grow from USD 9 billion in 2012 to USD 15 billion by 2015.

The Retail Apparel Index

2013 rank	Country	Market Attractiveness	Retail Development	Country Risk	Total Score
1	China	40.2	10.8	11.8	62.8
2	UAE	39.1	7.2	16	62.4
3	Chile	32.8	7.8	17.4	57.9
4	Kuwait	38.8	5.5	12.8	57.2
5	Brazil	33.5	9.9	12.1	55.5
6	Saudi Arabia	36.2	5.6	13.2	55
7	Russia	36.5	9.3	8.6	54.4
8	Malaysia	30.4	6	15.7	52.1
9	Mexico	26.9	11.8	11.7	50.4
10	Turkey	28.4	9.3	12.6	50.3

Source: A.T. Kearney analysis

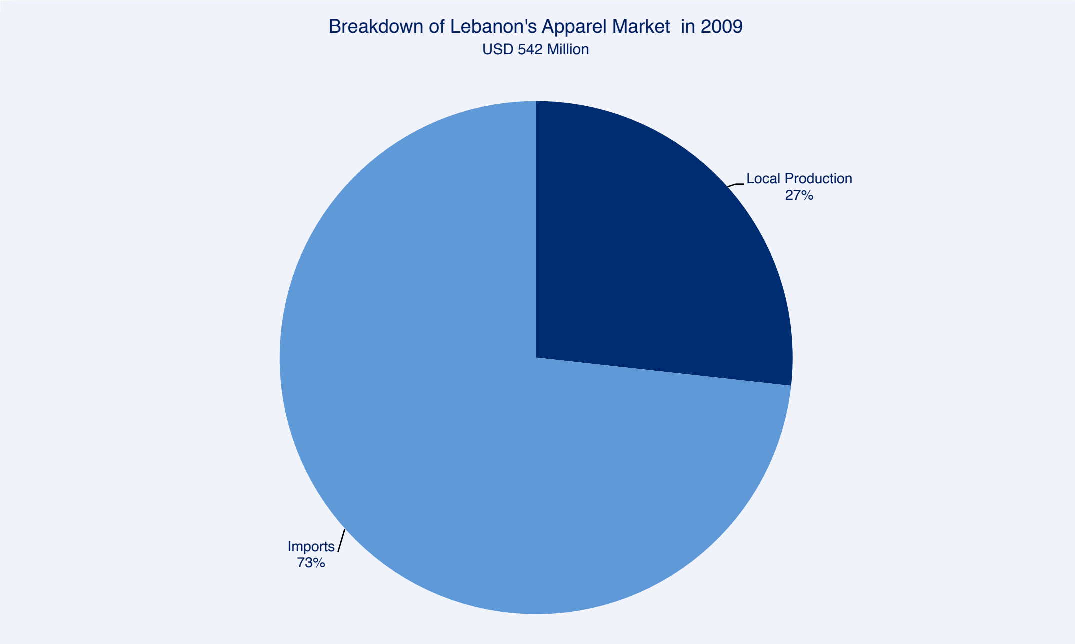
LEBANON'S APPAREL MARKET

Lebanon's retail activity has traditionally been boosted by the large annual number of Arab tourists and Lebanese expatriates coming into the country. This has resulted in the consistent and steady expansion of the country's apparel sector. In fact, over the period 2009-2012, Lebanon's apparel market size grew by an average annual rate of 3.9%, indicating a promising retail sector. However, during the past two years the local political stalemate and security instability coupled with spillover effects from the neighboring Syrian crisis have weighed heavily on the tourism sector, thus discouraging tourism in Lebanon. The consequent decline of tourist spending affected the growth of Lebanon's apparel market, which was already facing lower local demand due to diminishing purchasing power. As such, Lebanon's apparel market size remained stable in 2013 and 2014 recording a yearly estimated value of USD 606 million.

