



FORMAT FOR
PRINTING
sponsored by

XEROX.
Color.

May 27, 2005

STYLE & SUBSTANCE

Amid Trade Tension, Buyers Flood China

**Clothing Firms Are Seeking
Quick Deals Before Tariffs;
Cost Advantages to Remain**

By **MEI FONG**
Staff Reporter of THE WALL STREET JOURNAL
May 27, 2005; Page B1

Despite the imminent threat of steep tariffs and other potential trade barriers, John Berg headed to China last week and placed sample orders for bathrobes, sheets, towels and about 15 kinds of bedroom slippers.



Mr. Berg, a partner of Sweden's Bed & Bath Hotel Supplies, which supplies the Hilton and Radisson hotel chains, is part of a group of retail buyers who are currently in China looking to source


everything from uniforms to underwear. Representing 87 companies, the group collectively boasts annual sales of more than \$13 billion and includes such apparel stalwarts as Britain's **Marks & Spencer Group PLC** and Paul Smith Ltd.; New York's **Warnaco Group Inc.**; and the Fruit of the Loom unit of **Berkshire Hathaway Inc.**, Omaha, Neb.

"I've never seen anything like this," says Fawn Evenson, vice president of trade group American Apparel and Footwear Association. She says normally buyers source alone, or work in groups no larger than 15 or 20 people.

Even more surprising: The trip is taking place amid growing trade tensions between China and the U.S. and Europe over the huge influx of Chinese textiles into their markets after the World Trade Organization recently ended a 40-year-old global textile-quota system regulating China's textile and clothing exports. The U.S. already has imposed quotas on some Chinese products, and it and the EU are moving toward implementing additional restrictions. China, meanwhile, has introduced its own tariffs on some textiles, with additional increases in rates set to take effect in June.

None of this appears to have damped the

DOW JONES REPRINTS

 This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to your colleagues, clients or customers, use the Order Reprints tool at the bottom of any article or visit:
www.djreprints.com.

- See a sample reprint in PDF format.
- Order a reprint of this article now.

Start a **FREE**
trial of the
Online Journal



Subscribe to
The Print Journal



Free US Quotes:

- Symbol
 Name



Get **FREE E-Mail** by topic

Check Out our **Mobile & Wireless Services**

DIGEST OF EARNINGS

Details of the latest corporate earnings reported for FREE.

enthusiasm of the group of buyers currently in China. They say China's role as a garment-sourcing location is simply too attractive to ignore. Some are looking to realize quick, short-term savings from rushing orders through before more protectionist barriers kick in on some clothing categories. Others seek cost savings for clothing items that aren't likely to be hit by the quotas. Many say they are laying the groundwork for the future as textile-trade barriers ease, ending in 2008 under WTO rules.

"Anybody who's an apparel maker has to consider China seriously," says Simon Griffin, sourcing manager at high-end menswear label Paul Smith, which primarily buys its products in Italy. Frank Yuan, chief executive of ASAP Show, the El Monte, Calif., company that organized the group's trip, says trade barriers aren't going to stop China from being "the top garment maker in the world."

During the three-week tour, which runs until June 4, the group is visiting China's main garment-production centers, including the southern city of Guangzhou and Shanghai, the eastern port city that is the country's financial and fashion center. The group also is stopping at shopping destinations unfamiliar to foreign buyers, such as Keqiao Textile Street in Shaoxing, a three-hour drive from Shanghai. The town boasts 20,000 textile showrooms supplying fabrics, trimmings and buttons crammed along several narrow streets. Keqiao supplies many of China's domestic producers and is the Chinese fabric world's "best-kept secret," Mr. Yuan says.

China's advantages are hard to ignore. Its average labor costs are 90% lower than in the U.S. and Italy, and its manufacturers stitch together garments faster than rivals in other low-cost countries such as India and Vietnam. China has significantly increased investment in the textile sector in recent years, importing \$3.5 billion of textile equipment last year, a 275% jump over 1998's total.

