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**China's Textile Crisis**

DATE: 2008/04/18

Globecot and its joint venture partner, CN Cotton, are introducing a series of reports that will review the current conditions of China's textile operations and how the industry is rapidly attempting to adjust business practices in order to be profitable again. China's textile industry is clearly in a crisis mode as the industry attempts to adjust to a dramatically changed environment. For years, the industry grew at a record pace with the expansion feeding on increased sales despite narrowing profit margins. The Chinese government effort to switch economic leadership from export-driven to domestic consumption has clearly targeted the industry.

Two watershed events are shaping the crisis now gripping the industry -- the reduction in export tax rebates and the rapid appreciation of the Chinese yuan against the U.S. dollar. These two circumstances have eroded the profitability of the middle-tier and smaller textile operations. A recent series of interviews with some of these industries located in the southeastern coastal areas found several interesting observations. The first was that many of the middle-tier and smaller companies that originally had exclusively focused on exports are withdrawing from the business, with their percentage of output now moving to export down significantly from a year ago. In some areas, companies can no longer accept new export orders due to the lack of profitability. In Fujian Province, which has experienced rapid growth in its textile industry in recent years, many of the newer export-oriented businesses have been forced to change their focus to the domestic market. For those still involved in export business, they will no longer accept U.S. dollar-invoiced orders.

In the larger textile areas of Jiangsu and the Shanghai, companies have adapted by implementing the following procedures: first, most export orders are now invoiced in non-USD currencies; second, increased emphasis is now being placed on developing orders in non-USD markets such as the Middle East (shipments to these markets are being invoiced in euros); and third, businesses are trying to move into non-apparel products such as made-ups, etc. and are using all types of fibers. A major effort is being made to switch to the domestic market. Retail sales of apparel and textile products are expanding over 20 percent annually, which is allowing the market to absorb a significant amount of new product.

For larger textile operations that enjoy greater efficiency and better cash flow, the route to improved profitability is being led by a push to raise prices. A new mentality appears to be developing. Companies take their costs into consideration with each order; prices are adjusted to ensure profitability. If the buyer refuses to accept the price, then orders are not accepted. Two years ago, many of the larger enterprises moved to seek a larger share of their offtake in the domestic market, which has provided a cushion against the dramatic impact of the rising yuan.

In future reports, we will look at the impact of the current crisis on the remaining state-owned sector and the process of speeding the merger and integration process.

*Source: GlobecoNews*

## **Cottonseed Subsidy Program Now an Important Incentive**

DATE: 2008/04/18

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After two seasons, it has become quite clear that Chinese farmers regard the government cottonseed subsidy scheme as an important incentive to plant cotton. Under the subsidy plan, the government will, in effect, cover the cost of high-quality cottonseed to the growers with the purpose of stimulating production and use of better high-quality cotton varieties in each region. The government approves which local seed varieties are best suited for each location and certifies its eligibility for the subsidy. Then, it allows local seed supply companies to tender for participation in the program, as in Shandong where a total of 20 seed supply companies were successful in their bids to supply seed to the provincial growers. The program encourages the use of one seed variety per village, with the Agricultural Bureau aiding local farmers in the benefits of the new seed varieties. Shandong Province, the largest cotton-producing region in the North China Plain, has been allocated a total of 15.75 million yuan under the new plan. It is estimated that 40 percent of all Shandong 2008 cotton acreage will benefit from the subsidy scheme. In Anhui Province, 133,333 hectares have been approved to receive the cottonseed subsidy during the 2008/09 season - 27 seed varieties have been approved.

*Source: GlobecoNews*

## **Economy Exceeds All Expectations**

DATE: 2008/04/18

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In 2007, China's economy experienced 11.9 percent GDP growth, which was revised from the original estimate of 11.4 percent - this revision may have been linked to an underestimate of the service sector's contribution. The value of the country's GDP reached 24.95 billion yuan or approximately 3.569 trillion U.S. dollars (USD). Even more impressive was the fact that China accounted for 19 percent of total global GDP growth in 2007.

China's first quarter 2008 GDP reached 10.6 percent (far exceeding expectations) and compared to 11.2 percent growth in the fourth quarter of 2007. Both industrial production and fixed asset investment in March surpassed expectations, with fixed asset investment growing 25.9 percent from the previous year. What made this expansion even more impressive was that it occurred despite the negative impact of the worst snowstorms in over 50 years that closed factories, airports, delayed shipments, interrupted power generation, etc. Strong income growth was also noted, with urban dis-

Source: China Textile Network Company

posable incomes up 11.5 percent in the first quarter, while rural incomes surged 18.5 percent.

