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TEXPROCIL Enewsletter

A fortnightly publication of THE COTTON TEXTILES EXPORT PROMOTION COUNCIL OF INDIA

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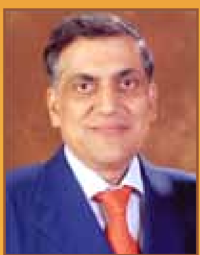
The New Normal in Apparel Sourcing

CHAIRMAN'S MESSAGE



Dear Friends,

The second fortnight of September began with the Market Week in the USA, the premier event for Made-Ups / Home Textiles in that country. With the USA accounting for almost 50% of the exports of Made-Ups from India leading exporters look forward to this event.

Market Week in New York, USA

The reports from the Market Week suggest that there is a slowdown in the buoyancy of demand in the USA with importers being cautious in their dealings.

Slow Down in World Trade

In the meanwhile a recent WTO Report (September,27) also states that world trade will grow more slowly than expected in 2016, expanding by just 1.7% well below an earlier forecast made in April of 2.8%. The forecast for 2017 has also been revised with world trade now expected to grow between 1.8% and 3.1%, down from 3.6% previously.. With global GDP expected to grow by 2.2% in 2016, this year would mark the slowest pace of trade and output growth since the financial crisis of 2009.

The report further states that the contraction is driven by slowing GDP and trade growth in developing economies like China but also in the developed economies in North America which had the strongest import growth of any region in 2014-2015 but is now facing deceleration. This trend explains the near flat response at the Market Week this September.

India's Export Performance

The slowdown in trade growth is quite serious and is also reflected in the declining trend in exports from India in 20 of the last 21 months. Overall exports of Textiles & Clothing from the country have declined by (-) 4.15% during the year April - August 2016 with all the segments including garments and cotton textiles showing negative growth during this period.

Need for Reflection

While the decline in exports for almost 20 months is a major concern, there is a need to seriously reflect on the prevailing conditions around the globe and devise a strategy to enhance the market share even in situations of low or sluggish demand. With many voices rising against globalization in major markets like USA, parts of European Union there is a further

CHAIRMAN'S MESSAGE

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need to guard against the pitfalls of protectionism and forge ahead.

Proposals mooted by the Council

Given this context the Council has suggested to the Government to draw up a short and medium term strategy aimed at giving a push to the exports of cotton textiles.

We have asked the Government to immediately extend the package given to Garments to Made-ups sector and we are hopeful that it will be done shortly. We have also suggested that the MEIS benefit should be enhanced to 5%from the present 3% for Made-ups exported to European Union (EU), in view of the preferential access given to Pakistan under the GSP+ Scheme.

We have also requested that the Duty Drawback rates for fabrics should be enhanced by at least 1% along with the value caps to enable the sector to overcome the rising cost of inputs. In the medium term, the Fabric sector should also be reimbursed the incidence of state levies/ taxes suffered by them at the time of manufacture.

In the case of cotton yarn we have requested for extending the benefit of 2% under the MEIS and 3% interest subvention scheme for a short period of time so that exports can be stimulated and India can maintain it's share in cotton yarn exports in a falling market.

Friends, we have also strongly pitched for expediting the negotiations for Indo- EU FTA and the need to pursue a sectoral approach if required. Similarly we have stated that the Government should hold discussions with Turkey with a request to remove the punitive duties imposed by them on imports of Fabrics from India which are in direct contravention of the WTO Agreement.

Need to engage China

China is another country with which we can enhance our exports of Fabrics which can contribute to reduction of the adverse trade imbalance of US$ 53 billion which amounts to 45% of India's aggregate trade deficit. Already India is a major supplier of Cotton, Cotton Yarn to China and can increase the supplies of Fabrics/ Made ups and even Garments as a logical extension of the ongoing economic activity, provided the tariffs are reduced.

In this connection, it is quite surprising to note that in the recent meeting of India - China Strategic Economic Dialogue not much emphasis was placed on the potential of the textile sector (unlike other sectors) in contributing to bringing down the trade deficit to a more sustainable level.

