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**Chinese mainland authorities will study how to support Hong Kong's textile industry**

DATE: 2010-07-23

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Hong Kong and China have signed the seventh CEPA agreement "China and Hong Kong Closer Economic Partnership Arrangement", but the agreement's implementation has met many problems, Vice Minister of China Commerce of Ministry Jiang Zengwei expressed when he met the delegation of Hong Kong manufacturers in Beijing, the implementation of CEPA, has not achieved ideal effect, especially in services trade, he promised that the Ministry of Commerce would arrange the implementation of CEPA as a priority in next two years, he encouraged Hong Kong businessmen to enter red wine market in mainland China. Jiang Zengwei also said that Chinese mainland authorities would make further study as how to support Hong Kong's textile industry. Jiang Zengwei pointed out that China has become high-end consumer market and low-end consumer market, while mid-end market is still blank, Hong Kong businessmen will have great opportunities in developing mid-end market. In addition, Hong Kong and mainland China can even open up international markets such as Africa through cooperation by using China's goods, finance and technologies, plus Hong Kong's network and influence in international market.

Source: CCFGroup.com via CNTEX

**Argentina Sets Levies and Ends Anti-Dumping Investigation on Chinese Goods**

DATE: 2010-07-23

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Business Exchange Twitter Delicious Digg Facebook LinkedIn Newsvine Propeller Yahoo! Buzz Print Argentina closed probes and set anti-dumping levies on some Chinese products one week after the presidents of the two countries failed to end an embargo by the Asian nation on Argentine soybean oil imports. Argentina will charge a 203 percent levy on a number of kitchen appliances from China and a \$17.60 per kilogram levy on certain textile products containing more than 85 percent polyester. The end of investigations into textiles and kitchen appliances, which started in

Source: China Textile Network Company

early 2009, was announced today in Argentina's official gazette. China in April banned Argentine soybean oil imports in retaliation for anti-dumping probes on products ranging from elevators to textiles. Argentina is the world's largest exporter of soy oil. Until the start of the embargo, the South American nation supplied about 75 percent of imports by the Asian country, the world's biggest consumer of the edible oil. President Cristina Fernandez de Kirchner failed to have the ban lifted during a visit to China last week, when she met President Hu Jintao. The two countries agreed to form a commission to look into the matter. Sales of the oil to China generate an estimated \$600 million per year of export tariffs and tax revenue for the Argentine government.

Source: Bloomberg via CNTEX

## Long march of China's currency yuan

DATE: 2010-07-22

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Ge Yafang, who runs a textile company in eastern China's Jiangsu Province, always says her destiny was changed by the reform of China's exchange rate policy. Ge, president of the Black Peony Co., said the company was "forced" to shift to a technology-driven operation from its previous labor-intensive workplace. "I had to make the change, or the rising yuan might have pulled the company into bankruptcy," she said. The Black Peony Co. exports clothing of jeans, Khaki cotton and corduroy to countries such as the United States and Japan. Like most of China's export businesses five years ago, the company's development was supported by vast supplies of cheap labor and inexpensive raw materials. On July 21, 2005, China abandoned a decade-old peg to the U.S. dollar by allowing its currency to fluctuate against a basket of currencies and appreciate by 2.1 percent. Since then, the yuan has strengthened further, though slowly, and risen more than 21 percent against the greenback.

The gradual appreciation of the yuan has forced China's exporters to promote innovation and move up the value chain to improve profitability, said Zhang Yansheng, a researcher at the National Development and Reform Commission, the country's top economic planner. The Black Peony Co. was one of the winners during this national transition. Profits in the company surged to 365 million yuan (53.8 million U.S. dollars) in 2009 from only 21 million yuan in 2005. "The reform in 2005 is quite successful," said Li Daokui, a member of the monetary policy committee of China's central bank. "A managed, gradual and independent appreciation has helped ease the imbalance of international payments in the country." After a strong appreciation in the first three years following the reform, China's yuan exchange rate started to stabilize in the second half of 2008. As the world's third largest economy, China's efforts to maintain a stable yuan during the crisis greatly contributed to sustaining the world economy, analysts said. On June 19 of this year, the People's Bank of China (PBOC), the central bank, announced that it would further the reform of formation mechanisms of the yuan exchange rate to improve its flexibility. At the same time, it ruled out a one-off revaluation. Of the 23 trading days following June 19, 14 days saw the central parity of the yuan was set stronger than the previous day, while eight days recorded weaker central parity rates.