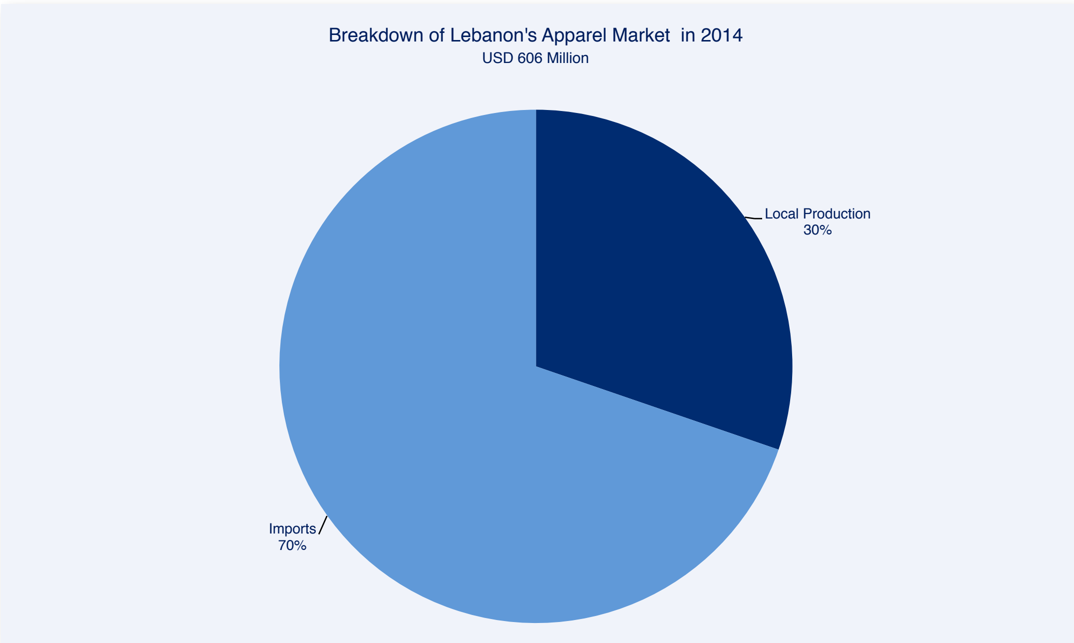
Source: Lebanon Country Commercial Guide 2014

LEBANON'S APPAREL MARKET

Apparel demand in Lebanon is mainly satisfied through imports, given the country's limited capacity for domestic apparel production. In fact, high production cost, fierce external competition, as well as low customs duty on imported textiles and clothing restrict the expansion of domestic apparel industry. Hence, Lebanon has always been a net apparel importer.



Source: Lebanon Country Commercial Guide 2014



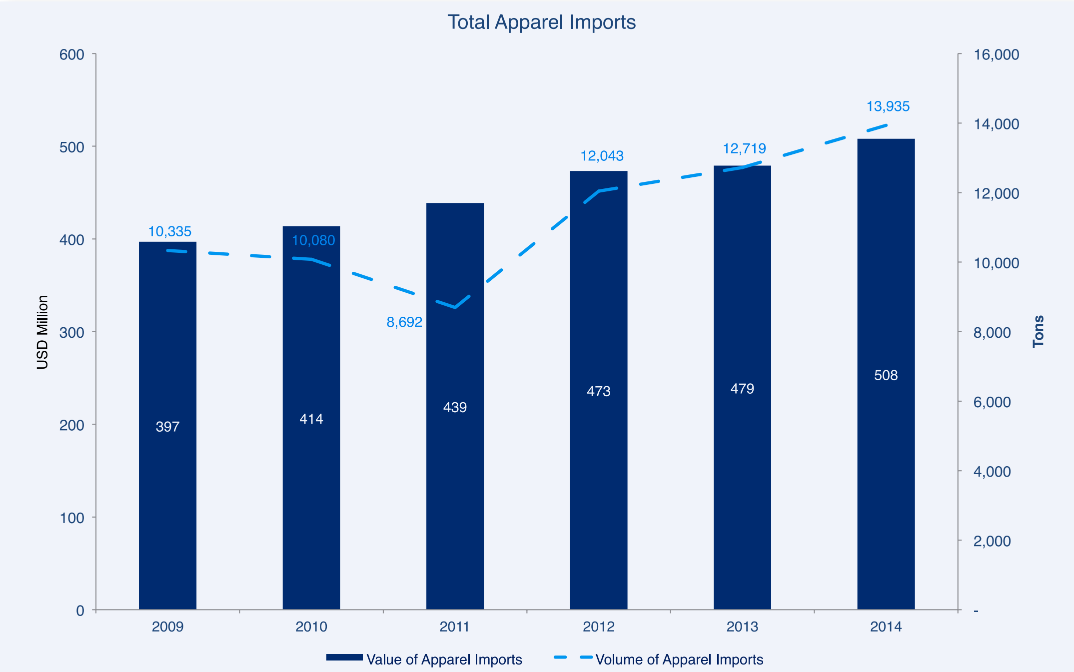
Source: Lebanon Country Commercial Guide 2014

APPAREL IMPORTS AND EXPORTS

EVOLUTION OF APPAREL IMPORTS

The dynamism witnessed in Lebanon's apparel market has boosted the country's apparel imports during the period 2009-2014. The value of apparel imports has increased consistently over the aforementioned period. On the other hand, the volume of apparel imports dropped over the period 2009-2011 but then recovered gradually from 2012 to 2014.