We are taking up the matter with the concerned authorities and hope to make some progress.

Inter- Textile Fabrics & Yarn Expo

While on China, the Council is participating in the Inter Textile Fabrics and Yarn Expo being held in Shanghai from 11 - 13 October, 2016. Around 46 companies are participating through Texprocil and 15 others are participating directly in the event. This event has become a flagship event for the Council and exporters are confident of doing business even at a time of reported slowdown in China. It needs to be pointed out that despite the emergence of Vietnam and presence of Pakistan there is abiding interest in sourcing cotton textiles from India.

Distribution of Export Awards

Friends, the Council will be distributing the Export Awards for excellence in Export Performance in 2015-2016 at a function to be held on 21 October at Hotel Trident in Mumbai. The Hon'ble Minister of Textiles Smt Smriti Zubin Irani will be the Chief Guest. The Texprocil Awards are coveted by the Industry and our members. We congratulate all the award winners for their sterling performance which has earned them the richly deserved awards.

Summing Up

In conclusion we would like to reiterate our firm belief that the present challenging times can be turned into opportunities to increase our market share by vigorously registering our presence in overseas markets. On it's part, the Council has already organized promotional events in Bangladesh, Iran, China and is looking forward to participating in events being organized in Vietnam, Colombia, UAE and other places in the coming months.

A sustained effort on our part to explore new markets, develop new products coupled with the Government making an all-out effort to provide an enabling environment for achieving higher exports in the form of refund of stats levies, timely release of export benefits, easing of doing business and improving infrastructure at the ports can only lead to improving the export competitiveness of the sector, thereby enabling it to increase market share even at a time of decline and slow- down.

R K Dalmia
Chairman

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COVER STORY

The New Normal in Apparel Sourcing

The latest shifts in sourcing and the current downturn aren't just the business cycle doing what business cycles do—something fundamental has changed.

In a keynote at the Sourcing Journal Summit 2016 in New York City on September 20, 2016, John Cheh, Vice Chairman and CEO of Hong Kong-based Esquel Group and ITMF Board Member introduced the audience to the concept of 'The New Normal in Apparel Sourcing'. The general theme of the summit was "The Year of Uncertainty".

TEXPROCIL E-NEWSLETTER

Edited & Published by:
Siddhartha Rajagopal

Editorial Team
N. Ravindranathan,
Rajesh Satam, A. Ravindrakumar,
Shailesh Martis, Sanjay Rane

Ideas & contributions are welcome at:
texprocil1@gmail.com; mktg@texprocil.org

Editorial & Publishing Office at :

TEXPROCIL

The Cotton Textiles Export Promotion Council
Engineering Centre, 5th floor, 9, Mathew Road,
Mumbai – 400 004. India.
Tel: +91 22 23632910 to 12
E-mail: info@texprocil.org

Mr. Cheh started off his presentation "The 'New Normal' in Apparel Sourcing" by outlining what "New Normal" means. According to him it means "… the current downturn is fundamentally different from recessions of recent decades. We are experiencing not merely another turn of the business cycle, but a restructuring of the economic order". This resulted in lower growth rates both in developed and emerging economies in the years since the Global Recession compared to the pre-recession period. In China the 'New Normal' refers to a lower growth rate of the economy – 6 to 7% versus 10% and more prior to the recession – that is changing from an investment-dominated to a consumption-driven model.

In the US, the EU and Japan the 'New Normal' is most visible in retail sales, which have been sluggish in recent years in the range of +2 and -5%. Also in China apparel retail sales dropped from staggering 20-30% in the period 2008-2012 to more modest levels since (6-9%). While brick &mortar retailers/brands are struggling and are downsizing, e-commerce retailing is growing strongly in the US in the range of 10-20% per year. Since 2008 the e-commerce business in the US grew from around 8% to around 17% of total sales in 2014. In China this growth is even stronger in the range of 30-50% per year. By 2018, China's e-commerce market (USD 610 bn) will be larger than that of Europe (USD 298 bn) and the US (USD 210 bn) combined.

