Textile Consumer™

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Enter the Dragon: Surging Imports from China

Through much of the last decade, imports of cotton apparel and textile products have claimed an ever-larger share of total cotton products sold at retail in the United States. During the 1990s, as the value of the U.S. dollar climbed and free-trade policies gained in popularity (and notoriety) around the world, textile trade into and out of the United States blossomed, reaching record levels in 2000 and 2001. In 2002, as the U.S. economy has cooled and the dollar has weakened against major currencies, growth in imports of cotton products has eased. Cotton apparel and textile imports for the first six months of 2002 have grown a meager 1.5% (on a unit basis) from the same period last year. While total cotton product imports from around the world are little changed from last year, Chinese shipments are up 66.4%, propelling China to its standing as fifth-largest foreign supplier of cotton products to the United States. Since total world import volume has barely budged, Chinese shipments have displaced volume from other, traditional suppliers, including Mexico, Honduras, Bangladesh, and Hong Kong. This article evidences the phenomenal growth in cotton product imports from China during an otherwise subdued year for textile trade and suggests two primary reasons to help explain this disparity in growth between Chinese shipments and those from the rest of the world.

On January 1, 2002, under terms of the World Trade Organization Agreement on Textiles and Clothing, signed in 1994, WTO member nations phased out a series of bilateral quotas imposed against one another on certain textile and apparel products. This phase-out is the third of four steps in the elimination of quotas, due to culminate on January 1, 2005. The most recent phase-out removed quota restrictions on more than 500 items, 91 of which are cotton-dominant textiles and apparel products. Having just been admitted to the WTO as a full member in December 2001, China has been able to capitalize on the quota removal and utilize its abun-

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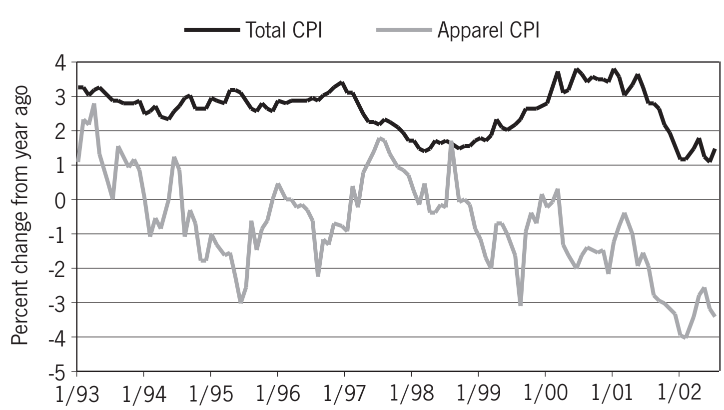
Deflationary Influences on Apparel Prices

Over the past decade, the apparel industry has witnessed unprecedented deflationary pressures on prices, for a variety of reasons. One of the most compelling reasons is that consumers' personal consumption expenditures on apparel have declined from 6.2% in 1970 to 4.2% in 2001. In addition, the casualization of America has resulted in increased sales of casual apparel (at lower average prices), while sales of tailored apparel have declined. Yet another factor is the significant market share that mass merchants, such as Wal-Mart, Kmart and Target, have been able to capture from traditional department and chain stores.

Change in the Consumer Price Index, Jan. '93 to July '02



Source: Bureau of Labor Statistics.

Against the backdrop of these changes, retail floor space continues to expand. According to the International Council of Shopping Centers (ICSC), square footage of shopping centers (excluding leased department stores) increased from 1.5 billion in 1970 to 5.6 billion in 2000, while retail sales of apparel only doubled.

