



**Operation and Development of China  
Chemical Fiber Industry  
amid Current Financial Crisis**



**China Chemical Fiber Association**  
**CCFA**



**The Operation and Development of China's Chemical  
Fiber Industry amid Current Financial Crisis**

- 1** The Operation of China's Chemical Fiber Industry in 2008
- 2** Main Problems in the Operation of the Industry
- 3** Proposals on Policy for Chemical Fiber Industry
- 4** Outlook of Chemical Fiber Industry in 2009



## A New Economic Situation of Current Chemical Industry

- ❖ The global financial crisis, which resulted from American subprime mortgage crisis, continues to deepen, and is rapidly spreading to the real economy. It has caused or is triggering global economic crisis.
- ❖ The crisis is actively dealt with all the world, but the worsening trend in the global economy still has not bottomed out, and is rapidly plunging into recession.
  - The United States, the euro zone, Japan and other developed economies have quickly gone into recession;
  - The economic growth of China, India and other new-type developing countries is decelerating significantly.
- ❖ Global crude oil prices have dived significantly, triggering falls in commodity prices. Prices of chemical fiber and their feedstocks retreated sharply in disorder.
- ❖ Production and export growth of China's textile industry slowed down dramatically, and there were wide waves in market prices, with the actual demand rapidly shrinking.
- ❖ Chemical fiber's production and export growth slowed down substantially, and the majority of products saw deepened contradictions of overcapacity. As a result, some of the structural, deep-rooted contradictions of the industry come out together.



## Operation of the Chemical Fiber Industry in 2008

- The growth rate of chemical fiber's output reduced significantly, and import volume declined rapidly. Export volume continued rapid growth but the growth rate sharply decreased.
- Run rates dropped significantly, and product inventory increased somewhat.
- Prices in chemical fiber market generally fell, with most of the products seeing a huge fall in September-November.
- Economics of chemical fiber industry shrank sharply, and the operating quality worsened markedly.
- The growth rate of investment in chemical fiber industry saw a significant reduction, and the investment structure changed significantly.

**Production**

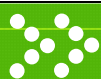
**Table 1. Growth of Chemical Fiber Production in 2008 by Variety**

	Output in 2008 (kt)	Year on Year Growth	Change (Percentage)
<b>Chemical Fiber</b>	2404.61	2.30%	-15.74
Viscose Fiber	131.88	-10.20%	-38.00
Synthetic Fiber	2241.31	2.98%	-14.28
Hereinto:	2004.57	4.13%	-14.71
Polyester	101.61	5.15%	-9.78
<b>Nylon</b>	<b>60.37</b>	<b>-24.64%</b>	<b>-25.31</b>
Acrylic	5.47	28.77%	30.64
Vinylon	26.64	-10.17%	-1.22
PP Fiber	20.22	0.15%	-34.65

**Import**

**Table 2. Chemical Fiber Imports by Variety in 2008**

	Imports in 2008 (kt)	Year on Year Growth	Change (Percentage)
<b>Total Import Volume of Chemical Fiber</b>	816.8	-26.39%	-12.71
PSF	145.3	-27.74%	-4.19
PFY	172.4	-29.43%	-21.76
<b>AF</b>	<b>145.7</b>	<b>-48.09%</b>	<b>-31.36</b>
Nylon Filament	186.7	-12.49%	5.28
Spandex	15.5	-6.79%	-6.79
VSF	60.4	2.55%	-7.54



## Export

Table 3. Chemical Fiber Exports by Variety in 2008

	Exports in 2008 (kt)	Year on Year Growth	Change (Percentage)
Total Export Volume	1,707.8	10.70%	-36.40
PSF	462.7	10.80%	-31.46
PFY	794.8	27.22%	-31.96
AF	10.0	300.88%	302.18
Nylon Filament	92.4	7.94%	3.71
Spandex	28.9	-10.17%	-48.31
Viscose Filament	81.2	-34.57%	-37.42
Viscose Staple	61.8	-33.99%	-129.81