Next to new trends on the demand side, the textile & apparel industry is also faced with new trends on the supply side, which are determining the competitiveness of suppliers. From a country's perspective China's share in global textile/ apparel trade has peaked around

COVER STORY

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The New Normal in Apparel Sourcing

2010/2011 when its market share for apparel imports reached almost 40% (by value) in the US or 46% (by value) in the EU. This comes as no surprise as the majority of installed textile and apparel capacities can also be found in China according to ITMF-data. In 2014, China's share in short-staple spindles reached 42% and in shuttle-less looms 46%.

Mr. Cheh noted that often rising labor costs are identified as the main reason for China's declining share in global trade of textiles and apparel. Indeed, labor costs have been rising strongly in the past few years in China. In the Guangdong Province the current minimum wage is around USD 285 per month and in the Guangxi Province USD 210. Compared to Indonesia (USD 104-266 per month), Vietnam (USD 107-256 per month), Myanmar (USD 83 per month) and Bangladesh (USD 68 per month) the minimum wages in China are relatively high. But since labor costs only represent around one quarter of the apparel ex-factory costs, they are not the dominating factor.

In addition, what is more important is the productivity of the labor force and therefore the unit labor costs. Mr. Cheh emphasized that productivity has been rising constantly in China in recent years, what has led to marginally increasing unit labor costs since 2008. One important reason for increasing labor productivity are investments in higher automation. Even though labor costs were and are rising in China, investments in all segments of the textile and apparel industry continued in China according to ITMF-data about annual shipments of new textile machines. According to Mr. Cheh, higher automation levels are no-longer restricted to the textile segments of the industry. Already today, companies start using more machines and robots in apparel production. Therefore, it is no contradiction that average daily working hours decreased in Esquel's apparel factories, while the take home salaries increased at the same time. Of course, the workforce needs constant training, education and good working conditions in order to remain motivated and productive. The empowerment of the people is essential for success.

An important aspect in the 'New Normal' is the ongoing trend of producing in a sustainable way which is making sense both economically and environmentally. With the use of the latest technology in cotton shirt production, energy consumption could be reduced between 2005 and 2016 by 45%, while at the same time water consumption could be reduced by 66%.

Furthermore, the 'New Normal' requires a higher degree of flexibility and responsiveness. Fast fashion in general and smaller lots require textile companies to react quickly to changing demand patterns. Technology can help companies to become more flexible and quicker, whether it is by sharing the point of sale data in the information systems with partners, by investing in more versatile machines, by developing new products or by using digital tools/machines in sampling or printing processes. To make use of all technological possibilities it is important to collaborate with your partners in the entire textile value chain – fiber producers, textile machine manufacturers, chemical companies, buyers, etc. This will lead to new product and process solution/innovations and will create the necessary win-win situations.

"The whole market is changing," Cheh said. "These are all parts and parcel of the new normal."

Over the next decade, the industry will be driven by trends on the demand and supply side and shifts in the greater sector's dynamics.

On the supply side, stretched supply and rising costs of labor and materials, like cotton, increasing scarcity of energy resources and water will shape the way forward, and on the demand side, factors affecting the future will include a slowdown in mature markets, vigorous growth in emerging markets and changing consumer consciousness and buying patterns.

So what's the way to tackle all this?

With the new normal of suppliers' competitiveness, Cheh said.

There are five C's of suppliers' competitiveness, according to Cheh: consolidation, creativity, cost containment, caring and conservation.

Countering the black cloud that tends to hover over talk about sourcing, Cheh said simply, "It's not that sourcing is really driving retailers out of business, but it's how you source and how you partner," he said. "And the word I would emphasize is called collaboration."

