

A.S.M. Shahidul Haque

IMPACT OF CHINA'S ACCESSION TO WTO ON TEXTILE TRADE OF SOUTH ASIA

Abstract

China's accession to WTO will help China take over the textile export market of the world. Experts estimate a loss of \$1,051 million to China in export order from Bangladesh alone in next two years. Developing countries in South Asia should work together to address their problems to get special concession to protect their export earning. WTO should accept the fact that, production of and trade in textiles and clothing cannot continue only to serve the interests of multi-national merchandisers and retailers in a handful of consuming nations. Instead, any strategy for the future must ensure that the benefits of production are fairly shared, where the workers involved can afford to become consumers, thus helping the mechanisms for sustainable development.

1. INTRODUCTION

Textiles and clothing trade is a vital part of the world economy with many Asian nations including Bangladesh heavily dependent on this sector for foreign exchange earnings and employment generation. Today textiles and clothing trade accounts for nearly 6%

Mr. A.S.M. Shahidul Haque MBA, is working as Manager-Marketing, at Jamuna Group (Spinning Division). His email is :lincolnsh@yahoo.com.

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of total world exports. It was valued at US\$ 342 billion in 2001². Trade in clothing accounted for 60% of this total. The textiles and clothing sector is a vital and often nearly sole source of industrial employment in many developing countries. Textile and apparel exporting developing countries in Asia including Bangladesh are facing significant challenges due to mainly four reasons³:

- Elimination of quotas by 2005 under the World Trade Organization's (WTO) Agreement on Textiles and Clothing (ATC);
- China's accession to the WTO and its resulting access to major markets in which it was previously constrained by quotas;
- The proliferation of preferential access agreements and the changing nature of the preferences they accord (e.g., tariff preferences will replace quota preferences as the primary benefit of preferential access); and
- The possibility of increase in antidumping, countervailing duties, and safeguards that will lead to market disruption.

It is true in most of the cases, because of the quota shield, many of the poorer and smaller developing countries have built substantial export sectors, realized foreign exchange earning, and created substantial numbers of jobs in sectors in which they might not otherwise have been competitive. However, as the MFA has just been dismantled, many developing Asian countries, which are highly depended on textile trade for export earnings will be facing challenges of market loss from China's accession to WTO.

² Neil Kearney, *Disaster looms for Textiles and Clothing Trade After 2005*, International Textile, Garment and Leather workers Federation, (find it at <http://www.itglwf.org>) posted on 2.9.2003 down loaded on 25.2.2004.

³Peter Minor, *Changes in Global Trade Rules for Textiles and Apparel*, Nathan Associates Inc, TCB Project, Arlington, Virginia, Report prepared for USAID.

In the following sections the extent and nature of impact of China's accession to WTO on the textile trade of South Asian developing countries including Bangladesh will be analyzed.

2. IMPACT OF CHINA'S TEXTILE TRADE ON ASIA

2.1 China's Dominance in Textile and Clothing Trade

China was not a member of the WTO at its inception in 1995 as the successor to the General Agreement on Tariffs and Trade (GATT). It was not entitled to the benefits of the ATC and the elimination of quotas. But on the 11th December 2001, China became 143rd member of the WTO and consequently, was granted ATC benefits including the phase-out of textile and apparel quota constraints by 2005. A World Bank study of China's accession to the WTO concluded that by 2005 China would obtain nearly 45% of the world market for textile and apparel exports⁴.

There are many reasons for China's dominance in textile and clothing trade. With its vast supply of low-cost labor and the economies of scale generated by its large domestic market of 1.3 billion population, China has become the factory of the world⁵. For past few decades, China was well known for producing low-cost footwear, apparel and toys. In this millennium, China has emerged as a major global export power that competes in many cases with exports from Asia. In fact, China has recently displaced Japan as the nation with the largest trade surplus vis-à-vis the United States⁶.

China also enjoys in its eastern coast, highly skilled, highly educated as well as knowledgeable workers who are steadily

⁴ Minor, *op.cit.*

⁵ Kearney, *op.cit.*

⁶ Clyde Prestowitz and Stephen Olson, *Managing China's Ascendancy*, Trade & Forfeiting Review, March 2003.

displacing western expatriates in Hong Kong. Mainland China is benefiting from their services and thus the speed of progress with which China moved up the economic value chain has been miraculous.

Textile and Clothing Trade is also feeling the heat of China's huge capability. Particularly after China became a member of WTO. China is now attractively poised to exploit the textile export market.

China's success is most clearly evidenced in those categories of textiles and clothing removed from quota control as part of the phase-out process under WTO regulations. China's share of world markets has increased dramatically while exports from other countries, particularly some of the poorest countries, have plummeted.