The cost per ton of imported apparels declined from USD 39,276 in 2012 to USD 37,660 in 2013 and further to USD 36,455 in 2014. This indicates that apparel importers have adapted to the changing business climate, and thus shifted towards importing cheaper products.



Source: Lebanese Customs

APPAREL IMPORTS AND EXPORTS

VALUE OF APPAREL IMPORTS BY TYPE

Lebanon's apparel imports are led by imported women's wear, which have increased by an average annual rate of 3.4% over the period 2009-2014, reaching total value of USD 228 million. Specifically, imported women's suits, ensembles, and jackets constituted a share of 67% of imported women's wear during this period. It is followed by imports of blouses and shirts with a share of 21%.

Imported men's wear has been on the rise during the period 2009-2013 increasing by an average annual rate of 6% to reach USD 91.7 million in 2013. However, the year 2014 witnessed a 4% drop in imported men's wear to reach USD 88 million. Men's suits, ensembles, and jackets constituted the highest 65% share of these imports with a value of USD 50.7 million imported in 2014.

Children's wear market has significantly expanded over the period 2009-2014 as indicated by expanding imports which recorded an average annual growth rate of 13.6% during the abovementioned period. In fact, imported children's wear reached USD 26 million in 2014, hence indicating a 15% year-on-year increase.

Lebanon's imports of other apparel sub-categories have steadily increased over the period 2009-2014 totaling USD 166 million in 2014. Imports of jerseys, pullovers, cardigans led imports of other sub-categories of apparels with a 41% share.

Breakdown of Apparel Imports by Type

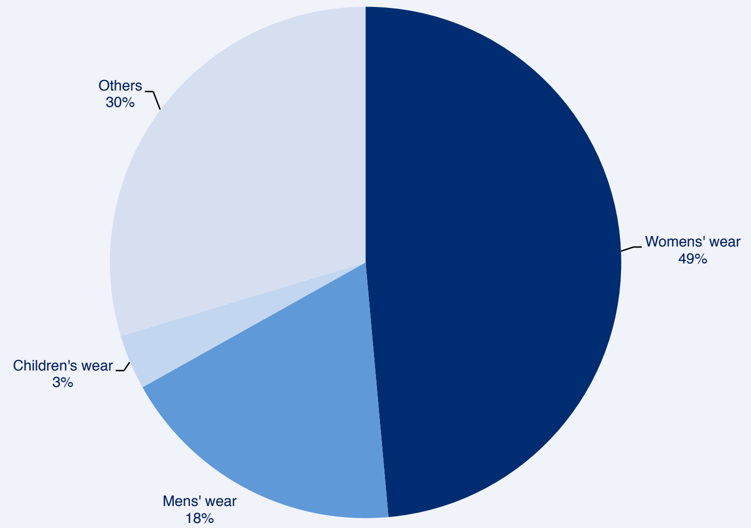
USD Million	2009	2010	2011	2012	2013	2014
Womens' wear	193	202	220	226	221	228
% Change		*5%*	*9%*	*3%*	*-2%*	*3%*
Mens' wear	73	74	77	88	92	88
% Change		*2%*	*4%*	*14%*	*4%*	*-4%*
Children's wear	14	16	20	22	23	26
% Change		*19%*	*20%*	*12%*	*2%*	*15%*
Others	118	121	122	137	144	166
% Change		*2%*	*1%*	*13%*	*5%*	*16%*

Source: Lebanese Customs

APPAREL IMPORTS AND EXPORTS

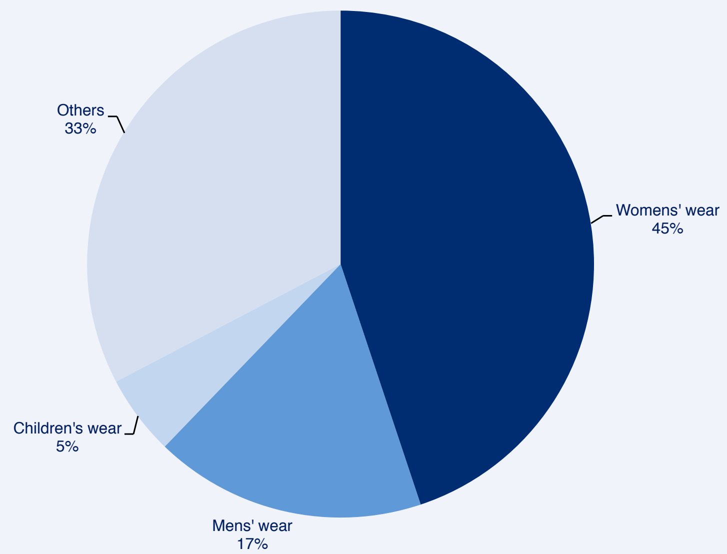
Hence, as a share of total value of imported apparels, the value of imported women's wear dropped from a share of 49% in 2009 to reach 45% in 2014. This comes as a consequence of the high risk of investment in this specific sub-sector, which is highly seasonal and mirrors to a great extent the business cycles. On the other hand, the share of imported men's wear out of total apparel imports slightly dropped during the period 2009-2014 to reach 17% in 2014. Meanwhile, imported children's wear expanded by two percentage points to a 5% share of total apparel imports.