Source: *GlobecoNews*

## **World Fertilizer Prices Set to Further Rally, Led by Potash Prices**

DATE: 2008/04/18

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Global demand to grow more food and fuel through higher-yielding crops is causing demand for fertilizer to soar along with prices. Potash is a fertilizer that is used in cotton, corn and soybean production. In 2006, U.S. growers used an estimated 310,000 tons of potash in cotton acreage, 1.901 million tons in corn production and 755,000 tons on soybeans. China, India, Brazil and the U.S. are the main consumers of potash in the world, as well as being the largest importers at over 500,000 tons each. Canada, Russia, Belarus and Germany are the largest exporters. Recent wholesale price negotiations for potash with the largest exporters suggest that growers worldwide face a doubling or more in future potash costs. Large sales to India were recently completed at 625 U.S. dollars (USD) per ton, which was up 355 USD per ton for an over 100-percent increase, while prices to Brazil were raised 150 USD per ton to 750 USD. Canada and Russia, two of the largest exporters, just confirmed they had raised prices to China by 400 USD per ton. One Chinese importer purchased one million tons at the higher price from Canada and 2.2 million tons from Belarus. The sharply higher potash prices means a significant increase in worldwide cotton production costs during 2008/09 and 2009/10.

Source: *GlobecoNews*

## **ICBC says China inflation rate to hit 8% in Q1**

DATE: 2008/04/08

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The Industrial and Commercial Bank of China (ICBC) is forecasting an 8 percent increase in the country's Consumer Price Index (CPI) for the first quarter of 2008. The official government figures come out in mid-April.

The bank said in a report issued on Thursday that the CPI would hit 8.2 percent in March, slightly down from the previous month as the effects from the snow chaos that hit China earlier this year died away.

Inflation in China took its biggest jump in nearly 12 years in February when it rose 8.7 percent compared to the same period a year earlier. Food prices surged 23.3 percent while non-food prices edged up 1.6 percent from the year earlier period.

Inflation was mainly fueled by rising food and energy prices in the global market, and compounded by domestic factors that included increased costs and a strong demand, the report said.

The new round of global grain price rises, including rice and wheat, might add more pressure to the government's anti-inflation efforts.

However, the inflation index would start decelerating in the second half of 2008 as the government's macro controls took effect. The continued global slowdown also weighed on demand and could

Source: China Textile Network Company

gradually pull down prices, the report said.

China rolled out a series of measures to fight inflation after the government was reshuffled last month. Among the latest moves was an increase in farm subsidies to boost production and curb grain price hikes.

Source: Xinhua

## **WAVING FASHION CHARM IN FOUR PARTS - China Fashion Week A/W Collections**

DATE: 2008/04/02

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China Fashion Week A/W Collections 08-09 was held in Beijing Hotel and D PARK Beijing House from March 25 to 31.

More than 500 professional models showed in nearly 40 collections of almost 30 fashion brands and ready-to-wear, fashion, lingerie, makeup and hairstyle and shoes by over 20 designers, 3 fashion design contests, 3 fashion shows and cosmetics from famous fashion institutes as well as over 10 press conferences and lectures to foreign and domestic medias, buyers and personages.

Since found in 1997, China Fashion Week has experienced over 420 fashion collections, 44 professional contests and 11 China fashion award ceremonies. Under participatory cooperation with over 200 world fashion designers and 220 fashion brands, China Fashion Week has been fashion focus on brands, trends, creation and media.

### **Part one: Fashion Collection - Famous Brands and Fashion Designers Collections**

As the sustainable increase of domestic economic growth and people's living standard, brand culture and design has become more and more important to fashion consumption. Periodic new fashion collections and fashion trends for foreign and domestic brands and designer have been the important means to guide fashion consumption and promote competitive power. Unique creation and design style are the vital to market. China Fashion Week has been the stage for world fashion brands and designers.