For example, in the 29 categories of garments removed from quota in 2002, China's share of the US market rose from 31% at the beginning of the year to 59% at the end and predicted to even 77% at the end of 2003⁷.

In gloves China increased its exports to the United States by 291% in the 15 months to March 2003. Guatemala's exports fell by 65% for the same period, Bangladesh' by 48% and Sri Lanka' by 47%. China increased its market share from 10 to 42%⁸.

Overall, in 2002, China increased exports of textiles and clothing to the United States more than every other country in the world combined. 96% of China's increases were in quota de-controlled categories. This provides a snapshot of what is likely to happen when all categories are removed from quota⁹.

⁷ Kearney, *op.cit*

⁸ Kearney, *ibid.*

⁹ *Ibid.*

The picture is similar for the European Union. In 2002, in those product categories, for which quotas were eliminated, EU imports from China increased by 164% in volume¹⁰. EU total imports from all countries in these products do not see any similar change – only an increase of 10% – implying a substitution of imports from other countries. With only one significant exception, there were drops in the imports from almost every other country. China's market share of EU imports in these products increased in one year from 12% to 30%¹¹.

The US announced that it would impose quotas on Chinese bras, knit fabrics and robes. The growth of US imports will be limited to 7.5% annually¹². Chinese officials think that the US decision will negatively impact China-US trade and harm the interests of the United States itself. The US decision runs against WTO principles on free trade, transparency and non-discrimination. However, the US Government says the textile cap is allowed under the terms of China's accession to the WTO, which give members the right to impose temporary quotas if Chinese imports are found to cause market disruption.

The increasing trade friction that is evidently turning into real trade war cannot be ruled out. Another interesting observation is that if China takes over export market in textile and clothing from other developing countries to USA, it will not help USA policy makers. USA will be heavily dependent on only one supplier for its consumption. So, for its own interest importers from USA may want to continue outsourcing from developing South Asian countries. It can ensure price benefit as well as a secured market for USA raw cotton and textile machinery export market in this region.

¹⁰ *Ibid.*

¹¹ *Ibid.*

¹² *Asian Textile Business*, No. 571 June 2002

But no matter what would be the situation, China is posing immediate threat to export earnings of many South Asian countries. However, China has its own internal problems of adjusting with open market economy. Maybe, that is why, experts commented that if managed properly, China's ascendancy could play huge impact in collapsing smaller economics and building a very strong self sufficient China. On the other hand, mismanagement of such a mass-producing country could lead to its downfall.

2.2 Chinese Preparation for Textile Trade Dominance

China made some commitments to WTO at the time of becoming a member:

- a. Agriculture: production subsidy limited to 8.5%; average bound tariff down to 15%; no export subsidies
- b. Industry: average bound tariff reduced to 8.9%, highest 47% on photo films
- c. Services: open for foreign ownership-e.g. banking, insurance, distribution; telecommunications

To fulfill its commitment, China gradually opened its economy. Table-1 will reveal the changes in tariff rate in China. In 1992 simple average tariff was 42.9% while in 2001 it was significantly lowers at about 15.3%, enabling it to become more competitive¹³. Low tariff will mean exporters of textile and clothing will be able enjoy easy access to foreign inputs and it will help quicker order execution.

¹³ Ramesh Adhikari and Yongzheng Yang, *China's Increasing Openness: Threat or Opportunity to Others*, ABCDE-Europe Conference, Oslo, 24 June 2002.

Table 1: China's Growing Openness

Year	Simple average tariff %
1992	42.9
1994	36.3
1996	23.6
1998	17.5
2000	16.4
2001	15.3

Source: Ramesh Adhikari and Yongzheng Yang, *China's Increasing Openness: Threat or Opportunity to Others*, ABCDE-Europe Conference, Oslo, 24 June 2002.

With WTO accession, the Chinese textile industry is now going to face new opportunities and challenges. With the phasing out of quota system for exports to Europe and the US toward the end of 2004, Chinese import tariff on fibers which were 30% in 2001 will be lowered to 10% in 2005 and apparel manufacturers will find it easy to use imported fabrics¹⁴. So it seems that fabric manufacturers might face tough competition but they will gain easy access to imported sophisticated fibers and yarn. In case of synthetic fibers, import tariff, which were 10-20% in 2001, would be reduced to 5% in 2005¹⁵. There will be no Import License based restrictions. The WTO entry does not affect the trade aspect alone. The State Development Planning Commission, SETC and MFTEC proclaimed new guidelines for accepting industrial investments from foreign firms¹⁶. The guideline will show China's intention to acquire the whole supply chain efficiency. By achieving this it can reach its goal of becoming the production house of the world.