Value of Apparel Imports by Type (2009)



Source: Lebanese Customs

Value of Apparel Imports by Type (2014)



Source: Lebanese Customs

APPAREL IMPORTS AND EXPORTS

VALUE OF APPAREL IMPORTS BY COUNTRY

China has for long been the main country of origin for Lebanon's apparel imports. In 2014, apparel imports from China totaled USD 162.8 million. Specifically, women's suits, ensembles, and jackets constituted a 21% share of total apparel imports from China.

Italy ranked second and is considered a major source of Lebanon's apparel imports. Specifically, Lebanon's apparel imports from Italy have reached to reach USD 57.4 million in 2014. Women's suits, ensembles, and jackets contributes to a 29% share of total apparel imports from Italy.

Turkey became a major trading partner with Lebanon in various sectors, and the apparel sector is no exception. In fact, Lebanon's apparel imports from Turkey have reached USD 56.4 million in 2014. These imports are diversified with women's suits, ensembles, and jackets constituting the highest 29% share followed by women's shirts, and jerseys, pullovers, and cardigans with shares of 14% and 13% respectively.

As Bangladesh fiercely entered the apparel industry in the past years, its apparel exports to Lebanon increased with the value reaching USD 34.3 million in 2014. Specifically, Bangladesh mainly exports jerseys, pullovers, and cardigans to Lebanon with a 29% share.

Breakdown of Apparel Imports by Country

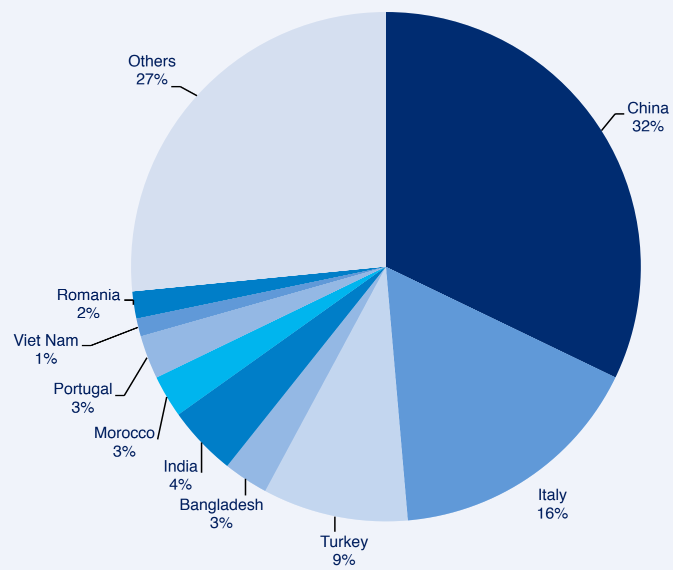
USD Million	2009	2010	2011	2012	2013	2014
China	127.6	133.3	129.0	146.7	157.0	162.8
% Change		*4%*	*-3%*	*14%*	*7%*	*4%*
Italy	65.4	67.1	70.2	64.2	57.1	57.4
% Change		*3%*	*5%*	*-9%*	*-11%*	*1%*
Turkey	36.6	33.4	41.9	56.1	45.9	56.4
% Change		*-9%*	*26%*	*34%*	*-18%*	*23%*
Bangladesh	11.3	13.0	17.4	24.0	29.0	34.3
% Change		*15%*	*34%*	*38%*	*21%*	*18%*
India	17.6	21.9	24.5	23.5	24.4	27.5
% Change		*24%*	*12%*	*-4%*	*4%*	*13%*
Morocco	10.7	13.3	14.8	17.0	18.2	18.6
% Change		*25%*	*11%*	*14%*	*7%*	*3%*
Portugal	11.0	12.2	14.8	16.1	17.6	17.8
% Change		*11%*	*22%*	*9%*	*9%*	*1%*
Viet Nam	4.5	5.9	7.2	10.2	13.5	15.1
% Change		*30%*	*23%*	*41%*	*32%*	*12%*
Romania	6.8	7.4	8.9	9.8	11.5	12.0
% Change		*9%*	*21%*	*10%*	*18%*	*4%*
Others	105.4	106.1	109.9	105.9	104.8	106.1
% Change		*1%*	*4%*	*-4%*	*-1%*	*1%*

