INSIGHTS | IDEAS | BREAKTHROUGH

The Edge

by COLLINS GROUP INTERNATIONAL, LLC. & wazir ADVISORS

Investment Opportunities in Textiles in the USA

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Executive Summary

Over the years, a major part of the textile and apparel industry has moved away from “higher cost” developed countries like the USA, EU and Japan to “lower cost” destinations like China, South Asia and South East Asia. While China continues to dominate global textile manufacturing, it is slowly becoming less competitive due to increasing costs of manufacturing. For example, China’s labour costs have increased at the rate of 25% annually in the last 7 years compared to growth of 1% in the USA. Costs are also rising in other lower cost countries, making them less competitive in textile manufacturing. Apart from this, global fashion trends are changing and buyers are increasingly looking for faster turnaround and more flexible manufacturing platforms. These factors are forcing textile companies to look for newer strategies and modify their sourcing and manufacturing destinations.

In this context, due to several advantages, the USA is increasingly becoming an attractive investment destination for specific textile segments. The increasing investment attractiveness of the USA textile sector arises from a combination of multiple factors including strategic advantages, operational advantages, government incentives and business ecosystem.

Strategic advantages of investing in the USA include the market attractiveness, Free Trade Agreement (FTA) advantage and the “Made in the USA” brand image. Market attractiveness arises from the increasing exports and a large domestic apparel market of the USA. The USA currently exports US$ 25 bn worth of textiles and apparel with growth rate of 3% CAGR in last 10 years and a higher growth of 5% CAGR in last 4 years. Within this, yarn and fabric exports constitute around US$14.5 bn. More than 60% of these exports are targeted to the FTA partners of the USA including countries under NAFTA, CAFTA - DR, CBI and AGOA, with onward processing particularly attractive within NAFTA and CAFTA - DR.

NAFTA and CAFTA - DR include the “Yarn Forward Rule” under which yarn must be spun within the USA and all other material that go into garment manufacturing must originate from one of the partner countries in order to qualify for tariff free re-entry to the USA. This offers a large market opportunity for yarn and fabric manufacturers to supply to these FTA countries and take benefit of duty free trade. Currently the USA’s import duty on garments ranges from 9% to 32% for all the major apparel categories, but this duty can be saved by investing in yarn and fabric manufacturing in the USA and getting garment converted in one of the FTA countries.

The domestic apparel market of the USA is worth US$301 bn and also offers huge opportunity for companies to leverage local manufacturing. There is also an increasing preference of “Made in the USA” products among consumers due to better quality, quicker availability and product safety, giving further impetus to manufacturing in the USA.

In terms of operational advantages, the USA offers abundant availability of high quality cotton at competitive prices. It is the 3rd largest producer of cotton in the world after India and China with a total production of approximately 3 billion kg. Also, the quality of cotton in the USA is very good and good variety of cotton qualities are available for both coarse yarns as well as fine yarns. Companies also benefit from the ability to source cotton fiber throughout the year and hedging on ICE futures. Apart from this, power supply in the USA is highly reliable and continuous without any power failures. Power cost is one of the lowest among key competitors at around 5 cents/kwh. Also capital interest rates in the USA are much lower than competitors at 4.25% making it investment friendly. Presence in the USA also helps in reducing lead times for garment sourcing, compared to sourcing from Asian countries.

The US Government is also taking initiatives to attract investments in textiles. Various state governments are offering good incentives including job development grants, income tax cuts etc. to investors. For example, South Carolina offered Keer Group, China, around US$ 4 mn as rural infrastructure grant apart from an additional US$7.7 mn bond to attract the company to invest in yarn manufacturing. Similarly North Carolina offered US$ 3.5 mn state Job Development Investment Grant to Gildan Activewear, Canada, to set up their factory and also has lowered the corporate and personal income tax.

In addition to the above factors, the USA offers a strong and conducive business ecosystem in terms of very good support infrastructure like R&D, logistics and supply chain infrastructure, education infrastructure, apart from a stable political and social environment.

The USA also ranks highly in terms of overall competitiveness in attracting Foreign Direct Investment (FDI) and as a favourable investment destination. Due to the increasing attractiveness of the USA, several companies from different countries including China, India, Japan, Korea etc. have considered and/or planned investments in the last couple of years. It is also worth noting that companies which invest in the USA in enterprises that create jobs can be eligible for receiving preferential treatment in securing a green card in the US (HB5 visa program.)

In terms of segments, spinning, weaving, knitting and integrated segments are attractive to invest in the USA due to above explained strategic advantages and more importantly the cost advantage of manufacturing in the USA. For example, compared to China, cost of manufacturing spun yarn is 22% lower in the USA, while that for rotor yarn is almost 31% lower. Similarly cost of knitted fabric production is 20% lower and woven fabric production is 11% lower in the USA than in China. The major reasons for the cost advantage are the lower cost of power and raw material (which are major cost components) in the USA compared to China and other competitors. Integrated segment and technical textiles segments are also attractive as they can leverage on economies of scale and high automation.

Overall the USA is becoming an attractive investment destination especially for textile manufacturing and offers very good opportunity for global textile companies to look at investments in the USA in the near future, especially with strong incentives being provided by the US Government in attracting investments in this sector.

Why invest in the USA?

Over the years, a major part of the textile and apparel industry has moved away from developed countries like the USA, EU and Japan to lower cost destinations like China, South Asia and South East Asia. One of the major reasons for the shift in production has been the comparatively lower cost of manufacturing and labour in these locations. However in recent times interest in investment in the USA has increased for a few specific segments of the textile value chain due to several interconnected factors.

The increasing investment attractiveness of the USA textile sector arises from a combination of multiple factors, which may be classified into four broad heads:

- Strategic advantages
- Operational advantages
- Government incentives
- Business ecosystem

Strategic Advantages

While the majority of textile manufacturing continues to exist in Asia, a few macro-environmental changes in recent times have made the USA an attractive investment destination. These advantages include:

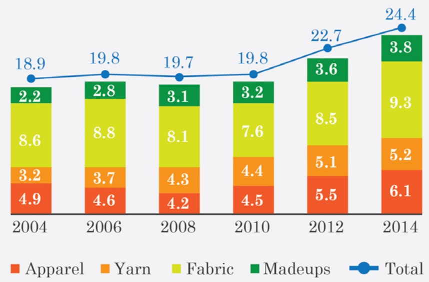
- Greater access to the domestic and export markets of the USA
- Exploiting benefit of FTAs of the USA including CAFTA - DR, NAFTA, AGOA and TPP
- Leveraging "Made in the USA" brand image

The key advantages of investing in the USA are further described ahead:

Greater access to domestic and export markets of the USA

The USA domestic market for apparel is huge and estimated to be around US$ 301 bn. Apart from this currently the USA exports US$ 25 bn. worth of textiles and apparel (T&A). Total T&A exports of the USA has grown at 3% CAGR in the last 10 years with yarn exports growing faster than other sub categories.