¹⁴ *Asian Textile Business*, No. 571 June 2002

¹⁵ *ibid*

¹⁶ *Ibid*

Table 2: Foreign Investment Guideline (after WTO) for Chinese Textile Sector

Investment Group	Listed Sector	Remarks
Restrictions (No encouragement)	Cotton Spinning,	
	Wool Spinning	
	Chip-starting Synthetic Fiber	
	Polyester Polymerization	If pdn capacity is <400 tn
Raised from Restriction (100% investment not allowed)	Sophisticated Synthetic Fiber	
	Aramid, Spandex	
Encouragement (Investment encouraged)	Special Textile	For Industrial application
	Weaving & Dyeing	For High Grade Fabric
	Polyester Polymerization	If pdn capacity is >400 tn

Source: *Asian Textile Business*, No. 571 June 2002

China's accession to the WTO is already producing major shift in global production and distribution system. Chinese producers are poised to increase their market share substantially in the United States and other markets where access is controlled by quotas. Table-3 shows some impact of China in GDP, export and import of many countries around the world especially some countries in Asia¹⁷. Trade data of the first six months of 2002, and the recent pattern of Chinese textile trade with the advanced market of Japan, which has no quotas, suggest that China's WTO accession will have a substantial impact on other textile and apparel exporting countries.

¹⁷ Adhikari and Yang. *op.cit.*

Table 3: Effects of China's WTO accession, 2020 (% , \$b)

	GDP	Exports	Imports	Welfare (\$b)
China	4.2	17.6	16.7	10.5
North America	-0.1	0.9	1.9	7.6
Western Europe	-0.1	-0.0	0.2	3.8
Japan	-0.1	0.8	1.0	1.6
Taiwan	3.4	12.9	14.2	6.4
Other NIEs	0.1	0.5	0.6	1.0
Southeast Asia	-0.6	-0.8	-0.8	-1.6
South Asia	-0.8	-3.3	-3.5	-2.5
Latin America	-0.2	-0.6	-0.2	-0.4
Africa & M.E.	-0.2	-0.6	-0.4	-0.8
ROW	-0.1	-0.1	0.1	-0.0

Source: Ramesh Adhikari and Yongzheng Yang, *China's Increasing Openness: Threat or Opportunity to Others*, ABCDE-Europe Conference, Oslo, 24 June 2002.

Today, in textiles and clothing, all indicators point to one major winner –China– hitting the jackpot at the expense of a host of losers, mainly small and poor developing countries.

3. INDIA: FOLLOWING THE PATH OF CHINA

In the past, India was compared with their Chinese rivals as the upcoming economic power. However, many now accept the idea seriously. They analyze China's economic dominance in recent years as well as India's rising prominence to come to such a conclusion. While India lacks China's export and foreign-investment prowess, it makes up for it in other areas such as through highly developed software and pharmaceutical industries and a workforce that has become a major source of outsourcing for many international

companies¹⁸. Table-4 gives a socioeconomic analysis of different South Asian countries along with China to assess the strength and weaknesses of competing countries¹⁹. It seems that China has relatively low level of bureaucratic problem and it has very little law and order problem. On the other hand, countries like Bangladesh and India are facing serious bureaucratic problem along with corruption and severe law and order problems. These countries need to overcome these problems to become more competitive.

Table 4: The Business Environment – Impact of Local Factors

Selected Countries	Bureaucratic procedures	'Back to Back L/Cs' system	Hartals/ Law and order	Corruption/ Bribery
Bangladesh	-	+	--	-
China	+/-	None	Not applicable	-
India	-	None	-	-
Pakistan	-	None	-	-
Sri Lanka	+/-	None	--	+/-
Vietnam	+/-	None	Not applicable	-
Indonesia	-	None	+/-	-
Italy	+	None	+	+/-
Mexico	+/-	None	+/-	+/-

Source: Gherzi

Note: - = negative; -- = highly negative; +/- = average; + = positive

¹⁸ Allen Wan, *Asia again turns its hopes to China*, CBS MarketWatch, Posted on 17.12.03. (accessed at <http://www.always-on-network.com/members/register.php>)

¹⁹ *Post-MFA Development Strategy and Technical Assistance for the RMG Sector*, Ghergi Textil Organization (GTO), Zurich, Switzerland and Project Promotion & Management Associates (PPMA), Dhaka, Submitted to The Ministry of Commerce, GOB, March 2003.

Moreover, India's economy is growing rapidly, with the government forecasting growth of 7 % in the early 2000s and beyond - in line with China's projected GDP estimates.

India has the advantage of large English speaking population, but not quite as entrepreneurial as the Chinese. Another crucial difference in India's favour is that they know that foreign investors must be able to make money in India to have it be attractive. Many experts think that the Chinese have yet accepted that proposition.

