

Around the World



AUSTRALIA

Wool prices rising in US\$ and Euro terms

Wool prices significantly climbed in US dollar terms during the last two weeks of October, 2008 in Australia, reflecting very good demand despite the sharp decrease in the American currency. The strength in the euro stimulated demand from Europe, which is expected to continue with sales of excellent qualities at Newcastle.

A rebound in the Australian dollar compared with the U.S. dollar did not depress demand. In fact, as a consequence, the Eastern Market Indicator (EMI) gained 3.2% in US dollars terms or 24 cents at 769 cents.

The US dollar prices are still below their level two months ago, nevertheless. Euro prices were slightly up with the Australian dollar declining against the European currency. The EMI finished up 5 cents (Euro) or 0.9%.

In Australian dollar terms, the Western indicator rose 1.3% or 12 cents at 916 cents per kilo clean wool. Demand was not depressed by prospect of larger offer in the next few weeks when sales of fine and super fine wool will be held in Newcastle, again attracting very good demand from Italy.



CHINA

Cuts in interest rates and reserve-requirement ratio

Zhu Hongren, the official from the Ministry of Industry and Information Technology announced that the Chinese government would promulgate more policies to support China textile industry after the recent tax rebate hike, and there were various policies under study related to credit, taxation, support and assistance to SMEs, and encouragement to independent innovation of enterprises.

Plagued by the appreciating Chinese currency, rising labor and material costs and tight financing constrain, the national textile industry have been experiencing a bad time.

Analysts at China Textile Leader pointed out that financing constrains threatening textile enterprises are likely to be alleviated by government's assistance, while the other two negative factors are hard to be changed.

The People's Bank of China, the central bank, has raised annual loan quota for all commercial banks with an eye to helping fund the growth of small and medium enterprises. The increase is 5 percent for national commercial banks and 10 percent for local commercial banks, taking into consideration the fact that SMEs make up a larger proportion of their clientele.

However, insiders do not regard the increasing credit as a cure-all. Zhao Meiling, an analyst at Essence Securities said that China textile sector, where a vast majority of the companies are SMEs, would not be granted much more loans by commercial banks, because the banks shall have the autonomy to control the money flow and they might limit or decline to offer credit to SMEs from the sector in view of loan risk probabilities.

China's central bank announced cuts in both the interest rate and reserve-requirement ratio earlier last month, aiming to boost the domestic economy and cope with fallout from the deepening global financial crisis. According to the announcement, the deposit and lending rates would be lowered by 0.27 percentage points from Oct.9 and reserve-requirement ratio would be down by 0.5 percentage points from Oct.15. This move is a timely response to the rate cuts by other major central banks.

Lace industry strives to gain international market share

According to the Fibre2fashion News Desk from China, the lace industry in China has extended its reach from local to international markets with more research and innovation.

There are more than 40 units producing quality lace in Xiaoshan city, and these units possess more than 70% chunk of total production in the country. However, lace units do not have their own design centers and this restricts them to low-grade markets.



Lace Umbrella by Linjan Han Feng Lace Knitting Embroidery Co. Ltd in China.

To increase quality Xiaoshan lace companies are striving to enter into EU markets, Meiyi lace has set up a design centre, where raw material units are integrated with production units. Hangzhou Xiaoshan Meiyi Lace Co Ltd is the biggest lace unit in Xiaoshan city; its yearly turnover is more than RMB260 million and profit crosses RMB30 million a year.



Linjan Han Feng Lace Knitting Embroidery Co. Ltd. is located in the Sun Industrial Zone, next to the Tianmu Mountain. It is in the western suburb of Hangzhou - a well known tourist city in China. The company is close to the Hang-Xian high way, enjoying convenient transportation. With professional designers, technical production staff, this company has become an independent producer, which can design and make some arts and crafts. The main products are garment including lace, like handmade ones for women's wear, those for evening dresses and for craft umbrella.

Chinese cotton imports and average import prices

According to Statistic Center of CNTAC, China's cotton import in first half year reached 1.24 million tons valued at US\$2.05 billion, with a respective increase of 5.6% and 28.5% year-on-year, while the average import price grew drastically by 22.2%, which had been on a rising trend since last year.

In the same period China imported 420,000 tons of cotton, up 35.3% year-on-year and covering 33.9% of total import volume, while ordinary trade import declined by 2.1% to 351,000 tons, taking up for 28.3%; 273,000 tons were imported by processing trade, accounting for 22% of the total and reflecting a 7.9% year-on-year decrease.

