Europe’s textile war with China—and itself

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Chinese-made bras, blouses and T-shirts are piling up at customs checkpoints across Europe, having already bumped up against import limits set earlier this year. The European Union has sent a team of officials to Beijing to negotiate a way out of the crisis. But European retailers are just as annoyed at the quotas as the Chinese

Ever since the World Trade Organisation’s longstanding system of textile quotas expired at the beginning of this year, China has been heading for a showdown with America and the European Union, where powerful textile lobbies have frantically agitated for legislative action to stop the flood of cheap Chinese apparel from swamping their businesses. The EU tried to resolve the issue in June, when it signed an agreement with China imposing new quotas on ten categories of textile goods, limiting growth in those categories to between 8% and 12.5% a year. The agreement, which runs to 2007, was to give domestic manufacturers time to adjust to a world of unfettered competition.

Alas, no one seems to have adequately consulted Europe’s retailers, who had already placed orders for mountains of new goods from China. Barely a month after the deal was agreed, China exceeded its quotas for

Not everyone wants to sock it to the Chinese

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pullovers. Less than a month after that, men’s trousers hit their import quota, followed rapidly by blouses, then bras, T-shirts and flax yarn. Tens of millions of garments are piling up in warehouses and customs checkpoints, while the prospect of shortages has consumers and shop-owners up in arms.

The European Commission, the EU’s Brussels-based executive, is frantically trying to hammer out a deal that will please manufacturers, retailers and the Chinese. It has floated the idea of “borrowing” quotas either from next year or from categories that have not yet hit their import ceilings. But this has reportedly met with a distinctly cool reception from the Chinese. On Wednesday August 24th, a team of EU trade experts flew to Beijing to see if they could warm China’s officials up to the idea. Meanwhile, EuroCommerce, a lobby group for retailers, wholesalers and trading firms, is calling on Peter Mandelson, the EU trade commissioner, to let in all the goods that were ordered before the quotas came into effect on July 12th.

Mr Mandelson has acknowledged a “serious glitch” in the implementation of the textile quotas, and appears to be seeking a pragmatic solution. But the pressure from retailers is matched by intense lobbying by textile manufacturers and governments of countries with big textile industries. On Wednesday, Mr Mandelson said that despite the problems with their implementation, the quotas would not be revoked.

This showdown has been brewing for a while. When China became a member of the WTO in 2001, it did so under special terms that allowed importing countries to impose short-term “safeguards” on Chinese goods until 2013 if they could show those goods to be causing “material injury” to domestic producers. And separate measures for textiles allow safeguards to be imposed whenever imports threaten “market disruption”. The expiry of the previous quota system made it inevitable that countries with big textile industries—such as France, Spain and Italy—would press for quotas to be imposed.

At best, the quotas are only delaying the inevitable. It is hard to see how rich-world workers can compete with the low wages that their counterparts in poor countries are willing to accept. The low-tech, low-skill textile industry seems likely to continue bleeding jobs to the developing world. It is estimated that France lost about a third of its jobs in the sector between 1993 and 2003. Italy, whose relatively unskilled manufacturing base has long depended on a cheap currency to make its exports competitive, has seen its firms hit hard since it ditched the lira for the euro.

Nor is it clear how much the quotas on Chinese goods will help domestic producers, when there are so many willing firms in low-wage countries like Bangladesh and Costa Rica waiting to take up any Chinese slack. Indeed, an EU official, quoted in the London Guardian, even claimed, a touch implausibly, that the action against China was designed to help workers in those very countries: “The EU also considered the effect the Chinese market share was having on other developing countries who have historically been dependent on our market. Who will protect jobs in Tunisia and Morocco?”

It’s not clear why it is better to provide jobs in Tunisia, where per-capita GDP is $7,100 a year, than in China, where income per head is 20% lower. And for Europeans, the outcome seems likely to embody the classic conundrum of protectionism: it will help producers a bit, but it will cost retailers and consumers dearly. While large retailers will probably be able to find new sources for their autumn and winter lines, many are warning that smaller stores may be driven into bankruptcy as the clothes they have bought lie unsold in warehouses around Europe. Meanwhile, consumers will face higher prices and a more limited selection than they are used to.

Going commando

Just as the battle over Chinese trade pits manufacturers against retailers and consumers, it has drawn lines within the EU between countries with sizeable domestic textile industries and those without. Government ministers from the Netherlands, Denmark, Sweden, Finland and Germany have all spoken out against the quotas, and one German businessman has filed suit in Germany’s Constitutional Court, claiming that the barriers are causing his firm an unlawful loss of €1m in income.

But supporters of the quotas are vociferous—and politically well-connected in their home countries. They also have allies across the Atlantic. Though China’s recent revaluation of its currency has muted some of the American voices calling for protectionism, manufacturers in the United States also feel themselves under assault. The surprisingly slow pace of job creation in the recent economic recovery is causing the usual
undercurrent of protectionist sentiment to swell, forcing the Bush administration to fight hard for even token efforts at trade liberalisation.

America, which has imposed its own curbs on Chinese imports, is working to thrash out a deal on textiles that can be signed when Hu Jintao, the Chinese president, meets George Bush next month. But, like Europe, America will have a hard time finding a solution that makes its textile workers content to watch their jobs travel overseas—and an even harder time finding one that will do much more than temporarily stave off the inevitable flight.