The central parity rate of the yuan was set at 6.7802 per U.S. dollar on Wednesday, according to data released by the China Foreign Exchange Trading System. The currency is allowed to float on the inter-bank market within a daily limit of 0.5-percent each way of the central parity rate. "There is no basis for a sharp appreciation of the yuan in the short term. The movement of the yuan's exchange rate against the U.S. dollar in the coming 5 to 10 years will depend upon U.S. monetary policy," Li said. Large fluctuations in the yuan exchange rate would not only hurt China's exports, but also dampen the global trade improvement, said Ding Zhijie, professor at the Beijing-based University of International Business and Economics. "China is now the world's largest exporter, but processing trade takes up a large part in the country, which means a fall in China's exports will affect exports in many other countries," Ding said. China needs to follow a managed floating of its exchange rate, which is a fundamental need for its economic restructuring and the optimizing of the

Source: China Textile Network Company

allocations of its resources, Hu Xiaolian, PBOC deputy governor said. This policy would reduce China's trade imbalance and excessive reliance on exports and help sustain economic growth by relying more on domestic demand, Hu said. Despite efforts to increase the flexibility of the yuan exchange rate, China is also striving to push forward its internationalization, which analysts believe has a long way to go. The new development is in the expansion of yuan trade settlements. Cross-border yuan trade settlement is now allowed in all countries and regions, after starting first in Hong Kong, Macao and 10 member states of the Association of Southeast Asian Nations. Another much-anticipated move is the establishment of an international board on the Shanghai Stock Exchange, a step forward to internationalize the yuan.

Source: Xinhua via CNTEX

### Profit of Chemical Fibre Industry Surges on Efficiency Improvement

DATE: 2010-07-20

According to data collected from 1935 statistics-worthy Chinese chemical fibre enterprises surveyed by National Bureau of Statistics of China, the total profits reached CNY8.066 billion in Jan. - May, 2010, up 200.08 per cent y/y, 234.78 percentage points higher than the Jan.-May 2009 period. Technology improvement and industrial structural adjustment played a very major role on profit growth.

#### Profit surges

After the crisis, promoting independent innovation, making breakthroughs in core technologies have been providing strong support for the transformation of the mode of growth of chemical fibre industry in China. The structure of Chinese chemical fibre sector was quietly undergoing a welcome change: from low-value-added strategy, to high-tech strategy. This, along with higher soaring cotton prices, led to improvement in the operating profit margins of most chemical fibre mills. During Jan.-May period, enterprises in the chemical fibre sector saw their asset turnover ratio soared by nearly 13.34% y/y to 1.16, times-interest earned ratio soared by nearly 90.52% to 4.42, total assets contribution ratio increased by nearly 2.95% to 8.35% and profit margins increased by nearly 2.4% to 4.42%.

Index Sector	Asset turnover ratio		Times-interest earned ratio		Total assets contribution ratio		Profit margins (%)	
	accumulated in Jan. - May 2010	acc. in Jan. - May, 2009	acc. in Jan. - May, 2010	acc. in Jan. - May, 2009	acc. in Jan. - May, 2010	acc. in Jan. - May, 2009	acc. in Jan. - May, 2010	acc. in Jan. - May, 2009
<b>Total textile industry</b>	1.145	1.30	6.06	4.49	11.46	9.38	4.43	3.51
<b>chemical fibre</b>	1.16	1.02	4.32	2.27	8.35	5.40	4.42	2.02
<b>manmade fibre</b>	0.82	0.70	6.42	4.61	10.41	16.69	8.14	8.80
<b>Polyester</b>	1.26	1.13	3.41	2.01	7.13	4.73	3.29	1.52
<b>Acrylic</b>	0.87	0.82	3.55	- 18.69	3.89	- 6.42	1.63	- 10.57
<b>Nylon</b>	1.32	1.07	4.64	1.20	9.17	3.92	4.38	0.36