India and America are major suppliers of cotton to China as the two countries taken together accounted for 76.2% of China's total cotton imports in first half year. During the period, 540,000 tons of cotton were sold from India to China, 49.6% above the year-ago level at an average import price of US\$1589 per ton; 407,000 tons were from America at an average import price of US\$1713 per ton, with a 11.6% year-on-year decrease in quantity term.



GERMANY

Decline in Textile machinery sales

German textile machinery industry has seen a 51% decline in orders by other countries in just the last 10 months. The German textile machinery industry sells a significant number of spinning machines and the drop in orders is having a quick and negative impact on employment.

The textile machinery industry downturn in orders is not surprising when you consider all clothing and textile sales have been consistently dropping for several months now. Everything from the most expensive fashion to cheap t-shirts are experiencing downward sales trends as consumers hunker down financially to survive the developing recession, said Mr. Fritz Mayer, Head of the VDMA Textile Machinery Association.

He said business with textile machinery always has undergone cyclical fluctuations, but what happens actually is the strongest slump since World War II. The German textile machinery industry is the biggest exporter segment within the engineering sector and 2007 was a stellar year in terms of sales levels.

The textile and clothing industry is taking a global hit due to the economic problems around the world. It has been widely reported the US and UK retail sales are down significantly. In addition, manufacturing production indicators are point to a continued slide towards recession, but the impact of the financial meltdown is impacting all countries.

This is very apparent when you consider the textile orders that come in from around the world have often been government subsidized. Right now most government subsidies are being redirected into the financial markets to prop up the banking systems.

The first six months of 2008 compared to the first six months of 2007 saw a 12% decline in exports. This number is



Fritz Mayer, Head of the VDMA Textile Machinery Association.

expected to be much higher in the last six months of the year, because orders made in 2007 accounted for much of the early 2008 exports.

INDIA

Textile exports to United States

A slowdown in the Chinese textiles exports has spill-over of orders into Vietnam and Indonesia, which have effectively pushed India out of the list of top five apparel exporters to the US market in the January to July period in 2008.

Indian apparel exports to the US have suffered a 2.39% decrease in order values, amid an overall slowdown in the US imports, even as Vietnam's exports have surged 23% and Indonesia by 1.3% and Bangladesh by 9% till July, as per the data released by the Office of Textiles and Apparel under the US Department of Commerce.

According to Apparel Export Promotion Council (AEPCC) Chairman Rakesh Vaid from India, apparel exports are declining upto 10% in the immediate term and US Department of Commerce confirmed that textile exports to the US declined 0.95% in value terms for the year ending August 2008, apparel exports were down 4.47% to \$3.05 billion. For the first eight months of the calendar year (year-to date), apparel exports to the US declined 4.8% to \$2.20 billion.

Bangladesh has overtaken India in apparel exports to the US, as their exports increased to 6.21% amounting to \$2.25 billion for the same period. India went out of the top five exporters to the US, as power shortage in Tamil Nadu has affected production schedules and as a result several orders went to Bangladesh.

According to industry insiders, the depreciation of the rupee against the dollar since July is unlikely to provide any immediate respite to textile and apparel exporters since most big units have already entered into hedging contracts to counter any possible uptrend in the rupee.

There, however, has been a slight increase in home textile exports to the US, with the value of India's exports in this category up 0.55% during this period despite a decline in overall home textile imports by the US. Apparel exports are considered more important than home textiles' since the value addition during the manufactur-

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ing stage and the employment generation potential are much higher in the case of apparels.

Indian rupee depreciation

The rupee may have depreciated by nearly 20% since April, but most garment exporters of India have to wait out a few months to gain from this upside. Earlier, when the rupee had appreciated to around Rs 38 to a dollar, most exporters had hedged their positions by signing forward contracts with banks at roughly 41 rupees to a dollar. This means that exporters have now missed an opportunity of almost 13% to 15%.

According to industry sources, garment exports grew by 28% in China in 2007 and this year that growth is likely to remain flat mainly on account of its appreciating currency. This means that nearly US\$ 30 billion worth of business is up for grabs and India is hoping for a sizeable portion of it. However, consumers in the West are clearly in the saving mode and analysts in AT Kearney and Deutsche Bank have already said that retailers will not have much to cheer about this Christmas and thanksgiving - a time when retailers clock more than 25% of their annual sales. Stocks of large department stores in the US like Macey's and JC Penny have crashed by nearly 30% since July 2008.



