US and EU provoke trade friction with China over textiles

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The reactions of the Bush administration and the European Union (EU) to rising Chinese textile exports since the expiration on January 1, 2005, of the three-decades old Multi-Fiber Agreement (MFA) have heightened trade tensions with China. The US has imposed limits on Chinese textiles and is threatening further action, while the EU extracted an agreement from Beijing on June 12 to "voluntarily" curtail the export of 10 textile items to Europe.

The MFA was enacted in 1974 with the aim of protecting textile industries in the developed economies from competitors in low-wage countries. Countries were each assigned a fixed quota of textiles that could be exported to markets such as the US and Europe. Transnational manufacturers set up operations in countries like Bangladesh, Sri Lanka, Cambodia and Fiji to take advantage of their national quota.

It had long been predicted that the expiry of the MFA would lead to a massive relocation of production and capital. Foreign capital has been flooding into China since the early 1990s to take advantage of a vast supply of cheap labour, combined with the relatively efficient transport networks and infrastructure in special economic zones built to service export industries.

Despite China's cost advantages and ample supplies of raw materials, its MFA quotas and the demands of the domestic market previously limited its textile industry. With the quota system abolished, textile production has been migrating to China at a staggering rate. In the past three years, $US21 billion has been invested into China's textile industry, increasing its capacity by 50 percent.

Neil Kearney, the general secretary of the Brussels-based International Textile, Cloth and Leather Workers Association, commented in mid-May that the expansion of production in China was "like a massive earthquake," threatening to wipe out some 30 million textile jobs elsewhere in the world.

Kearney warned: "Lesotho, for instance, relies on the sector for 99.14 percent of its exports earnings. Bangladesh for 94 percent; Haiti for 88 percent; Cambodia for 86 percent; Pakistan for 75 percent; Honduras for 75 percent and Sri Lanka for 63 percent. In all of these countries the textile and clothing industry is the only source of manufacturing employment...."

Kearney's figures may be an exaggeration, but since the beginning of the year, job losses have risen sharply. In Sri Lanka, 36 factories have shut down with the destruction of 26,000 jobs, while in Cambodia, 20 factories have closed, also eliminating 26,000 jobs.

A number of countries are seeking to impose trade restrictions on Chinese textiles. But it is in the US and EU—two of China's largest trade partners—where the issue has produced the greatest heat. Cheap Chinese goods are being blamed by sections of the ruling elite and the trade union bureaucracies for the high rates of unemployment in Europe, the huge US trade deficit and job losses.

Since Bush came to office in 2001, for example, more than three million American manufacturing jobs have been lost as US corporations continue to transfer production to areas of the globe with lower labour costs and higher rates of return.

Making China the scapegoat for the tremendous economic and social dislocation produced by the capitalist market, the US Senate is threatening to pass legislation in July that will impose an across-the-board 27.5 percent tariff on all Chinese goods, unless Beijing takes steps to revalue the Chinese currency.

In May, the Bush administration responded to the demagogic denunciations of China's "unfair trade" by limiting the growth in imports of seven Chinese textile products to 7.5 percent annually. The pretext was the loss of 16,000 American textile jobs since January. US statistics show some categories of Chinese textile imports increased by as much as 1,000 percent in the first four months this year.

The right to impose a 7.5 percent growth restriction on Chinese textile imports was one of the terms in the agreement governing China's entry into the World Trade Organisation (WTO) in 2001.

The Chinese regime has responded angrily. In order to appease the US and Europe, Beijing had proposed imposing its own export tariff on 74 categories of textile products, in order to push up the price of goods prior to their arrival in the US or Europe. It withdrew the offer after the US unilaterally imposed its restrictions.

Chinese Commerce Minster Bo Xilai has repeatedly warned that the US measures would cost China $2 billion in lost exports and put 160,000 jobs at risk. Bo argued that the restrictions were irrational, as the US and EU dominated the hi-tech sectors of the global economy, while China was primarily a producer of low-end products. "China needs to export 800 million shirts in order to buy one Airbus A380," Bo declared at a meeting in Paris in May.