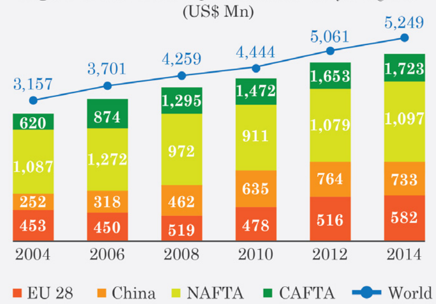
Figure 1: The USA's exports of textile and apparel products (US$ bn)



Source: OTEXA database

The USA's exports to its major FTA partners including countries under NAFTA, CAFTA - DR, CBI and AGOA, account for almost 67% of its total textile and apparel exports to the world. The trade to these partner nations has increased at a CAGR of 9% post-recession after initial drop during the recession.

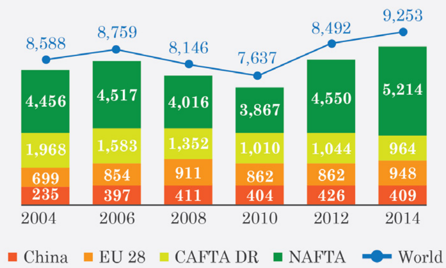
Figure 2: The USA's exports of Yarn – major regions (US$ Mn)



Source: OTEXA database

Yarn exports of the USA have increased at the rate of 5% in last 10 years with exports to CAFTA - DR region growing at 11%. Yarn exports to China have also grown at 11% CAGR, suggesting the increasing preference of the USA's yarn compared to Chinese yarn due to the cost differential.

Figure 3: The USA's exports of fabric – major regions (US$ Mn)



Source: OTEXA database

Fabric exports of the USA have increased at 0.7% CAGR in last 10 years with exports to China growing at 5.7% CAGR. Fabric exports have grown at a faster rate of 4% in last 2 years from the USA.

With a growing export market for yarn and fabric, the market opportunity is significant for investment in the USA. Also with an integrated set up the large domestic market for apparel offers huge market opportunities.

Exploiting benefit of FTAs of the USA including CAFTA - DR, NAFTA, AGOA and TPP

The USA has established several free trade agreements that include the Yarn-Forward rule of origin for textile and apparel products. The Yarn-Forward rule requires that yarn, fabric, and assembly production steps be completed in the FTA region in order to qualify for duty-free preference into the United States. This rule has served as a catalyst for increasing exports of yarns and fabrics from the USA making it the 6th largest exporter of textile and apparel products in the world. The goods made from these yarns and fabric are then shipped back to the USA duty free for purchase by consumers in the USA.

In 2014, the United States exported about $15 billion of yarns and fabrics worldwide. More than 62% of this output was shipped to Western Hemisphere nations that are members of the NAFTA and CAFTA-DR. The need to implement the Yarn Forward rule to get FTA benefits has encouraged manufacturers in Mexico and Central America to use yarns and fabrics made in the USA in apparel, home furnishings, and other products. As a result, the market demand for textiles from the USA has grown significantly.

Going forward, the Trans Pacific Partnership (TPP) is a significant trade agreement which will further increase the attractiveness of investing in the USA. Vietnam being one of the members of the agreement will play a major role in this scenario. We anticipate that companies may be looking at making yarn / fabric in the USA and shipping to Vietnam for sewing and then shipping back to the US market - duty free!

Currently the USA's import duty on garments ranges from 9% to 32% for all the major apparel categories. With the prospective TPP arrangement, there is a potential saving in cost and hence a significant strategic advantage, provided these major textile items are not included in the negative list under TPP final agreement.

Table 1: Average import duty rates for major garment categories under MFN (including Vietnam) in the USA

Category	Cotton based	Synthetic based
Knit garment categories		
Mens, boys shirts, knit or crochet	19.7%	22.8%
Womens, girls blouses & shirts, knit or crochet	19.7%	23.5%
T-shirts, singlets and other vests, knit or crochet	16.5%	32.0%
Babies garments, clothing accessories, knit or crochet	14.0%	27.6%
Woven apparel categories		
Men's or boys' shirts	14.2%	12.2%
Womens or girls' blouses, shirts and shirt-blouses	9.3%	14.1%

Source: WTO tariff database

Leveraging "Made in the USA" brand image

Increasing consumer awareness about the origin of their garments is also encouraging the manufacturing of textiles in countries like the USA. Consumers today want to know everything about a product, and for textiles and apparel it includes not only how it is made, but where it is from? Where is the cotton grown and ginned? Where is it spun, fabricated, cut and sewn? What's the carbon footprint of the product, from cotton field to display shelf? A recent survey shows that 80% of Americans are willing to pay more for "Made in the USA" products. The survey found that respondents preferred products made in the United States, even if they cost more because of the higher quality. Consumers are willing to pay a premium for better quality, quicker availability and product safety. This trend is gaining momentum at grassroots level. Many stores in the USA now have dedicated space for locally made textile products. Retailers are now promoting the fact that they sell "Made in the USA" products. Even the online retailers are keeping space for the domestic products for e.g. at nordstrom.com, "Made in the USA" is incorporated into the search function of the website. The big retail giants like Walmart have announced their plans to boost sourcing of the USA made products. Other players like Abercrombie & Fitch are sourcing goods domestically and creating sections for American-made items. The increasing demand for Made in the USA products has opened a large domestic market for the textile manufacturers in the country. This is an opportunity for the international investors seeking to increase the market share in the USA – all they need is to set up their production in the US.