When the end of the Cold War robbed India's leadership of the Non-Aligned Movement of much of its international importance, Indian policymakers began more consciously to look for other ways of being acknowledged as a great power²⁰. China became the benchmark against which India's own international status could be assessed. China's membership on the United Nations Security Council and the deference accorded it (in Indian eyes) by major governments like the United States set the standard for how India would like to be treated. It is anticipated that India will also follow the path of China in becoming a giant in textile and clothing industry.

The idea is not baseless. India also has tremendous natural strength in textile industry. The Indian textile industry is one of the largest segments of the Indian economy accounting for over 20% of industrial production and providing employment to approximately 15 million people. The industry has also earned the distinction of being the highest foreign exchange earner for India. Textiles account for nearly 30% of India's exports²¹.

²⁰ Wan, *op.cit.*

²¹ ASM Shahidul Haque, "Factors Favoring Export Of Indian Yarn In Bangladeshi", Journal Of International Affairs, Vol. 6, No. 1&2, July-2001-June 2002. Page-129.

Table 5 : Major Importers of Indian Cotton Yarn

Countries	Million Rupees	% Share of Total
Bangladesh	8,864	13.61
Hong Kong	8,505	13.06
Korea Rep.	8,467	13.00
Italy	3,836	5.89

Source: *TEXPROCIL*

A vibrant export oriented spinning industry with world standard spinning capacity based on state-of art technology and low conversion costs has emerged creating great potential for exports of high quality yarn to global markets. Spinning capacity of India was about 37.91 million in 2000-01²². Consequently, India has become the largest exporter of cotton yarn (Table-5) in the world with a share of 25% in the world market²³. India can easily turn its strength into vertical integration and go aggressively into more and more export market for textile and clothing. There are indications that India can emerge as a stronger competitor of China and take away market for textile and clothing from other weaker developing countries.

4. CONCERNS IN OTHER SOUTH ASIAN COUNTRIES

General concerns in developing countries are that China made goods will flood many developing countries' markets. China may also replace their exports in the export markets. China will be a price market in labor-intensive goods. She will attract more FDI, some diverting from other developing countries.

The entry of China in the WTO will surely create a huge impact in the global textile sector. Table-6 shows the comparative strength of different South Asian countries China. Different countries have strength in different categories. As a result in a open market, countries which operate generally in a quota protected market may

²²Haque, *op.cit.*

²³ Haque, *op.cit*

face serious problem. But it is not clear, how it will affect the textile industry of Bangladesh. The sector is very important for countries like Bangladesh, Sri Lanka and Pakistan, as this sector's contribution

Table 6 : Unit price realization of selected garment exports (in US \$/piece)

SITC Product Description	Bangladesh	India	Pakistan	Sri Lanka	China
Men's woven wear					
8414 Trousers	4.21	3.91	3.67	6.44	5.74
84151 Cotton shirts	4.82	5.59	3.74	6.15	4.02
84159 Shirts (other material)	4.17	6.16	2.89	5.72	5.28
Men's Knit wear					
84324 Trousers	3.17	2.80	3.21	3.90	2.04
84371 Cotton shirts	2.97	4.53	4.06	7.44	5.49
84379 Shirts (other material)	3.45	4.62	3.81	6.08	8.14
Women's woven wear					
8425 Trousers, breeches	3.47	4.77	4.04	5.39	7.53
8426 Blouses, shirt-blouse	4.55	4.22	3.67	5.87	5.85
8425 Skirts	3.28	3.94	3.14	5.69	6.77
Women's Knit wear					
8425 Skirts	0.00	2.92	5.68	4.85	3.13
Trousers, breeches	2.59	2.90	3.74	4.82	6.78

Source: "Globalization and the Apparel Industry of Pakistan", Asir Manjur, as reported in *Garments Industry in South Asia rags or riches? Competitiveness, productivity and job quality in the post MFA environment*, edited by Gopal Joshi, South Asia Multidisciplinary Advisory Team (SAAT), International Labour Organization, New Delhi. 2002.

in the export earning is most significant. The sector employs 1.8 million workers in Bangladesh, 1.4 million in Pakistan and 250,000 in Sri Lanka²⁴.

Table 7: Effects on Textile & Clothing Exports (%)

	Textiles	Clothing
China	3.8	45.8
Hong Kong	4.5	-8.6
Korea	1.4	-5.2
Taiwan	4.3	-8.3
Indonesia	-0.7	-4.6
Malaysia	-0.3	-6.9
Philippines Indonesia	-0.7	-7.4
Singapore	-0.5	-7.4
Thailand	-0.2	-3.5
Vietnam	-0.6	-1.9

Source: Ramesh Adhikari and Yongzheng Yang, *China's Increasing Openness: Threat or Opportunity to Others*, ABCDE-Europe Conference, Oslo, 24 June 2002.

