

# The Reason Why Our Country's Export of Textile Was Limited

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## Abstract

Our country is the biggest textile export country of the world. Now for the textile industry of our country, it is a period of facing the expansive world market, and getting a new opportunity to improve. But with the opportunity, we also face much more challenges. Seen from outside, EU and US set limits, which make textile companies into an austere condition? Setting limits, anti-dumping, and its chain-reaction, make textile export of our country face an austere and complicated international trade condition. Seen from inside, some relative policies which our country made to vindicate new trade orders, and some problems which the textile industry had, are also have influence on our country's export of textile to some extent. The purpose of research of this essay is to find relevant countermeasures by investigating the reason of export restriction, then make sure that our country's textile export can be carried though successfully.

**Keywords:** Textile, Export restriction, Quota cancelled, Rising exchange rate of RMB

## 1. Exterior reasons

### 1.1 *Our country's export of textile was limited by the EU and the US*

The EU and the US are main market where our country exports textile, occupying 1/3 of the total amount. Since quota was cancelled, many western countries restricted our country's textile export to decrease its import volume. There are some main reasons why our country's export of textile was limited by the EU and the US. Firstly, economy of China grows up at a high speed, and EU and the US feel threatened. Economy of China has been grown up fast for many years. The whole scale of foreign trade enlarges fast, and now China has become the third biggest trade country, which break up the existing international economy situation. So some western countries scatter the threat from China wantonly to block Chinese economy development. Secondly, just like farm produce, textile product is always a kind of sensitive product in the international trade market. it is very easy to inter the textile industry, and the inters pace of textile market is comparatively large, so there are many textile companies all over the world. At the same time, the textile industry is a kind of industry which can provide considerable working opportunities for the society. Whether the trade of textile is in a good condition or not are directly related to the destiny of the textile companies and the workers of both side. In our country, in case the export of our country's textile decrease 1 percent, the textile production of the whole country would decrease 0.5%, and there would have 3,6000 people lost their job. Thirdly, the trade gap between western countries and China is widening continuously. Many western economists, Keynes for example, approve of trade surplus and oppose trade deficit. With the trade between America and China progressing fast, the trade gap between western countries and China is widening continuously. In this condition, trade protection and force to raise the exchange rate of RMB are considered to be an efficient method to solve lopsided trade condition between America and China by many American people. So trade protection in America continues to develop, and make effort to push out the products from developing countries, including China. The same condition happens in the EU, in the last few years, the economy develops slowly, and the trade gap against China goes up year after year, which makes the pressure of trade friction against China even bigger. Our country has become the biggest resource country for the trade gap of the EU. So the EU wants to break away from the poor economical condition by restricting the import from our country. Lastly, the low price of our country's textile products has threatened foreign markets greatly. The total requirement of textile products for the world market is limited, and the production of textile products has already been surplus. As a big textile country, our country has a comparative advantage of low cost of labor force, so the products are all in common. The textile companies of our country mainly produce medium and low class textile products. If the textile companies want to share more international textile market, they could only lower its price and enlarge the quantity of textile export with a few benefits. The low price and good quality of our country's textile products have impacted the foreign markets a lot. Just like Bo xilai, minister of China commerce ministry, said China as a big textile country, has become the leading role and attracted sight of the world. Many countries worry about that, and they are afraid that the Chinese textile products may affect domestic employment and trade gap. This is the ultimate reason why they restrict to export Chinese textile goods and arise many trade afflicts. Western countries used many kinds of methods to restrict our country's textile export, and there are three kinds of methods which are the most representative. First, non-tariff trade barriers, such as technology barrier and green barrier, which are with pertinence and agility, can restrict import