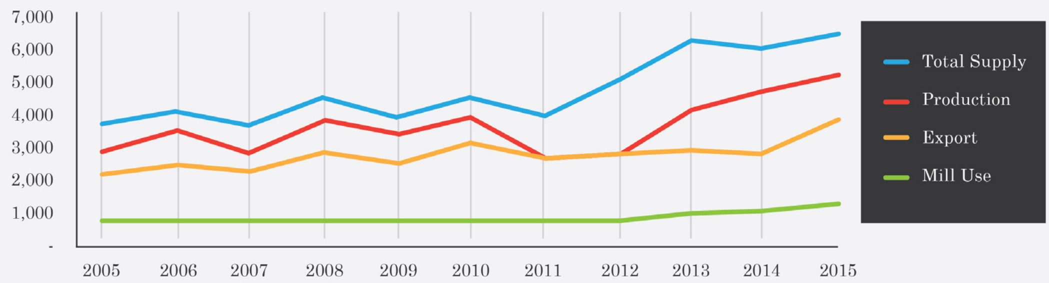
Operational Advantages

The following are the major operational advantages of investing in the USA:

Raw Material Advantage - Cotton availability, quality and price

The USA is the 3rd largest producer of cotton in the world after India and China with a total production of approximately 3 billion kg. In recent years, there has been a surge in the domestic demand of cotton. However,

Figure 4: Cotton Demand Supply Scenario in the USA (in million kg)



Source: National Cotton Council of America around 76% of the cotton produced is still being exported to other countries including China, Turkey, Mexico and Vietnam.

US cotton is very good in terms of all quality parameters. Large variety of cotton qualities are available for both coarse yarns as well as fine yarns. US cotton is known for low contamination and medium to extra-long staple which is suitable to spin all counts ranging from Ne 5s to 100s or more. In addition, every single bale of American cotton is graded through HVI system with all quality parameters made available to the buyer of that cotton. Every bale of the US cotton can also be traced back to the gin that ginned it and often to the individual farm that grew the cotton.

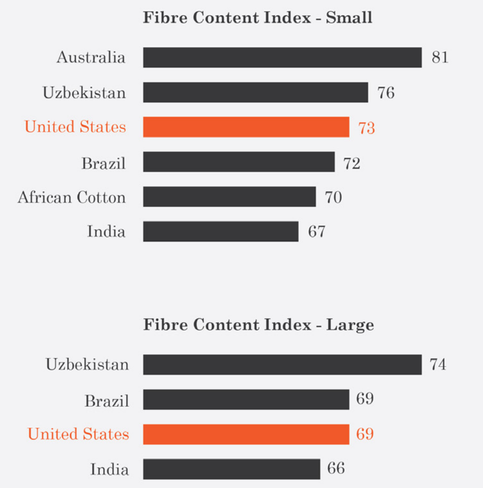
Table 2: US Cotton average quality parameters

Cotton Quality Parameter	Average Quality Range
Micronaire value	4 to 4.7
Strength (g/tex)	29.6 to 31.5
Length Uniformity (%)	80.2 to 81.9
Staple Length (mm)	35.4 to 36.7

Source: Cotton Incorporated

The prices of US cotton are also competitive for both the short staple and long staple cotton.

Figure 5: International Cotton Price in US Cents / lb.

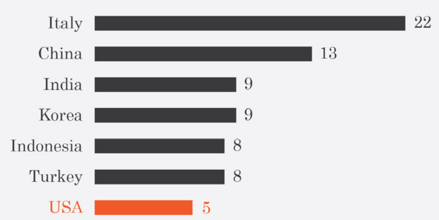


Source: Textile and apparel price database, Emerging Textile

Low cost and reliable power supply

Power supply in the USA is affordable, consistent and reliable. In terms of cost of power, the USA is very competitive and has an edge over major competing nations. Unlike many of the emerging textile manufacturing nations, power supply in the USA is extremely reliable and there is a very low likelihood of power failures. This adds significantly to the overall efficiency of plant operations.

Figure 6: Cost of Power (In US cents/ KwH)

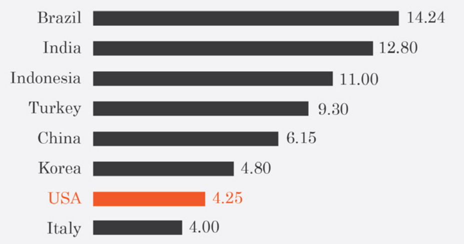


Source: International Production Cost Comparison 2014, ITMF

Lower Interest Rates

Capital interest rates in the USA are lower than the competing nations and hence help in lowering interest costs, and thus debt service costs.

Figure 7: Capital Interest rate %



Source: International Production Cost Comparison 2014, ITMF

Lead time benefits

With changing consumer behaviour, globally fashion cycles have shortened and need for shorter lead times have increased. Investing in the USA means a manufacturing presence nearer to market, which can reduce lead times significantly. Currently, sourcing garments from Asia to the USA, takes around 6-9 months from planning to retail, including 25-30 days of shipping time. However shipping time reduces significantly when garment is sourced from nearby countries under CAFTA - DR and NAFTA, after shipping yarn or fabric made in the USA.

Government Incentives

A large part of the USA textile industry is concentrated in the Southern Region, with major states including North Carolina, South Carolina, Georgia, Tennessee, Louisiana etc. All these states and other states who are pursuing textile investments have taken initiatives to attract investments and are offering good incentives for businesses to set up their factories. These states offer incentives including job development grants, income tax cuts etc. to investors.

For example, South Carolina offered Keer Group, China, around US$ 4 mn as rural infrastructure grant apart from an additional US$ 7.7 mn bond to attract the company to invest in yarn manufacturing. Similarly, North Carolina offered US$ 3.5 mn state Job Development Investment Grant to Gildan Activewear, Canada, to set up their factory and also has lowered the corporate and personal income tax.

Realizing the return potential of the sector, other states including Texas are making efforts to compete for textile related investments. Texas is leveraging its mantra of being a low tax and business friendly state to attract higher investments.

Some of the incentives for major textile producing states are summarized in the table on the next page.

