

Marketing Study on Apparel Market In Brazil



- Introduction

Brazil is one of the promising emerging economies that achieved significant economic growth during the first 10 years of the 21st century, whether in the size of the local economy as a whole or in the average income per capita. This enabled it to move from the world's tenth economy by size to the seventh economy (Brazil had progressed to the world's sixth economy in 2011 and then retreated to the eighth economy in 2016), as well as the rise in average income per capita to amount to 14,555 thousand dollar / per year, which is much lower than the developed economies, but nevertheless; in the recent years, the Brazilian economy is exposed to some of the slight decline which will be presented in details.

Overview on the Brazilian economy in recent years

The Brazilian economy is one of the promising economies, attracting huge amounts of foreign direct and indirect investment during the first 10 years of the 21st century. However, the decline in Brazil's macroeconomic statistics, high inflation and the devaluation of the Brazilian currency against US dollar currently does not reflect The Brazilian economy.

Despite the financial or economic crises that hit Latin American economies in the 1980s and 1990s, the Brazilian economy is still resilient in many economic indicator, such as the excess of the general budget achieved annually by the government, high operating rates and low unemployment (unemployment rate ranging from 4% and 4.5%), the strength of domestic demand, which is the guarantee for investments and compensation for the decline in some export markets.

The following table shows some basic data for the Brazilian economy in 2016 compared to 2011-2013 (which shows the decline of the Brazilian economy in some areas).

Indicator	2011	2012	2013	Last Update 2016
GDP at current prices (Billion dollar)	2475	2223	2416	2246
Total External Debt	397	439	476	347
Economic growth rate	2.7%	0.9%	2.30%	0.2%
Ranking on global economies	Sixth	Seventh	Eighth	Eighth

Average Income per capita (US\$)	12576	11340	12100	14555
Exchange Rate of the Brazilian Real	1.71	2.03	2.19	3.16 (Jan 2017)
Inflation rate	5.7%	5.4%	6.2%	8.9% (2016)
Total Exports (Billion Dollar)	256	242	245	153 (2016)
Total Imports (Billion Dollar)	226	232	241	114 (2016)
Trade balance (Billion Dollar)	30	19	4	39 (2016)
Total foreign investment in Brazil (Billion Dollar)	65.6	60.4	66.3	65.0
Total Brazilian investments abroad (Billion Dollar)	15420	2821	3780	35.40

- **Brazilian market:**

Overview on the Brazilian economy with a review of the most important geographical, economic and demographic indicators.

The following table shows the most important geographical, economic and demographic indicators of Brazil:

Geographical Indicators	
Indicator	Value
Land Area	8,515,770 sq km
Location	Located in Eastern South America, bordering the Atlantic Ocean.
Economical Indicators	

Indicator	Value
GDP	\$ 2.055 trillion (2017)
Annual growth of GDP (%)	1% (2017)
GDP by Sector (2017)	Agriculture 5.2%, Industry 22.7%, and Services 72%
Inflation rate	3.4% (2017)
Unemployment rate	12.8% (2017)
Total Exports	\$ 251.7 Billion (2017)
Main Exported Commodities	Transport equipment, iron ore, soybeans, footwear, coffee, automobiles
Exports - Partners	China 21.8%, US 12.5%, Argentina 8.1%, Netherlands 4.3% (2017)
Total Imports	\$ 221.5 Billion (2017)
Main Imported Commodities	Machinery, electrical and transport equipment, chemical products, oil, automotive parts, electronics
Imports - Partners	China 18.1%, US 16.7%, Argentina 6.3%, Germany 6.1% (2017)
Demographical Indicators	
Indicator	Value
Population	209, 288,000 (2017)
Population growth rate	0.8%(2017)
Source: 1. The World FactBook https://www.cia.gov/library/publications/the-world-factbook 2. UNdata http://data.un.org/en/iso/br.html 3. World Data Atlas https://knoema.com/atlas/Brazil/	

- **Brazil's domestic market for Underwear and imports of Brazil from these HS Codes (6107, 6108, 6208, 6212):**

Over the past few years, Brazil has been transformed from an importing country to all its domestic needs for commodities and others, to the most important country in South America in terms of foreign trade volume and entered into several economic agreements to get out of the United States' dominance over its interests. Perhaps the most important of these agreements is the Mercosur agreement with the South countries of the continent As well as the BRIX Federation with Russia, India, China and South Africa, which made this agreement one of the largest market in the world, Brazil has been interested in developing the local industry for apparel production in general, working in this sector more than 1.6 million workers, which is about 12% of the total industrial energy in Brazil. The south-east region of the state is the most

important Brazilian regions in apparel manufacturing which is about 47% of the total number of companies operating in this area.