## Total Supply

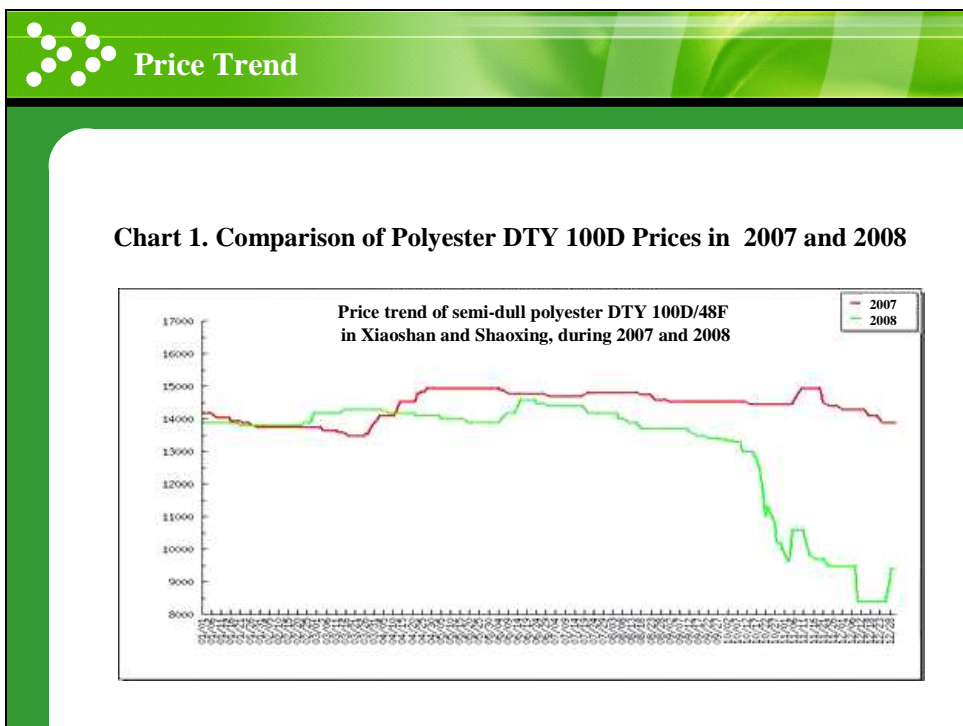
Table 4. Total Supply of Chemical Fiber in 2008