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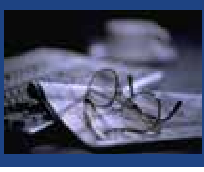

SPECIAL FEATURE

China : Adapting to the 'new normal'

With China's production and labor costs in the textile and apparel industry rising dramatically and exceed those in of many other Southeast Asian countries, including Malaysia, the Philippines, Indonesia and Vietnam is the cause of China losing the competitive edge in mass production. China is changing its strategy by adapting to 'new normal'.

According to Zhang Tao, the secretary general of the Sub-Council of Textile Industry (CCPIT), The Textile Industry Chamber of Commerce (CCOIC), the 'new normal' situation implies the reality of slower growth rates … in China's economy, coupled with spiraling costs that are going out of control.

Last year, China processed approximately 10 million tons of cotton, 60 percent of which was grown locally. The remainder was imported from countries including the United States, India, and Pakistan. Even as China imports textile and apparel products from Bangladesh, Pakistan and other countries, textile and apparel exports continue to be the number one contributor to China's foreign trade, with China's biggest markets the United States, the European Union and Japan. Also, many Southeast Asian exporters import China-made fabrics and re-export them after further processing.

China's total export value of textiles and apparel from January 2015 to May 2015 reached just $30 billion, with the United States accounting for some $16.4 billion in that period compared to 2014, the total export value of textiles and apparel amounted to roughly $300 billion, according to the CCPIT data.

However, U.S. demand for textiles and apparel seemed to be picking up, but at a slower pace. It is difficult for suppliers of low-end products [to find demand in the United States] because of the fierce competition and the cost-conscious U.S. consumer's self-restraint in buying. However, the U.S. market is much more resilient and stronger than the European Union's and Japan's. Recovery is, however, not that strong as buyers are not ordering as much as they used to, said Tao.

As the traditional markets seem to be saturated, Chinese exporters are also looking for greener pastures elsewhere, particularly in the emerging markets of South America, including Brazil, with its 300-million-strong population, and Russia, though the latter has problems vis-a-vis the sanctions it faces. Tao noted that Africa was also opening up to Chinese exports.

China is also looking for production sites beyond its shores — migration that typically was more focused on apparel than textile production to counter the sharp rise in production and labor costs. Fabric production is not labor intensive but apparel production is. Chinese companies are worried by rising labor costs and one way to remain competitive in the world markets is by shifting production to low-cost sites, Tao explained.

Chinese companies are looking to set up full manufacturing bases in the markets they wish to serve. Toward that end, Chinese textile companies have been buying out manufacturing assets such as mills in the United States, the most recent one in South Carolina.

This is a reversal of the mass sourcing of textile and apparel production from what was then a low-cost production site more than two decades ago. Textile production in China is no longer profitable for many manufacturers, both international and Chinese, who are turning their backs on China. In addition to rising wages and energy costs, production in China also involves higher logistics costs and requires dealing with government quotas on imported cotton, which creates a lot of uncertainty for manufacturers.

According to Tao, the scene and actors are changing too. If there was a huge interest on the part of many

SPECIAL FEATURE

China : Adapting to the 'new normal'

U.S. manufacturers-turned-importers in sourcing cheap products from China, it is the Chinese who are now flocking to the United States to manufacture.

The calculation by Chinese companies is that while U.S. labor costs are much higher, the productivity levels in the United States are also much higher, thus levelling off or even driving down the end costs in the final analysis. Other perks for Chinese manufacturers setting up shop in the United States come in the form of much lower energy prices, competitive prices of cotton, tax incentives from local governments and of course a reduction in shipping costs. Also, there is an opportunity to capitalize on the 'made-in-America' cachet, which is becoming increasingly desirable.

Additionally, the "keeping-a-foothold-in-the-market" strategy — producing goods in the market where they are sold — is appealing to many Chinese companies that are driven by the prospect of a trans-Pacific free trade market, which would result from the successful passage of the Trans-Pacific Partnership (TPP). The U.S.-led TPP agreement will include all of the major economies of the trans-Pacific region except China. And the fear of being shut out of the TPP has caused Chinese yarn companies to set up a base in the United States.