Yarn price affects Indian textile producers

The rise in yarn prices in is affecting the allied industries such as sizing, dyeing, calendering, printing and processing in textile sector, said President of the Erode Handloom Cloth Merchants Association, R. S. Nataraja Mudaliar.

This significant increase in prices of all varieties of yarn has affected the textile producers to a maximum level as for the last one month the prices of 2, 10, 20, 34 and 40 counts of yarn (used for the production of all varieties of fabrics, bed-sheets, carpets and dhotis) had increased by Rs 50 for a bundle of 5 kg. Since the production cost had gone up by Rs . 2 to Rs . 3 for a metre, textile producers are also experiencing fluctuation in the prices.

Handloom sector to attract FDI in textile

The Associated Chambers of Commerce and Industry of India (ASSOCHAM) has suggested complete deregulation of India's handloom sector with flexibility in labour laws to help textile economy attract FDI, upgrade technology and generate employment.

SWOT Analysis on 'Textile Sector of India' by ASSOCHAM reports that total FDI's approval in India in last 15 years stood at Rs .40 billion of which less than Rs . 3 billion were approved until recently. This is due to the fact that domestic textile sector of India continues to struggle under stringent laws and has yet to be deregulated as against China in which the actual FDI's are 50 times higher than India.

Releasing the Paper, the ASSOCHAM President, Mr. Sajjan Jindal said that the

technology upgradation fund schemes (TUFs) for the sector was introduced in March 2006, but majority of textile units had chosen to invest by not taking recourse to TUFs route. Another disturbing feature is that FDI's attracted by domestic textile sector continue to remain quite low as in last 14-15 years, out of total FDI's attracted, textile sector contributed less than 2.5%.

He suggested that flexibility in labour laws in changed economic, commercial and fiscal policies should be considered. Amendments are required to help free outsourcing to promote investment in labour intensive and export oriented garment sector.

Contract labour norms should be liberalized for textiles and garments so that units can hire labourers for a few months without the compulsion of having to absorb them permanently. Infrastructure and power sector reforms should be undertaken at a high speed to facilitate the smooth functioning of the industry. India has high energy and capital costs, multiple taxation and low productivity, all of which add to production costs. As a result, textile and apparel products from India are less competitive than those of China and other developing countries.

The Paper points out that there are opportunities as well as threats for the Indian textile industry in the post-MFA era. India has inherent strengths which can be capitalized on strong raw material base of cotton, man-made fibers, jute, silk, large production capacity (spinning 21% of world capacity and weaving 33% of world capacity) vast pool of skilled manpower, entrepreneurship, flexibility in production process and long experience with US and EU markets.

At the same time, there are weaknesses relating to fragmented industry, constraints of processing, quality of cotton, concerns over power cost, labour reforms and other infrastructure constraints and bottlenecks.

Textile weaving machinery industry

The textile machinery industry in India has virtually no capacity to manufacture high-end weaving machines like shuttleless looms. (Even as India accounts for 60% of the world's total number of looms, it has just 4% share in world's shuttleless looms).

India's textile industry is major cotton yarn exporter, but the weaving and processing segments of the industry continue to be weak. In value-added products, like high-quality fabrics, made-ups and garments, India is not really globally competitive. However, the recent years saw major investments in weaving and processing segments and few big processing units are coming up, but the level of investment is not commensurate with the required qualities estimated by the sector analysts. Investment in the sector should come predominantly from foreign investors equipped with technology. In fact, major textile machinery companies in the world, are looking at setting up manufacturing units in India. The huge potential of India's textile industry is an incentive to produce high-technology machines in India commercially viable.

A more lenient excise duty regime coupled with low cost loans could help translate these investment intentions into reality. Shifting production to India will be of great help to these machinery manufacturers as not only India's textile industry, but also of Pakistan and Bangladesh will their augmenting capacities once the global recession is over in 2011.

Ministry seeks finances for cotton procurement

The Textile Ministry has asked for sanction of Rs 1,200 crore from its Finance counterpart to procure cotton, anticipating large-scale purchases due to a recent decline in cotton rates below the minimum support prices.