It is worth mentioning that Brazil has been ranked the fourth place in apparel production after China, India and Pakistan. Brazil is also interested in the world fashion in this important sector, Otherwise in the underwear sector, companies such as Hope, Rosa Cha, Valisere and Lupo are the most important companies working to provide the domestic market needs as well as abroad exports. In 2017, Brazil exported with 21, 730 million US dollars of underwear and imported with 73,328 million US dollars. China is the most important trade partner in this sector with Brazil.

Value in Thousand dollars	Brazilian Exports to the world	Brazilian Imports from the world
6107	2870	17390
6108	5647	26807
6208	1751	2600
6212	11462	26531
Total	21730	73328

1- Men's or boys' underpants (HS Code 6107)

▪ Brazil's Imports for Men's or boys' underpants (HS Code 6107)

The following table shows Brazil's imports of (HS Code 6107) Men's or boys' underpants. Brazil's total imports amounted to 17.3 million US dollars, increased by 26% compared to 2016. China's exports topped the list to be amounted to 10 million dollars, followed by Argentina, Sri Lanka, Peru and Hong Kong.

Value in: M/USD

Hs Code		2014	2015	2016	2017	Ranking of countries 2017	
						Country	Value
6107	Men's or boys' underpants, briefs, nightshirts, pyjamas, bathrobes, dressing gowns and similar ...	51.4	28.1	13.7	17.3	China	13
						Argentina	1.4
						Hong Kong	1.2
						Sri Lanka	0.400
						Peru	0.384

Source: ITC- Trade map

- **Egyptian Exports to the world for Men's or boys' underpants (HS Code 6107) during 2014-2017**

Value in: M/USD

Hs Code		2014	2015	2016	2017	%
6107	Men's or boys' underpants, briefs, nightshirts, pyjamas, bathrobes, dressing gowns and similar . . .	14.5	12.3	14.1	16.9	20%

- **Egyptian Exports to Brazil for Men's or boys' underpants (HS Code 6107) during 2014-2017**

Value in: USD

Hs Code		2014	2015	2016	2017
6107	Men's or boys' underpants, briefs, nightshirts, pyjamas, bathrobes, dressing gowns and similar . . .	10000	2000	0	2000

The previous table shows that the Egyptian exports are in a continuous decline which amounted to \$ 2000 according to the last available statement for the last year 2017.

2- Women's or girls' slips, petticoats, briefs, panties, nightdresses / Knits or Crocheted (HS Code 6108)

▪ Brazil's Imports for Women's or girls' slips, petticoats, briefs, panties, nightdresses (HS Code 6108)

Brazil's imports increased to be amounted to 26.8 million dollars compared to 17.7 million dollars in 2016. China's exports topped the list to be amounted to 22 million dollars, followed by Sri Lanka, Paraguay, Hong Kong and Thailand.

Value in: M/USD

Hs Code		2013	2014	2015	2016	2017	Ranking of countries 2017	
							Country	Value
6108	Women's or girls' slips, petticoats, briefs, panties, nightdresses, pyjamas, négligés, bathrobes, . . .	44.7	50.1	44.9	17.7	26.8	China	22.4
							Sri Lanka	1.081
							Paraguay	1.044
							Hong Kong	0.670
							Thailand	0.460
							Uruguay	0.315

Source: ITC- Trade map

▪ Egyptian Exports to Brazil for Women's or girls' slips, petticoats, briefs, panties, nightdresses (HS Code 6108) during 2013-2017

Value in: USD

Hs Code		2013	2014	2015	2016	2017	%
6108	Women's or girls' slips, petticoats, briefs, panties, nightdresses, pyjamas, négligés, bathrobes, . . .	22.000	0	1000	0	4000	100%

The previous table shows that the Egyptian exports to Brazil have dropped from 22.000 dollars in 2013 to 4000 dollar in 2017.

