THE CHANGING WORLD TEXTILE MARKET

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Ladies and Gentlemen, it is a great honour for me to be invited to speak at this conference. Before I begin, I would like to extend my sincere appreciation to the organizer for having me in this important industry event. It was my privilege.

Following, I am going to talk about the changes in the global textile industry over the past few years. The topic will be explored in a few areas:

(i) Current States of Textile Industry

(ii) Recent Changes in China

(iii) Challenges and Opportunities Ahead

(iv) Mega-Trends in the Apparel Market

(v) Changes in Spinning Technology

Current States of Textile Industry

Over the last few years, we have witnessed big and fundamental changes in the global textile and apparel industry. During this period of changes, the world has enjoyed rapid growth of textile production and apparel sales. Up to the 2007 crop year, the world had increased its annual cotton consumption by 15.7 million bales, or 14.5% in three years. Part of the reasons for the rapid growth was the globalization of the industry and fewer trade barriers.

Within the past few years, we have seen drastic and significant migration of textile production bases from developed countries such as US, Europe, and Japan, to developing countries like China, India, Pakistan, and Bangladesh. In fact, over 70% of cotton is consumed in Asian countries, within which China’s share reaches 42%. This large cotton share in China is just like the cases of many other industrial products. These major moves of the production locations have brought a lot of hopes and job opportunities for some countries, while they in contrast also brought hardship, job losses, and mill closures in other countries. For example, in the US, it took just seven years for the textile industry to drop by half of its consumption, which was a major decline. On the other hand, the removal of the global garment quota system, the Multi-Fibre Arrangement at the end in 2004, and the optimistic views held by many owners in the developing countries attracted huge capital investments in the textile industry in these developing countries. During this time it was not uncommon to see Chinese investors who had no relevant prior experience made large investment projects in this industry. It is shown that the shift in textile and apparel production countries has resulted in much more active international textile and apparel trades. The US has increased over 70% of garment imports over the past 10 years. We can see that China has been occupying about 30% of the total apparel imports into the US. Vietnam, Indonesia, Mexico, India and Bangladesh are other major exporting countries. Likewise, Europe has also increased its garment import by about 28% in four years. Again, the largest importing country has been China, occupying about 38% of Europe’s garment imports in 2007.

Cheap imports from developing countries have enabled garment prices to cling to their usual levels. Textile and garment goods are one of the exceptional goods that have not risen in prices. This situation of price stability happens to both the developed countries such as the US as well as developing countries such as China.

With the rapid expansion in capital investment in this industry in many developing countries, the oversupply situation is becoming increasingly apparent and has started to lead to concerns on the earnings and survivals for many textile mills in Asia over the last two years. To give you an idea, some in the trade estimated that the global demand for denim is 6.5 billion yards in a year, while the current capacity is 7.7 billion yards. The 17% surplus in supply has already been leading to falling prices in the market for some years. This year, the media has a wide coverage on the gloomy situation that many textile mills in China, Pakistan and India are operating at very small margin or even at a loss. In fact, lots of opinions in the trade have predicted that many mills in China will be struggling arduously and may even close down in one or two years, especially the small mills doing export business. The oversupply situation has suppressed prices in every step of the supply chain. Despite the escalating costs in the past few years, you can see that yarn prices in local currencies have not moved much in China and India, while the Pakistan yarn prices moved up to some extent.

In China, we have seen the growth of some super large size textile mills. While different mills are struggling for survival within keen competition, this kind of super size mills are exerting further pressure to the market by being more cost-effective. In addition, big scale retailers, such as Wal-Mart, have developed distribution channels in many parts of the world and they no doubt have enormous negotiation power to give prices one more squeeze. These situations together have made the price competition more severe than ever. However, despite the depressed prices, we are delighted to note a general improvement in the quality of the textile goods made in developing countries. This says to us that the products from developing countries do not necessarily equal lower quality. Indeed, the catching up of mills in developing countries is posing a challenging threat to the textile mills in developed countries and is making the competition in this trade ever tougher. To summarize the current situations in simple terms, the textile industry is much more competitive than it used to be. Many mills, not only in developed countries but also in developing countries, are experiencing difficult times at the moment.