Cotton prices have declined by about 20% in the last two months to around Rs 2,200 per quintal for medium staple, which are lower than the minimum support prices (MSP) of Rs 2,500 (the quintal is equivalent to 100 kg). The MSP of the long staple variety is Rs . 3,000 per quintal. Textile Ministry has only Rs 149 crore for market intervention. It has demanded from the Finance Ministry for sanction of Rs . 700 crore for cotton procurement till March 2009 and another Rs . 500 core for the remaining six months of the cotton season 2008-09.

Textile exporters raising the hedge cover

Textile exporters are raising the hedge cover for their export earnings as they feel that the Indian rupee has hit a bottom and will gain value against the US dollar in the coming months. Exporters with said they now planned to hedge as high as 70% of their receivables from the current average of around 50%. This comes in the backdrop of the Indian rupee falling to 15% since August 2008 to Rs . 48.7 to a dollar. This is because the demand for dollars has increased on account of foreign investors taking money out of the equity markets. This has taken textile exporters by surprise as they never

expected the dollar to strengthen to nearly 21% this year.

Textile exporters had a tough time last year, when the dollar depreciated sharply, leading to reduced orders as the margins per shipment were low. This resulted in India falling short of its export target for textiles by 18%. The target was \$25 billion while the achievement was \$20.5 billion. The fall in the value of the rupee is a boon for the industry. The exporters will increase their hedging at this level as this is the highest value the dollar has touched in the last seven years.

Orient Craft plans huge investment in textile and real estate

According to Orient Craft Chairman and Managing Director Sudhir Dhingra, "India has everything designers, manufacturers and buyers to be a fashion hub of the world. The one thing that is missing is a place where all stakeholders can come and work together. The fashion village (textile hub) by Orient Craft will be a place for all these people to work together and generate business."

At a time when the textile sector is facing the recession, Orient Craft, one of India's largest garment manufacturing companies, has embarked on a diversification initiative that involves setting up of a textile-focused special economic zone (SEZ) at an investment of Rs 2,100 crore. The move is aimed at diversifying the Rs 750-crore company's profile and reducing its dependence on export revenues.

The textile SEZ, spread over 334 acres in Manesar (Haryana) along the Kundli-Manesar-Pallwal expressway, will provide employment to 50,000 people when fully operational in 2011. The first phase of the project is expected to be completed by the first quarter of 2010.

A special purpose vehicle -- Orient Craft Infrastructure -- will raise about Rs 650 crore as debt. It also expects Rs 850 crore from sale of industrial plots and residential units. The remaining amount of around Rs 600 crore will be funded through internal accruals..

The company is in talks with several real estate players for developing hotels and hospitals within the zone. Dhingra added that the company had been approached by several venture capitalists to participate in the development. "The proposals are under active consideration," he said.

Of the 334 acres, about 178 acres will be sold as plots for setting up home furnishing and garment factories. The remaining area will be allotted for mixed use, accommodating business and luxury hotels, retail and commercial space, a school and a training centre, among other facilities.

"We hope to have all big international apparel brands like Armani, Gucci and Prada. We have already talked to around 42 companies," Dhingra added.

Customers will find it convenient to do business, the SEZ, the first textile-centric zone in north India, which will also have residential units, as the designers and manufacturers will need luxury apartments to stay within the city.



KENYA

Increasing textile labour costs

An annual report by the UN Conference on Trade and Development (UNCTAD) said although Kenya had an opportunity to exploit lucrative export markets, high cost of production mainly linked to the high pay bills remained a major deterrent. The cost draw back is captured by a UNCTAD case study of the textile industry in Kenya and Bangladesh, which share a technological and economic platform even though the latter has since moved to position itself among the leading exporters of garments and textiles in world. Findings from the study showed that on average the production cost is three times higher in Kenya than in Bangladesh, with the main determinant being the wage cost which is 138% higher locally than in Bangladesh.



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MALAYSIA

Hang Tuah Jaya Fashion City in Ayer Keroh

The RM 40 million Kota Gemilang project in Ayer Keroh is set to become the state's premier textile hub following its opening early next year. Chief Minister Datuk Seri Mohd Ali Rustam said the project would be part of the Hang Tuah Jaya Fashion City at the Malacca International Trade Centre. Kota Gemilang will have 173 units of double story shop lots.