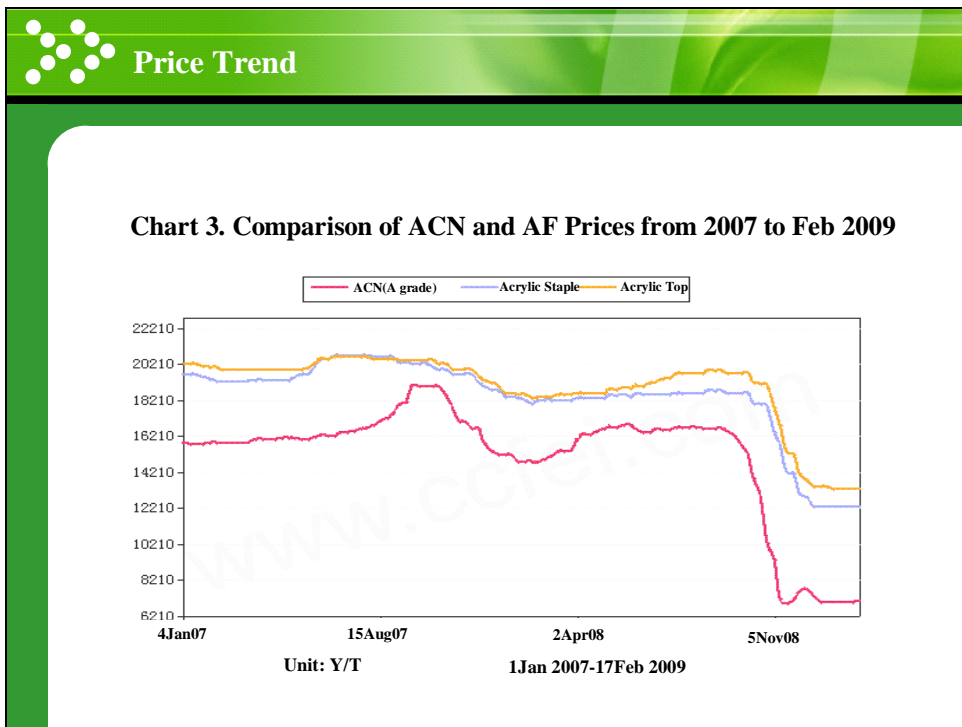
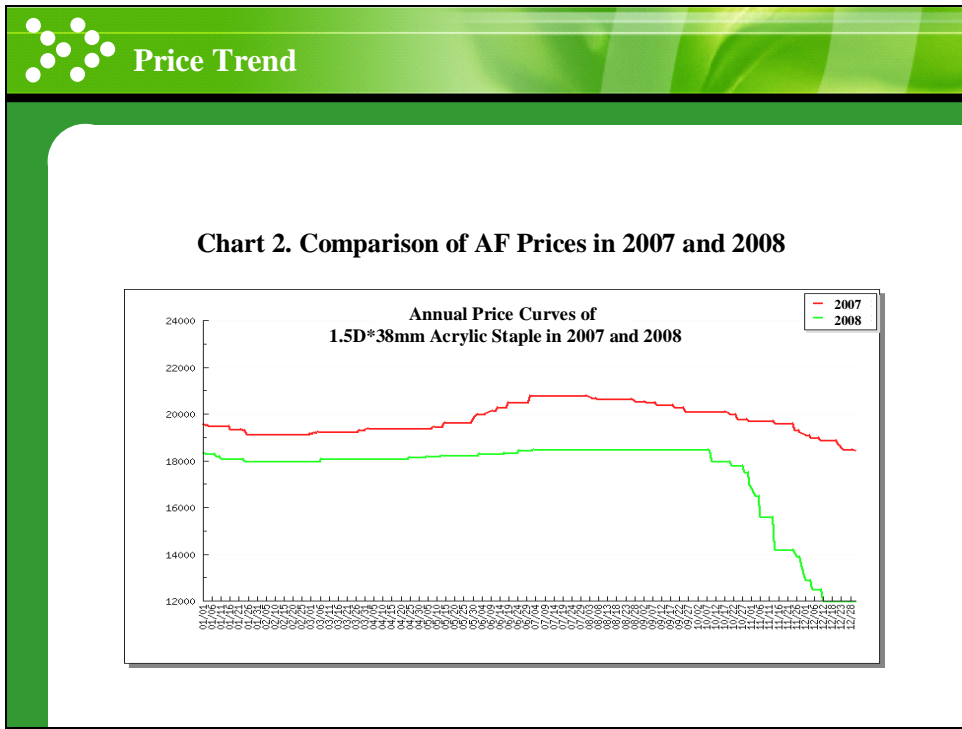
	2008 (kt)	Year on Year Growth	Change (Percentage)
Output	24,046.1	2.30%	-15.74
Imports	816.8	-26.39%	-12.71
Exports	1,707.8	10.70%	-36.40
Total Supply	23,155.1	0.36%	-14.20

**Operating Rate**

**Table 5. O/R of Major Chemical Fiber Industries in 2008**

	2008	2007	Year on Year (percentage)
Viscose Filament	60%	96%	-36
Viscose Staple	78%	99%	-21
PFY	70%	84%	-14
PSF	65%	80%	-15
Nylon	68%	76%	-8
AF	64%	85%	-21
Spandex	73%	87%	-14



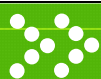



**Economics**
**Table 6. Chemical Fiber Profits in Jan-Nov 2008 by Industry**

	Total Profits ( billion yuan )			Total Losses ( billion yuan )		
	Jan-Nov 2008	Jan-Nov 2007	Year on Year	Jan-Nov 2008	Jan-Nov 2007	Year on Year
<b>Chemical Fiber</b>	<b>3.402</b>	<b>13.549</b>	<b>-74.89%</b>	<b>7.489</b>	<b>1.958</b>	<b>282.59%</b>
Viscose	0.767	4.428	-82.68%	1.569	0.067	2247.43%
Polyester	2.703	4.823	-43.96%	2.471	1.316	87.82%
<b>Acrylic</b>	<b>-2.587</b>	<b>-0.175</b>		<b>2.662</b>	<b>0.243</b>	<b>997.18%</b>
Nylon	0.441	0.745	-40.77%	0.458	0.121	277.94%
Other Synthetic Fibers	18.75	35.17	-46.69%	3.11	2.09	48.68%