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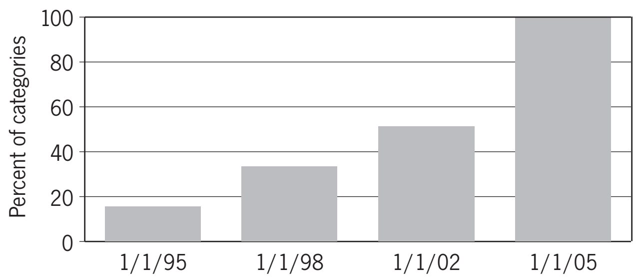
Chinese Imports *(continued from page 1)*

dant low-cost workforce to increase shipments abroad, particularly to the United States.

Apparel and Textile Categories Subject to Quotas

Percentage of 1990 Import Volume

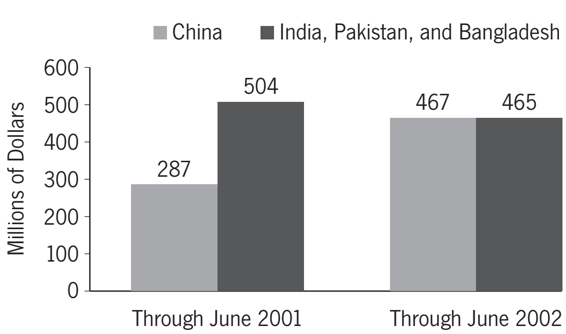


Source: World Trade Organization.

The 91 classifications of cotton products on which quotas recently were removed fall into just four categories: gloves and mittens, dressing gowns, other cotton apparel, and cotton textile manufactures not elsewhere specified or included. During the first six months of 2002, total U.S. imports in these four categories were up only 1% from the same period in 2001, to $1.5 billion. Yet Chinese shipments climbed an impressive 62.8%, to $467 million, or 31% of total world imports. In these four categories, the volume of imports from China during the first six months of 2002 was larger than the combined volume of imports from the next three countries (India, Pakistan, and Bangladesh). This surge in Chinese imports has displaced volume from several other countries; 10 of the 12 next-largest foreign suppliers in these categories have seen their year-to-date import volumes decline from last year.

U.S. Cotton Product Imports

First Six Months, 2001 vs. 2002



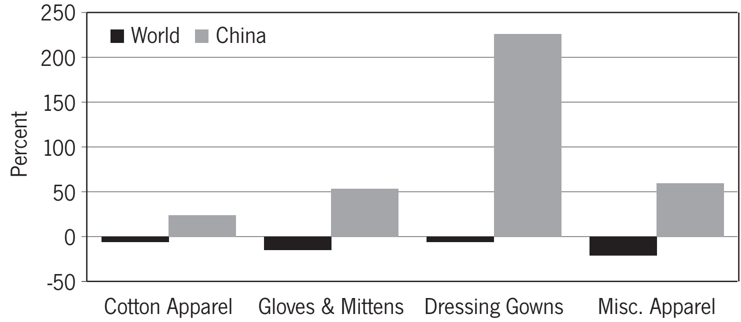
Source: International Trade Administration Office of Textiles and Apparel.

Looking specifically at each category of product newly eligible for quota-free access, the story is similar. Compared with the first six months of 2001, U.S. imports of cotton gloves and mittens through June 2002 were off 12.9%, to $53.9 million, as unit imports fell 5.8%, to 23.5 million dozen pairs. However, Chinese shipments to the United States were up 53.9% in dollars, to $15.7 million, and an astounding 162.8% in units, to 7.2 million dozen pairs. Similarly, total imports of cotton dressing gowns were off 6.3%, to $127.1 million, while Chinese shipments jumped 225.8%, to $22.0 million. Imports classified as "other cotton apparel," a large, motley category ranging from overalls to swimsuits to tights, were off 20.7%, to $499.7 million, while Chinese shipments expanded 60.3%, to $146.4 million, propelling China into the top spot for this category. As the volume of Chinese imports has grown, the 13 next-largest suppliers, accounting for 59% of imports in the first half of 2002, all saw their shipments to the United States fall from the first six months of 2001, by a combined 37.8% dollar volume.