3- Women's or girls' singlets and other vests, slips, petticoats, briefs, panties, nightdresses / Woven or Crocheted (HS Code 6208)

- **Brazil's Imports for Women's or girls' singlets and other vests, slips, petticoats, briefs, panties, nightdresses / Woven or Crocheted (HS Code 6208)**

Value in: M/USD

Hs Code		2013	2014	2015	2016	2017	Ranking of countries 2017	
							Country	Value
6208	Women's or girls' singlets and other vests, slips, petticoats, briefs, panties, nightdresses	6.7	7.2	4.9	2.5	2.6	China	1.9
							Sri Lanka	0.479
							Vietnam	0.076
							India	0.033
							Morocco	0.018

Source: ITC- Trade map

The previous table shows that the Brazil's imports amounted to 7.2 million dollar in 2014 then it decreased by 4% to be amounted to 2.6 million dollar in 2017 compared to 2.5 million dollar in 2016.

- **Egyptian Exports to Brazil for Women's or girls' singlets and other vests, slips, petticoats, briefs, panties, nightdresses / Woven or Crocheted (HS Code 6208)**

Egypt did not export this item to Brazil.

4- Brassieres (HS Code 6212)

- **Brazil's Imports for Brassieres (HS Code 6212)**

Value in: M/USD

Hs Code		2013	2014	2015	2016	2017	Ranking of countries 2017	
							Country	Value
6212	Brassieres	32.7	40	38.8	32.2	26.5	China	20.9
							Sri Lanka	1.6
							Thailand	0.586
							Hong Kong	0.563
							Chile	0.493

Source: ITC- Trade map

The previous table shows that the Brazil's imports for Brassieres amounted to 26 million dollar in 2017. China topped the list of the exporting countries to Brazil by 20.9 million dollar, followed by Sri Lanka, Thailand, Hong Kong and Chile.

▪ **Egyptian Exports to Brazil for Brassieres (HS Code 6212) during 2013-2017**

The following table shows that Egypt didn't export this item to Brazil, only in 2013 with just 7 thousand dollar.

Value in: Thousand USD

Hs Code		2013	2014	2015	2016	2017
6112	Brassieres	7000	0	0	0	0

❖ **Brazilian foreign trade for underwear (HS Codes 6107, 6108, 6208, 6212) during 2013-2017**

Value in: M/USD

Hs Code	2013	2014	2015	2016	2017
Total Brazil's Imports for underwear	128.2	148.7	116.7	57.1	73.3
Total Brazil's Exports for underwear	24.3	21.2	34.2	16	21.7

According to Brazil's Ministry of Trade, Industry and Services, Brazil's imports for underwear increased by 28% in 2017 which amounted to 73 million dollar compared to 57 million dollar in 2016.

- **Tariffs and import taxes in Brazil:**

In accordance with the free trade agreement signed between Egypt and the Mercosur countries, which came into effect in September 2017, the Egyptian exports to Brazil enjoy preferential treatment on our exports according to the customs tariff of TEC " Common External Tax for Mercosur".

In addition to customs duties, Brazil applies another tax, the Industrial Property Tax (IPI) "Imposto sobre Produtos Industrializados", a federal tax on Brazil. It is sometimes used as a financial instrument by the Brazilian government to stimulate some industrial sectors by

temporarily reducing or freezing them. In addition to VAT which is called "Merchandise and Services Circulation Tax (ICMS)", it is specific to each Brazilian state and varies according to the product and the state. For example, the state of Sao Paulo has 18% sales tax compared to 19% in the state of Rio de Janeiro and 17% in S.C. In the case of imports, the tax is applied on the value of the commodity plus all previous duties and taxes.

Taxes apply on apparel from the rest of the world:

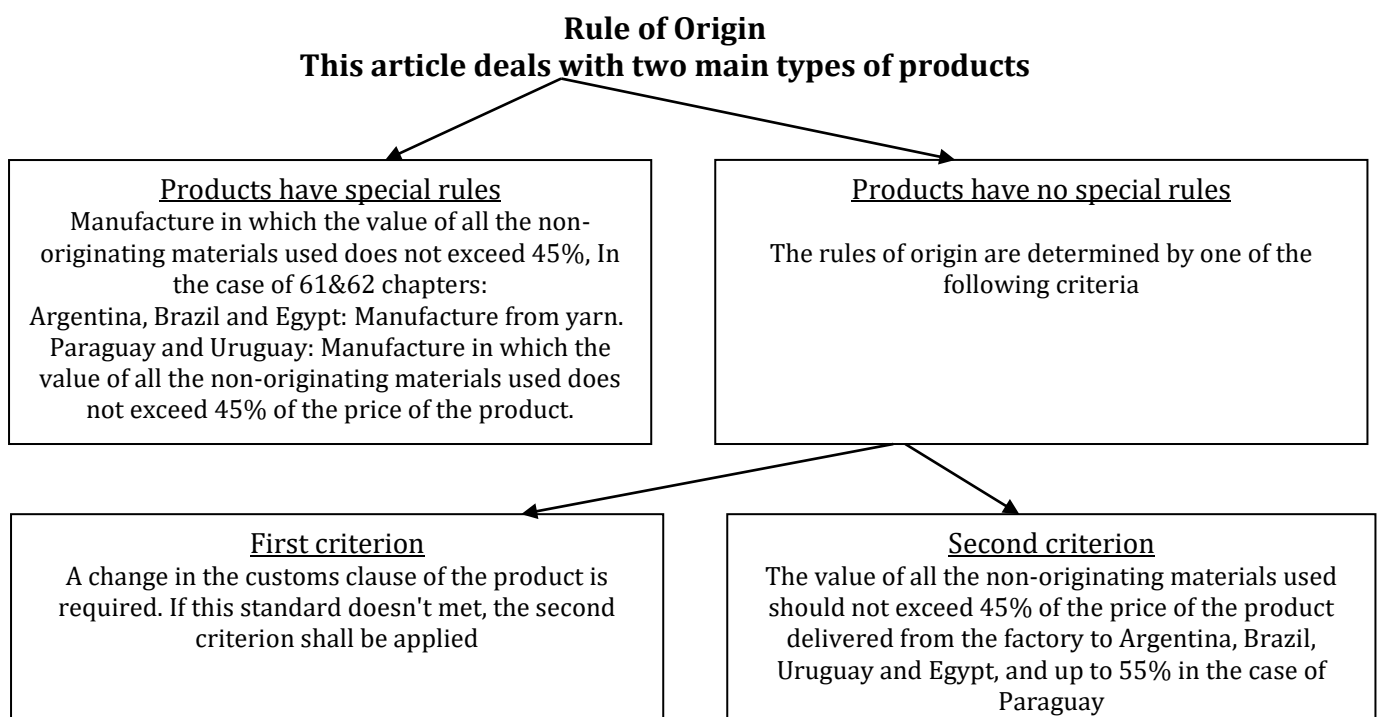
Brazil applies 35% on its imports from the rest of the world, while imports are exempted from the federal tax, but the Brazilian authorities suffer from the phenomenon of customs smuggling through its ports from the border countries which has a free trade agreement with them, such as the Mercosur.

The following table shows the tariffs applied on Underwear to the Mercosur countries including the Egyptian exports.

Before joining Brazil to the Mercosur agreement, the average tariff applied on 61 & 62 HS Codes reached to 35% - 40%.

HS Codes		Tariff 2017/2018	Federal Tax
6107	Men's or boys' underpants, briefs, nightshirts, pyjamas, bathrobes, dressing gowns and similar	31.5%	0%
6108	Women's or girls' slips, petticoats, briefs, panties, nightdresses, pyjamas, négligés, bathrobes	31.5%	0%
6208	Women's or girls' singlets and other vests, slips, petticoats, briefs, panties, nightdresses	31.5%	0%
6212	Brassieres	31.5%	0%

The main features of the protocol - the rules of origin signed with the Mercosur countries



In the case of applying this criterion, the exports of Uruguay, Paraguay and Egypt will benefit each other by the Allowance Rule

Where no more than 10% of non-originating materials classified under the same customs of the products are to be used, except for the requirement to achieve change in the customs item

Issuance of Origin certificates:

- To issue the origin certificate, the exporter submits the corresponding commercial invoice and a request stating that the products meet the origin criteria, as well as the submitted documents and any supporting documents for this declaration.
- The aforementioned acknowledgment is the same as Euromide and Euro 1.
- Origin Certificate issued in English.
- Issued before exporting the products and its validity is 180 days.