According to the International Textile Manufacturers' Federation, yarn production costs in China have sharply risen, surging by as much as 30 percent compared to those of the United States. Of course, the Chinese are not moving just into the United States. They also have been shifting manufacturing to other lower-cost countries in Asia, particularly Bangladesh, India and Vietnam.

Chinese companies see multiple benefits accruing to them from their presence in the United States. Some Chinese exhibitors at the recent TexWorld show in New York told Apparel, on the condition of anonymity, that many Chinese companies found the United States an attractive manufacturing site because it offered unhindered and direct access to the huge U.S. market and noted that Chinese companies had so far made more than $45 billion worth of investments in new projects and acquisitions in the United States, with most of that in the past five years.

The Carolinas are proving to be a hot spot, with more than 20 Chinese companies having set up operations, including a polyester fiber plant opened by Keer and Sun Fiber in South Carolina in 2014.

Some Chinese companies also want to use their U.S. operations to ship yarn to apparel manufacturers in Mexico, Central America and the Caribbean — countries that have duty-free access to the American market under NAFTA and CAFTA, provided the yarn is produced in a member country.

The Chinese are taking lessons from companies in neighboring countries such as India, which recently have been making acquisitions or setting up shop in the United States. Indian textile manufacturer Shri Vallabh Pittie Group, for example, garnered a lot of attention when it opened a factory in Sylvania, Georgia.

The impact of new plants being opened or old ones being revived can be seen on local job markets. South Carolina, for instance, welcomed the arrival of Keer, as it employed weavers and spinners who had been laid off after Springs Industries shuttered its cotton mills — at one time some of the world's largest.

Recently, Chinese specialty textile company Legend Athletic Wear LLC opened its first U.S. production unit in Cincinnati, Ohio. (Ohio had been competing with Oregon and California to bag the Legend project.) The company, which uses sublimation technology to color fabrics, is the North American subsidiary of a Shanghai, China-based Australian textile-specialty company.

Legend was founded by husband and wife co-owners Dr. Tan Kek Looi and Min Qi in 2005. From 2005 to 2012, the company's sales grew from $84,000 to $1.8 million. Legend plans to invest more than $1.4 million in its new manufacturing facility. Indications are that the owners want to establish the Legend brand in the United States and later launch it in China.

By going with a strategy of geographic diversification, Chinese manufacturers are looking to beat the pricing pressures of its spiraling inflation.

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TRADE NOTIFICATION

MEMBERSHIP SATISFACTION SURVEY

Dear Member,

The Council has recently obtained ISO-9001:2008 Certification. As part of the ISO documentation concerning 'Customer Satisfaction' we are seeking feedback from our Members on the services offered by the Council. Accordingly kindly fill in your complete information below and respond to the questions below by tick (✓) marking appropriate response in the space provided or with suggestions in brief wherever necessary. We value your association with us and prompt feedback.

COMPANY INFORMATION

Name of the Company	:	
Contact Person & Designation	:	
TEXPROCIL Membership (RCMC) No.	:	
Email Address & Website	:	

1) **Kindly rate the following services offered by Texprocil on rating of 5 to 1. in order to serve you still better.***
5= Excellent, 4=Good, 3 = Satisfactory, 2 = Needs Improvement., 1 = Not Availed (N.A.)

Membership	Rate Here	Trade Development	Rate Here	Trade Promotion	Rate Here	Trade Services	Rate Here	Trade Intelligence	Rate Here
Procedure for New Membership		Publication: E-Newsletter		Intl. Fairs & Events		Certificate of Origin		Interactive Website	
Membership Renewal		E-serve		Seminars & Workshops		Grievance Redressal Services		E-News Clippings	
RCMC Amendment		Circulation Trade Enquiries Award		MDA/MAI Schemes		Information on Exim policy/Amendment DBK		Information Disseminated	