Table 3: Incentives for investments provided by major textile producing states in the USA

Program Name	Brief description of type of Incentives
North Carolina	
Credit for North Carolina Research and Development	Tax credit on research expenses equal to a percentage of those expenses.
Economic Infrastructure Program	Grants to local governments to assist infrastructure projects. Awards are capped per job depending on a variety of criteria.
Incumbent Worker Training Program	Grant opportunity that provides funding to businesses through training of its incumbent workers.
Job Development Investment Grants (JDIG)	Annual grants to new and expanding businesses measured against % of withholding taxes paid by new employees.
Manufacturing Exemptions	Exemption from sales and use tax on mill mach. On payment of privilege tax of 1%, purchases of ingredients or component parts, packaged items, fuel and electricity for a manufacturing facility.
South Carolina	
Angel Investor Credit	Income tax credit @ 35% of qualified investment subject to certain limitations.
Annual Small Business Job Tax Credit	A job tax credit against income tax, bank tax, or insurance premium tax for most types of small businesses.
Electricity Sales and Use Tax Exemption	Exempts from sales and use tax on the sale of electricity used for Manufacturing.
Machines Sales Tax Exemption	Exempts tax for machines used in manufacturing. Repair parts of the machinery is included as well.
Research and Development Credit	Allows a credit against any income tax due or corporate license fees based on capital stock and paid in surplus equal to 5% of its qualified research expenses.
Textile Revitalization Credit	Credit for the renovation, rehabilitation, and redevelopment of abandoned textile mill sites.

Program Name	Brief description of type of Incentives
Georgia	
Angel Investor Tax Credit	35% of the investment with an individual investor cap of $50,000 per year. The aggregate annual cap for this program is $5 mn.
Investment Tax Credit	1-5% of as a tax credit for manufacturing companies operating for at least 3 years, and that make a minimum $50,000 additional qualified capital investment in a new or existing manufacturing.
Optional Investment Tax Credit	Available to taxpayers that qualify for investment tax credits, with the minimum investment ranging from $5 - $20 million.
Research and Development Tax Credit	10 % tax credit of increased R&D expenses subject to a base amount calculation.
Sales and Use Tax Exemption	Offering the ability to purchase goods and services tax free.
Louisiana	
Angel Investor Tax Credit	35% tax credit on investments with $5 million annual program cap. Investors can invest $1 mn per business/ year and $2 mn per business over the life of the program.
Enterprise Zone Program	Provides income and franchise tax credits to a new or existing business creating permanent net new full-time jobs, and hiring at least 35% of those net new jobs from one of four targeted groups.
Industrial Tax Exemption Program	Provides property tax abatement for up to 10 years on a manufacturer's new investment and annual capitalized additions.

Source: Select USA, US Department of Commerce

Strong and Conducive Business Ecosystem

Competitive Investment and Business Climate

The USA has consistently ranked among the best in the world in terms of its overall competitiveness (World Economic Forum, Global Competitiveness Report 2014-15), as well as for its overall 'Ease of doing business'(World Bank, Doing Business 2015.). The latest edition viz. Doing Business 2015 published by the World Bank (reflecting data as of 1st June 2014) positions the USA at a rank of 7 out of 189 countries covered.

Table 4: The USA's doing Business Ranking 2014 and 2015

	2015 Rank	2014 Rank
Starting a Business	46	41
Dealing with Construction Permits	41	43
Getting Electricity	61	58
Registering Property	29	30
Getting Credit	2	1
Protecting Minority Investors	25	21
Paying Taxes	47	44
Trading Across Borders	16	15
Enforcing Contracts	41	41
Resolving Insolvency	4	4
Overall Ranking	**7**	**7**

Source: World Bank, Doing Business 2015

The USA is also ranked highest in the Foreign Direct Investment Confidence Index due to its stable government and business climate. It is also worth noting that companies that invest in the USA in enterprises that create jobs can be eligible for receiving preferential treatment in securing a green card in the US (HB5 visa program.)

Table 5: FDI Confidence Index ranking

Country	2013	2014	2015
USA	1	1	1
China	2	2	2
UK	8	4	3
Canada	4	3	4
Germany	7	6	5
Brazil	3	5	6
Japan	13	19	7
France	12	10	8
Mexico	9	12	9
Australia	6	8	10
India	5	7	11

Source: AT Kearney Foreign Direct Investment Confidence Index, 2015

Good support infrastructure and industry base

Being a developed country, the USA also boasts of very good transportation infrastructure like roads, railroads, seaports, airports etc. According to the World Economic Forum Report on Global Competitiveness 2014, the USA's quality of overall infrastructure is ranked 12th in the world, behind countries like Singapore and the United Arab Emirates. These facilities increase the overall supply chain efficiency and help in saving in lead times and costs.

Table 6: The USA's support infrastructure for logistics

Roads	Largest road network of 6.58 million km
Railway	Largest network of 250,000 km
Port	360 commercial sea and river ports
Aviation	86 airports

Source: Secondary Research

There is also an existing textile industry base with good capacities for yarn and fabric manufacturing. Major part of current textile industry of the USA is largely situated in the Southern Region, which offers benefits in terms of proximity to major ports.

Table 7: Current Installed capacities in the USA for Textile

Segment	Type	Installed Capacity (no.s)
Spinning	Long Staple Spindles	670,000
	Short staple Spindles	628,000
	Rotors	303,000
Draw texturing	False Twist Spindles	37,636
Weaving	Shuttleless looms	26,600
	Shuttle looms	1,400
	Filament Weaving looms	10,718
	Wool Weaving looms	1,240
Knitting	Circular knitting m/cs	1,806
	Flatbed knitting m/cs	488

Source: ITMF

Several universities in the USA including North Carolina College of Textiles, The Art Institute of California and the Fashion Institute of Technology are active in supporting textile and apparel production as well as fashion and offer both bachelor and master's degree to serve the textile value chain.

Social and Political Stability

The United States continues to offer a stable and predictable environment for business investment, consistently ranking among the countries with the fewest political and security risks for businesses. The USA has a stable democratic political system, strong and transparent legal and financial systems. There has been a continuous improvement in the political stability index of the USA.

What changed? Why has the USA become attractive?

Why manufacturing moved away from the USA in the past?

Gradual shift of sourcing towards low cost countries

Over the last 50 years or so, textile and apparel manufacturing has gradually shifted its base from the developed countries like the USA,EU and Japan to lower cost destinations in Asia. Larger shift has happened in apparel manufacturing due to higher labour intensity and cost component of labour in apparel manufacturing. Hence, a large part of basic apparel categories like basic shirts, trouser, jeans etc. have moved to countries with lower labour costs like China, India, Bangladesh, Vietnam etc. Along with garment production, countries like China and India have also developed a strong integrated capacity for textile manufacturing. Hence majority of textile production happens in Asia with a large part of consumption remaining in the developed countries.