**Investment in Fixed Assets**
**Table 7. Completed CF Investment in 2008 by Industry**

	2008 ( billion yuan )	Year on Year
<b>Chemical Fiber Production</b>	<b>28.710</b>	<b>5.77%</b>
Cellulose Fiber & Feedstock Production	8.848	40.02%
Chemical Fiber Pulp Production	3.086	107.60%
Cellulose Fiber Production	5.761	19.22%
Synthetic Fiber Production	19.862	-4.62%
Nylon Fiber Production	2.685	-21.03%
Polyester Fiber Production	7.122	0.73%
<b>Acrylic Fiber Production</b>	<b>0.039</b>	<b>-84.41%</b>
Vynylon Fiber Production	2.013	18.29%
Other Synthetic Fiber Production	8.003	-4.74%



## Main Problems

1. Prices of major chemical fiber feedstocks fluctuated significantly, leading to obviously increasing business risk.
2. Export growth of textiles and garments slowed down. Thus, the growth of synthetic fiber demand softened.
3. Excessive RMB appreciation and the adjustment of export tax rebate have deep influence on exports.
4. Tight monetary policy had a great influence on small- and medium-sized chemical fiber enterprises, which made it difficult for them to finance and caused a substantial increase in financing costs.
5. Part chemical fiber exports increased rapidly, and the international trade friction may rapidly increase.
6. The implementation of the new Labor Law resulted in a substantial increase in labor costs.



## Proposals on Policy

1. Continue to introduce new macro-control policies, focusing on support for the adjustment and development of textile and chemical fiber industries.
2. Implement temporary tariff rates on some chemical fiber feedstocks, so as to reduce production costs.
3. Open MEG futures market as soon as possible, in order to stabilize the market.
4. Strengthen the export early warning mechanism and standardize the order of export competition.



## Outlook in 2009

### Unfavorable Factors

- **World economic growth will experience a dramatic slowdown and stagnancy in 2009.**
- **China's economic growth will slow down significantly in 2009.**
- **World crude oil prices may wave due to demand fluctuations.**
- **It will take time for textile industry to refresh demand for chemical fiber.**



## Global Economic Growth Sharp Slowdown, Even Recession

### Latest Prediction from the UN (on 15 Jan) :

- ❖ Benchmark of global economic growth in 2009 will be 1% (2.5% in 2008 ), far below the average growth rate of previous five years 3.6%.
- If the economic situation is optimistic, the growth would be 1.6%;
- If the economic situation is pessimistic, the growth would be -0.4%.

#### Hereinto:

Economic growth for developed countries would decline by 0.5%;  
for developing countries would be 4.6%, down 1.3 points year on year;  
for countries with economies in transition would be 4.8%, down 2.1 points year on year;  
for least developed countries would be 5.1%, down 1.3 points year on year.



## Global Economic Growth Sharp Slowdown, Even Recession

### IMF Forecast

World economic growth be around 2.2% in 2009 (5% in 07, 3.7% in 08)

#### Hereinto:

- Economic growth in developed economies would increase by -0.3% (2.6% in 2007, 1.4% in 2008), which would be the first decline in the post-war developed economies. Hereinto: America down 0.7% , Euro Zone down 0.5%, Japan down 0.2%, respectively 0.8, 0.7 and 0.7 percentage points lower from predictions in October.
- Emerging and developing economies would grow by 5.1%, dropping 1.5% from 2008. Growth rate of countries and regions would decline by 1% on the average.
- ❑ It was preliminarily forecasted that world trade would grow by 2.1%, down 2.5 points from 4.6% of the previous year.
  
- ❑ On 28 Jan 2009, IMF lowered world economic growth forecast again, to -0.5%.



## Global Economic Growth Sharp Slowdown, Even Recession

### Latest Forecast from the World Bank

- ❖ In 2009 the world economy will grow by 0.9% (2.5% in 2008 ), the lowest since 1970.
- GDP of high-income countries in 2009 will drop 0.1%.
- Developing countries will see economic growth of 4.5%, about 3 percentage points lower than the average in past five years.
  
- ❖ The world trade volume in 2009 will drop by 2.1%, which is the first drop since 1982.



## Global Economic Growth Sharp Slowdown, Even Recession

### Latest Predictions from OECD

- ❖ OECD economy would decrease by 0.4% in 2009
  - The United States down by 0.9%;
  - Euro-zone down by 0.6%;
  - Japan down by 0.1%
  
- ❖ Import and export trade of OECD in 2009 would grow by 1.9%, falling back by 2.9 percentage points from 4.8% of 2008.