For these three apparel categories combined (gloves and mittens, dressing gowns, and other cotton apparel), world shipments to the United States were off 17.8% from the first six months of 2001, to $681 million for the first six months of 2002, while Chinese shipments climbed 70%, to $184 million. For the same period, total world cotton apparel exports to the United States shrank 4.4% in value, to $15.6 billion, and expanded in volume by an anemic 1.5%, to 4.6 billion square meter equivalents (SMEs). An expanding unit volume and shrinking dollar volume of imports implies lower cost per unit. For total imports from countries other than China, the price for the first six months of 2002 fell 4.9% from the same period last year, to $3.39 per SME. The surge in Chinese imports has not been limited to the apparel items on which quotas have been removed; over the same period, U.S. imports of all cotton apparel from China jumped 24.8%, to $853 million, making China the third-largest foreign supplier of cotton apparel, behind Hong Kong and Mexico. At the same time, on a volume basis, Chinese shipments expanded 66.4%, to 270 million SMEs. With lower total cost of production, the Chinese cost per SME stands at $3.16, lower than the world average, which helps to explain the shift in sourcing.

Percent Change in U.S. Cotton Apparel Imports

Dollar Basis, First Six Months, 2001 vs. 2002



Source: International Trade Administration Office of Textiles and Apparel.

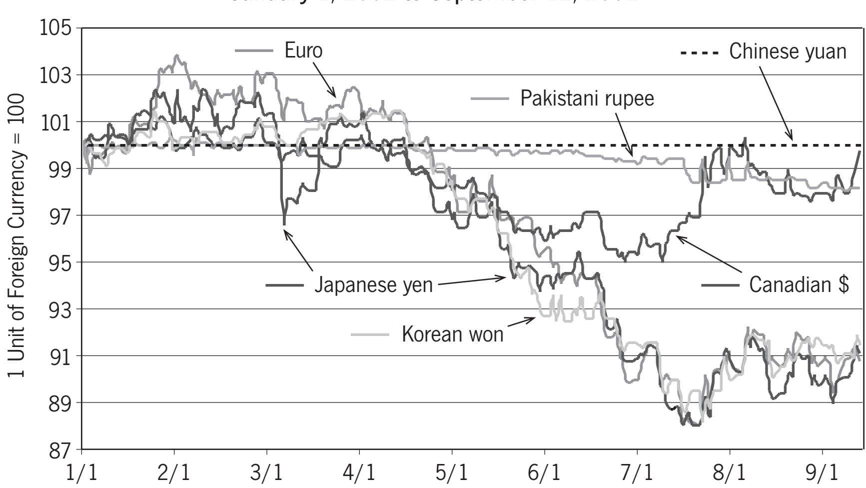
The trend for cotton textile trade is similar to that for cotton apparel. Total U.S. imports of cotton textiles in the first six months of 2002 were up 8.7% from the same period last year, to $2.8 billion. Driving this gain has been a surge in shipments from China, which rose 45.1%, to $580 million. The primary category of cotton textile products that China supplies to the United States, classified as "miscellaneous textile manufactures," encompasses products from luggage and duffel bags to floor coverings to miscellaneous home textile products not elsewhere classified. The largest foreign supplier of this category to the United States, China saw the value of its shipments for the first six months of 2002 climb 58.4% from the same period last year, to $283 million. For the same period, imports of miscellaneous cotton textile products from the rest of the world increased only 11.6%. As with apparel, the growth in Chinese cotton textile imports has not been limited to products benefiting from the quota phase-out. Excluding miscellaneous cotton home textile products, total U.S. imports of cotton textile products from countries other than China were up 3.1% from the same period last year, to $1.9 billion. Meanwhile, U.S. imports of other cotton home textile products from China climbed 34.4%, to $297 million.

