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**The Competitive Edge:
Ten Reasons Why The
Global Textile Industry
Demands Quality Cotton**

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Why Does Quality Cotton Matter?

There are ten factors that impact today's global textile industry and force mills to consider quality cotton ...



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1. Textile Industry Consolidation
2. Continuing Overcapacity
3. Export Competition
4. Consolidation in Raw Materials
5. Shifting Investment Flows
6. Slowing Growth in Global Market
7. Consolidation of Retail Sector
8. Government Policy
9. The Impact of China
10. The Impact of China's Competitors



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Reason 1:

Textile Industry Consolidation

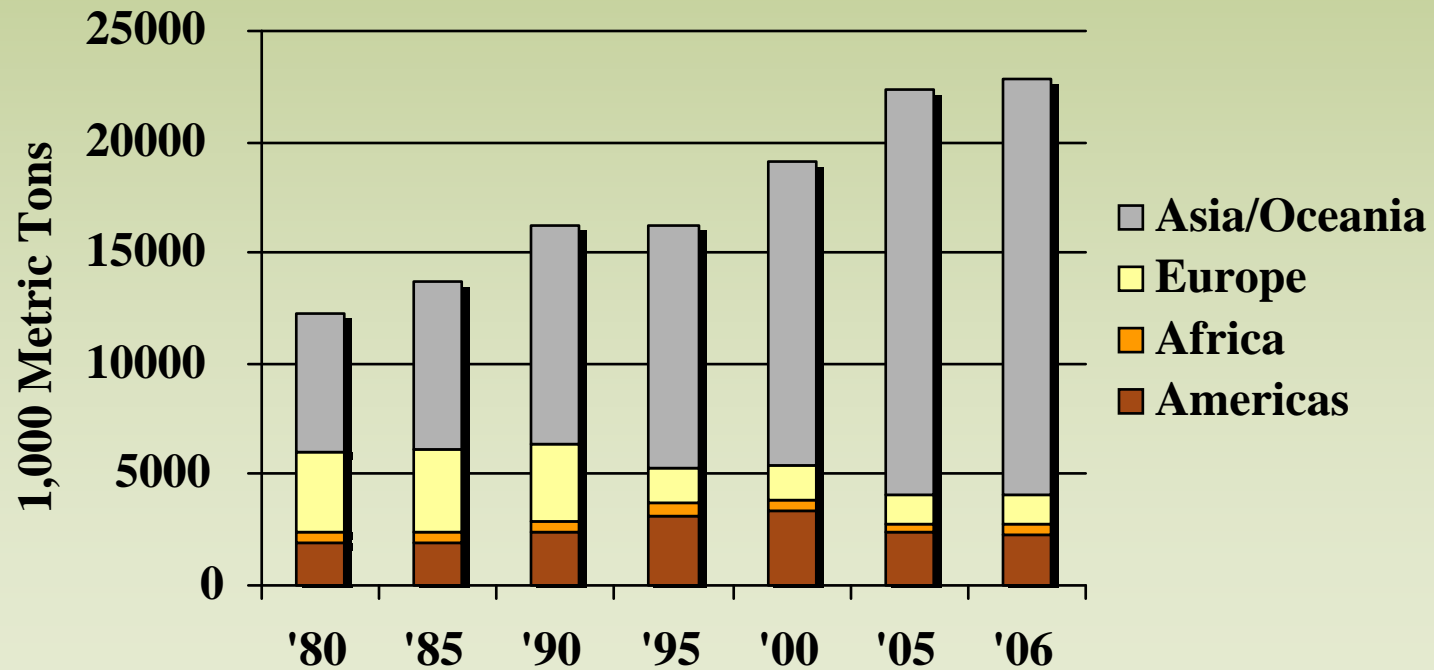
- Decline of U.S., E.U. industries
- Significant reorientation of industries in Korea, Japan, Taiwan and Hong Kong
- Shifting of investment resources away from U.S. and E.U. in favor of China, India, Vietnam, etc.



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Global Production of Cotton Yarn



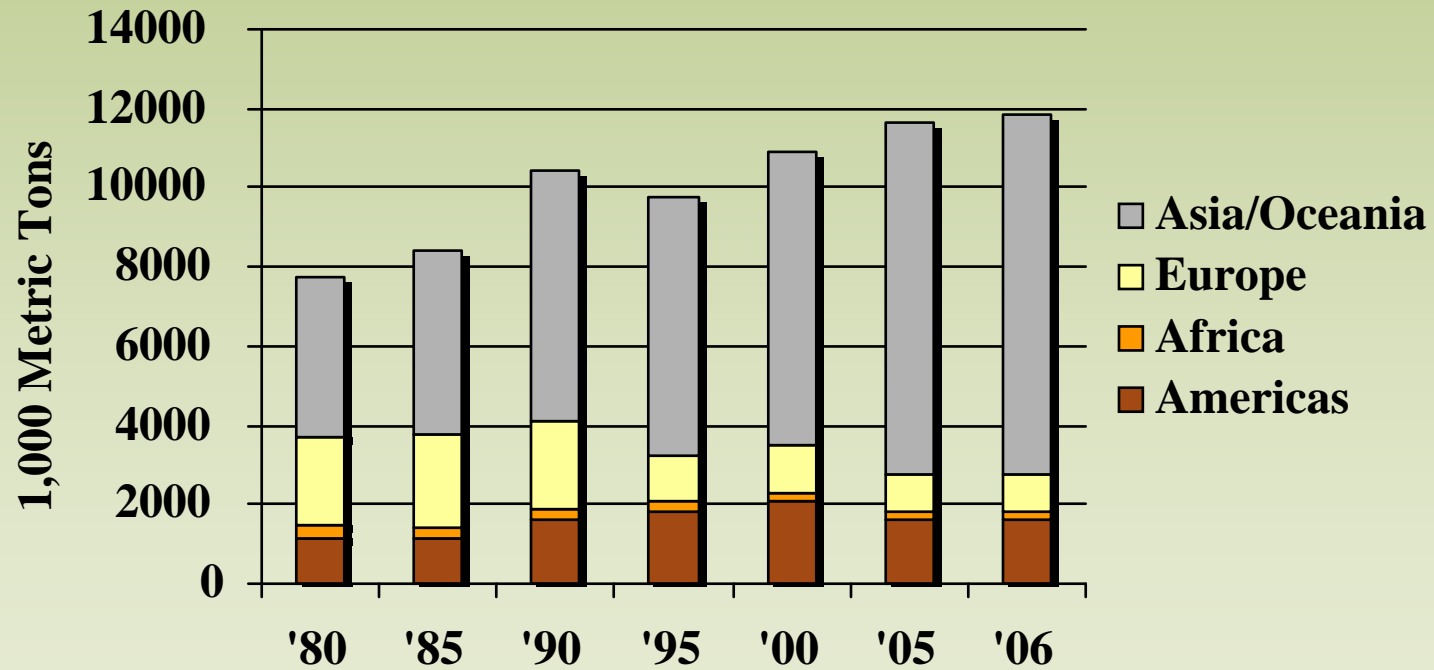
Source: ICAC



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Global Production of Cotton Fabrics