Source: National Bureau of Statistics of China, CNTAC Statistic Centre

The growth of profit margins of Chinese chemical fibre industry was also attributed to an increase in strong domestic demand, export recovery as well as higher market price of chemical fibre products. Chemical Fibre Index shows that during Jan.-May period, Rayon Filament Yarn prices rose 17.36%

Source: China Textile Network Company

to CNY34732/ton; Rayon Staple Fiber CNY 19532/ton, up 50.751%; Acrylic Staple Fiber CNY 21908/ton, up 62.16%; Polyamide DTY CNY 27765/ton, up 45.35%; Polyamide FDY CNY 26369/ton, up 58.92%; and Polyamide POY CNY25086/ton, up 56.50%.

### ***Uncertain growth***

It is important to note that, although substantial progress has been achieved in all areas of statistics in the beginning of 2010, the chemical fibre industry this year later faces uncertain future. For profit, the growth rate of profit margins of chemical fibre industry was 86.5, 8.9, 3.1 and 2.0 respectively in Feb., Mar., Apr. and May. The growth rate has experienced a decline. Although we attributed the decline to the positive growth recorded in the same period of last year, but, other statistics index also shows that the chemical fibre industry will face uncertain future. For industrial added-value, the growth rate of industrial added-value of chemical fibre industry amounted to 12.3%, 16.4%, 13.0% and 15.8% respectively in Feb., Mar., Apr. and May. For market price, the growth rate of chemical fiber fabric prices of statistics-worthy enterprises was 12.15% in the Jan.-May 2010 period, 8.59% percentage points lower than the Jan.-Feb. 2010 period. Fresh data shows that the price of Polyester Staple Fiber amounted to CNY9598/ton in Jun., 4.89 percentage points lower than last month; the price of Rayon Staple Fiber amounted to CNY18502/ton in Jun., 4.17 percentage points lower than last month.

For macro economic data, the Purchasing Managers' Index (PMI) for China's manufacturing sector stood at 52.1 percent in June, down 1.8 percentage points from last month, the China Federation of Logistics and Purchasing (CFLP) said. The PMI includes a package of indices to measure manufacturing sector performance. A reading above 50 percent indicates economic expansion, and below 50 percent indicates contraction. The PMI index slowed for the second consecutive month, indicating a moderation in the pace of China's manufacturing expansion because of the country's macro regulation policies and slowdown in global economic recovery. Besides, People's Bank of China over the weekend said it was abandoning its peg to the US dollar, a move taken to shelter the China economy during the recent global crisis, and was reinstating a managed float it first detailed in July 2005. The appreciating yuan in China could spell serious trouble for the Chinese textile industry as it will further slash the marginal profitability of China's textile makers. And, European debt crisis and the consequent sovereign credit risk of developed economies also have impact on China's chemical fibre industry.

*Source: CTEI News*

## **Textile Industry PMI Stayed at 50% in June**

**DATE: 2010-07-19**

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China Federation of Logistics & Purchasing (CFLP) released the latest Purchasing Manager Index (PMI) of June as 52.1%. That's 1.8 percentage points lower than that of last month. By its 11 sub categories, only stock index grew 1.5 percentage points; the other index all went down at about two percentage points. Of which, the purchasing price index went down 7.6 percentage points; import index and logistics time index went down about one percentage points. By the category of industries, textile and other 13 industries stayed above 50%; chemical material and other five industries stayed below 50%. Raw material and energy enterprises were below 50%; while intermediate goods and consumer goods enterprises were above 50%.

*Source: CTEI News*

## Export of Textile & Clothes Kept Growth in June

DATE: 2010-07-19

According to the latest Customs data on July 12th, the export of textile & clothes accumulated to 88.878 billion USD from Jan. to June this year, up 22.04% year-over-year. Of which, textile export were 35.652 billion USD, up 32.31%; clothes export were 53.226 billion USD, up 16.02%. For June alone, the export of textile & clothes were 21.062 billion USD, up 56.22%. Of which, textile export were 6.595 billion USD, up 31.06%; clothes export were 14.467 billion USD, up 71.21%.