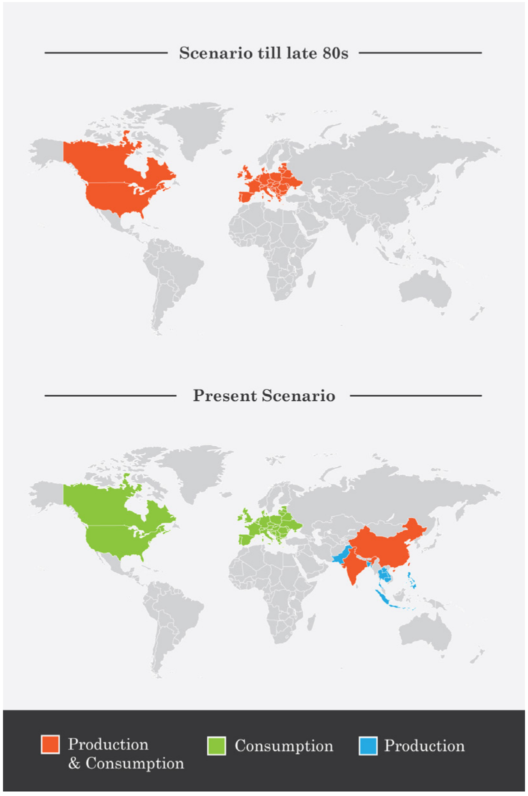
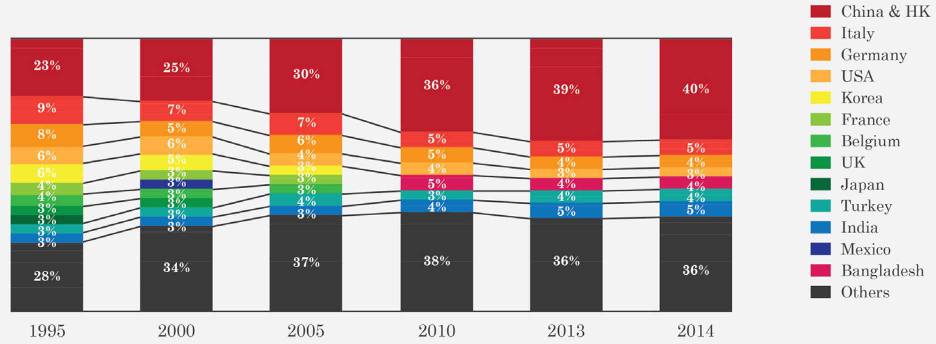


Figure 8: Countries with >3% Share in Global T&A Exports



Source: UN Comtrade

The consolidation of production bases and trade can be seen in previous graph representing the trend of countries with greater than 3% in global trade share. Number of countries reduced from 11 in 1995 to around 7 in 2014. Bangladesh and Vietnam leveraging their FTA status has been able to increase their share in global trade and have emerged as new textile and apparel manufacturing destinations.

Entry of China into WTO and subsequent growth of China

The entry of China in WTO and with it establishing normal trade relations with the USA in 2001 further helped in the growth of China's share in global production and trade. WTO membership opened up China's market for more international trade and investment, and the world economy for China's exports. Subsequently China's share in the USA T&A imports increased significantly at a CAGR of 14% from 2001 onwards compared to 6% CAGR from 1995 to 2001.

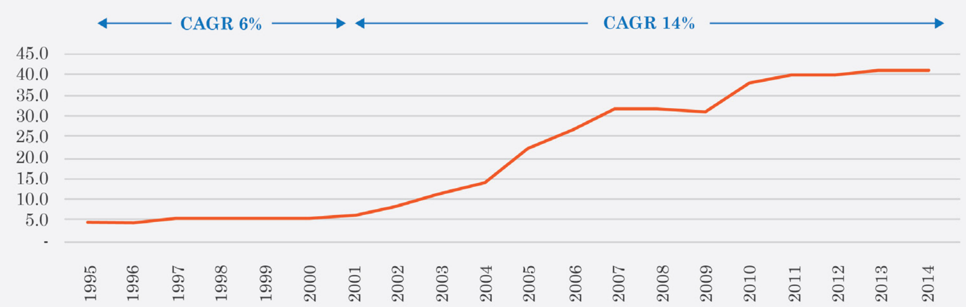
Apart from macroeconomic factors, over the years, textile and apparel manufacturing in the USA has focused mostly on the domestic market requirement rather than the global market needs (e.g. bed linens manufactured in the USA were based on USA sizes mainly and not European or market size standards). This resulted in loss of market share of these products to other manufacturing nations. The overall impact of these trends has been the reduction in share of the USA-made apparel from 56% in 1991 to around 2.5% of the domestic apparel consumption presently.

Why is it coming back?

Increasing costs in China and other formerly "lower cost regions"

While China still constitutes the majority of global textile production, there has been an increase in cost of manufacturing in China, making it less attractive to make textiles in China. For example, China's labour cost has increased at the rate of 25% annually in the last 7 years compared to growth of 1% in the USA. Consequently, the difference in wages between China and the USA has decreased significantly from 30 times in 2007 to around 6 times in 2014. Similarly, wage rates

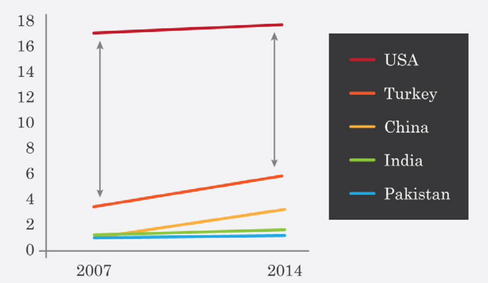
Figure 9: USA's T&A Import from China – US$ bn



Source: OTEXA database

in Turkey, India and Pakistan have grown by 9%, 7% and 6% respectively. Advantage is further tilting towards the USA, particularly when one also factors in lower energy costs, stable supply of energy and the reduced tariffs if production is done within CAFTA - DR or other US FTA countries.