Source: ICAC



Reason 2:

Continuing Overcapacity

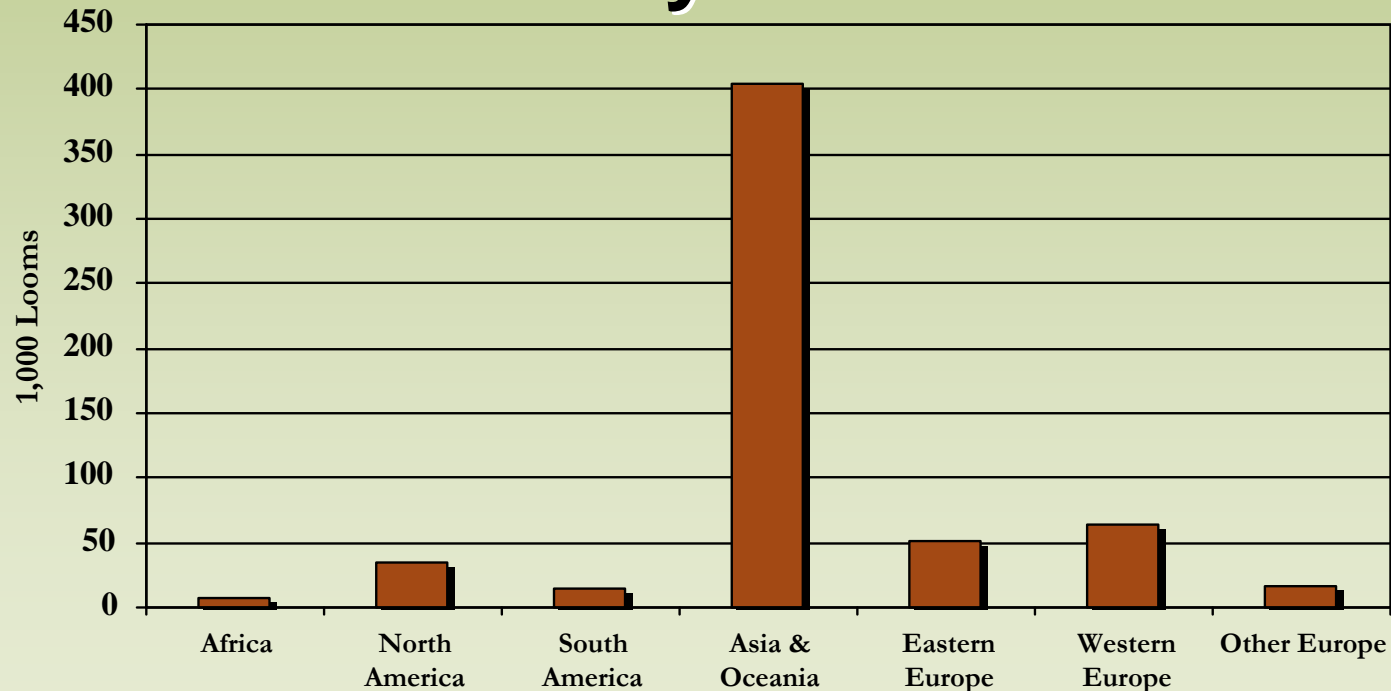
- Rush to build new investment in China has resulted in nagging overcapacity in some sub sectors
- Government incentives in India have also contributed to inefficient overcapacity in sub sectors of textile industry



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Too Much of a Good Thing? Asia Dominates the Global Textile Machinery Business



(Cumulative Weaving Machine Shipments 1990-1999)



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Reason 3:

Export Competition

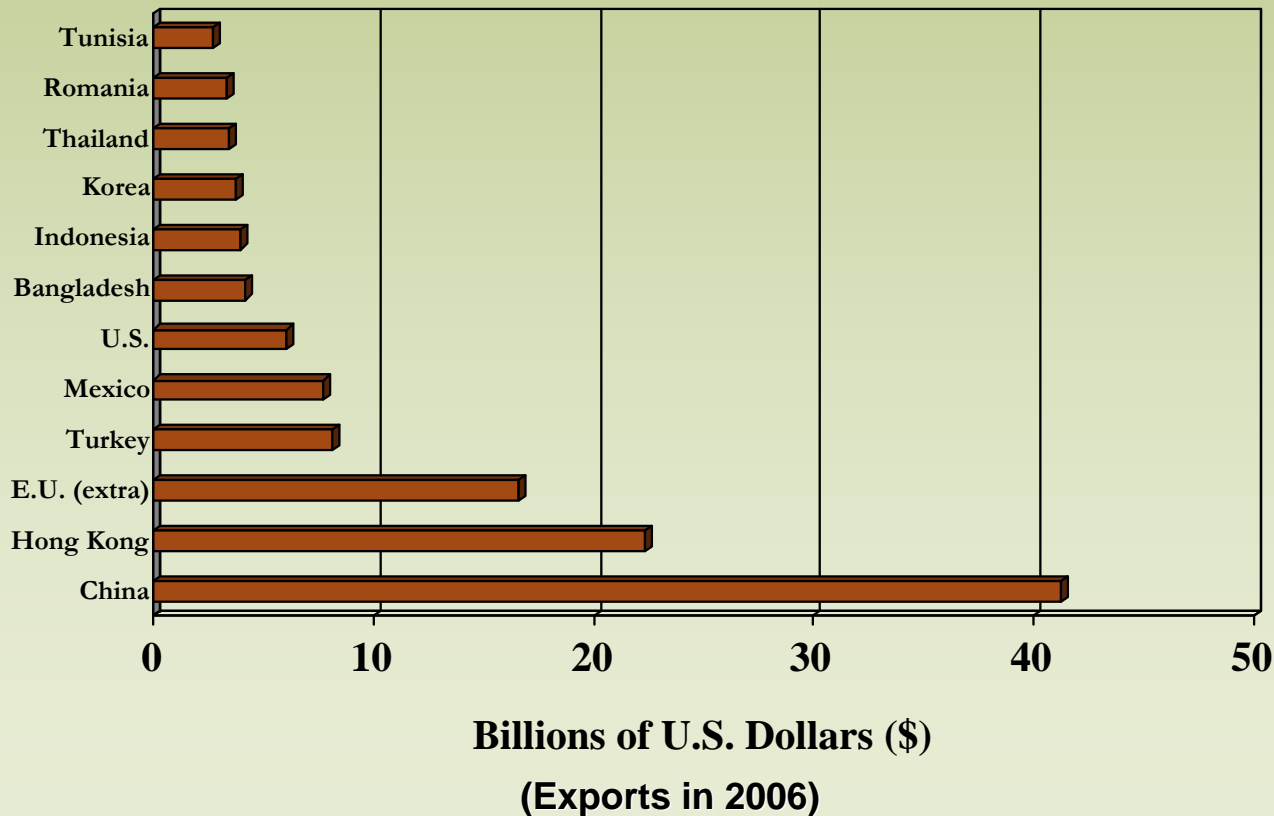
- Until overcapacity problems are rationalized throughout Asia, buyers of goods produced there will have a significant upper hand
- Too easy for sourcing companies to play suppliers one off against each other