Recent Changes in China

China has certainly been a bright spot in the growth of textile and garment industry over the last few years. We have seen double digit growth rates in yarn, fabric and garment production in China. For the textile industry in China, Shandong possesses the dominant share in the country. There were strong growth in production and capital investment in the central region in Hebei, Hunan, and Jiangxi. On the other hand, the export businesses of textiles and particularly the apparel goods are mostly (about 67%) made by the coastal provinces in Zhejiang, Guangdong, Jiangsu and Shanghai. Over the years much media coverage has been made on the exports of Chinese apparel into the US. Although Chinese' exports to the US amount to about 16%, which makes US the biggest export destination for Chinese apparels as an individual country, it is worth noticing that both Europe and Asia actually get a higher percentage of Chinese apparel export than the US.

Although China has been the world's leading textile and apparel producer, consumer, and exporter, there are a number of unfavorable factors that are developing and will limit its growth rate.

The Chinese currency, Renminbi, has removed from the peg to the US dollar since 2005. Since then the Renminbi has appreciated by 18%. While the export goods are traded in US dollar and little change has been seen in product prices, as a result, the Chinese mills are hard hit by the exchange rate. It looks like that the Renminbi will continue its appreciation against the US dollar, and as such Chinese mills will continue to be in the current plight.

The production costs in China have increased significantly. The labour cost alone has increased more than 10% every year in the past few years. The social security costs make up more than 30% of the wages. It is noted that the labour cost in China doubles those in Indonesia, Vietnam, and Pakistan and Cambodia. The labour cost in Bangladesh is only one quarter of that in China. The fuel, electricity charges and costs for dyeing stuff have also increased in large extent. To add to the difficulties, the tax rebate for textile and garments has dropped from 17% to 11% in the past few years.

The macro economic regulations in China have tried to keep the economy from overheating. Banks tighten lending to the enterprises. This makes a lot of mills fall short of working capital, and in turn forces them to clear stocks below cost in order to find cash to meet financial commitments.

Apart from that, China has exercised stricter enforcement of pollution control and environment protection in the last few years. Some mills were fined heavily for failing to comply with the rules. Mills find it difficult to operate and they are also not encouraged by the government to invest in the developed areas near the coastal areas in China.

Currently China is rapidly losing competitive advantage in costs to other Asian countries such as Bangladesh, Vietnam and India. Many mills have changed from doing export business to domestic sales. In fact, domestic sales have been increasing observably and it now accounts for 79% of the textile industry. Mills are encouraged by the government to move to the Central and Western region from the coastal areas.

Challenges and Opportunities Ahead

The industry is ever changing. A few years ago, not many would have imagined the current predicament would happen to so many textile mills in China, India and Pakistan, but here we are. For the mills making commodity items, competition in price and quality will be the key areas in the future. Only mills with economy of scale, good financial position and fine quality management will stand better chance to survive and prosper.

For those making specialty and premium products and not able to sell cheap, they have to build competence in other areas in addition to the quality. The industry has been forced to deliver goods with shorter lead time. Retailers however do not wish to take the risk to book garments well before the season. They would rather place small repeated orders in short intervals to make sure they will not end up with goods that consumers do not buy. Therefore, mills that can deliver goods in shorter lead time will have an edge over their competitors.

More brands and retailers are relying on fabric mills and garment houses to bring forward new product ideas and samples to their designers and buyers. Better performing mills usually have strong new product development capabilities.

