China's clothing and textile sector hurts

By Renato Palmi

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It seems that the great Chinese dragon is wounded and its shadow over the global apparel and textile industries (T & A) has diminished albeit only slightly. Injured in the collective repercussions of the economic turmoil the world is experiencing, it will retreat, develop new strategies and incentives to reappear once again in the hope of retaking, through its new found power and manipulation, diminished markets to feed its nation and avert any social unrest due to massive job losses in its export orientated industries.

The Chinese National Bureau of Statistics reflects a decline in its textile profit for 2008 by nearly 2% compared to the same period for 2007. According to statistical data this is the first time the industry has show a negative profit growth in 10 years. A collective decrease in garment and textile exports had dropped by 30%. A Reuters report in January 2009 stated "Chinese factories [had] slashed output and workers at a record pace in December 2008."

Exports

In 2007 exports in textile and apparel reached US$171.17 billion. The same report states factory output grew just under 6% from January to November 2008 and that the Chinese economy is close to "technical recession."

Further statistics reflect a down-turn in China's textile and apparel market showing that the mighty dragon is hurting. Between January to February 2008 production of "large-scale textile enterprises" was 16.55% an 8.05 percentage point loss for the same month in 2007. For the first 10 months of 2008 total textile production was 14.73% the "sharpest contraction in five year."

Textile and garment exports between January to October 2008 were $157.413 billion - a growth of 8.43% which is 12.09% lower than 2007. Textile exports for the same period Jan-Oct 2008 was $59.146 billion - an increase of 2.94% from 2007 while garment exports dropped by 20.1 % for the same period, equating to $98.267 billion.

While the global market is in a slum many textile and garment businesses in China have begun to look inward with domestic sales equating to 76.50% of China's total textile sales.

Textile tax rebates

The depreciation of China's Renminbi is an added burden on the industry; so is the increased cost in labour. In response the Chinese government has lifted the tax rebate for both textiles and clothing enterprises twice during 2008 from 11% to 14%. It is expected the clothing export tax rebate of 17% will come into effect early this year.

China will also be implementing numerous policies to reinvigorate the textile sector such as technical innovation in the early part of 2009. Industry trade specialists say the first half of 2009 will be a critical period for the textile and clothing sector to regroup. These industries will be looking for alternative markets. At the moment the sector is still very dependent on America, the European Union and Japan for exports.

Operating margins

A study of the operating margin of textile operations in China indicates that two-thirds of textile companies operate on a 0.62% margin and have a direct influence on the livelihood of 15 million people. It is estimated that there are more than 20 million workers in the clothing & textile industry sectors with 13 million rural migrant workers making up the bulk of the labour force.

The China National Textile and Apparel Council (CNTAC) is extremely concerned about factory closures, and the ability to absorb job losses mostly among the migrant workers. Official figures in 2008 indicate that there are 40,000 textile companies in China with annual sales higher than US$660.000 and there are hundreds of thousands of smaller operations.

Market flooding and job losses

Like South Africa, the US is also concerned about the possible re-flooding of apparel imports as certain quota limitations have also expired. The American apparel industry faces a threat of more job losses at a time when America cannot afford such retrenchments. In 2005 when China flooded the market nearly 55,000 jobs were lost in one year.

The Chief Executive Director of the American Manufacturing Trade Action Coalition said the industry could face another 50,000 lost jobs during 2009. Between 2002 and 2008 there was a 33% "decrease in textile and apparel jobs." American manufacturers said that the industry has recalibrated to compete on an even footing with China considering their low wages but could not compete when the Chinese government subsidises the industry to such an extent that China can "sell finished products for less than the fibre costs in the US."

Growing competition

While the Chinese dragon is licking its wounds, the textile and clothing industry in Vietnam has grown. In 2007 the Vietnam industry grew by 33.4% to become in 2008 the USA's second largest foreign suppliers of textiles and clothing. China still maintains their position of the largest exporter to America. Exports from Vietnam to the European Union have also grown. In the first six months of 2008 exports to the EU grew by 8.4%. Chinese exports to the EU during the same period increased by 5.1%.

The Indonesian market saw a moderate increase in exports during the first six months of 2008, with domestic demand growing. The Malaysian textile and clothing industry saw a 3.2% decrease in 2007 while the Philippines faced heavy competition from China. Thailand's industry grew during the same period during 2008 in comparison to the same period for 2007.

Bangladesh clothing exports for the financial year 2007-June 2008 rose by 16.2% and India's textile exports saw a 16.7% increase between 2007/08 while clothing exports only grew by 6.8%. The industry in Sri Lanka saw an increase of 8.5% in exports. In 2007 global fibre production increased by 6.0% the growth rate stemmed from an 8.5% increase in global man-made fibre mostly from China and India. Natural fibres saw a 2.6% growth during 2007.

SA imports

During the period of South Africa's quotas on Chinese imports, Mauritius, Malaysia and Bangladesh increased their exports to South Africa by at least 345%, 680% and 2076% respectively. Imports from Vietnam equated to 388%, Thailand by 39% and Myanmar 197%.

The now open South African market could result in a mini trade war between China wanting to recapture market loss during the quota period and some of the countries who gained market share during the same period. The result may see even cheaper clothing enter SA, from which South African cash-strapped consumers will benefit to the detriment of the local clothing and textile sector as SA retailers exploit the competition between foreign apparel and textile suppliers.

ABOUT RENATO PALMI

Director of The ReDress Consultancy - South Africa, Renato Palmi is a researcher and economist in the apparel and fashion sector. He is also the author of the book Inside Out, which reviews the role of fashion in the South African apparel industry. View the ReDress Consultancy blogspot here: www.redressconsultancy.blogspot.com

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