Figure 10: Wage cost comparison of T&A industry (2007-2014) – US $/hr



Source: Werner international wage cost comparison (Cost includes total costs to company of the labour)

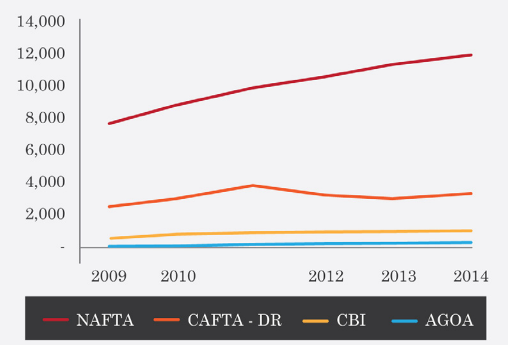
Increasing automation of work floor

In the USA, most of the textile production processes are fairly automated. Most of the infrastructure comprises advanced high speed machines requiring low manual intervention. New technology is further increasing productivity while reducing labour content. Most changes in the technology in place are designed to address three major production issues including reduction of the labour content in the manufacturing process, increase in the quality of products, and flexibility in production providing competitive edge to US textile manufacturing. With further development of technology and higher automation the cost competitiveness is increasing further, as the dependency on labour is reducing there by reducing the impact of higher labour cost in the USA.

Changing sourcing requirements of buyers & role of FTA

With global fashion trends changing, buyers are increasingly looking for faster turnaround and more flexible manufacturing platforms. With a large part of global apparel demand coming from the USA, the feasibility of setting up textile manufacturing in the USA and converting the yarn to a garment in nearby FTA countries, has increased. The growing trade between the USA and its FTA partners supports this trend. Exports to NAFTA and AGOA have grown at 9% and 11% respectively, in the last 5 years, while exports to CAFTA - DR and CBI region have grown at 6%CAGR.

Figure 11: US textile and apparel trade under free trade agreement – US$ mn



Source: OTEXA database

Manufacturing presence in the USA also helps suppliers develop long term relationships with buyers, retailer and brands, which is becoming increasingly important in the current trade scenario.

Other factors

The other factors favorably impacting the movement of textile production back to the USA include the fundamental strengths of the USA as a business destination including:

- Availability of affordable, consistent and reliable energy sources (electricity, natural gas, etc.)
- Reliable transportation and port systems to handle both raw materials (cotton, poly, etc.) as well as to ship out manufactured goods.
- Ability to source cotton fiber throughout the year and hedging on ICE futures
- Ready access to US universities and institutes to support textile operations.

Examples of companies investing in Textiles in the recent past

Due to the increasing attractiveness of the USA, several companies from different countries including China, India, Japan, Korea etc. have planned investments in the last couple of years. The following table summarizes some of these investments across the key segments:

Table 8: Examples of recent investments planned in the US Textile industry across major segments (2013-2015)

Company	Headquarter	Location	Investment	Employment
Spinning				
Shrivallabh Pittie Group	India	Georgia	$70 million	250
Parkdale Mills Inc.	North Carolina	North Carolina	$85 million	210
Gulf Coast Spinning Co. LLC (GCS)	Los Angeles	Louisiana	$130 million	290
Keer Group	China	South Carolina	$218 million	501
Govindaraja Textiles	India	North Carolina	$40 million	84
Weaving				
Brawer Bros. Inc.	New Jersey	North Carolina	-	-
United Furniture Industries NC LLC	North Carolina	North Carolina	$5.2 million	200
Culp Inc.	North Carolina	North Carolina	$9.5 million	-

Company	Headquarter	Location	Investment	Employment
Apparel				
Vapor Apparel	South Carolina	South Carolina	$1.3 million	114
Gildan Activewear	Canadian	North Carolina	$250 million	500
Nonwoven				
Custom Nonwoven Inc.	Korea	North Carolina	$12.8 million	72
Spuntech Industries Inc.	Israel	North Carolina	$35 million	60
Jacob Holm Industries (America) Inc.	Switzerland	North Carolina	$49.5 million	66
Composites				
Toray Industries Inc.	Tokyo	South Carolina	$1 billion	500
Chomarat North America	France	South Carolina	$10 million	20
Advanced Composite Materials LLC (ACM)	South Carolina	South Carolina	$3 million	10
Highland Industries Inc.	Japan	North Carolina	$4.1 million	24

Source: Textile World, Secondary Research

Which segments to invest?

Attractive investment segments

The following are the attractive segments for investments in the USA textile industry considering various advantages noted herein.

Spinning

Cotton spinning industry in the USA has recently attracted substantial investments. The reason behind the increasing attractiveness of the sector lies in its low cost and reliable power supply as well as its easy access to ports. The proximity of abundant and high quality raw material supply increases the competitiveness of the cotton spinning sector. Adding to it, Yarn Forward rule - integrated component of FTAs signed by the USA, require all material that goes into garment manufacturing must originate from one of the partner countries in order to qualify for tariff free entry to the USA, resulting in huge market demand of the USA made yarn.

In the USA, open-end spinning has traditionally been preferred over ring spinning, as its production is more automated and hence the requirement of labour is low but at the same time skilled and productive labour is required in this sector. The USA also has good availability of skilled labour required in the open-end spinning sector. The USA is more favourable for finer counts due to higher quality and long staple fibre availability.

Weaving & Knitting

Weaving is also an attractive segment, especially with modern shuttleless looms with high automation levels. The increasing yarn availability at lower cost in the USA makes it easier to source raw material for weaving and knitting at lower cost. It is especially attractive for high end and fine fabrics for fashion garments due to availability of good quality fine yarns.

Integrated units

There is also scope for integrated factories from spinning to weaving and garmenting with high automation, especially for the domestic fashion market. Integrated units can leverage economies of scale and market access benefits of set up in the USA and cater to the fast fashion requirement of consumers.

Technical Textiles

Technical textile segments like nonwovens, specialty fabrics, medical textiles, protective textiles are also highly favourable considering the huge domestic market opportunity apart from high automation levels of these sectors, which makes it suitable to manufacture in the USA. A number of Universities (North Carolina State and Texas Tech for example) have strong non-woven and technical textile programs and institutions such as Cotton Incorporated remain strong partners for the textile industry as well.

Once these segments are established, they can be further integrated through marketing and branding of "Made in the USA" for further growth and maximizing market opportunity.