Source: Lebanese Customs

APPAREL IMPORTS AND EXPORTS

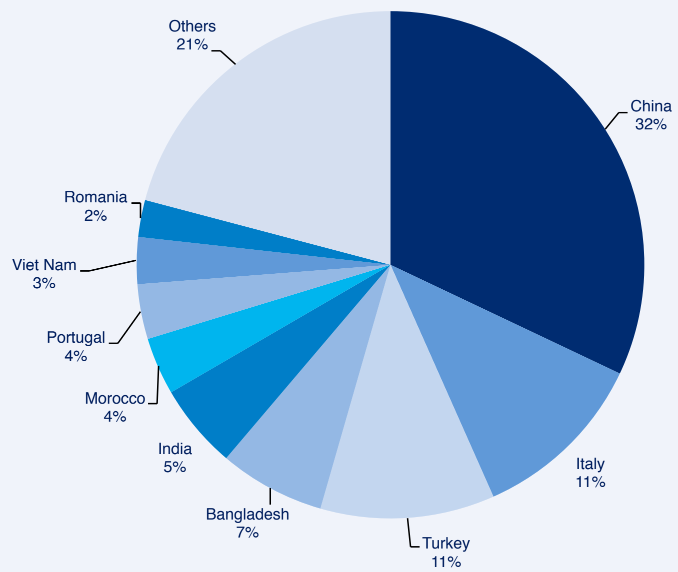
Hence, over the period 2009-2014, the value of imported apparels from China as a share of total apparel imports remained stable. On the other hand, Italy's share of apparel imports dropped by five percentage points to 11% in 2014, but Italy has maintained its position as the second major exporter of apparels to Lebanon. Concurrently, the share of Turkey out of total apparel imports increased by two percentage points to 11% during the abovementioned period while Bangladesh's share rose by four percentage points to reach 7% in 2014.

Value of Apparel Imports by Country (2009)



Source: Lebanese Customs

Value of Apparel Imports by Country (2014)



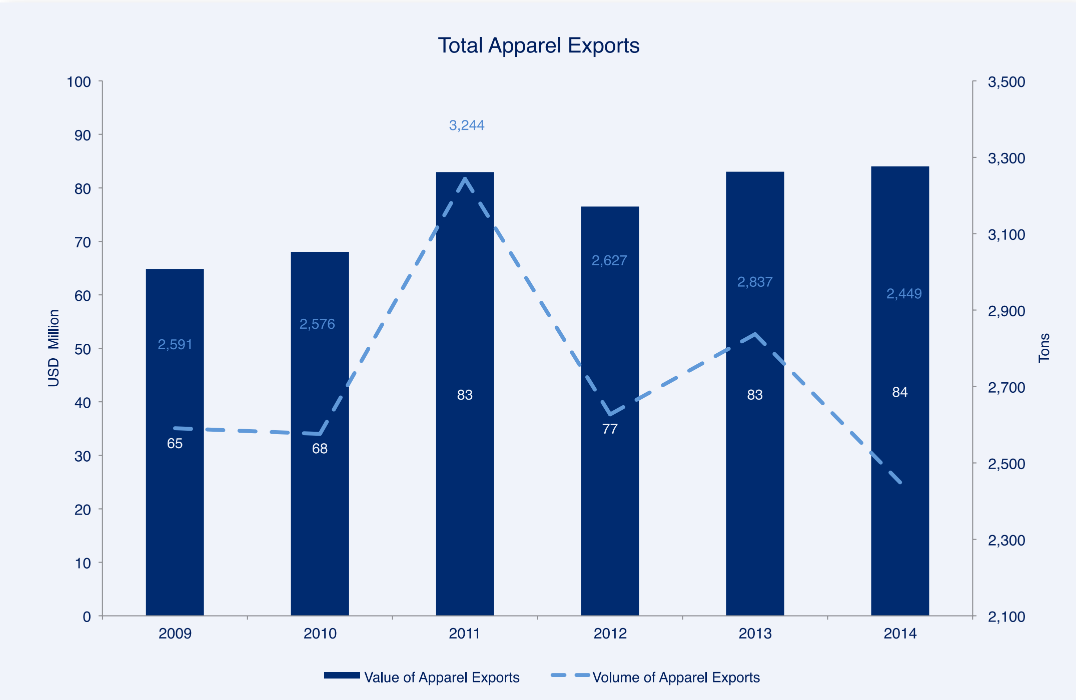
Source: Lebanese Customs

APPAREL IMPORTS AND EXPORTS

EVOLUTION OF APPAREL EXPORTS

Lebanon's value and volume of apparel exports followed an increasing trend over the period 2009-2011. However, the slowdown witnessed in the apparel sector affected Lebanon's exports leading to a 7.8% drop in the value of apparel exports and 19.1% decline in their volume in 2012.