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Top Global Exporters of Apparel





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Reason 4:

Consolidation in Raw Materials

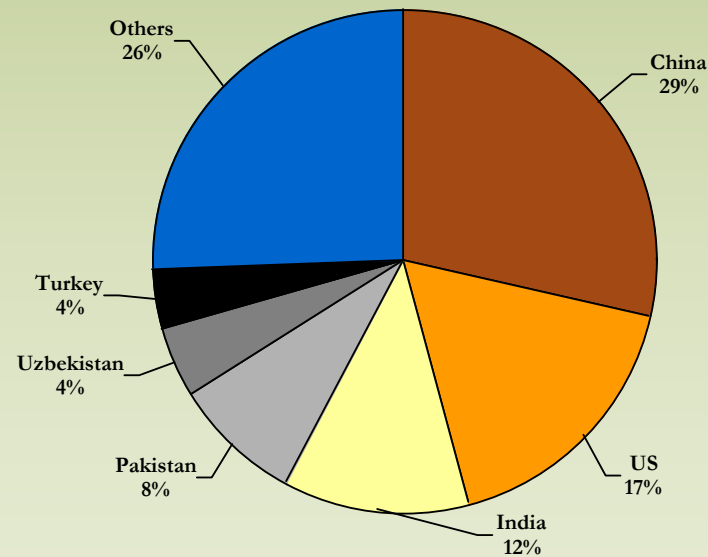
- Limited number of growing regions for cotton in the world
- Synthetic fiber production tends to move near the centers of textile production
- Also suffers for overcapacity and government policies



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More Than Half of Global Cotton Production is in China, US and India



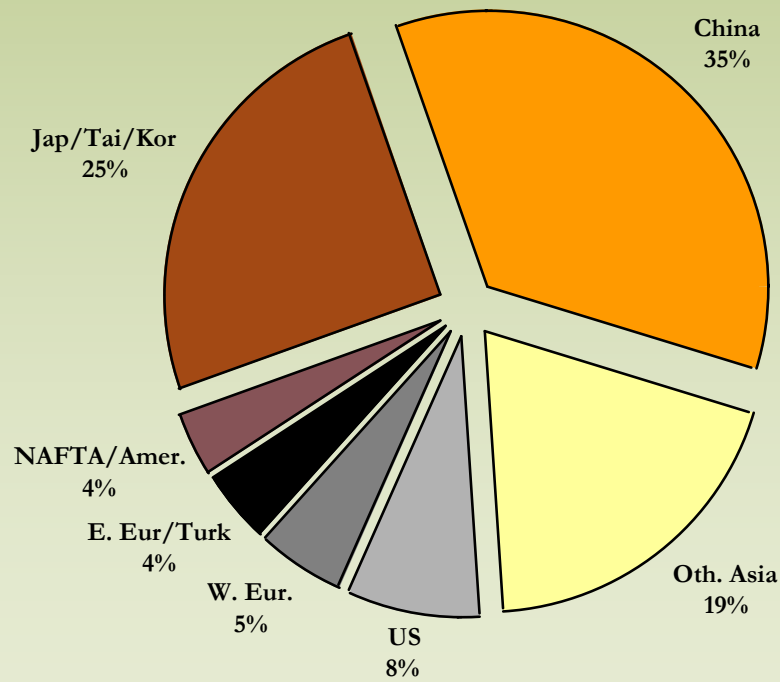
Based on Millions of 480-lb Bales
2006/7 Projected Production



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More than Three-Quarters of Polyester is Produced in Asia



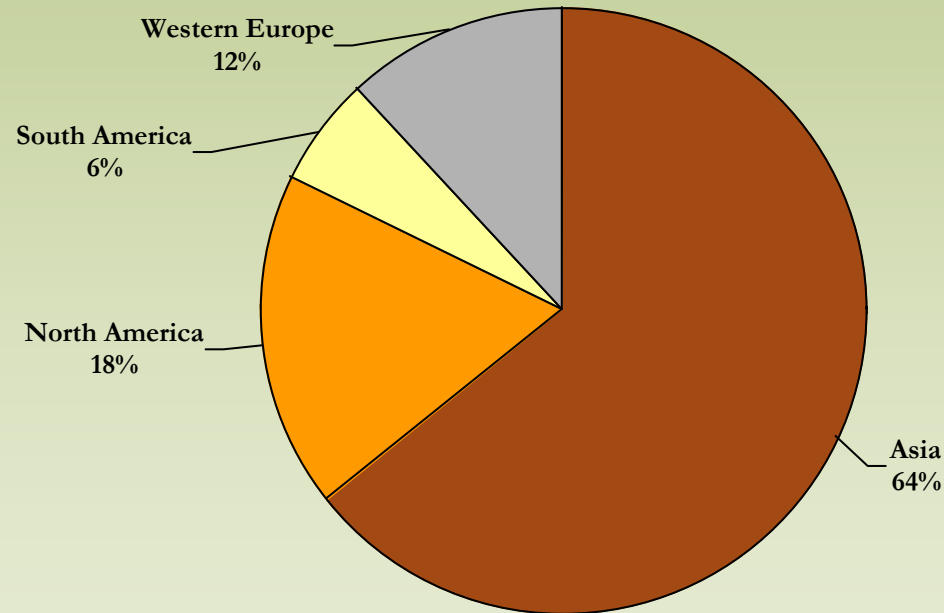
2006 in Billion Pounds



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Asian Mills Consume Two-Thirds of All Fiber



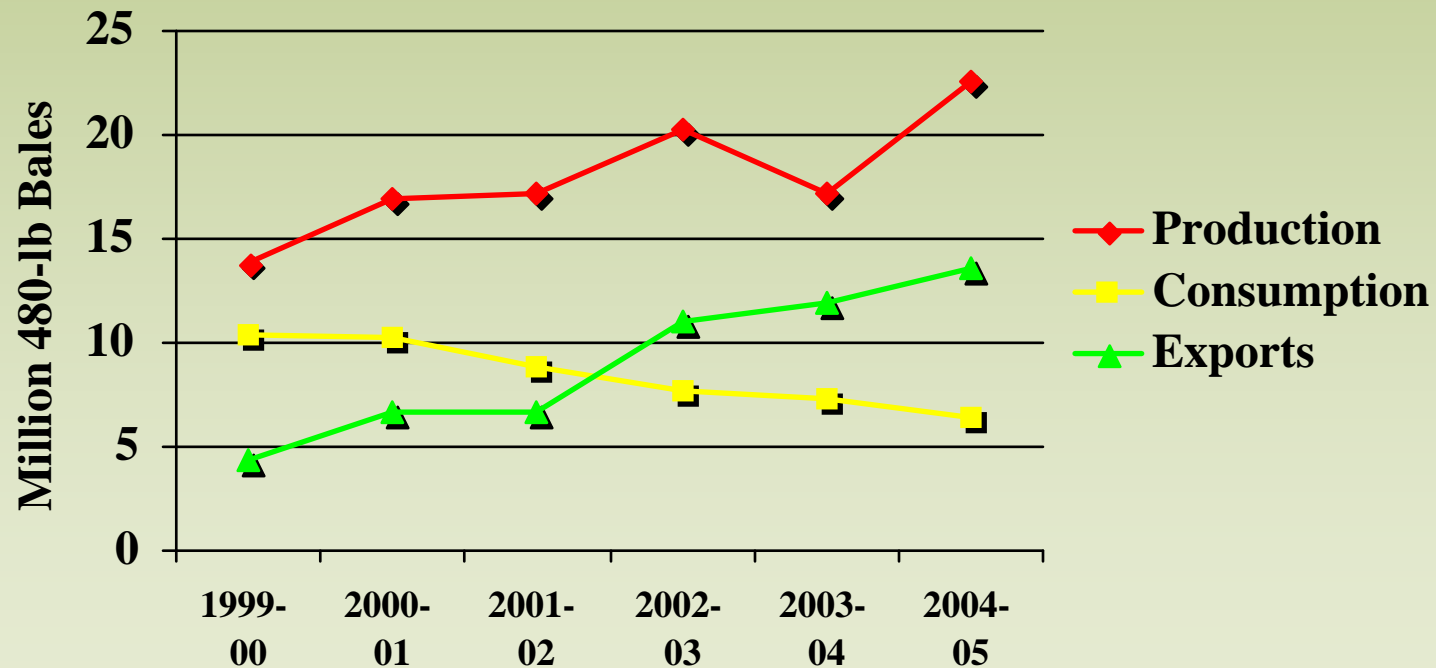
**Billion Pounds, Cotton, Synthetics, Wool
2006**