Table 7 shows the effect the in textile and clothing business in many south Asian countries; while China's export in textile and clothing will increase dramatically, other countries export will most certainly take a negative turn²⁵.

4.1. Impact of the Elimination of Quota

While developing country exporters are likely to receive net benefit from elimination of textile and apparel quotas by 2005, these benefits are likely to be concentrated in the hands of a few large low-cost producers, such as India, Pakistan, and China²⁶. Conversely,

²⁴ Kearney, *op.cit.*

²⁵ Adhikari and Yang, *op.cit.*

²⁶ Minor, *op.cit.*

many smaller developing countries like Bangladesh, will face the prospect of dramatically reduced exports. Table-8 shows the dependency of South Asian countries in textile and clothing trade on quota market.

Two key facts emerge from analysis of US quota elimination. First, ongoing liberalization of textile and apparel quotas has produced rapid shifts in market shares, with Asian countries (including China) gaining significant market share, mainly at the expense of Mexico and other developing countries. Second, some countries and regions are exposed to a higher risk of losing market share in the new, more liberal trade environment for textiles and apparel²⁷.

Table 8 : Quota exports of garments from South Asia

Countries	Quota based exports
Bangladesh	95
India	73
Nepal	80
Pakistan	90
Sri Lanka	62

Source: Garments Industry in South Asia rags or riches? Competitiveness, productivity and job quality in the post MFA environment, edited by Gopal Joshi, South Asia Multidisciplinary Advisory Team (SAAT), International Labour Organization, New Delhi. 2002.

At the moment, no other single country does seriously rival China's strength as a global garment exporter. Rather it competes with entire trading blocs of nations. In reality it looks as the world is economically moving to a unipolar world where China is the pole²⁸. If the situation continues like this, many poorer countries dependent

²⁷ *Asian Textile Business*, No. 571 June 2002

²⁸ Kearney, *op.cit.*

on exports of textiles and clothing will see their economies destroyed up to and after the disappearance of quotas in 2005.

According to some estimates, India and Pakistan may lose market share to China, but could compensate through shares taken from other mostly smaller suppliers if domestic structural reforms are undertaken. It is also true that, the performance of the U.S. economy and markets will remain a critical factor for all of Asia.

China is still maintaining a strong economic growth rates of around 7%, a rapidly expanding middle class with an appetite for imported goods and greater market access as a result of accession to the WTO, all combine to give Asian countries to face the heat in economic arena.

4.2. Shifting Trade Under MFA in Textile and Clothing

Trade in textiles and clothing has been managed for some 40 years. The first textile trade agreement was adopted in the early 1960s and then in 1974 the Multi-Fiber Arrangement was introduced to govern trade in textiles and clothing. Initial restraints on dominant exporters such as Hong Kong, Korea and Taiwan resulted in quota hopping, sub-contracting or relocating to countries without quota or with unfulfilled quota²⁹. Without the MFA it is doubtful if countries such as Sri Lanka, Bangladesh or Indonesia would have seen the development of a significant textiles and clothing export industry. Thus the MFA, initially a temporary protection mechanism for the industrialized world's textiles and clothing industry, became the catalyst for the industry's surge across the developing world.

MFA I in 1974 evolved into MFA II and MFA III and finally the Textiles and Clothing Agreement in 1995 – an extended phase-out

²⁹ Kearney, op.cit

with certain categories being freed from restraint until the final cut-off date of 31 December 2004.

As the phase-out proceeded, it became increasingly clear that trade in textiles and clothing was moving in directions that now threaten to destroy the industry in some of the poorest developing countries. Table-9 shows the comparison of different South Asian and Southeast Asian states with China in 1995 and as well as a projection for 2020³⁰. The data can give some idea about the potentiality of these states against China by comparing their respective economic strengths and weakness.

Table 9: Characteristics Globalization Scenario (all numbers are %)

Levels/quotes	China		South Asia		Southeast Asia	
	1995	2020	1995	2020	1995	2020
Year	1995	2020	1995	2020	1995	2020
Information sector (% Labor supply)	63.6	41.1	62.0	43.5	37.6	17.4
Saving ratio (% National income)	37.0	46.8	15.3	31.0	32.9	36.9
Ratio of value of trade To GDP	31.2	28.3	14.2	12.9	38.7	33.0
World share GDP	2.9	5.6	2.4	4.1	4.7	8.6
World share population	21.5	18.9	24.1	26.1	8.2	8.0

Source: Arjan Lejour, *China and the WTO: the Impact on China and the World Economy*, CPB, The Netherlands Bureau for Economic Policy Analysis, 2000.

³⁰ Arjan Lejour, *China and the WTO: the Impact on China and the World Economy*, CPB, The Netherlands Bureau for Economic Policy Analysis, 2000.