Detailed rules for commodity groups:

Commodity Group	Applied Rule
Food Staff	Exactly matching the Euromide bases
Apparel (50-61)	
Electrical, metal and automotive industries	

5- Distribution Channels:

In Spain, the distribution channels for textiles and apparel in 2015 reached to 61,387 channels, increased by 2.3% compared to 2014, on the other hand there is a significant decrease from 2007, where sales reached to 71.1 thousand outlets. In the same context, it should be noted that the share of the distribution channels in the Spanish market of total sales during 2015 was as follows:

Ranking	Outlets	Value %
1	International brands outlets	19.9
2	Malls	8.9
3	Hypermarkets	24.3
4	Discounted Outlets	15.1
5	Retail chains	31.8

6- Textile Machinery:

The textile machinery industry in Spain is based on 84 companies operating in this area, 70 of them are in the province of Catalonia. 85% of these companies are small companies with fewer than 30 workers. In 2010, their sales amounted to 250 million Euros with 2250 workers. 83% of these companies are located in Catalonia, which contributes more than half of sales in this sector throughout Spain. The largest importers of Spanish textile machinery are China, India, Pakistan, Bangladesh and Vietnam, as well as emerging markets such as Brazil, Mexico, Colombia, Turkey, the United States and Iran.

7- Technical requirements:

The European Union has established Regulation No. 1007/2011, for Apparel and Textiles, which can be accessed through the following link:

http://exporthelp.europa.eu/thdapp/taxes/show2Files.htm?dir=/requirements&reporterId1=EU&file1=ehir_eu14_01v001/eu/main/req_lbltexti_eu_010_0612.htm&reporterLabel1=EU&reporterId2=ES&file2=ehir_es14_01v001/es/main/req_lbltexti_es_010_0612.htm&reporterLabel2=Spain+%28excluding+X+C+XL%29&label=Labelling+for+textiles&languageId=en&status=PROD

Regulation No. 907/2006 also regulates the used banned chemicals in textile and apparel industries, which can be accessed through the following link:

http://exporthelp.europa.eu/thdapp/taxes/show2Files.htm?dir=/requirements&reporterId1=EU&file1=ehir_eu14_01v001/eu/main/req_chetext_eu_010_1303.htm&reporterLabel1=EU&reporterId2=ES&file2=ehir_es14_01v001/es/main/req_chetext_es_010_1306.htm&reporterLabel2=Spain+%28excluding+X+C+XL%29&label=Restriction+on+the+use+of+certain+chemical+substances+in+textile+and+leather+products&languageId=en&status=PROD

8-Tariffs on Egyptian Exports:

No Tariffs imposed on Egyptian apparels according to the EU Agreement.

9-Tariffs imposed by Spain:

Internal tax (value added): 21%

10-The most important Spanish ports:

- ◀ Valencia Port <http://www.valenciaport.com>
- ◀ Barcelona Port <http://www.portdebarcelona.cat/en>
- ◀ Bilbao Port <http://www.bilbaoport.es/aPBW/web/es/index.jsp>

11-The most important Spanish newspapers:

- El País : www.elpais.es
- El Mundo : www.elmundo.es
- ABC : www.abc.es

12-The most important specialized exhibitions:

MOMAD

http://www.ifema.es/momadmetropolis_01/

13-Affiliates:

- ◀ FEDECON
www.fedecon.es
- ◀ Asociacion Empresarial del Comercio Textil, Complementos y Piel (ACOTEX)
www.acotex.org
- ◀ Asociacion Creadores De Moda De Espana (ACME)
www.creadores.org

14- Comments and Recommendations:

The Spanish apparel market has been affected by the Spanish economic crisis during the last few years, as evidenced by the previous years' indicators mentioned in this study due to the contraction of per capita income and the increase of unemployment, which led to a decrease in the average expenditure of individuals on apparel products, But the indicators for the current year show the resumption of this sector, as Spain's imports increased by 7% during 2017.

Spain's average household expenditure on textiles was 1,223 Euros/ a year, up to 7.2% from 2014, while Spanish expenditure on apparel in 2015 was about 577 Euros for women, 351 Euros for men and about 534 Euros for children per year.

The best way to enter the Spanish market for apparel is to manufacture one of the famous Spanish brands such as Inditex, GrupoCortefiel, Mango and El Corte Ingles. Due to the market's competitiveness, especially from countries such as China, India, Bangladesh and Turkey, the added value of Egyptian products must be increased by introducing new product designs, so that our main reliance is not only on price competition.