Nevertheless, the years 2013 and 2014 witnessed a recovery in apparel exports, where only the value recovered to pre-slowdown levels. As such, it is important to note that Lebanon's apparel trade deficit has been on the rise in the past few years as the country's apparel import growth exceeded the rise in apparel exports despite the efforts to enhance apparel export strategies. In particular, Lebanon's haute couture industry has emerged as a major potential for the country's apparel sector, with these high-end exports expanding, especially to the Middle-Eastern market.



Source: Lebanese Customs

APPAREL IMPORTS AND EXPORTS

VALUE OF APPAREL EXPORTS BY TYPE

Lebanon mainly exports women's wear, which reached a total value of USD 37 million in 2014. Specifically, exported women's suits, ensembles, and jackets constituted a share of 87% of exported women's wear. It is followed by women's blouses and shirts with a 4% share of total imported women's wear.

Exported men's wear reached USD 19.2 million in 2014, having experienced a fluctuating growth trends in the past few years. Men's suits, ensembles, and jackets constituted the 78% bulk of these exports with a value of USD 15 million exported in 2014.

Even though Lebanon is a modest exporter of children's wear, these exports have expanded during 2014 reaching a value of USD 3.2 million. Likewise, exports of other apparel sub-categories have expanded during the period 2009-2014, recording USD 24.6 million in 2014. This comes as a direct result of the expansion in exports of knitted or crocheted garments as well as jerseys, pullovers, cardigans, which together constitute 53% of these exports.

Breakdown of Apparel Exports by Type

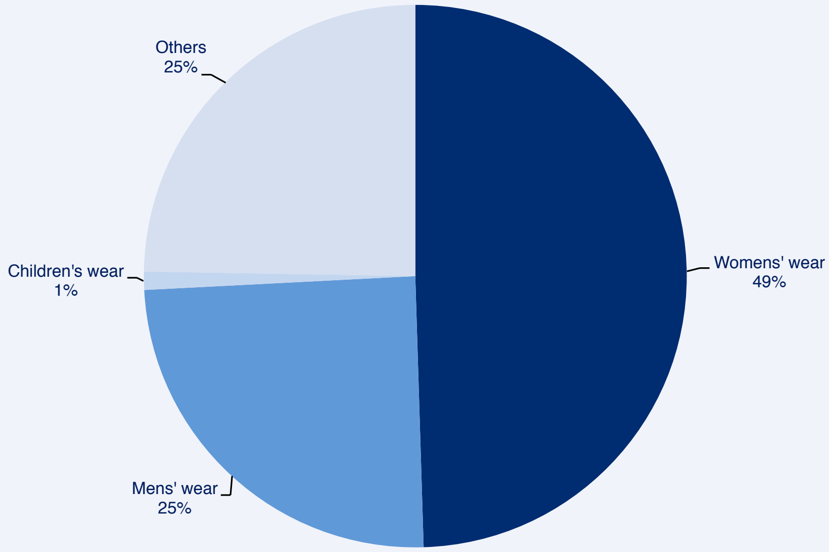
USD Million	2009	2010	2011	2012	2013	2014
Womens' wear	32.1	34.1	40.3	37.9	40.8	37.0
% Change		*6%*	*18%*	*-6%*	*8%*	*-9%*
Mens' wear	16.0	15.8	18.2	16.4	17.3	19.2
% Change		*-1%*	*15%*	*-10%*	*6%*	*10%*
Children's wear	0.7	0.5	1.2	0.5	1.6	3.2
% Change		*-23%*	*120%*	*-59%*	*222%*	*103%*
Others	16.0	17.6	23.3	21.7	23.3	24.6
% Change		*10%*	*33%*	*-7%*	*7%*	*6%*