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Result: U.S. Evolves into an Exporter of Cotton

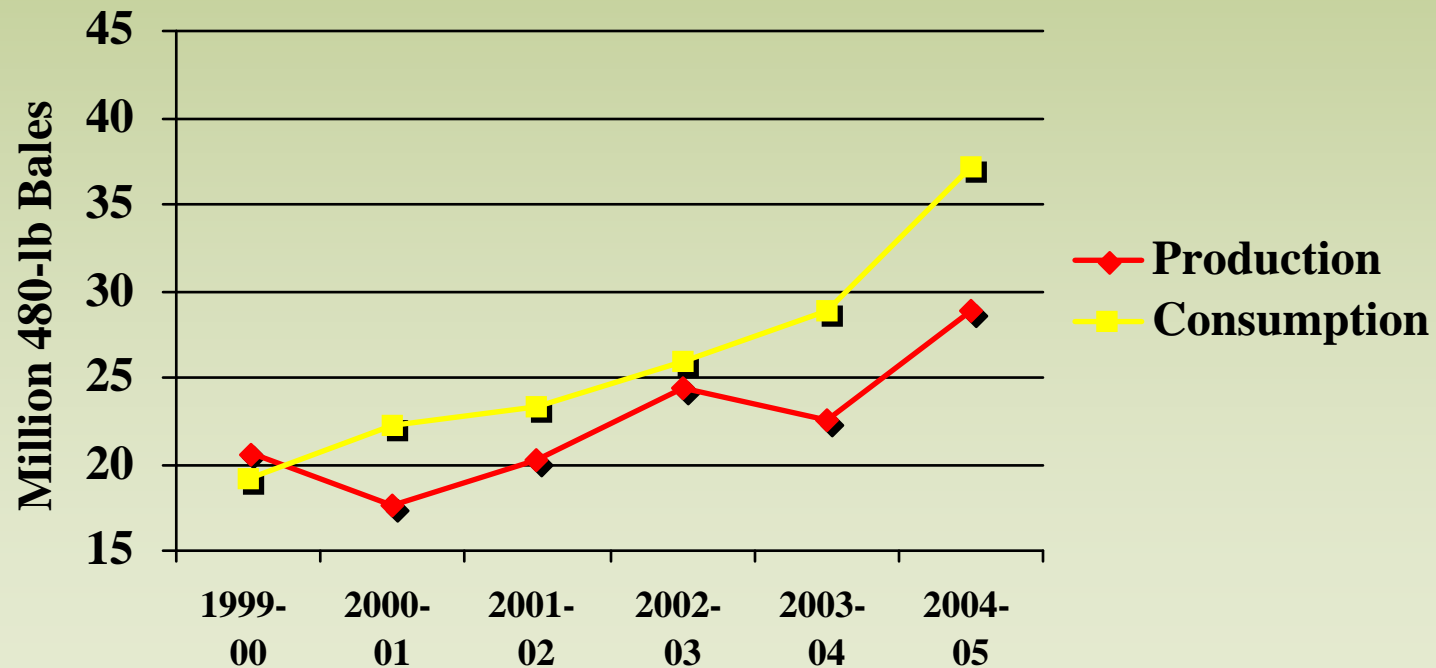




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Result: China Evolves into an Importer of Cotton





Reason 5:

Shifting Investment Flows

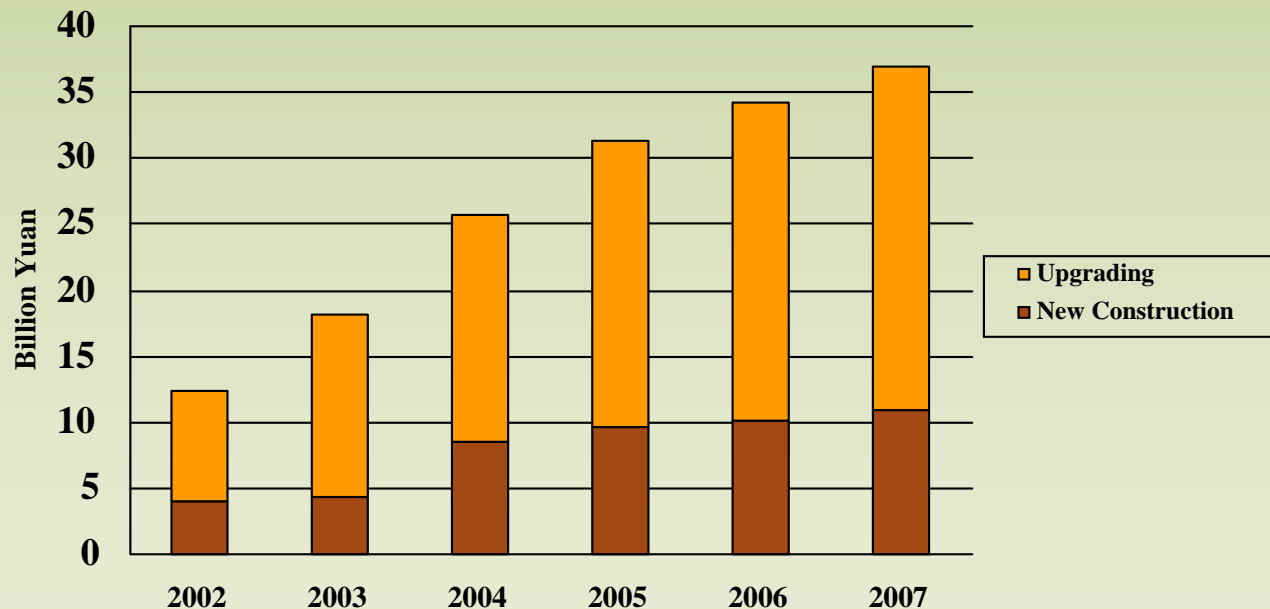
- Enormous influx of capital into Asian region
- Influx has helped to build the economies of Asia, but has also contributed to overexpansion in some sub sectors of textile industry