While China supplies the lion's share of consumer electronics and sneakers on the global market, its clothes-making potential still is relatively untapped; the now-defunct global quota system resulted in only 30% of China's garment makers producing for global markets, according to official Chinese statistics. Despite this, China made 17% of the world's garments in terms of value last year, say industry analysts. Bain & Co., New York consultants, estimated in a report this week that Sweden's low-cost clothing giant **Hennes & Mauritz AB** buys about one-third of its clothing from China, and **Wal-Mart Stores Inc.**, **Gap Inc.** and **Marks & Spencer** each buy less than 20%.

Even some foreign buyers affected by quotas are still bullish about China. The U.S. this week imposed "safeguard" quotas on some undergarment categories, yet Warnaco, which currently sources about 8% to 10% of its apparel from China, is exploring additional opportunities to increase apparel orders from there following the end of this year's safeguards, says Warnaco's director of investor relations, Deborah Abraham. According to U.S. Customs textile-enforcement chief Janet Labuda, the recently imposed safeguards will expire at the end of 2005 calendar year and don't cover a full 12-month span.

Like other WTO member countries, the U.S. can restrict Chinese imports for the next three years if they are shown to disrupt local markets. Under WTO regulations, countries can cap the annual increase to 7.5% above the previous 12 months' volume on a year-to-year basis. Since proving market disruption requires the collection of import data over several months, nimble buyers can still source from China during these window periods, say people in the industry.

What's more, foreign buyers should have more room to buy from China next year, as quotas imposed in 2006 would be calculated from a larger base, taking into account the sharp rise in

Chinese exports for the first five months of this year, says the apparel association's Ms. Evenson.

Industry executives say they can't predict whether the combined effect of China's recently announced tariff increases and the safeguard quotas imposed or threatened by its trading partners would wipe out potential cost savings from buying Chinese products. Even so, the sheer scale of Chinese factories makes the country a desirable production base for garments that need to be produced in large volume, says Norman Mooney, sourcing manager for Fruit of the Loom.

None of the manufacturers in the nine countries that the Bowling Green, Ky., underwear maker currently sources from -- including India and Egypt -- comes close to matching Chinese factories in their economies of scale, Mr. Mooney says. During this trip, "I saw factories the size of airplane hangars," he marvels.

Fruit of the Loom, which hasn't purchased from China before, has spent more than a year exploring sourcing options in the country. Mr. Mooney says the company won't make any decisions on orders until it learns more about safeguard quotas and export-tariff details.

Some buyers are hoping that in spite of such measures, they still will be able to find cost savings from hungry Chinese manufacturers, many of which have significantly expanded production capabilities in anticipation of global free trade and are facing difficult times.

In the eastern city of Hangzhou, Gao Zhiwei, chairman of beleaguered apparel maker Hempel International, estimates that the company's export revenue this year will fall at least 20% from about \$121 million in 2004 because of quotas and tariffs. The company, which produces for Gap, **Jones Apparel Group** Inc. of Bristol, Pa., and the Zara unit of Spain's **Inditex** SA, says it has received no new orders for pants since July last year.

Eager to drum up business, Hempel threw open its factory doors to the ASAP buying group Monday, with Mr. Gao proudly exhibiting a state-of-the-art assembly line. With restrictions imposed by his own country and its trading partners, "we are hurting on both sides," sighs Mr. Gao. Still, he says he has been heartened by the large number of buyers in the group, several of whom asked for samples and further product information.

--Ellen Zhu contributed to this article.

Write to Mei Fong at mei.fong@wsj.com¹

URL for this article:

<http://online.wsj.com/article/0,,SB111713976041244360,00.html>

Hyperlinks in this Article:

(1) <mailto:mei.fong@wsj.com>

Copyright 2005 Dow Jones & Company, Inc. All Rights Reserved

This copy is for your personal, non-commercial use only. Distribution and use of this material are governed by our [Subscriber Agreement](#) and by copyright law. For non-personal use or to order multiple copies, please contact Dow Jones Reprints at 1-800-843-0008 or visit www.djreprints.com.