Source: CTEI News

## Sichuan: Export of Textile & Clothes Soar in First Five Months

DATE: 2010-07-19

According to the data from National Bureau of Statistics, the export of textile & clothes in Sichuan Province reached 1.401 billion USD in first five months, up 133.61% year-over-year. Of which, textile export were 470 million USD, up 79.91%; clothes export 931 million USD, up 175.31%. Chengdu ranked No. 1 in the total textile & clothes export in Sichuan, as 808 million USD, up 189.18% and accounting for 87% of the total. The export of textile & clothes of Sichuan ranked No. 2 in Southeast and West China, behind Xinjiang.

Source: CTEI News

## EU's safeguard duties on high tenacity yarn of polyesters set an alarming trend

DATE: 2010-07-19

In Summit on the Millennium Development Goals of UN, Chinese Government promised the zero-tariff treatment for the underdeveloped countries. From July 1st of 2010, about 4762 products from Bengal and other 31 underdeveloped countries could enjoy the zero-tariff treatment in Chinese market. China is one of the first batch of developing countries who gave zero-tariff treatment for underdeveloped countries. Since 2001, China began its zero-tariff programs for the specific products from 41 underdeveloped countries. Up to now, about 1000 products from those countries could enjoy the zero-tariff treatment in China, covering almost every products exported from them. In year 2008, the export to China accounted for 23% of the total export from underdeveloped countries. China became the largest market for the underdeveloped countries.

The 4762 zero-tariff products this time involve in poultry products, medical materials, plastic utensils, leather, wood, clothing and apparel. Based on the statistics of 2008, those 4762 products accounted for 98.2% of the total products from underdeveloped countries into Chinese market. China government also promised to keep enlarging the scope of zero-tariff products, and improve the export from 60% to 95%. The 33 countries enjoy the zero-tariff treatment include Bangladesh, Ethiopia, Benin, Burundi, Equatorial Guinea, Guinea, Eritrea, Djibouti, Democratic recently, Guinea Bissau, Comoros, Liberia, Madagascar, Mali, Malawi, Mauritania, Mozambique, Rwanda, Sierra Leone, Sudan, Tanzania, Togo, Uganda, Zambia, Lesotho, Chad, Central Africa, Afghanistan, Nepal, East Timor, Yemen, Samoa, Vanuatu.

Source: CTEI News

## United States to lift the Chinese cotton calico fabric anti-dumping duty order

DATE: 2010-07-19

2010 on July 2, U.S. Department of Commerce issued a bulletin on the fabric of Chinese origin cotton prints in anti-dumping sunset review final ruling, in the sunset review deadline, the Commerce Department did not receive a letter of intent from the Chinese parties, therefore, under 19 CFR 351.218 (d) (1) (iii) (A) provides that in the absence of an interested party intends to participate in the sunset review of china, the U.S. Department of Commerce ruled that the withdrawal of the product concerned, the final anti-dumping duty order. Ministry of Commerce May 24, 2010 written notice to the United States International Trade Commission. In the case cotton calico fabric involved, not 80 80 type. Major weight cotton fabric cotton printed cloth/gray, unbleached, undyed calico. Name "calico" refers to ordinary woven fabric, not raising, no yarn, no pattern, yarn, but not combed, the average yarn count is 43-68/2, weighing not more than 6 oz/square yard, the total number of more than 85 yarn yarn/square inch, in which the total number per square inch warp and weft per square inch less than the total number and the weft yarn 62%.

Source: CTEI News

## Non-private sector employees see salaries up 12% in 2009

DATE: 2010-07-19

Average annual salaries in China's non-private sector rose 12 percent in 2009 to 32,736 yuan (\$4,835), the National Bureau of Statistics (NBS) said on Friday. But the growth rate was 5.2 percentage points less than that in 2008, said a statement on the NBS website. The survey covered 1.56 million non-private enterprises involving 118 million employees. The non-private sector includes state-owned enterprises, joint-stock firms and foreign-funded companies. Financial enterprises reported the highest salaries, about 70,265 yuan on average in 2009. IT enterprises ranked second with a yearly average salary of 59,919 yuan. In contrast, China's private sector's annual average salary only rose 6.6 percent to 18,199 yuan in 2009. The growth rate was seven percentage points lower than that in the previous year. The survey covered 640,000 private firms, about 16.1 percent of the country's total 3.97 million private enterprises.