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FDI in Textile Industry Sets the Stage for China's Future Growth





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Reason 6:

Slowing Growth in Global Market

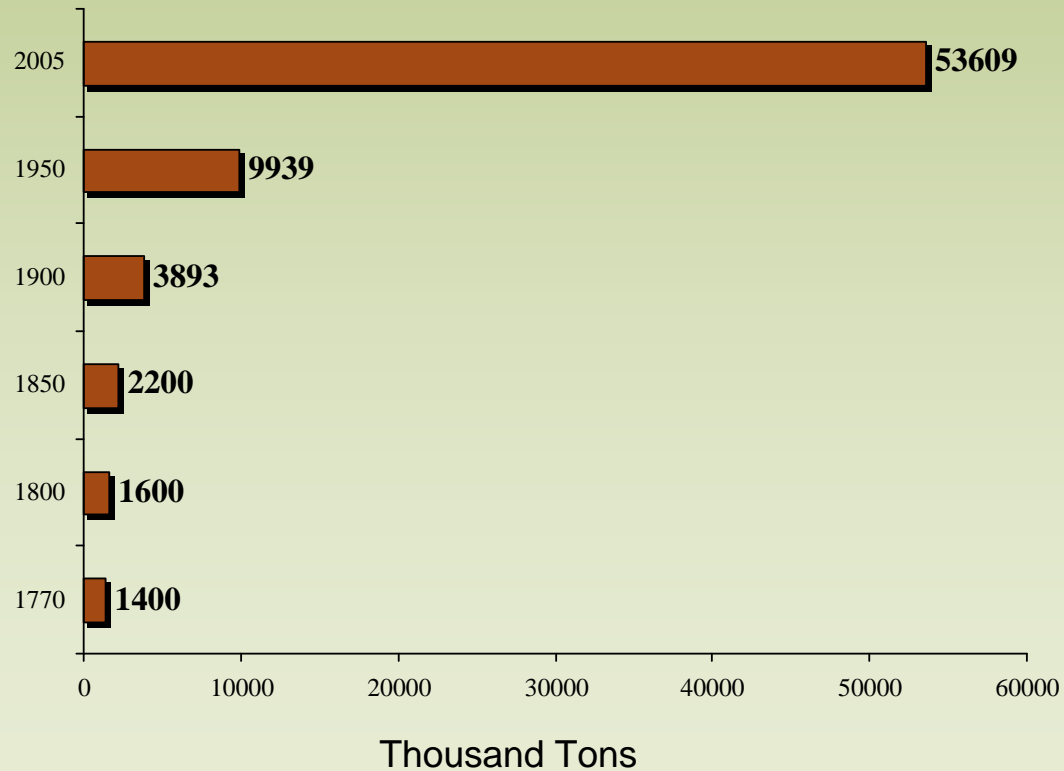
- One word typifies global textile consumption in the 20th century: growth
- However, another word typifies global textile consumption in the 21st century: moderation



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Worldwide Textile Consumption Has Soared Over the Years, but ...



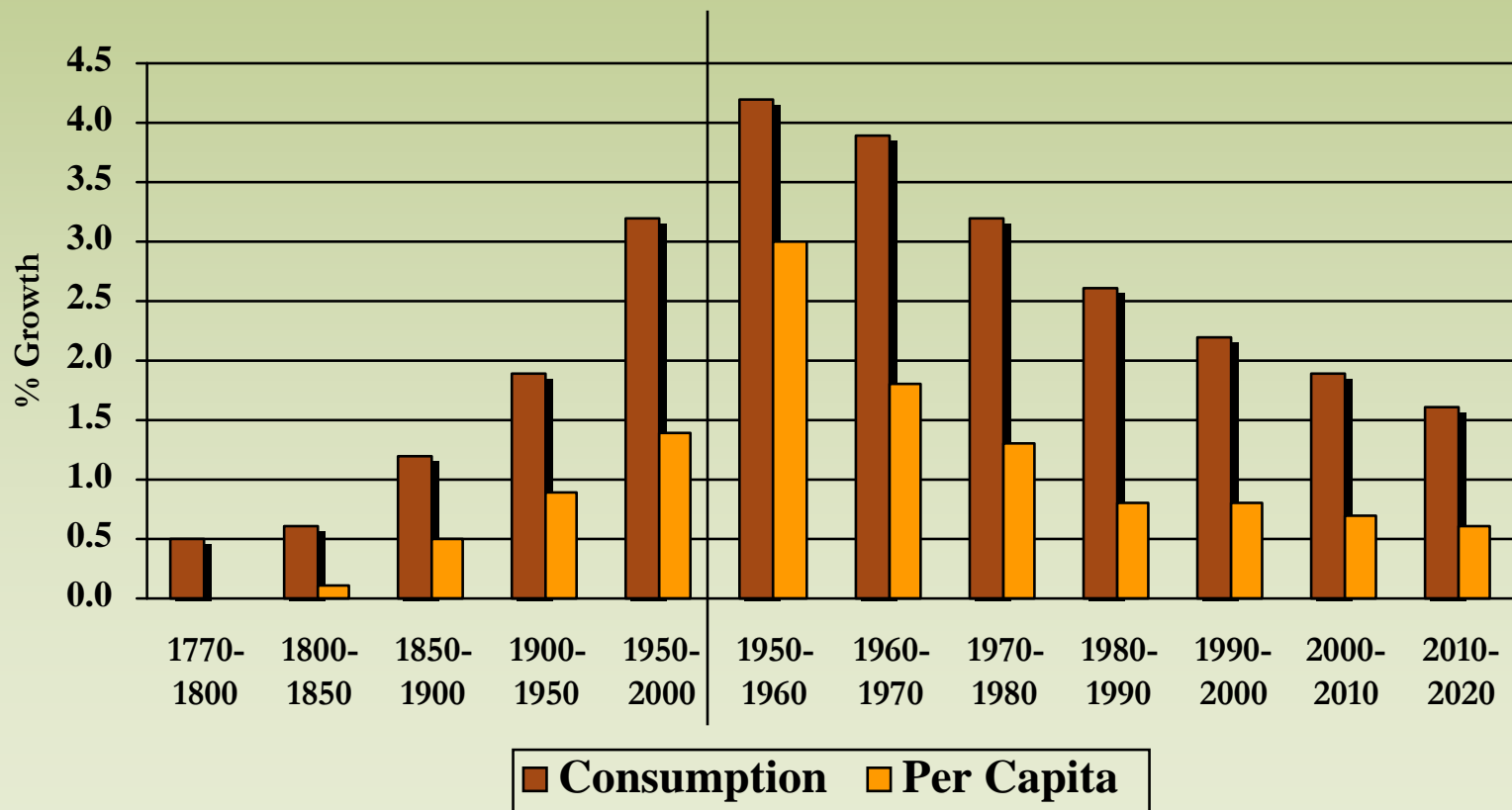
Source: ICAC, Wool Bureau,
UN/FAO/Globecot Estimates