2) a. Are you generally satisfied with the services actively availed by your company and marked above? **Tick (✓)**	**YES**		**NO**		
b. If you have replied 'no' above, please suggest how the Council can improve the services *(use additional sheet if required)*	**Suggestions:**				
3) How is your company benefitting from the Exhibitions / BSMs being organized by the Council? **Tick (✓)**	Accessing new Markets		Generating additional business		
Others (Pls. Specify):	Making new Contacts (Trade Enquiries)		Any Others		
4) How is your company benefitting from the Export Facilitation services being provided by the Council?	Information on Export Policy / Procedures		Responses to various EXIM queries		
Others (Pls. Specify):	Redressal of Trade related grievances		Any Others		
5) Have you recommended TEXPROCIL Membership to other companies? **Tick (✓)**	**YES**		**NO**		
6) Do you have any other suggestions to offer regarding TEXPROCIL Member Services? *(use additional sheet if required)*	**Suggestions:**				

***Kindly ignore this feedback form, if you have already responded.**

Join Us... Now! Avail info. on Membership Benefits on email : info@texprocil.org

TRADE NOTIFICATION

TEXPROCIL MEMBERSHIP
ANNUAL RENEWAL SUBSCRIPTION

The annual renewal subscription amount for the financial year 2016-2017 (due from 1st April, 2016) is as follows: -

1) MEMBER EXPORTER - RS. 11,500/- (MEM FEES 10,000 + S. TAX 1,500)

2) REGISTERED TEXTILE EXPORTERS (RTE) - RS. 5,750/- (MEM FEES 5,000 + S. TAX 750)

Special Discount: Texprocil is announcing a special discount scheme for those who wish to renew their membership for a period of 3 or 5 years as follows:

Period	Membership Fees		Discount Slab	Discounted Fees		Benefit to Exporters	
	RTE	Member		RTE	Member	RTE	Member
For 3 years	15,000	30,000	10%	13,500	27,000	1,500	3,000
For 5 years	25,000	50,000	15%	21,250	42,500	3,750	7,500

[RTEs and Members have to pay service tax on the discounted amount at the rate of 15%.]

Note for Members:

Members are also requested to submit the CA Certificate as per the format given below certifying the Export Turnover for the financial years 2014-2015 & 2015-2016 i.e. the amount of actual FOB value of exports of Cotton Textiles excluding Readymade Garments and Handloom Textiles.

Members may note that the eligibility criterion of annual export turnover is minimum Rs. 2 Crore. Those not fulfilling the criteria will automatically be renewed as RTE i.e. Registered Textile Exporter.

RTEs are not required to submit the CA certificate.

Format of Chartered Accountant Certificate to be submitted by Members only:

CHARTERED ACCOUNTANT CERTIFICATE
(on C.A.'s Letter Head)

TO WHOMSOEVER IT MAY CONCERN

This is to certify that M/s. ______________________________ (Name and full address of the Member) having IE code No. ______________ have exported Cotton / Cotton Yarn / Cotton Fabrics / Cotton Madeups (Excluding Handloom Items / Readymade Garments and Silks, etc.) during the financial year 2014-2015 & 2015-2016 as follows:

Sr. No.	Description	2015-2016 (Rs. FOB Value)	2014-2015 (Rs. FOB Value)
1	Cotton		
2	Cotton Yarn		
3	Cotton Fabrics		
4	Cotton Made-ups		
	TOTAL		

(Stamp & Signature of Chartered Accountant)
(Membership No. of Chartered Accountant)
(Firm Registration No. of Chartered Accountant)

PLACE:
DATE:

Note to Members & RTEs whose RCMC is expiring on 31.03.2016:

Please apply immediately for renewal of RCMC with the following documents:

[1] Copy of your Import-Exporter Code (IEC)

[2] In case of Manufacturer Exporter, a copy of Manufacturing Licence

[3] In case of changes in Partners, a copy of revised deed of partnership

[4] In case of changes in Directors, a copy of Form 32/DIR-2 or Board Resolution for those who have resigned or newly appointed.

(For any further queries please write to Mrs. Smita Dalvi on email : smita@texprocil.org)