Phasing out of MFA quotas will possibly affect negatively on most other developing countries except China. It will bring possible long-term division of labor in all competitive countries. China will increase textile imports along with export to USA and EU. At the same time other exporters including Bangladesh, which enjoyed an expanding knitwear market, will loss export orders.

4.3. Comparative Performance of China and South Asian Countries in Textile Trade

Though Bangladesh has the lowest hourly wage in RMG sector among the selected countries (Table-10), it does not ensure that Bangladesh can maintain its export earnings as the export market for Bangladesh were largely quota protected³¹. Once the quota is over China and other countries will take away the market for the reasons shown in Table-11.

Local input for knitted garments in case for Bangladesh is only 75 % (Table-11). While competing countries like China, India and Pakistan can supply 100 percent from the local source³². Lead-time is now a very strong strength for exporters. Bangladesh has the longest lead-time. On the other hand, competing countries can supply at a smaller lead-time and thus can take away export orders from Bangladesh. Thus, countries like Bangladesh will face severe competition from China and India where all the factors combined give them advantages over other countries.

³¹ *The Financial Express*, Dhaka, 15 June 1995.

³² *Post-MFA Development Strategy and Technical Assistance for the RMG Sector*, Ghergi Textil Organization (GTO), Zurich, Switzerland and Project Promotion & Management Associates (PPMA), Dhaka, Submitted to The Ministry of Commerce, GOB, March 2003.

Table 10: Inter-country Comparative Average Hourly Wage in the RMG Industry

<i>Country</i>	<i>Wage/hour (US\$)</i>
Germany	25.00
USA	16.00
Republic of Korea	5.00
Mexico	2.40
Sri Lanka	0.45
China	0.35
India	0.35
Nepal	0.30
Bangladesh	0.15

Source: The Financial Express, Dhaka, 15 June 1995.

An analysis of the woven garment also tells a similar story. Bangladesh, like many other competing countries such as Sri Lanka and Vietnam, imports the major parts of its woven fabric raw materials. Hence lead times are extended and flexibility for changing manufacturing programs and repeat orders are limited. Sourcing of all the inputs for export of textile and clothing and short lead-time gives China an upper hand over all South Asian developing countries.

Table 11: Manufacturing Basis for Knitted Garments Export

Selected Countries	Main raw material input	Labor productivity % average	Labor costs per hour US\$	Lead time days
Bangladesh	Local 75	100	0.30	45-60
China	Local 100	120	0.69	35-45
India	Local 100	95	0.58	20-30
Pakistan	Local 100	90	0.37	45-65
Sri Lanka	Imported 80	110	0.46	30-50
Vietnam	Local 50	70-90	0.27	45-60

Source: Gherzi/Post-MFA Study

The accession of China has many fold impact on the south Asian countries. China has also increasingly become the destination of choice for Foreign Direct Investment (FDI) in the region. Even once abundant FDI flow to ASEAN countries are drying up. In the year 2000, China was the recipient of 74% of net FDI into emerging Asia, up from under 50% just 10 years prior³³. Table-12 will reveal the situation of FDI, labour cost of some of the Asian countries³⁴. The table shows that China received highest flow of FDI compared to Bangladesh and India. Though Bangladesh has a comparatively low hourly labor cost but the industry is largely setup and maintained by own finance. On the other hand, FDI and low labour cost in countries like Sri Lanka, Vietnam or Indonesia, makes them a favorable destination for export business.

Table 12: FDI, Labor Cost & Clothing Exports of the Selected Countries

Selected Countries	FDI	Labor Costs/Hour (US\$)	RMG Exports 2000(US\$bn)
Bangladesh	4	0.23	4.36
China	1	0.77	36.10
India	4	0.41	5.50
Pakistan	5	0.37	2.31
Sri Lanka	3	0.35	2.30
Vietnam	2	0.30	1.80
Indonesia	3	0.34	4.73

Source: WTO/Gherzi

Key: 1 = Very High; 2 = High; 3 = Average; 4 = Low; 5 = Very low

³³ Clyde Prestowitz and Stephen Olson, *Managing China's Ascendancy*, Trade & Forfeiting Review, March 2003.

³⁴ *Post-MFA Development Strategy and Technical Assistance for the RMG Sector*, Ghergi Textil Organization (GTO), Zurich, Switzerland and Project Promotion & Management Associates (PPMA), Dhaka, Submitted to The Ministry of Commerce, GOB, March 2003.

China's impact is so strong that already factories are closing across the world especially in Asian developing countries, as orders are re-directed to China. Analysts expect the most populous nation to again dominate Asia's landscape in 2004 after a remarkable year in which its economy finally shed the label of a would-be powerhouse and actually became a global player.