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... The Rate of Growth has Slowed





Reason 7:

Consolidation of Retail Sector

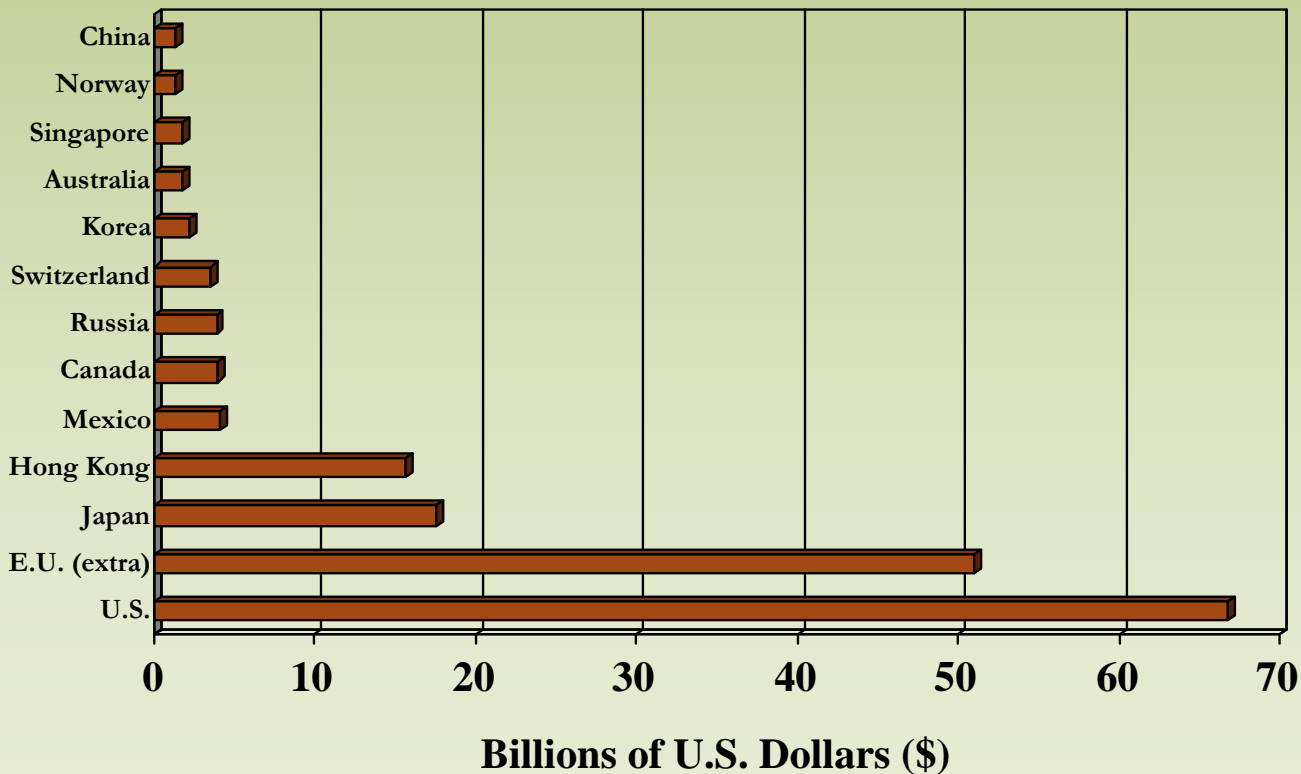
- Today, 20 retail firms make up 55% of the global market for apparel
- “Big Box” stores have driven small retailers as well as many traditional department stores out of business
- Result: Both top and bottom of retail business has been heavily consolidated into the hands of a few powerful buying organizations



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Largest Importers of Apparel



Billions of U.S. Dollars (\$)

(Imports in 2006)



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Reason 8:

Government Policy

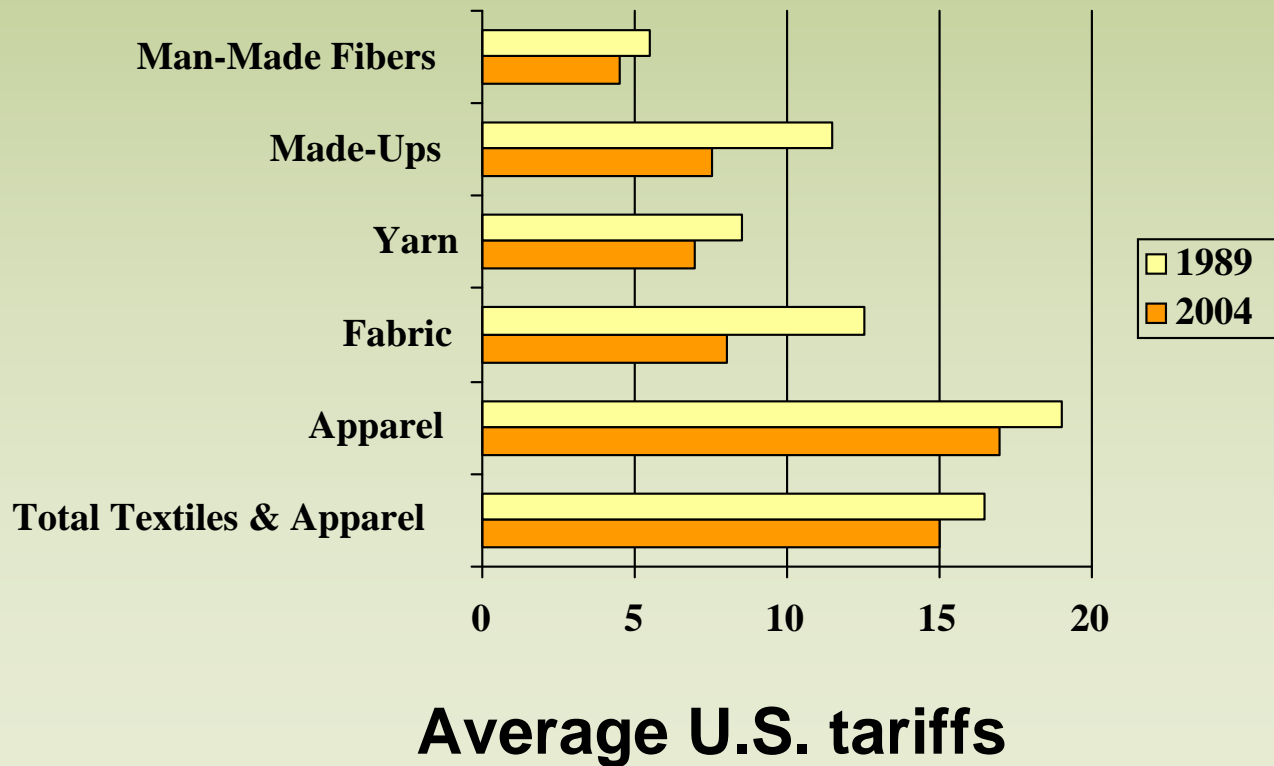
- WTO/ FTA Agreements
- Farm Bill policy
- Incentives to over produce
- Quota restrictions result in shifts in global capacity and efficiencies
- Have U.S./E.U. quotas on Chinese exports actually helped other countries such as Vietnam and Cambodia?



