

CHINA

TEXTILE SOURCING

Navigating sustainable change to 2020

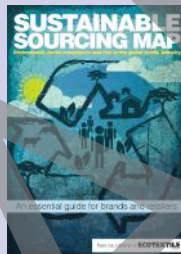
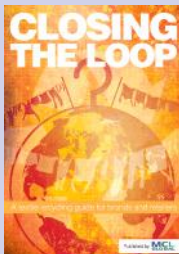


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TEXTILE SOURCING GUIDE

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SAMPLE

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Foreword

In the year 2000, China's share of global exports for textile and clothing was 15 per cent. Since then, the country has more than doubled that share and, according to World Trade Organisation statistics, China now commands around 35 per cent of the global market for textile and clothing exports.

This is a remarkable economic success story, which has helped to create jobs for millions of Chinese people. It is no surprise that other Asian countries are now looking to replicate China's story, as textiles and apparel manufacture is a relatively easy industry sector to enter, the only real criteria being an ability to manufacture and ship clothing quickly – and cheaply. Myanmar, Vietnam, Cambodia are among those countries which are looking to follow in China's footsteps, with varying degrees of success.

In the meantime, as this report will show, China is looking to tread a slightly different path. The country's leaders have, for many years, had aspirations to take the Chinese economy to its next stage of development: that is, to move away from being a low cost, low added value manufacturer which wins market share primarily by competing on price. Closer cooperation with more sophisticated industrial economies such as Germany, the USA and Japan are key priorities of the Chinese government moving forwards.

Clear evidence of this new strategy could be seen in *Made in China 2025*, the 2016 published Chinese government initiative which sets out how China intends to comprehensively upgrade its industrial base. The plan was drafted by the Chinese Ministry of Industry and Information Technology (MIIT) over two and a half years, with input from 150 experts from the China Academy of Engineering. Its guiding principles are to have manufacturing in China be innovation-driven, emphasise quality over quantity, achieve green development, optimise the structure of Chinese industry, and nurture human talent.

So what does all of this mean for China's textile industry? Our report draws several conclusions on this issue. Firstly, we are likely to see a slowdown in the rate of growth of the textile industry in China; indeed, output may actually decline in the coming years, although there are factors beyond and outside China which could influence this (the TPP free trade agreement to name just one).

We expect to see a more sophisticated textile industry in China. Industrial upgrading is already underway in the country's textile industry, and we expect this process to continue. In terms of automation, China's textile industry has made significant progress, much more so than its competitors, enabling it to manufacture textile products faster and more efficiently than its competitors - thereby offsetting rising wages in China which have seen it lose market share to lower cost rivals.

The most encouraging change in China is on sustainability issues. While the country doubtless still has a long way to go to clean up its textile industry, there is now genuine evidence that the government is serious about tackling environmental and sustainability concerns related to textile manufacture. Fines have been implemented and are being enforced for polluting textile mills. Less reputable operators are being forced to clean up their act or risk losing business. Western brands are demanding greater compliance within their Chinese supply chains, a process being aided by the laudable work of the Institute of Public and Environmental Affairs which made an invaluable contribution to the writing and research of this report. Thanks to the work of the IPE and other like-minded NGOs, there is no longer any hiding place for textile mills that wantonly damage the environment in China. That can surely be no bad thing.

Managed slowdown for China textile industry

China is responsible for more than a third of all textiles produced worldwide, while a staggering 80 per cent of all man-made fibres are delivered from China – a country with more than 100,000 textile factories. However, the rate of textile production is likely to fall steadily in China in future, as the country puts more focus on niche, high value manufacturing, while other Chinese investors look to other, cheaper overseas manufacturing textile locations.

China's textile exports fell for the first time in six years in 2015, with the fall being due to a number of factors including the stagnant economies of export destinations, rising labour costs in China and an increase in overseas investment by Chinese textile businesses, with investors from China increasingly heading into fast growing textile hubs such as Vietnam and Myanmar.

Textile exports

The level of the drop was significant, with China's textile exports falling by 5 per cent to US\$286.8 billion in 2015. Chinese textile exports to Europe, traditionally the country's largest export destination, were down 9 per cent in 2015.