The tension over textile exports only lessened following a meeting between Chinese vice-premier Wu Yi and US trade officials on June 4-5 in Beijing. The two sides stressed they were keen to prevent a broader trade war that would "hurt the interests of both".

Highlighting the short-term calculations behind the Bush administration's move, US commerce secretary Carlos Gutierrez told an audience of Chinese students at Tsinghua University: "You are being too dramatic ... For a short time we're closing the doors. After that our doors are open. China and the US are bigger than textile safeguards for one year. We'll get over this."

The Chinese regime has deferred to the US actions but intends to challenge the measure under the WTO rules. The 7.5 percent limit can be imposed for one year only and can be renewed just twice. The import restrictions would therefore expire in 2008.

The EU and China came to a short-term agreement on June 10. After weeks of failed talks, Beijing agreed to limit the export growth of 10 textile products to the EU to between 8 percent and 12.5 percent until 2007. In return, the EU has dropped threats to invoke the same 7.5 percent restrictions as the US.

The European Commission voted 23 to 2 in May to implement measures to protect the trade bloc's textile industry, which employs 2.5 million people. France, Spain, Greek and Italy in particular have substantial textile and shoe manufacturing industries.

The EU Textile Committee reported that there had been a 187 percent increase in the import of Chinese T-shirts and a 56 percent rise in flax yarn since January. Another recent report found that in the first four months of this year imports of Chinese footwear increased 681 percent, compared to the same period last year, while the average shoe price dropped 28 percent.

Appeals to protectionism played a role in the French referendum on the EU constitution. French president Jacques Chirac at one point championed a "yes" vote by portraying the talk of tough action against China as evidence that the European Commission would protect jobs in France. Under pressure from Paris, the EU issued an ultimatum to Beijing requiring an "agreement" to curb textile exports to Europe by May 31.

After French voters rejected the constitution on May 29, the EU dropped the threat. Peter Mandelson, the EU trade commissioner who headed talks with China in Paris on May 30, told Chinese officials that the textile question should not undermine the "strategic partnership" between the EU and China. "I'm not going to take any action that is precipitous, that is reactionary, that is going to turn the clock back on textile imports," he declared. Mandelson insisted that the European industry only needed a "breathing space" to restructure.

The textile dispute underscores the fact that neither "free trade" nor protectionism advance the interests of the working class in any country. Workers in one country are pitted against those in other countries in a never-ending competition that results in continual axing of jobs and conditions as well as lowering of wages.

While the major clothing and retail corporations continue to profit regardless of the source of their goods, restrictions on export growth from China will have a severe social and economic impact on the 19 million low-paid workers in the country's textile and garment industries.

Companies that expanded over the past three years in anticipation of greater output are being forced to scale back production. A 29-year-old worker, Shen Qingyan, from a Shanghai-based textile factory making clothes for export to Italy, told Xinhua on June 1: "The boss said there will be no more orders after June, so we are desperately working overtime to earn whatever we can. I don't know where my next job is."

A director from a state-owned textile mill of Tianjin City, Wang Ruqian, said his company expected sales to decline 20 percent this year. "What workers are worried about is if the firm cannot sustain the pressures caused by the European and US limitations, it will be forced to scale down production and lay off workers."

Even if the temporary measures against Chinese textiles were made permanent, it would make little difference to the destruction of the textile industries in the West.

Textile production has been migrating to the developing countries since the 1960s. The industry was one of the pioneers in the process of globalisation, in which the major transnational companies transferred or sub-contracted production to operations in cheap labour areas in an attempt to offset the pressure of declining profitability.

A Chinese international expert, Rong Changhui, told the official Xinhua newsagency: "Of every textile item that China exports to Europe and America, over 80 percent of the profit is monopolised by European and US companies. The profit margin for Chinese manufacturers and workers is very little, but numerous workers are depending on the limited profit to make a living".

The main impact of the trade tensions between China, the US and the EU is likely to be an accelerated transfer of textile production to India. The Indian textile industry already employs 35 million workers and the government is introducing measures to slash costs so as to make investment as lucrative as China. Even before the imposition of new export limits on Chinese goods, Indian producers predicted that textile exports would increase from $12 billion to $40 billion by 2010 after the expiry of the MFA.