During this fashion week, about 30 famous fashion brands held fashion trends A/ W 08-09, including SEC Haute Couture, CHARFEN Fashion, Elegant. Prosper Ladie's Wear, Chen Juanhong Galaxy, HYBRIS Ladie's Ready-to-Wear, Gattinoni, Grimaldi Giardina, Balestra Haute Couture, "EDENBO" Business Casual Men's Wear, NOTTING HILL Men's Wear, "Stdawee" Men's Wear, "HONG-SHANSHU" Men's Casual Wear, "Cabbeen" Men's Wear, Septwolves Men's Wear, "BOSIDENG" Down Wear, HOSA Swimwear, "Ordifen" Undergarment, Co-Prosperity&Girmes Fabrics, Italian Shoes and TONI&GUY; fashion designers including Zeng Fengfei, Qi Gang, Zhao Yufeng, Zhu Lin, Zhao Lixia, Zou You, Yang Zi, Cabben, Chen Wen, Daniel•Faret, Chen Chuwei etc.

Source: [www.ctei.gov.cn](http://www.ctei.gov.cn)

## **Performance Fibers intents to idle production at two Alabama plants**

DATE: 2008/03/31

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Performance Fibers Holdings Inc announced that it intends to idle all manufacturing at its Winfield and Scottsboro, Ala. plants, based on reduced demand from U.S. tire customers, combined with in-

Source: China Textile Network Company

creasingly competitive industry and economic conditions.

The planned action will idle polyester-fabric converting operations in Winfield, affecting about 100 employees, and fabric dipping operations in Scottsboro, impacting about 40 employees. The exact timing for the idling will depend on the transition period necessary to meet customer's needs.

The decision to idle its full manufacturing operations at these two plants was caused by a number of factors, including lower consumer demand for automobiles, global competition, and higher raw material and operating costs over the last three years. These factors, combined with the restructuring activities of key tire customers in North America, have resulted in lower overall demand for tires.

"Extremely challenging industry and economic conditions have prevented the plants from being fully utilized since we acquired them in 2005," said Performance Fiber's CEO Gregory S. Rogowski. "Reduced demand now makes it necessary for us to take these difficult actions to remain globally competitive as a company."

"We deeply regret the impact this difficult decision will have on the Scottsboro and Winfield workforce, their families and their communities. As always, we are committed to treating all employees with respect and fairness, and we will work to make this transition as smooth as possible for affected employees," Rogowski continued.

Similar conditions made it necessary for Performance Fibers to idle its polyester fiber production at Scottsboro in 2006, while maintaining a scaled-back fabric dipping operation.

Performance Fibers has been taking steps to improve its competitiveness in the North American region, where the competitive environment is particularly challenging with the entrance of low-cost suppliers from Asia and other parts of the world.

Performance Fibers has given a 60-day notice to affected Winfield employees, appropriate officials, and government agencies under the U.S. Department of Labor's Worker Adjustment and Retraining Notification (WARN) Act, which will make training and other assistance available to them.

The company also has requested government assistance for Scottsboro employees not covered by WARN due to the size of the workforce. In addition, Performance Fibers will honor the contract requirements of unionized employees covered by bargaining agreements at Scottsboro and provide applicable benefits and assistance for Winfield employees.

*Source: Performance Fibers Holdings Inc.*

## **China Remained the Largest Trading Partner of Key Administrative Bodies of The Federal Region of Russia**

DATE: 2008/03/31

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According to the document from Russian Government of Khabarovsk Border Area, the trade volume between Khabarovsk Border Area and China in 2007 was USD1.5b, accounting for 48.1% of total trade volume in Border Area. The trade volume dropped by 27.9% year-on-year though, China was still the largest trading partner of Khabarovsk Border Area.

Export from the Border Area to China was USD890m in 2007, down by 43.2% year-on-year; import from China was USD620m, up by 17.1% year-on-year. The favorable trade of balance was USD270m, about 26% of that in last year.

Source: China Textile Network Company

The main commodities exported from the Border Area to China include: log (70.7%), oil products (20.1%), fish and marine products (4.3%), service (2.2%), sawing material (0.7%), copper sulphide concentrate (0.56%), pine seed (0.4%), ship fuel (0.3%), mechanic equipment (0.2%) and nonferrous metal (0.1%).

The main commodities imported from China to Khabarovsk Border Area are: textile, clothes and shoes (54%), machine and transport tool (21.95%), food (5.1%), metal and metal products (5%), chemical products (3.45%), porcelain, glass and stone products (3.8%), fur products (2%), service (1.6%), log and paper pulp products (0.7%) and ship fuel (0.2%).

*Source: Ministry of Commerce*