The reduction in 2015 followed many years in which textile exports had been growing rapidly, often in double-digit figures (the only exception to this being 2009 when China struggled – like all textile exporters – in the wake of the global financial crisis). In the first two months of 2016, China's textile exports dropped 16 per cent on the corresponding period for 2015, indicating that the fall off in 2015 was no anomaly.

It is worth here giving some broader context: in 2010, China's market share of EU textiles and clothing imports stood at 40.8 per cent; this had fallen to 35 per cent by 2015.

Undeniably, the main beneficiary of the fall-off in China exports was the South Asian Association

for Regional Cooperation (SAARC) zone which has gone in the opposite direction to China since 2010. From 19 per cent in 2010, its market share of textiles and clothing exports in 2015 was 24.6 per cent. Significant textile exporters in this zone include Bangladesh – the largest and fastest growing of these – Sri Lanka, India and Pakistan.

ASEAN markets

Association of Southeast Asian Nations (ASEAN) member states – which include the major textile exporters Cambodia, Indonesia, Myanmar, the Philippines, Thailand and Vietnam among their ranks – also grew their share of textile and clothing imports from 6 per cent in 2010 to 8.6 per cent in 2015. Vietnam, the fastest growing textile manufacturing destination in the world at the time of writing, was the main reason for this increase.

In terms of actual products, China prevailed as the main supplier of woven garment exports to the EU. However, its share continued to decline at 37.6 per cent to the benefit of South Asian countries whose shares rose.

In terms of the US market, in 2015 China was by far the largest exporter of textile products to the US market according to US trade figures. Figures from the Office of Textiles and Apparel in the US showed that in 2015, China exported more than 30.8 billion square metres of textiles to the US, an increase of 8 per cent on 2014. The next

Textile yarn, fabrics and made-up articles

Chinese monthly exports, in millions US \$1,000

Date	Value	% change on previous year
June 2016	9,114,298	-3.7
May 2016	10,205,035	1.7
April 2016	9,663,425	2.6
March 2016	7,922,822	34.9
February 2016	6,083,063	-27.5
January 2016	9,449,970	-2.7
December 2015	9,793,262	0.4
November 2015	8,662,775	-9.2
October 2015	9,206,775	-5.5
September 2015	9,703,276	-0.4
August 2015	9,741,003	-2.1
July 2015	9,514,550	-5.8
June 2015	9,468,196	+2.3
May 2015	10,045,183	-3.9
April 2015	9,419,802	-10.7
March 2015	5,875,307	-29
February 2015	8,397,137	99.3
January 2015	9,716,866	-7.7
December 2014	9,753,874	4.9
November 2014	9,546,311	5.3
October 2014	9,746,769	5.8
September 2014	9,751,998	5
August 2014	9,963,662	4.7
July 2014	10,107,085	4.4
June 2014	9,259,758	4.2
May 2014	10,457,685	5.1
April 2014	10,556,010	4.3
March 2014	8,283,523	2.1
February 2014	4,216,633	-2.1
January 2014	10,537,294	14.8
December 2013	9,737,301	11.7
November 2013	9,462,443	11.5
October 2013	8,567,463	11
September 2013	9,088,092	11.5
August 2013	9,387,604	12.2
July 2013	9,576,481	11.5
June 2013	9,225,262	10.1