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U.S. Tariff Cuts at End of MFA

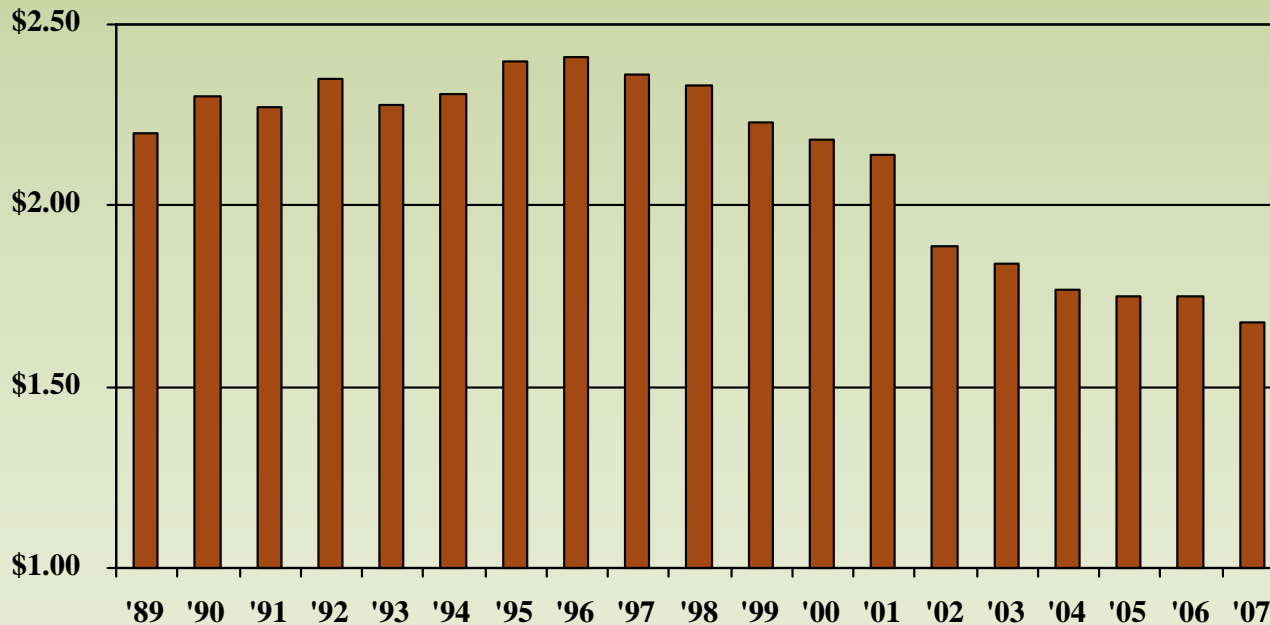




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U.S. Imports of Apparel: Average Prices



**U.S. \$/Square Meter Equivalent as an Average for all
Textile/Apparel Imports**



Reason 9:

The Impact of China

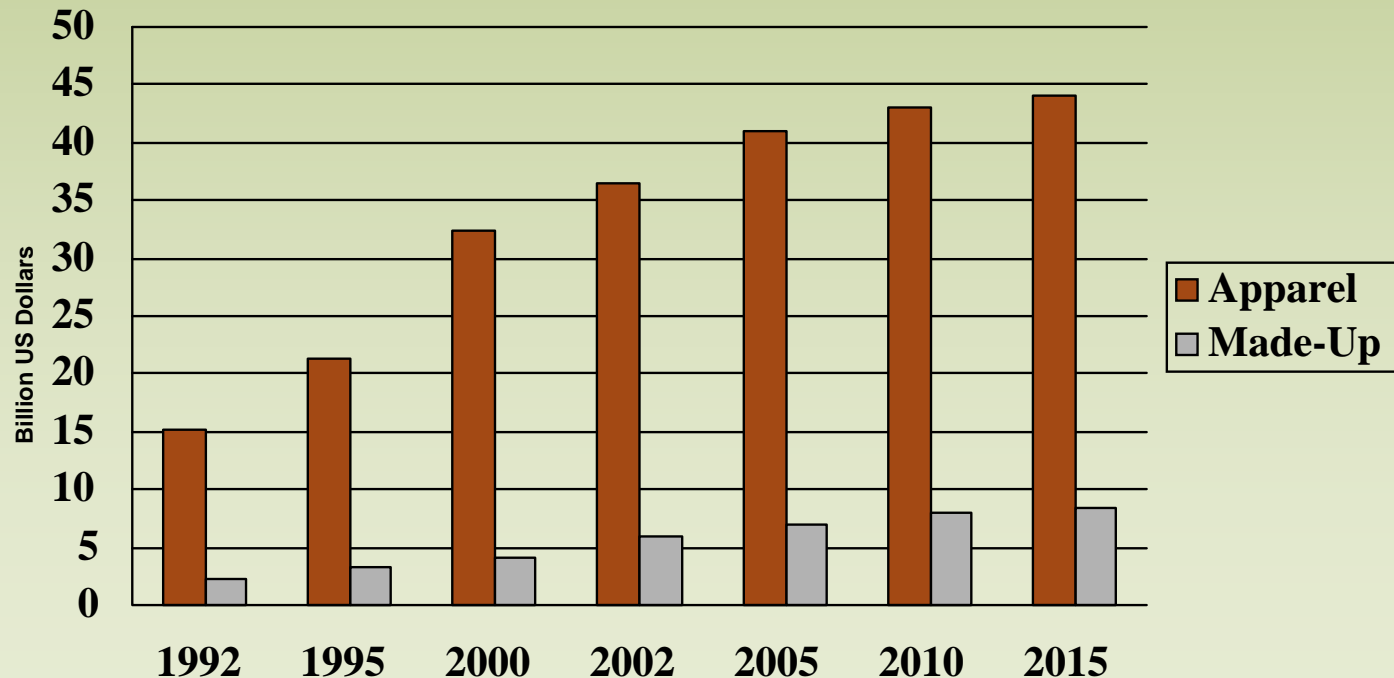
- Quickly grew to dominate global textile markets
- Key exporter of finished apparel, but is also a key importer of textiles
- Over time, as China's economy grows investment may move out of textiles into other higher value-added industries
- China could become a net importer of apparel in the future



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China Will Have Rapid Apparel/Made-Up Export Growth Thru 2010