There is a trend of partnership and strategic alliance being formed along the supply chain. These cooperating parties in the supply chain may enjoy exclusive marketing channels, joint product development programs, and joint effort to market the end product. Some raw material suppliers work as partners with selected brands and retailers, along with the textile mills. All these attempts are making marketing effort more effective and likely to succeed with the joint effort along the supply chain. Integrated mills may have advantages in co-ordination of new product development and production lead time.

Mega-Trends in the Apparel Market

There are several themes that we can see in the trend of the apparel. Nowadays, more people dress casually. “Comfort” is definitely an important theme for the apparel market. Fabrics with light weight and comfortable hand feel are in demand. Garments with stretch properties are popular in ladies wear. The trend and emphasis is increasingly on the comfortable stretch and fit to the body.

The second theme is “Well Being”. It can mean moisture management to keep the body dry. For example, there is a finishing technology that can take out moisture from the back side of the cotton garment to the surface side. This can significantly enhance the comfortable and dry body feel. Some other finishing processes or raw materials can absorb odour from the body and may well find its market when people nowadays are looking for more added values in their apparels.

Another theme is about the “Easy Care” of the garments. Wrinkle free cotton garments are popular. Some garments made of special man-made fibre can be dried fast and do not need ironing.

The fourth theme is about “Environment Protection”. This theme has in recent years started to draw more attention from the consumers and the retailers than before; the quantity of garment sold under this theme so far is limited though. Sustainability can come in the form of raw materials such as organic materials, recycled cotton and polyester material. It can also come in the use of environment friendly dyestuff, chemicals, as well as the treatment of wastes and pollution in the mills. Some organizations are working on the certification program and marketing labels to be attached to the garments. Nowadays, the governments of many countries already have legislation on the chemicals contained in the garments, which shows that environmental protection is gaining its weight in many societies.

Changes in Spinning Technology

It can be said that there was no major breakthrough in the fundamental spinning technology used by the industry in the past years. Most of the developments were related to higher production speed, better quality, automation, and more effective collection of production information. As a brief account, there are basically three spinning systems for short staple fibres in the market, which are “ring spinning”, “open end spinning”, and “air jet spinning”.

Air jet spinning, also called vortex spinning, has been in the market since 1985. Air jet spinning can produce yarn at over 300 metre/minute, 12 times faster than ring spinning. This spinning technology is good at spinning medium counts like 20’ to 40’. Yet, the hand feel is slightly harder than the ring spun yarn. So far, air jet yarn occupies a very small share in the market.

Open end yarn was invented in the 1960s. This type of spinning machine has been popular in developed countries such as the US and Europe because of the short production time, the highly automated processes, and the high production speed, such as 170 metre/min. However, the yarn properties such as yarn strength and hand feel of open end yean are inferior to the ring spun yarn.

Ring spun yarn has been with us for about 180 years. It has the best yarn properties among the three types of yarns. Ring spun yarn is by far the most popular type of yarn. Even though ring spinning machine can only run at slow speed, such as 25 metre/minute, they were heavily invested in these few years, with most of the investments made in Asian countries, while investments in open end spinning machine are lacking behind. In fact, the competition in the textile market is getting so tough that prices of open end yarn are no longer attractive in relative terms when competed with ring spun yarn, and this leads to the situation that some open end machines are idle at the moment.

It is noted that compact yarn is getting popular in the market. Compact spinning is modified from ring spinning on the spinning part. The yarn made by compact spinning has fewer hairs and thus the fabric looks cleaner and more solid in colour. Compact yarn is seen as a premium type of ring spun yarn. With the growing popularity of ring spun yarn, the spinning industry will see bigger demand in cotton fiber with longer staple, stronger strength, and less neps.

The above is my views regarding the changes happening in the global textile industry over the past few years. Before I finish my speech, I would like to make a remark that Australian cotton has earned a very good reputation for its superior quality and its very low contamination content, which is a very attractive feature for spinners. Congratulations and I wish you all the successes in your continued development of better and better cotton. Once again, I would like to thank every one for your time. I will now pass the time back to the host.