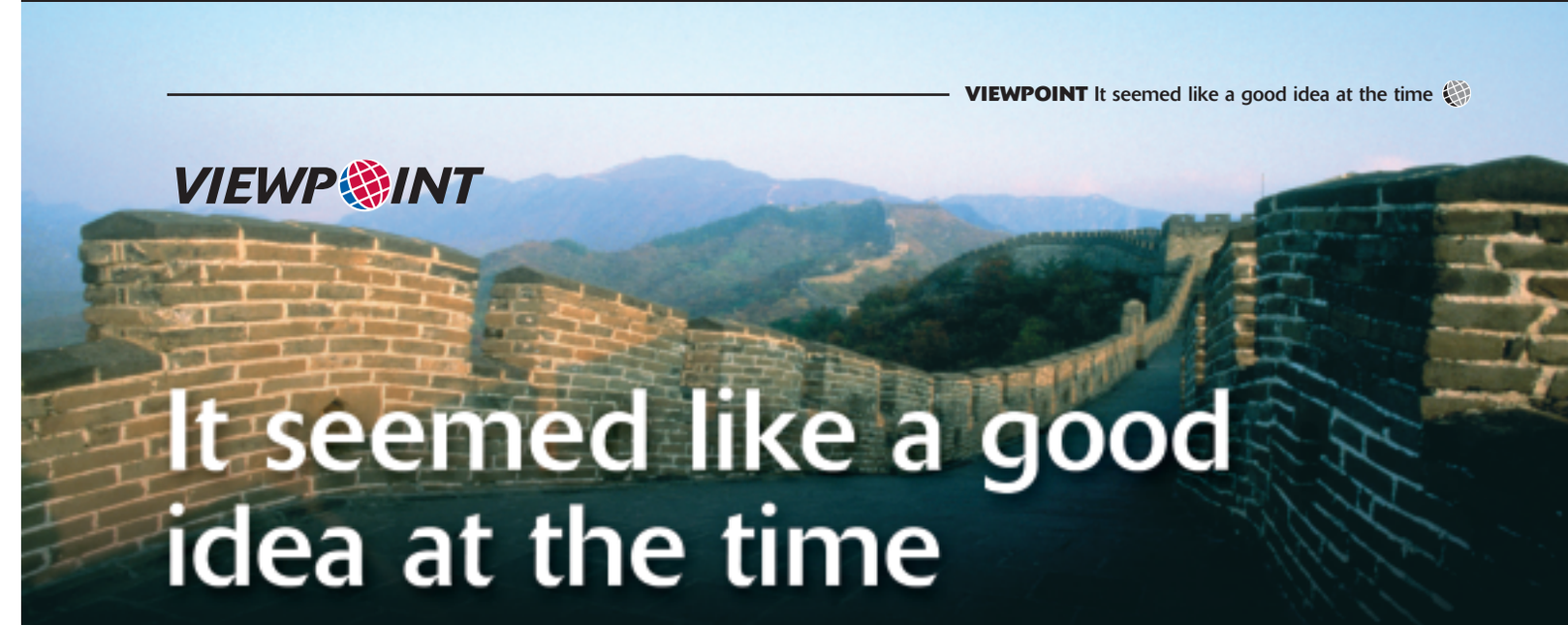
VIEWPOINT



It seemed like a good idea at the time

Who would have thought that towards the end of 2004 we would be reading about China's decision to "adopt measures after January 2005 that could regulate its textile industry and, if imposed, would also please other textile-producing countries"?

This apparent decision by China to consider imposing duties on certain products, such as a minimum tax for each garment, is intended to "discourage over-investment and promote order and self-discipline in the industry".

For decades, if not centuries, many parts of the world have protected their textile industries and the signing of the multiple trade agreement in 1994 gave the global industry ten years to prepare for the opening up of trade from January 2005. Yet the response from the world, both developed and underdeveloped, is as if producers have been transfixed, staring at January 1, 2005 as if they were a rabbit caught in headlights.

It is clear that this is a major change and that the landscape for textiles and garments will start to look quite different. The big winners will be the low cost and well-organised countries of China and India, in both of which we have seen significant investment and preparation.

Yet is it so certain that everyone else will be the losers? We read that thirty million jobs will be lost around the world and that Bangladesh alone will lose one million. The residual industries in the USA and the EU will be decimated after years of fighting to find secure niche positions.

The industry is a buyer-dominated commodity chain. As such it will seek out the cheapest labour and raw materials, potentially creating deflation in the sector. Equally this means that it is vulnerable to predatory activities such as underpricing raw materials in order to gain market share. The WTO has been warned of this by some important Italian producers, who are finding China able to produce fabrics at prices less than the cost of the yarn. There are similar tales in other industries.

There is a difference between textiles and garments, of course. Textiles are less labour intensive, more capital intensive, and easier to automate. There is a high level of technology involved and, as such, the sports industry needs the top companies in the EU, US and Australasia to continue its development and production of ever improved materials so that sportsmen and women can continue to enjoy their activities in all conditions and greater access to sports can be available to wider sections of the population through better equipment.

In the supply network, we are aware of the increasing importance of the logistics element, and distance to market and flexibility has become a tool in leveraging market share. No longer just two big seasons, but rather a ten-week cycle, with smaller volumes of more items, changing very rapidly.

In this environment proximity counts. So for the big US market Mexico and Canada should do well, and in Europe, North Africa and the Eastern European countries should also be able to fight the Asian challenge. According to a report produced for the WTO there is some evidence that this has been happening. Figures from 1995 to 2002 show Mexico's growth in share of imports into the USA and Turkey's into the EU.

At the end of the day it has to be said that the developed world has had forty years of protection via tariffs and quotas and that structural change was always required. Some countries in the EU, such as Italy and Germany, have done much better than others like England in retaining a strong industry. What is important now is that the competition should be fair. The level playing field must be just that. This is an important role for the WTO; it does not have a mandate to eliminate manufacturing in the West altogether.

China itself needs to restructure to some degree, as it has a lot of small players and needs to see some closures and redevelopment. These plants should not be subsidised and should work to proper international environmental standards. Equally, we must expect to see Chinese companies producing recognisable Chinese brands making higher-end textiles and apparel, and investing overseas in design and development.

At the moment it looks as though the other losers will be countries like Bangladesh, Lesotho and Mauritius who could not have prepared for this even given twenty years. Yet there is some evidence that the bigger factories in Bangladesh have orders going through to middle of 2005 with companies like H&M concentrating orders in a few countries.

Just as the developed world has searched for niche positions in the market, so must these smaller countries. Many buyers will not want to concentrate all of their purchasing in China. China's labour costs are starting to rise quite quickly and its currency is recognised as undervalued. China does not have a good reputation for management of intellectual property, so a truly creative company might well prefer to source elsewhere.

Ten years ago it seemed like a good idea to liberalise the clothing and textile trade from 2005. Judging from the clamour of the last six months not everyone was really watching at the time. Yet further protection by the US in terms of 'safeguard tariffs' and counter retaliation by China via 'vigilance and retaliatory measures' including non cooperation in other areas of the WTO will hardly do anyone any good.

Liberalisation had to come some timeand it looks as though now is as good a time as any to make it work.

Mike Redwood,
Deputy Editor-in-Chief