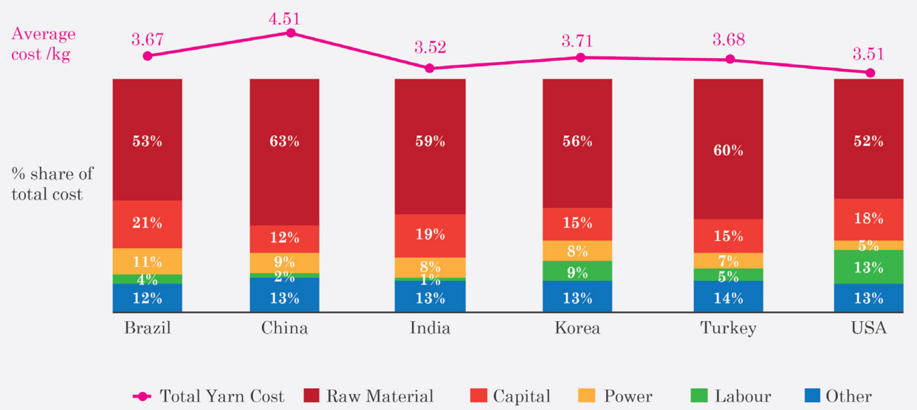
Why are these segments attractive? - "the cost advantage"

Apart from their strategic advantage, segments including spinning, weaving and knitting are attractive mainly because of their lower cost of manufacturing in the USA, compared to some of the leading competing countries including China. Further the cost comparison of the USA and other countries is illustrated for the respective segments.

Spinning - Ring

The USA's spinning segment has gained competitive edge because of its lowest power cost among the competitive nations. The USA also has abundant raw material complimented with high quality. Thus, the USA offers raw material at lower cost along with lower waste cost. Compared to China, total cost of manufacturing ring spun yarn is 22% lower in the USA primarily due impact of 11% lower share of raw material cost and 4% lower share of power cost. In fact, the USA is most competitive in yarn manufacturing compared to major countries including Turkey, Korea and Brazil and is almost equal to cost in India.

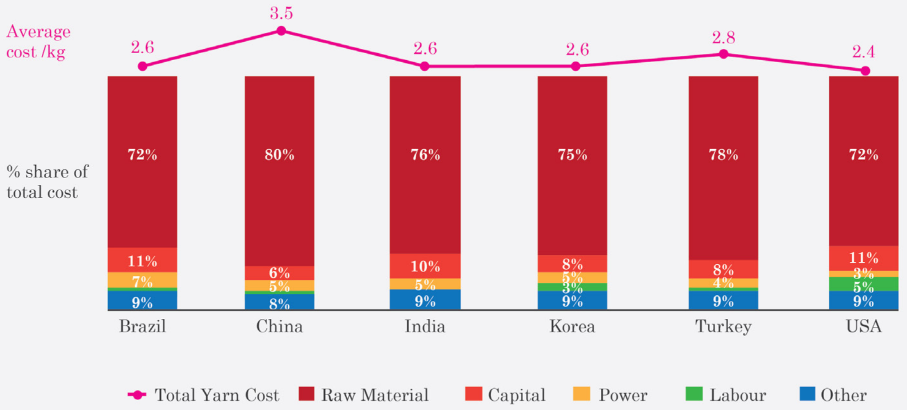
Figure 12: Cost Comparison for Ring Yarn (Ne 30s) US$/kg



Source: International Production Cost Comparison 2014, ITMF

Rotor Spinning

Figure 13: Cost Comparison for Rotor Yarn (Ne 20s) US$/kg



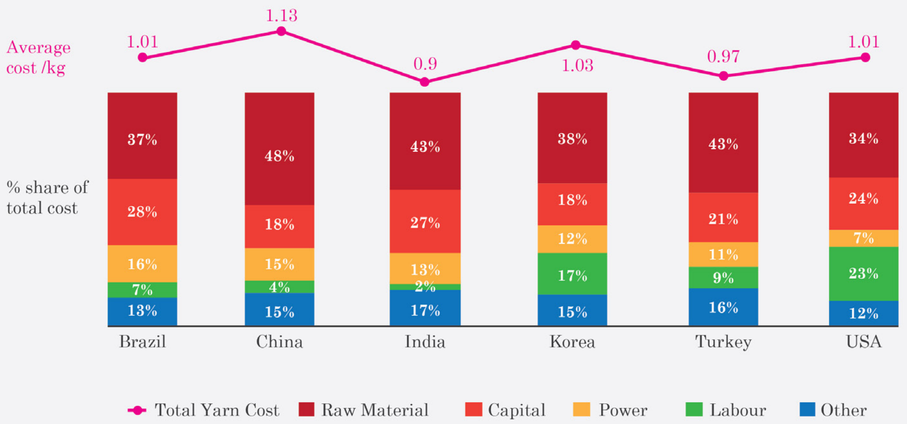
Source: International Production Cost Comparison 2014, ITMF

The USA is also highly cost competitive in rotor yarn manufacturing. When compared to China, total cost of manufacturing rotor yarn is 31% lower in the USA. Lower power and raw material cost are the leading factors that make spinning of rotor yarn competitive against the competing nations including Brazil, China, India, Korea and Turkey.

Weaving

Cost difference between the USA and China is lesser in weaving as compared to spinning. However it is still significant with total cost of manufacturing woven fabric being 11% lower in the USA than China. The main reasons are the 14% lower share of raw material cost as

Figure 14: Cost Comparison for Woven Fabric (ring spun yarn) – US$/mtr



Source: International Production Cost Comparison 2014, ITMF

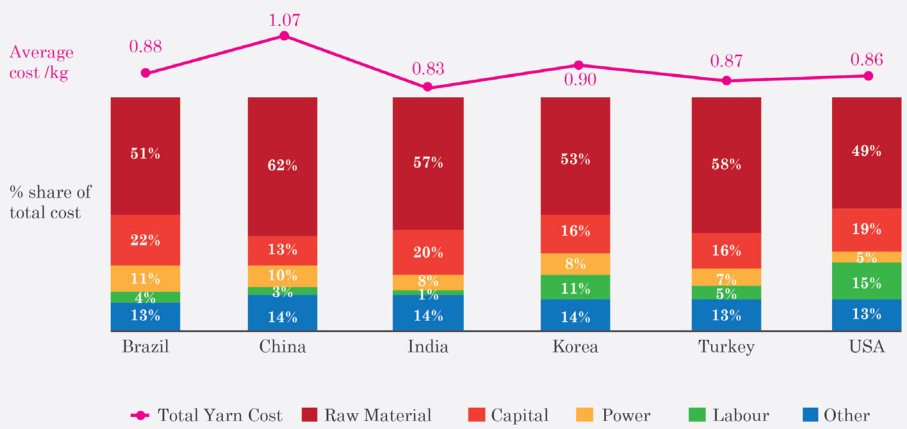
a consequence of lower yarn costs and 8% lower share of power cost. Waste cost is also lower due to better quality cotton as well as superior technology and work practices. Despite the higher wage cost, the US weaving industry holds its attractiveness because of the lower power, waste and raw material cost.