Source: China Daily via CNTEX

## Made in China' - but for how long?

DATE: 2010-07-19



### **Analysts question future of China's manufacturing as labor costs rise**

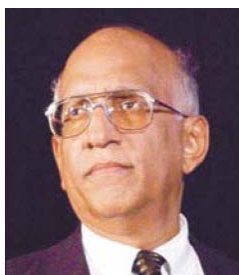
How long will companies be able to afford to manufacture in China? That such a question can be asked would have seemed absurd until very recently. For the past decade and more, China has been the manufacturing workshop of the world. Last year, according to IHS Global Insight, the leading financial research company, China exported some \$1.7 trillion of goods, 80 percent of which were manufactured in factories, and is set to end the United States 110-year reign as the world's leading manufacturer some time next year. All has not been well in China's manufacturing heartlands in recent months, however. Foxconn, which makes iPhones and iPads for Apple at its factory in Shenzhen, increased labor rates by 70 percent recently after a spate of

Source: China Textile Network Company

suicides among workers. Manufacturing wages across China have increased by 14 percent over the past year (see inside cover story), making the prospect of producing goods in nearby Southeast Asian countries such as Vietnam or in Bangladesh, Sri Lanka and even Africa seem a viable alternative. Two large US companies, Ann Taylor Stores, the women's clothing retailer, and Coach, the luxury handbag maker, are poised to relocate production to countries, where labor rates are cheaper.

Mike Devine, chief financial officer of New York-headquartered Coach, which makes luxury hand bags, said at a conference recently a move was in the pipeline. We are looking to move production into lower-cost geographies, most notably Vietnam and India," he said. Michael Nicholson, chief financial officer of Anne Taylor Stores, also told the Wall Street Journal recently the company was assessing the quality of production sites in other countries. A recent survey by EEF, Britain's leading manufacturing association, said one in seven of its members were looking at shifting production back to the UK, fed up with problems in countries such as China. "Getting goods of the right quality, issues such as time to market and rising fuel costs have been driving this trend," said Lee Hopley, EEF's chief economist. Dr Eric Thun, lecturer in Chinese Business Studies at the University of Oxford China Center, said too much can be read into recent labor unrest. "Strikes happen all the time. The current generation of workers have higher aspirations than perhaps their parents had," he said. Thun also believes current labor cost pressures could be a catalyst for change in China. "One of the problems that China historically has faced is that it has never been pushed into innovation-based activities because of this excess supply of labor," he said. "Pushing manufacturing into high value-added activity is very much what the government wants. This kind of cost pressure stimulates upgrading."

Alistair Thornton, an analyst with IHS Global Insight, said it was difficult to interpret what was happening to China's manufacturing sector. He said one likely explanation was that China had reached the so-called "Lewis Turning Point" (named after the British economist Arthur Lewis) at which an economy reaches a point in its development when it exhausts its supply of rural migrant workers, thus putting pressure on wages. "Another explanation is that we are seeing the effects of the stimulus package which has created jobs in infrastructure development in western and central China, reducing the pool of labor for manufacturing. It is not likely to be one or the other but a combination of both," he said. What the Chinese government would like to happen over the medium term would be for the coastal regions to become centers of manufacturing excellence while low-tech manufacturing moves inland. If some Chinese or foreign companies decide to switch manufacturing to Southeast Asian countries, the economic damage need not be that great. During this process, however, China still needs to retain a sizeable labor-intensive manufacturing sector because its unusually large population is always hungry for jobs. Thun added China could not get into a game of chasing ever lower labor costs because this would be ultimately self-defeating. "The only way labor costs are going to be kept low is if development doesn't succeed. Development inevitably is going to raise your costs," he added. "It is nonetheless a dilemma for the government. From an employment perspective they still need low-end manufacturing but, on the other hand, the fact that labor costs are rising is to some extent a sign of success."