The extent of impact of China's accession to different countries including Bangladesh along with different blocs and regions can be observed in Table-13, as China will take over the textile export market of the world. Experts estimate a loss of \$1,051 million to China by Bangladesh in next two years³⁵. While the CBI countries will be losing of about \$6,279 million alone.

Table 13: Projected Apparel and Textile Export Losses to China
(Selected Asian Countries and regions 2004-2006*) million of dollars

CBI	6,279
EU	2,477
Sub Sahara Africa	926
ANDEA	731
Bangladesh	1,051
Thailand	1,161
Indonesia	1,390
Philippines	1,236
South Korea	1,620

Source: ATMI 2003

*Assumption China's share of US market grows from 65% to 75%.

³⁵ ATMI 2003 (Taken from- *Assessing The Impact of the Phasing-out of the Agreement on Textiles and Clothing on Apparel Exports on the Least Developed and Developing Countries*, Center for Global Studies, Institute for Social, Behavioral, and Economic Research, University of California at Santa Barbara, USA, 2003.)

However, another serious event will take place in future. Limited competition in manufacturing at the moment gives China the opportunity to supply industrial goods to developing countries at a cheaper price. However, China will not supply to the developing market forever. As the economy progresses, Chinese manufacturers will search for high value addition market. Ironically, imports of light manufacturers will become more expensive as China switch to industrial country markets, where quotas and other quota restrictions are to be removed. In the long run, it could push up world prices for grain and adversely affects net food importers.

5. COUNTER-MEASURES FOR SOUTH ASIAN COUNTRIES

There was very little collective response on the part of South Asia to the Uruguay Round negotiations, with the exception of some coordinated response by India and Pakistan in the area of textiles and garments. Perhaps a coordinated response is difficult. The interests of Bangladesh, India, Pakistan and Sri Lanka are somewhat similar, although Bangladesh is in the group of least developed country. In terms of negotiating postures, India, Pakistan and Sri Lanka are closer together, while Bangladesh and Nepal belong to a different category. Many commented that bargaining power of the individual countries would be enhanced if collective positions were possible³⁶. However, perhaps because of the formation of SAPTA and SAFTA, there seems to be a coordinated platform. The SAARC region should strongly emphasize that expeditious action be taken for the full and fair implementation of existing agreements and commitments made thereon, with special reference to the impact on developing and least

³⁶ *WTO & South Asia, Multilateral Liberalization A collective Response form SAARC*, Joint Statement by the SAARC Commerce Ministers for WTO ministerial Conference at Seattle, delivered at Bandon Island, Maldives, 9th August, 1999.

developed countries, and that imbalances and asymmetries in these agreements be addressed as a clear priority³⁷.

The Uruguay Round negotiations did not result in greater market access for the exports of developing and least developed countries as was expected, due to the existence of 'tariff peaks', the phenomenon of tariff escalation, and the use of non-tariff barriers, in respect of products of export interest to the developing and least developed countries. There is a need for meaningful integration of the textile and clothing sector under GATT. Measures, which would result in increased market access for textile and clothing items, need to be considered. These would include, *inter alia*, adequate and faster coverage of items for meaningful integration, regular monitoring of the process of integration by the Textile Monitoring Body, disallowing unilateral modification of rules of origin to the detriment of developing and least developed countries, avoidance of arbitrary anti-dumping, anti-subsidy or safeguard measures by developed countries and full and effective compliance with the special and differential treatment provisions³⁸.

By reducing (and ideally removing) impediments to trade and investment among SAARC, BIMST-EC as well as ASEAN members, a regional FTAs would accomplish two important objectives: force companies to become more competitive and create an interesting counter-balance to China as a destination for FDI.

However, creating FTAs is not easy. There are unsolved issues. Bangladesh have bitter experience against its South Asian neighbors. Bangladesh feel that in order to enjoy the benefit from FTA or SAFTA, the big economic power in this region, India should play important role. India should not only think about gaining from it. It needs to address the need for small countries. India needs to open its

³⁷ *Ibid*

³⁸ *Ibid*.

market and remove explicit and implicit trade barriers as well as encourage its neighboring countries to go for regional trade. At the same time without solving trade related issues, building trust among South Asian countries, a coordinated response from South Asian countries against China's dominance in international textile and clothing trade will not be easy.

Experts commented some measures for the developing countries to adjust their loss to China³⁹.