Source: National Bureau of Statistics of China

GB 4287-2012 DISCHARGE STANDARDS OF WATER POLLUTANTS FOR DYEING AND FINISHING OF TEXTILE INDUSTRY

No	Parameters	Discharge limit (mg/L) (except pH)						Discharge monitoring location
		Requirement A		Requirement B		Requirement C		
		Direct Discharge	Indirect Discharge ^a	Direct Discharge	Indirect Discharge ^a	Direct Discharge	Indirect Discharge ^a	
1	pH value	6 – 9	6 – 9	6 – 9	6 – 9	6 – 9	6 – 9	Factory wastewater total outfall
2	COD _{cr}	100	500 ^b 200 ^c	80	500 ^b 200 ^c	60	80	
3	BOD	25	150 ^b 50 ^c	20	150 ^b 50 ^c	15	20	
4	Suspended substances	60	100	50	100	20	50	
5	Colority	70	80	50	80	30	50	
6	Ammonia nitrogen	12 20 ^d	20 30 ^d	10 15 ^d	20 30 ^d	8	10	
7	Total nitrogen	20 35 ^d	30 50 ^d	15 25 ^d	30 50 ^d	12	15	
8	Total phosphorous	1.0	1.5	0.5	1.5	0.5	0.5	
9	Chlorine dioxide	0.5	0.5	0.5	0.5	0.5	0.5	
10	Absorbable organic halogen	15	15	12	12	8	8	
11	Sulfide	1.0	1.0	0.5	0.5	Not detected		
12	Aniline	1.0	1.0	Not detected ^e		Not detected ^e		
13	Total anitomy	0.1	0.1	0.1	0.1	0.1	0.1	
14	Chromium (VI)	0.5		Not detected ^e		Not detected ^e		Workshop or facility outfall
15	Waste water discharge quantity per product unit (m ³ of water / tonne of standard materials)f	Cotton, bast, chemical fibre	175	140		140		The location for discharge quantity calculation should be the same as water pollutants discharge monitoring location
		Pure silk, woven fabric	350	300		300		
		Yarn, knitted fabric	110	85		85		
		Worsted Fabric	560	500		500		
		Woollen fabric	640	575		575		

Wastewater that discharges into the municipal wastewater treatment plant or through the municipal wastewater pipeline, must meet the requirement of direct discharge. ^aAdded into the standard, according to the modification on March 27, 2015 by the MEP. This modification has since been suspended. ^bDischarge limit is applicable to wastewater solely generated from the textile industry (without mixing with wastewater from other sources), and discharged into a centralised treatment plant in the industrial zone (including industrial park, development zone, or cluster of industry) which is specified for dyeing and finishing wastewater collection and treatment only. The effluent from a centralised treatment plant must meet the discharge limit in remarkc. ^cDischarge limit is applicable to the other indirect discharge scenarios.

^dDischarge limit is applicable to batik industry only. The requirements for anilines and chromium VI in Requirement B and Requirement C are temporarily suspended. During the suspension period, the requirements of anilines and chromium VI should follow Requirement A, according to the announcement, by the MEP on June 2015. If product mix is different, refer to FZ/T 01002-2010 for conversions.

Year	All China	Fujian	Shandong	Jiangsu	Guangdong	Zhejiang
2015	837	17	131	141	144	305
2014	899	20	52	160	144	455
2013	727	15	12	150	136	351
2012	307	5	5	95	58	88
2011	290	3	9	134	51	60
2010	283	4	4	111	47	72
2009	243	11	5	105	29	46
2008	354	10	6	191	45	48
2007	311	10	18	114	26	67
2006	169	3	19	56	21	17

Table 1: Violations on the IPE database using the search term ‘textiles.’ Note the spike in violations in 2013 and 2014 as regulators looked to clampdown on polluting textile mills and stringently apply new regulations for the industry. The full figures were not available for 2015 at the time of writing but indications were the trend was continuing upwards.

medium sized dyeing and finishing enterprises in China had gone out of business in the wake of more stringent pollution regulations.

Another trend to emerge from our research was that there was a marked reduction in violations from 2014 – 2015 across all search terms. The explanation provided by the IPE for this was the time-lag in terms of both records being disclosed by government bureaus and records being uploaded to the IPE database.

A third clear trend to emerge from our research was that for all the search terms we examined, there was a dramatic jump in violations from 2012 onwards. As indicated above and in Chapter 5, the legislative standards for printing and dyeing wastewater were strengthened considerably in 2012, with an associated increase in enforcement. To this end, this marked spike in violations is – to some extent – encouraging and can be viewed as the legislation

taking effect, and enforcement actually taking place (a lack of enforcement always being a concern when legislation of this nature is introduced).

Another observation from our research was the significant focus of records in Jiangsu, Guangdong and Zhejiang, with all three of these provinces containing significantly more violation records than Fujian and Shandong. The explanation for this is two-fold, according to the IPE. They told us: “Firstly, these three provinces are home to the majority of textile wet processing suppliers in China, containing more such enterprises than Fujian and Shandong. Secondly, Zhejiang and Jiangsu have both become leaders in environmental information disclosure and monitoring, with Zhejiang in particular leading the way.”

Finally, in Shandong, the number of violations across all areas was found to have risen considerably in 2015. The IPE told us that the most plausible