The textile hub would offer a wide range of products including home furnishing items to attract shoppers, comprising both local people and tourists alike. He noted the response for the units have been overwhelming with 60% of non-bumiputera lots snapped up with another 40% lots remaining for bumiputras.



Mohd Ali (right) being briefed by Pembinaan Rembang Kota Sdn Bhd MD Yee Ying Sung at the Kota Gemilang site in Ayer Keroh.

He said the state, via the Chief Minister Incorporated (CMI), would help local bumiputera entrepreneurs, who are keen to develop the textile industry or home furnishing. Project developer Pembinaan Rembang Kotas Managing Director Yee Ying Sung said that 80% of the project is already completed.

The Malacca Hang Tuah Jaya Fashion City would adopt a similar concept like the one in Nilai where most of the textile operators were gathered in one location and the area would have 300 parking lots for cars and 100 lots for buses.

Bumiputera or Bumiputera is a Malay term widely used in Malaysia, embracing ethnic Malays, Javanese, Bugis, Minang and occasionally other indigenous ethnic groups such as the Orang Asli in Peninsular Malaysia and the tribal peoples in Sabah and Sarawak. This term comes from the Sanskrit word Bhumiputra, which can be translated literally as "son of earth" (bhumi= earth, putra=son) or son of the soil. Economic policies designed to favour Bumiputras were implemented in the 1970s following the May 13 Incident in 1969. (From Wikipedia, the free encyclopedia).



MEXICO

Mexican clothing industry faces crisis due to US economic slowdown

The economic slowdown in the United States is threat to the clothing and textile industry in Mexico and Central America, already under stiff competition from Asia.

Retail sales in the United States declined in September and October to their lowest in three years, a sign the global credit crunch.

For years Central America and Mexico have watched factory after factory pack up and move to China in search of cheaper labour, despite signing free trade deals to secure preferential terms for their exports.

The textile and clothing exporters and factory workers who sew clothing in the assembly plants around the Honduran town of Valle de Sula are already struggling, as only few factories are able to adapt by specializing in niche products or just-in-time orders.

In 2002 all U.S. textile imports came from Mexico and Central America, and 13% from China. In 2007 China provided 31% of all U.S. clothing imports and only around 15% came from neighbors of the United States.

This year in August and September Honduras lost 3,465 manufacturing jobs and the industry sees another 2,000 vanishing before the end of the year due to the U.S. slowdown.

Mexican clothing producers say they could lose up to 18,000 jobs by the end of the year and owners in other Central American countries fear their businesses will soon meet a similar fate.

USA

Quota limits on Chinese garments and textiles to expire next year

Textile and clothing bodies from 17 countries, including South Africa, have urged the US to protect industries and tighten monitoring procedures, when its quota limits on Chinese garments and textiles expire next year. The bodies were concerned export markets could be overrun by cheap Chinese products.

The US is an attractive market for apparel and textiles, but China has gained 60% of the US market share, from 13% at the start of the decade in certain product segments where imports are not limited by quotas.

Chinese textile and clothing exports to the US have increased almost 400% from \$6.5 billion to \$32 billion in that period.

When quotas on the products now under safeguard were temporarily lifted in 2005, Chinese manufacturers reduced prices to about 40%, which led to a 600% increase in imports. This triggered the imposition of the safeguards that will expire next year.

Textile groups seek new restrictions on Chinese textiles

U.S. textile groups seeking new restrictions on clothing imports from China won a victory when an American lawmaker requested the U.S. International Trade Commission to collect data on the trade.

Industry groups applauded a request for federal monitoring of Chinese textile imports as protections for the domestic textile industry will expire in 2009.

U.S. representatives and several textile industry groups have asked that the U.S. International Trade Commission investigate and monitor certain imports from China next year.

Safeguards against a flood of cheap goods and apparel from the country expire at the end of the year.

U.S. Rep. Charles Rangel, chairman of the House Committee on Ways and Means, formally requested the investigation to begin in January, 2009.

China's dominance for cotton consumption has posed a difficult balance problem for the United States. Growers support a domestic textile industry that would suffer if the country could dump its goods in the U.S. market.

An estimated 60% of the U.S. milling operations have vanished over the last decade, said Malcolm Lange, the National Cotton Council's Vice President of policy analysis. But China is the world's largest purchaser of raw cotton and the country's biggest customer and the farmers across the southern High Plains would love for the country to purchase even more, added Malcolm Lange. ♦