Source: Lebanese Customs

APPAREL IMPORTS AND EXPORTS

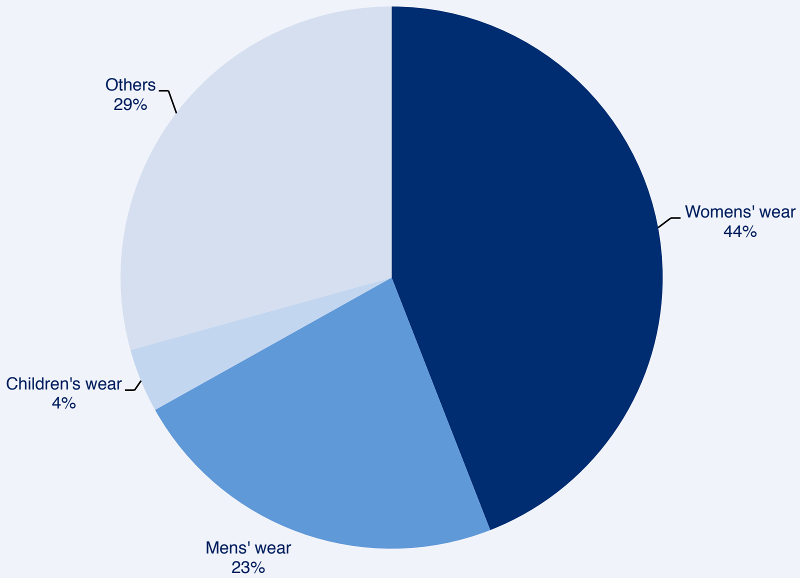
Hence, as a share of total value of exported apparels, the share of exported women’s wear dropped to 44% in 2014 from 49% in 2009. On the other hand, the share of men’s wear exports dropped by two percentage point to 23% in 2014. Meanwhile, exported children’s wear share increased by three percentage points to reach a 4% share in 2014.

Value of Apparel Exports by Type (2009)



Source: Lebanese Customs

Value of Apparel Exports by Type (2014)



Source: Lebanese Customs

APPAREL IMPORTS AND EXPORTS

VALUE OF APPAREL EXPORTS BY COUNTRY

Although apparel exports to UAE have dropped in 2014 to reach USD 16.4 million, UAE is still a main country of destination for Lebanon's apparel exports. In particular, women's suits, ensembles, and jackets constitute 40% share total apparel exports to UAE.

Apparel exports to Saudi Arabia followed with USD 14.7 million in 2014. Men's suits, ensembles, and jackets contribute to a 32% share of total apparel exports to Saudi Arabia followed by women's suits, ensembles, and jackets with 31% share.

Germany increasingly became another important destination for Lebanese apparel exports. In fact, Lebanon's apparel exports to Germany have increased by an average annual rate of 11.5% during 2009-2014 to reach USD 6.0 million in 2014. These exports are diversified with t-shirts and other vests constituting the highest 51% share.

Kuwait ranks fourth in term of country of destination with apparel exports to Kuwait reaching USD 5.4 million in 2014. Specifically, 30% of Lebanon's exports to Kuwait are women's suits, ensembles, and jackets, followed by men's suits, ensembles, and jackets with 23% share.

Lebanon's apparel exports to each of France and Qatar have declined in 2014. Lebanon mainly exports women's suits to both countries with respective shares of 47% and 56%.