Knitting

For knitting as well, the USA is highly competitive as compared to China, with knit fabric cost in the USA being almost 20% cheaper than China. Here also the high component of labour cost is compensated by low cost of raw material and cheaper power. This is mainly because of the low cost raw material which is 37% cheaper when compare to China and the share of power component which is almost half of that used in China.

Apart from the cost advantage, the USA offers strong R & D support network through research universities, private agencies and corporations for these segments and there is an increasing desire of localities, states and the federal government to boost manufacturing capacities within the USA.

Figure 15: Cost Comparison for Knit Fabric(ring spun yarn) – US$ /mtr



Source: International Production Cost Comparison 2014, ITMF

Overall summary of advantages for respective segments

Advantages	Spinning	Weaving & Knitting	Integrated	Technical Textiles
Raw Material Availability, Quality & Cost	★	●	★	●
Power Cost Advantage	★	★	★	★
Skilled and Efficient Labour	●	●	●	★
FTA advantage	★	★	●	-
R&D infrastructure	●	●	●	★
Domestic Market Opportunity	-	-	★	★
Export Market Opportunity	★	★	●	●
Government Incentives	●	●	●	●

★ High Impact
● Medium Impact

How we can help?

Strategy Support

Choosing the right country, and location for a particular sub-segment of textile and apparel manufacturing value chain needs a careful assessment. We help potential investors do that assessment for the USA and take decision by answering following:

How to go about the investment?

Entry strategy for a country has to cover the need for partnership; government support that may be taken for land, buildings and investments; required business approvals; sourcing and marketing linkages which should be developed; target suppliers as well as buyers; key success factors; business risks and mitigation strategy.

Where the investment should be done?

Identification of location, will depend on 3 Fs – Fact, Figures and Feelers. Prioritization of probable locations needs to be done based on a customized evaluation matrix, assigning weighted scores to each 'F' as per its importance.

How much investment is to be made?

Assessment of the investment to be made along with the production capacities to be installed to provide maximum return for your investment.

What is the target product category?

Investment attractiveness of location needs to be seen specific for the product(s) to be manufactured. For example low power cost will be extremely important for yarn spinning but not for garment manufacturing.

Market Assessment

We can provide the satisfactory answers for planned investments:

- Will your business fit into the market demand?
- How will your business be structured or organized?
- What is the current situation, recent trends and future outlook for the industry?
- What target market area will your business serve?
- How many potential customers are there in your target market area?
- How will you take advantage of the Yarn Forward rule to maximise efficient production and financial benefit?

Implementation support

We can provide access to a broad range of professionals in the industry that can assist in each step of assessment, review and implementation as well as the build out of facilities in addition to marketing and branding assistance. We also leverage our strong presence and access to local, state and federal government authorities that can offer incentives for investments apart from potential access to any seed money requirements. We also have access to some of the top private equity professionals who can assist with capital leveraging.

Glossary

AGOA	African Growth and Opportunity Act
CAFTA-DR	Dominican Republic - Central America Free Trade Agreement
CAGR	Compounded Annual Growth Rate
CBI	Caribbean Basin Initiative
EU	European Union
FTA	Free Trade Agreement
ICE	Intercontinental Exchange
ITMF	International Textile Manufacturers Federation
JDIG	Job Development Investment Grant
MFN	Most Favoured Nation
Mn	Million
NAFTA	North American Free Trade Agreement
T&A	Textile and Apparel
TPP	Trans-Pacific Partnership
USA	United States of America
WTO	World Trade Organization

About Us

Collins Group International (CGI), USA

The Collins Group International (CGI), a multi-disciplinary business focused on building teams of skilled practitioners to address public affairs and business development needs of public and private sector institutions. CGI expertise is concentrated in the development of market entry strategies, assessing and identifying new markets, identifying and crafting initiatives presented in the evolution of the cotton/textile/retailing and branding supply chain, facilitation of technology incubation systems, development of revenue streams for new business ventures and strategic planning.

The firm was founded by David B. Collins who has developed a broad understanding of the South Asian trade and consumer markets over the past 20 years and has deep relationships with key leaders in the textile industry, brands and retailers in the region. He has been integrally involved in assessing the market, developing promotional strategies and implementing programs in the region in addition to personally managing numerous innovative initiatives for the promotion of cotton.

David spent 25 years with Cotton Council International (CCI), the international division of the National Cotton Council of America, with the last 20 years as Assistant Executive Director, responsible for day to day management of a program of upto $100 plus million for market development and promotion of US cotton and its products in over 60 countries around the world.

Collins' knowledge of the cotton/textile/retail and branding supply chain is extensive and includes intimate relationships in the world's leaders in the industry from seed breeding to consumer marketing. David personally managed CCI's relationships in South Asia and has a very deep network of trusted relations in India, Bangladesh, Pakistan and Sri Lanka in addition to other countries around the world. David had also served as the former assistant executive director with Cotton Council International and was private sector liaison with the National Commission on Agricultural trade and export policy.

About Us

Wazir Advisors, India

Wazir Advisors is a Management consulting firm focused on advising Indian and International companies to conceptualize, create and compete in consumer markets through a multi-channel approach. We also assist Private Equity groups in building and managing their India portfolio, and leverage our knowledge to advise Government bodies on developmental initiatives in our sectors of expertise. We advise clients which offer products or services in consumer-focused sectors – Textile, Apparel, Retail, Food, Education, FMCG (fast moving consumer goods), and Consumer Durables.

We have worked with various stakeholders – Indian & International private sector players, investor groups, public sector organizations/ government and hence, we are able to quickly develop a good understanding of client's business and objectives.

We assist clients in strategy formulation and execution, forming alliances and joint ventures, transformation and change management, sector analysis and due diligence – thereby providing end to end solutions spanning the complete business cycle.

Wazir has a Consulting team of 50+ experienced MBAs and professionals from reputed national and international institutes with exposure to various sectors like textiles and apparel, retail, financial services, FMCG, consumer durables, etc. Wazir also has a strong textile consulting team with significant experience in the fibre and textile value chain.

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