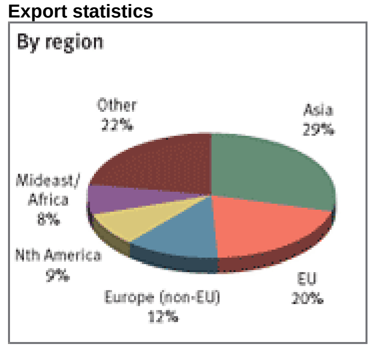
Industry Overview

The export industry's volatile business environment is pushing China's more than 2,000 makers of T-shirts and polo shirts to modify their business strategies in an effort to maintain competitiveness.

Export statistics



Within the country, suppliers are plagued by rising costs that are eating into their profit margins. The labor shortage that has besieged most manufacturing industries in the coastal provinces remains a problem. Makers have been raising the salaries of skilled workers and improving working conditions and benefits for all staff, contributing to an average 10 percent annual increase in labor costs, yet some factories still experience a shortage in labor. Costs may even go up further in coming months as companies prepare to meet the newly approved labor law.

Taking effect on Jan. 1, 2008, the new law prohibits temporary contract workers and requires documentation of compensation and benefits.

The fluctuating cost of raw materials is also a challenge. Since the start of 2007, the cost of cotton, polyester and spandex has had significant increases and drops. At the time of writing, cotton rose 11 percent at almost US$1,900 per ton. Polyester is a bit more stable, with a slight increase of 3.6 percent to US$1,500 per ton. Spandex reached US$11,000 per ton, 13 percent higher than what it cost at the start of 2007.

The strengthening value of the yuan against the US dollar is another factor contributing to shaved net gains. The yuan has posted more than 50 record highs and appreciated by at least 8.5 percent since the currency was revalued by 2.1 percent two years back. While this may translate to cost savings when importing raw materials, it also means profit gained from each order fluctuates depending on the current exchange rate. In fact, for China's garments and textiles industry, even a 1 percent appreciation translates to US$7.2 billion in annual losses.

In addition, the China government reduced the tax rebates given to exporters. For garment makers, the VAT refund went down from 13 to 11 percent.

Although the reductions were implemented less than two weeks after the directive was announced, many makers anticipated the lower rebate and began planning proactive strategies such as increased focus on high-value products. In line with this, some suppliers even started investing in R&D capability upgrades.

This, however, is a long-term measure that takes time to bear positive results. In the short-term, makers have had no choice but to accept lower profits for orders finalized before the rebate reduction was announced.

T-shirt and polo shirt makers also have to deal with external factors imposed by their main export markets.

The textile agreement between China and the EU, which covers 10 product categories including T-shirts, is set to expire by year-end. While the EU has already said that the import limits will be lifted as scheduled, various member-countries are clamoring for either an extension of the agreement or a monitoring system to keep China exports in check.