1. Tackle economic inefficiencies, especially corruption;
2. Get serious about regional free trade;
3. Lowering duties on raw materials and inputs;
4. Streamlining duty drawback programs;
5. Improving physical infrastructure (port, electricity, transportation, and water etc.);

The steps suggested above and the analysis of socioeconomic situations can give some idea about the problems the developing countries are facing. Textile and clothing exporting countries including Bangladesh has many obstacles to cross before becoming competitive with countries like China and India, the ultimate destination for low cost export orders. Developing countries have many fold socioeconomic problems. So, it is not realistic to think that they will be able to lower their production cost and solve all the obstacles overnight. In reality the wage rate is among the lowest in the world. As a result very little can be done to reduce production cost even further in reality. However experts suggested some measures for South Asian countries to enhance their competitiveness.⁴⁰

³⁹ Minor, *op.cit*

⁴⁰ Minor, *op.cit.*

- ***Conduct a competitive assessment-*** Textile and apparel industry encompasses a large number of products and markets. A product and country-specific competitive assessment may be conducted to evaluate a country's risk exposure, taking into account competitiveness factors applicable for each South Asian countries-

- Quota constraints on international competitors;
- Preferential trade agreements provided to regional suppliers;
- Wage and non-wage labor costs;
- International transportation cost and lead times;
- Access to competitively priced raw material, yarns, and fabrics;
- Political and economic conditions; and
- Access to foreign capital and management and marketing expertise.

- ***Provide trade capacity-building assistance in the textiles and apparel sector-*** Improved knowledge of trade policy, trade rules, and the status and process of ongoing global and regional trade negotiations can help officials from developing countries-

- Negotiate or maintain tariff preference to developed market;
- Adhere to international laws;
- Create efficient and credible customs procedures.

- **Support trade diversification strategies-** Many South Asian countries need to diversify into other labor-intensive industries in which local producers are more likely to have a sustainable competitive advantage in international trade. To achieve that information and analysis on international market opportunities are required.

South Asian countries need to take urgent measures to become competitive against China's dominance in textile and clothing trade. Coordinated approach can make the task a bit easier though it is not easy. On the other hand, business relationship with established buyers are important. Countries like Bangladesh which has relatively long and trusted relationship with customers need to work hard to continue getting export orders. Many buyers who feel comfortable in trading with exporters from this country, need to be handled carefully. Different strategies suggested above need immediate and urgent implementation to face the challenges emerging from China's accession to WTO.

6. CONCLUSIONS

China's accession agreement includes two strong provisions that may be invoked in response to import surges of Chinese textile and apparel. The first is a *sector-specific safeguard* affecting textiles and apparel that allows the importing country to apply restraints on import increases that are "due to market disruption, threatening to impede the orderly development of trade in these textiles and apparel products." (WTO Working Party Reports on the Accession of China, paragraph 242(a)). It provides one year of protection and can be renewed after increasing the restricted level of trade by 7.5 percent⁴¹. (USA is trying to use this provision to limit China's export). The

⁴¹ Minor, *op.cit.*

textile and apparel safeguard will be available through 2008, and China will not have right to retaliate.

The second provision is that the product-specific safeguard that can be applied against any surge in imports from China⁴². (WTO Working Party Reports on the Accession of China, section 13). Unlike the sector-specific safeguard, the product-specific safeguard can be applied only after an investigation or due process has determined that China's exports are "the cause" of market disruptions. Although the product-specific safeguard will require a higher threshold of evidence and proof, its protection can be maintained for 3 years with the possibility of a 2-year extension. Producers will have recourse to the product-specific safeguard for 12 years after 2005. Thus any safeguard applied against China by large importer can temporarily help other developing country to export.

Experts commented that after 2005 when quotas becomes abolished, the annual growth rate of Chinese textile product exports the US and others is subject to restrictions of 7.5% (described above). Any excess of exports over these restrictions will be the subject for safeguards. This is why an explosive increase in export is impossible even after 2005. In 2001, the amount of exports to quota restriction imposed markets such as EU and the US was 23%. Experts commented that there is room for expanding Chinese made products by taking the share of Mexico and Caribbean countries in the case of US as well as those of Central and East Europe as well as North African countries in the case of the EU. If this becomes true then Bangladesh RMG sector will face tough competition from China for getting orders from US and EU, which are the most important market.

⁴² Minor, *ibid.*

Properly addressed, the upheaval arising from ending trade regulation in textiles and clothing could provide an opportunity for radical change leading to real sustainable development in every continent.

Ignored, this upheaval will place the textiles and clothing industries in the hands of China with millions of workers elsewhere facing a dire future. In short, production of and trade in textiles and clothing cannot continue only to serve the interests of multi-national merchandisers and retailers in a handful of consuming nations. Instead, any strategy for the future must ensure that the benefits of production are fairly shared, where the workers involved can afford to become consumers, thus promoting the mechanisms for sustainable development⁴³. WTO must address the poor country workers whose bread and butter are at stake. The threat to the livelihoods of millions of workers and their families in poor and small developing countries demands urgent action.

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