## China's Economic Growth Surely to Slow down Sharply

The UN's "World Economic Situation and Prospects" report on 16 January, made predictions of the three possible scenarios for China's economic growth in 2009

- China would maintain the growth rate of 8.9% in 2009, if external economic environment improved greatly and rapidly.
- But China's economic growth is likely to fall to 7%, suppose the United States and Europe still move slowly.
- The UN forecasted China's economic growth to 8.4% benchmark, between the "pessimistic scenario" and "optimistic scenario".

China will become the growing drive in Asia-Pacific region and even the world. It contributed around 22% to global economic growth in 2008, and may contribute greater in 2009.

China's economic growth rate in 2007 was 11.9%, and in 2008 was 9.1%.

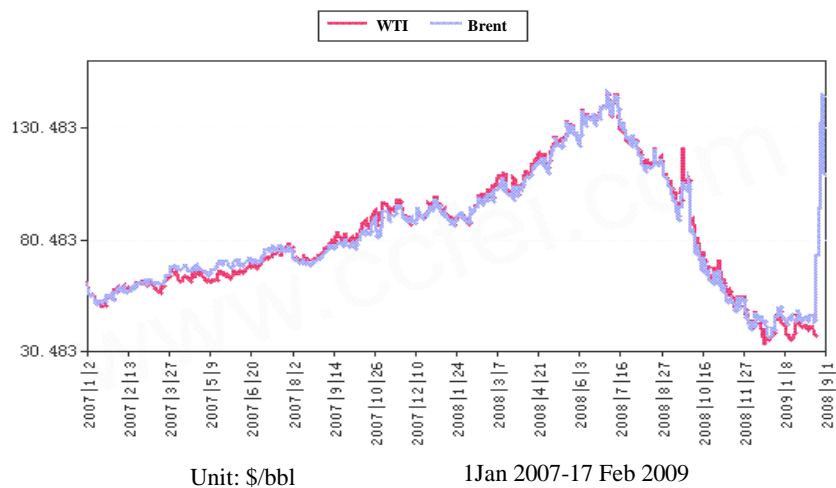


### China's Economic Growth Surely to Slow down Sharply

- ❖ On 28 Jan, 2009, IMF predicted:  
China's economy is expected to grow by 6.7% in 2009, and 8% in 2010;
- ❖ The World Bank expected China's economy to increase by 7.5% in 2009;
- ❖ On 25 Dec, 2008, OECD anticipated China's economy growth of 8% in 2009 (9.5% in June) and would recover to 9.2% in 2010;
  
- ❖ Chinese Academy of Sciences forecasted 8.3%, Academy of Social Sciences (Economic Blue Book in 2009) 8.5%-9.5%, and other institutions 6%-9%;
  
- ❖ The Chinese government enacted the economic growth target of 2009:  
To ensure 8%.



### Price Volatility of World Crude Oil



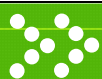
### Sharp Slowdown of China's investment, production, export growth for textiles

	2007	2008	2009 Prediction
❖ Investment Growth :	25.74%	6.75%	? ?
❖ Industrial Output Value: (Jan-Nov)	22.53%	14.33%	? ?
❖ Export Value Growth:	20.07%	7.98%	? ?

### Outlook in 2009

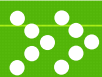
#### Favorable factors

- No changes took place in the fundamentals of China's macro-economic growth.
- The direction of state macro-economic regulation has shifted to "protect economic growth."
- The "Adjustment and Revitalization Planning of the Textile Industry" announced by Chinese Government would vigorously promote the textile and chemical fiber industries to develop in a health, sustained, and orderly way.
- For 30 years since the reform and opening-up, the advanced and high-quality production capacities and the competitiveness of the overall industry still exist in Chinese chemical fiber industry.
- In recent years, the industry has accumulated experience and means which could effectively deal with all kinds of difficulties, especially in industrial self-regulation and standardization of market order.



## Outlook in 2009

Overall, 2009 will be the the most difficult year in the development history of chemical fiber industry, and also the year when it enters the in-depth adjustment. At present, international and domestic economic situation and industry trends are not clear, and it is possible for further deterioration. In this grim situation, it is necessary to maintain stability of chemical fiber market vigorously, and to ensure normal production and operation of enterprises mean to ensure security of employment and livelihood, which really perform the people-centered concept of development.



# Thank You !