It is interesting to note that U.S. imports of cotton products from China have risen faster than those from the rest of the world in categories not benefiting from the quota phase-out. Many observers attribute this to the declining value of the dollar. As the U.S. economy continued to expand and attract foreign investment during much of the 1990s, the dollar rose to unprecedented levels against several foreign currencies. As the economy has cooled in 2002, the dollar has fallen from its peak against several major currencies, and several primary foreign suppliers of cotton apparel and textiles — Pakistan, Canada, and South Korea—have seen their currencies generally appreciate against the dollar. However, the Chinese currency, the yuan renminbi, is *de facto* pegged to the dollar via payment of export tax rebates to Chinese exporters. As a result, while the dollar has fallen against several key currencies around the world, so has the yuan, causing imports from major foreign suppliers to appear relatively more expensive than Chinese imports.

The surge in U.S. cotton product imports from China not only is noteworthy in itself, but also has caught the attention of many who believe the trend is a harbinger of trade patterns after January 1, 2005, when bilateral quotas will be removed on all remaining textile and apparel products. The remaining quotas apply to roughly 2,500 textile and apparel classifications, accounting for approximately 49% of all textile and apparel import classifications in 1990. With this year's surge in Chinese shipments, the profile of foreign suppliers to the U.S. market may have taken a dramatic step closer to its post-2004 look. ■

U.S. Dollar Declines Against Foreign Currencies

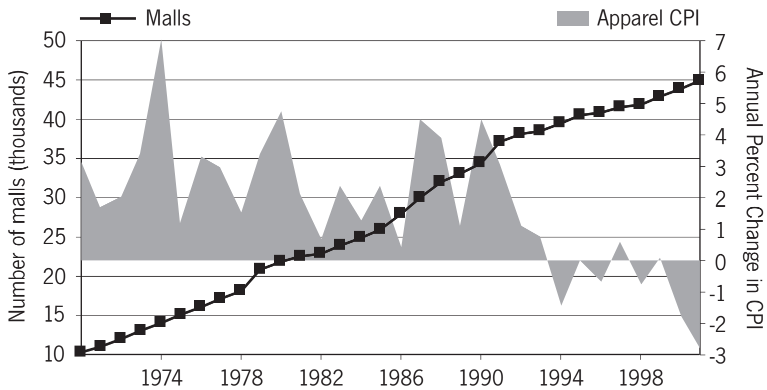
January 1, 2002 to September 12, 2002



Source: Oanda Corporation.

Apparel Prices *(continued from page 1)*

Number of Malls vs. Change in Apparel Prices, 1970–2001

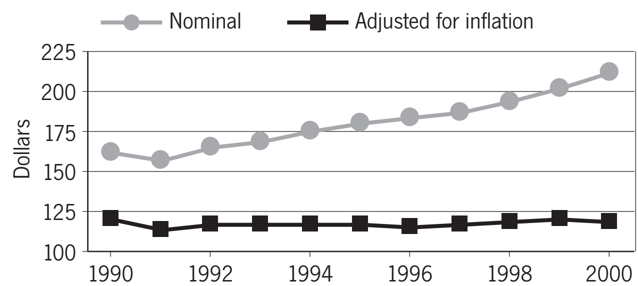


Sources: ICSC and National Retail Federation.

Although shopping centers' retail sales per square foot have been growing, they have been flat when adjusted for inflation. Since 1990, the adjusted dollar volume of retail sales per square foot has remained constant at $120, thus squeezing the margins that retailers located in shopping centers have been able to capture. The expansion in retail floor space has outpaced retail sales, resulting in an oversupply and thus contributing to the downward spiral in apparel prices.

Based on the most recent ICSC data, total shopping center revenue was approximately $208 per square foot. This figure is modest compared with the $690 per square foot that Wal-Mart stores garnered during the same time period. This mass merchant not only enjoyed three times the retail sales volume per square foot of shopping centers, but also had twice the volume of customer traffic, on an annual basis. Wal-Mart accomplished this feat with just 302 million square feet of U.S. retail floor space.

Sales per Square Foot of Retail Floor Space



Source: National Research Bureau Shopping Center Database & Statistical Model.

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