Breakdown of Apparel Exports by Country

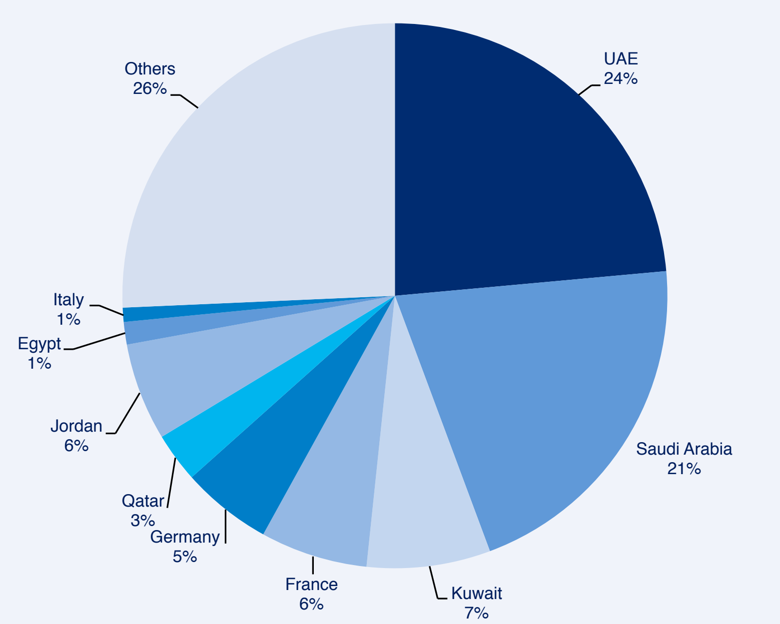
USD Million	2009	2010	2011	2012	2013	2014
UAE	15.3	15.8	20.6	16.2	19.3	16.4
% Change		*4%*	*30%*	*-21%*	*19%*	*-15%*
Saudi Arabia	13.5	12.8	13.0	13.9	12.9	14.7
% Change		*-5%*	*2%*	*7%*	*-7%*	*14%*
Germany	3.5	3.1	4.5	4.7	4.7	6.0
% Change		*-12%*	*47%*	*4%*	*0%*	*27%*
Kuwait	4.8	4.6	5.8	5.6	6.5	5.4
% Change		*-3%*	*26%*	*-3%*	*15%*	*-16%*
France	4.1	3.8	5.9	5.5	6.0	5.0
% Change		*-9%*	*58%*	*-7%*	*9%*	*-17%*
Qatar	1.9	2.5	3.5	2.9	3.6	3.4
% Change		*29%*	*41%*	*-16%*	*24%*	*-6%*
Italy	0.5	1.2	1.4	1.6	1.6	2.4
% Change		*125%*	*14%*	*14%*	*-2%*	*49%*
Jordan	3.8	3.3	3.6	2.8	2.3	2.3
% Change		*-11%*	*7%*	*-23%*	*-18%*	*0%*
Egypt	0.9	1.0	1.4	1.9	1.9	1.9
% Change		*16%*	*36%*	*40%*	*-2%*	*-2%*
Others	16.7	20.0	23.3	21.3	24.3	26.6
% Change		*20%*	*16%*	*-8%*	*14%*	*10%*

Source: Lebanese Customs

APPAREL IMPORTS AND EXPORTS

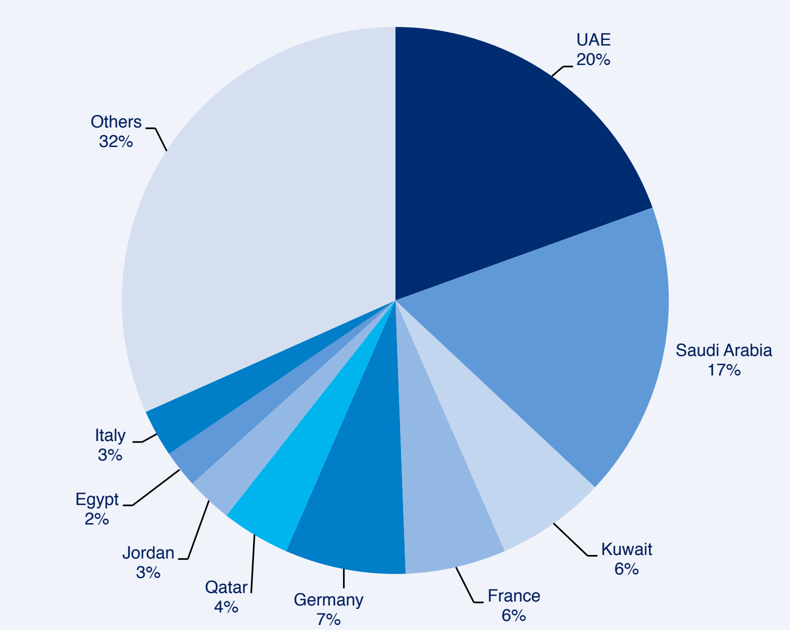
Over the period 2009-2014, the value of exported apparel to UAE as a share of total apparel exports fell to 20%. Concurrently, the share of Saudi Arabia out of total apparel exports dropped by four percentage points to reach an equivalent 17% share in 2014. Kuwait's share of the total value of apparel exports dropped by one percentage point to 6% while France's share remained stable.

Value of Apparel Exports by Country (2009)



Source: Lebanese Customs

Value of Apparel Exports by Country (2014)



Source: Lebanese Customs

CONCLUSION

Lebanon's apparel market remains stable as the country continues to stand as an attractive market for many retailers despite the delicate political and regional conditions, which affected Lebanon's tourism over the past few years, diminishing tourists' spending in the country. In fact, Lebanon enjoys a business culture that encourages interaction with various regional and international trade partners, especially that the country capitalizes on its proximity to European and Arab markets, which allows traders to seize great trade opportunities. However, Lebanon needs to minimize its high dependence on imports and instead seek opportunities to support and expand its local apparel manufacturing to enable its apparel industry to flourish.

Mazen Soueid, Stephanie Ghanem, Ziad Hariri, Rita Nehme