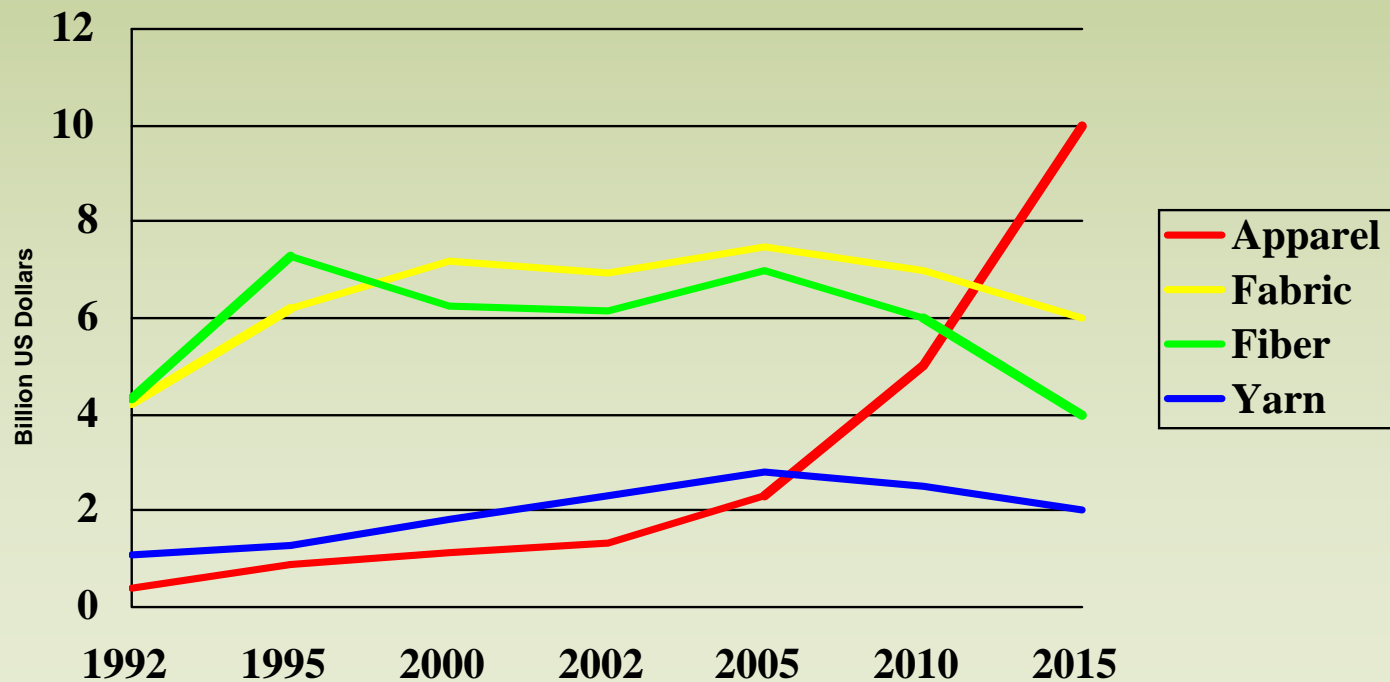




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But Will be Tempered by Rising Chinese Imports of Apparel, Replacing Domestic Output Over Time





Reason 10:

The Impact of China's Competitors

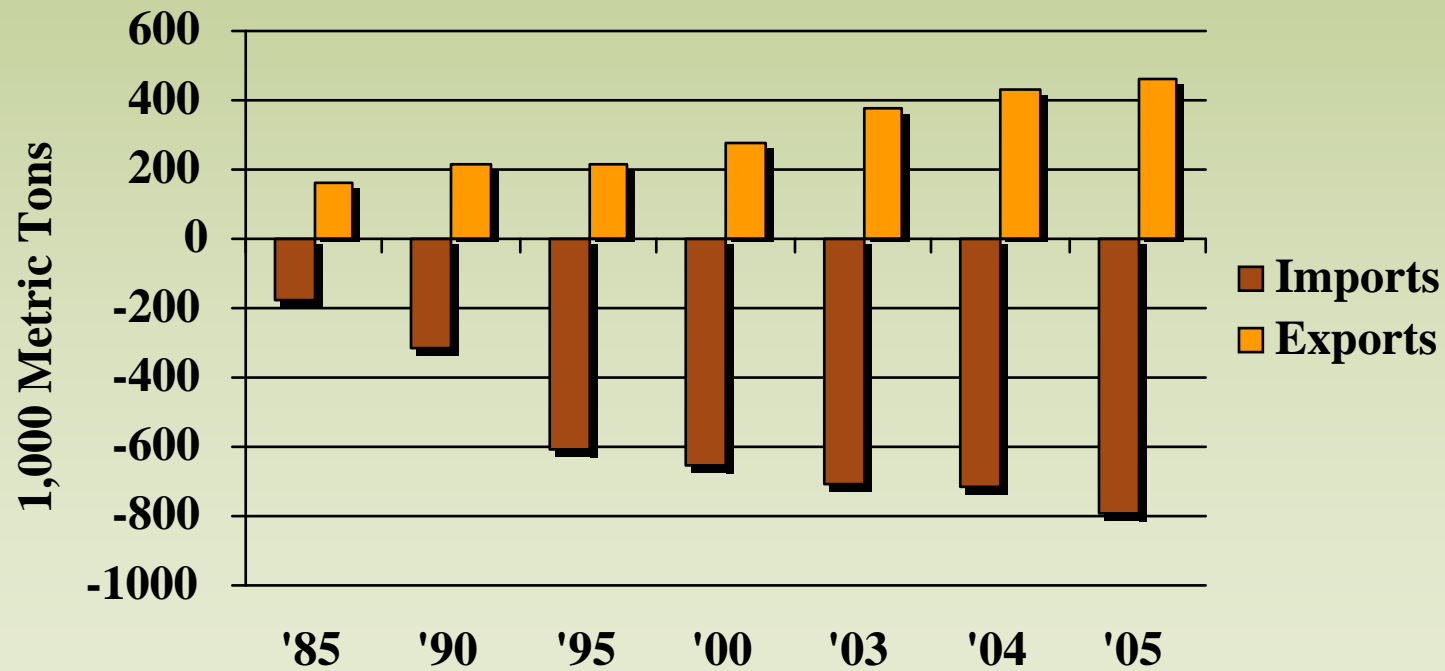
- Indian and Pakistani textile industries are major suppliers of yarns to China
- Bangladesh is a key competitor in apparel
- Will Vietnam and Cambodia become the apparel “tigers” in the future? Watch the textile investment to find out!



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China: Imports/Exports of Cotton Yarn



Source: ICAC



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Concluding Remarks

- Global shifts in textile production ... driving shifts in cotton purchasing patterns
- Requires close attention to quality, price and varieties
- In the long run, U.S. cotton export sales will not just support global textile exports but rising domestic textile consumption in China and elsewhere



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Concluding Remarks

- China's growth will be offset by declining consumption in the developed world
- Further changes to the global textile business will be affected by changing demographics
 - Age
 - Buying power



Concluding Remarks

- China will only be a textile export juggernaut for a fixed period of time ... perhaps 10 years, 15 years?
- In order to maintain market share, suppliers will be forced to evaluate their focus on quality versus quantity, thus favoring quality cotton over traditional options
 - Choice of production
 - Future viability at stake



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Concluding Remarks

- Will new free trade agreements accelerate global shifts in the textile business?
- Biggest wildcard: How will China “The Consuming Nation” alter the global textile business?