Jim Pinto, an expert in automation based in San Diego, California, who predicts future trends in manufacturing, said China's manufacturing sector was likely to prove more resilient than many realize. "Labor is not the big element to manufacturing costs many people think. A lot of manufacturing is relatively automated. What distinguishes China is the low margins its companies can survive on," he said. "China can make an iPhone for \$200 and sell it to Apple for \$220, whereas a European maker, for example, would sell it for \$360. The availability of cheap loans and tax holidays means it can survive on these lower margins."

Dr Stephen Dyer, principal in management consultants AT Kearney's Shanghai office, said it was too easy to see manufacturing being about labor rates. He pointed to a project his firm undertook for a US furniture maker. It showed wage rates in China were 17 times less than at its

factory in America. When higher US labor productivity was taken into account, the difference in labor cost was just five times. The labor content of any finished item of furniture was between 5 to 10 per cent. "An increase in labor rates in this case would only have a small impact on margins," he said. "You cannot disregard it, however. The automotive industry survives on 2.5 per cent margins and any increase in cost could make a sizeable dent on these."



Dr Stefan Halper, a senior research fellow at Magdalene College, Cambridge, and author of the recent book 'Beijing Consensus' about China's future economic outlook, said recent events put China's manufacturers at some form of crossroads. "China is desperately trying to hang on to its export market. It really doesn't want to give up its advantages which it has carved out of granite," he said. He said attempts to cling on to its manufacturing prowess by making some of its goods offshore in Southeast Asia and then re-exporting them from China carried risks. "They are going to find themselves in the same situation as American manufacturers, which will add a new interesting dimension to the globalization process. They will not win friends in the countries they site their new factories if they also export the worst conditions of China factories," he added. Dr Dyer at A T Kearney said this constant seeking of some form of labor arbitrage would not work for China or any other country in the long term. "This idea that Vietnam is the next Shangri-La and that we can keep on moving production to the lowest cost place is not really the future of manufacturing. In theory there will be eventually nowhere lower cost to move and costs will be equal everywhere, although I doubt that will be the case in reality," he said. He predicts manufacturing would take place in future in the markets where the goods were intended to be sold.

"In the automotive industry product development is the most important part of the process. All the components can be manufactured and assembled in the relevant markets. There would be differences in the way this was done between India and China, for example, and cost differences, but it wouldn't be about chasing labor rates," he added. That is for the future. Thun at the University of Oxford said it was not inconceivable in the medium term that low-cost manufacturing in China would continue to move further inland. "It is said that by doing this you are moving further away from transport links and supply networks. It happened in the 1980s in Shanghai as a lot of development quickly pushed out to Zhejiang. It will be an incremental process. It may not go as far as the deepest western provinces but it inevitably pushes back from the coastal areas," he said. It is in these coastal areas such as Guangdong where Chinese manufacturing is facing its biggest test, perhaps since reform and opening up began in the late 1970s. Pinto, the manufacturing futurologist, said China was not about to lose its crown as the world's workshop overnight. "China has really learnt how to ramp up manufacturing. It can provide quantity and quality at speed and this gives it real advantages over many other countries. It is not going to lose that any time soon," he said.

Source: CTEI News

## SOEs profit up 57.1% in H1

DATE: 2010-07-19

Profits at China's state-owned enterprises (SOEs) surged 57.1 percent from a year earlier in the first half of the year, the Ministry of Finance said Friday. Combined profits at China's SOEs totalled 927.59 billion yuan (\$135.81 billion) in the January-June period. In June alone, SOE profits grew 7.7 percent month on month, the ministry said in a statement on its website. For central SOEs, profits rose to 641.06 billion yuan in the first half, up 46.4 percent year-on-year, while profits at local SOEs surged 87.9 percent to 286.53 billion yuan. Business revenue totaled 14.22 trillion yuan in the period, up 40.9percent from the same period of last year. The non-ferrous metals and power generation industries posted big increases in profit, with the ministry attributing the sharp profit

Source: China Textile Network Company

growth to last year's low comparison when the SOEs were hit by the global downturn. Iron and steel, petrochemicals, oil, and coal industries' profits fell month on month, the ministry said without giving reasons. China's SOEs include 128 enterprises administered by the State-owned Assets Supervision and Administration Commission, enterprises affiliated with 82 central government departments and those administered by provincial, regional and municipal governments.

*Source: Xinhua via CNTEX*