more efficient and more cryptically. Non-tariff trade barriers make the market be more difficult for exporters to get in, which restrict our country's textile entering efficiently. Second, anti-dumping, the amount of our country's textile export increased, but the price decreased. This phenomenon caused that the EU launched a new anti-dumping research to our country's textile export. What's more, western countries will enhance the power of restricting our country's textile export by anti-dumping and anti-subsidy. This will definitely do harm to the textile exporting market. It is obviously that many western countries want to restrict our country's textile export by anti-dumping and anti-subsidy. If western countries enhance the action of anti-dumping and anti-subsidy, the textile export would face serious threat, and it could be more harmful than the number limit. Third, special guarantee, is the shortened form of special guarantee step. After the era of quota, special guarantee step is a sharp sword to Chinese companies, and the bad influence is obviously. When Chinese goods are exported to the member of WTO, and the amount is so large that the relative industry in these countries are badly hurt or have the possibility to be badly hurt, the member of WTO can separately adopt guarantee step to Chinese goods. The time when special guarantee step can be caught into execution is from dec.11<sup>th</sup>, 2001 to dec.11<sup>th</sup>, 2013. In the past few years, Chinese textile export has been trapped in the haze.

### 1.2 Rising exchange rate of RMB

Nowadays, the exchange rate of RMB keeps rising. From July, 2005 when China innovated RMB's exchange rate generation system materially, the exchange rate of RMB increased from 8.27:1 in the time before reformation to about 7.57 :1 in July of this year. Seen from the trend of average rate monthly, the exchange rate of RMB went on increasing in the past 24 years after the exchange rate generation system was reformed. Our country is in the period when industrialization and city are quickly progressed. Integrative power of our country is strengthened continuously, and the influence on international society is more and more bigger. The policy of our country on foreign exchange that RMB becomes convertible gradually, will be continued, and the trend of slight appreciation will not be changed in a very long time in the future.



Rising exchange rate of RMB affects our country's textile export greatly. The direct influence is that many goods are sold in domestic market, instead of export. At the same time, the competition in domestic market will be pricked up. As the relative organizations forecast, the amount of our country's textile export decreases 10%, when the exchange rate of RMB increases 1%. Since this year, as a result of textile export being restricted by the US and the exchange rate of RMB increasing by 2%, the amount of our country's textile export will decrease by about 2.5 trillion US dollars, and the progress speed of the total industrial production value will decrease by almost 3.5%. Adjusting the exchange rate of RMB is an important macroscopically economy policy, and it's a inevitable result when domestic economy and international financial trend run to a certain extent. It influences consume, investment and foreign trade deeply. The most direct influence of exchange rate of RMB rising on export companies is that the export price is increased correspondingly, that is to say, the price advantage of Chinese goods in foreign countries is decreased. Due to the different export price elasticity, the influences of rising the exchange rate of RMB are different on different industries. The textile export occupies about 1/2 of the total amount of textile export of our country, which

is one of the largest proportions all over the world, so it is influenced by currency's exchange rate fluctuation and international trade condition. What is more, it is with low price, low benefit, low export price elasticity, and cannot decrease the price sharply. So, price advantage of our country's textile goods will be weakened in the international market. Though the companies have had some contemplation about the rising exchange rate of RMB, and have eliminated some negative influence by active negotiation for order and interior adjusting, according to the data from textile industry association, being affected by that, in the first eight months, the benefit whole industry lost is about 30.6 billion Yuan. Jifa group from Shangdong province is a large textile company which earns 5 billion Yuan per year. Because of the rising exchange rate of RMB, the benefit decreases by 0.109 billion Yuan in 2007, and it decreases by 318.5 million Yuan in the first two months of 2008, which makes the benefit rate decreases from 3% in 2007 to 1% in the first two months of this year. Because the rising speed of the exchange rate of RMB can not be forecasted, many companies do not dare to accept orders in a hurry, however, some other companies have to accept orders with the risk of being to the bad, in order to keep production. The cast of production resources, especially for rising cost of labor force, weaken textile company's competing ability for export in the international markets.

### *1.3 The advantage of cheap labor force is weakened*

Textile industry is traditional labor-intensive industry; our country's competitive advantage is the cheap labor force. The reason why our country's textile goods can occupy an important position is its low price. But, there are many low price suppliers now, and many developing countries are catching up with China. Now, the cost of labor force increases by almost 30% per year in Guangdong province and Zhejiang province in last two years. The result of latest research on the actuality of China textile industry made by China textile export and import chamber of commerce shows that, the cost will increase by another 10%-20% after the implement of new law of labor contract. Some people who engage in the industry figure out that affected by all kind of facts above, the integrate cost of textile export will at least increase by 20%. At the same time, some developing countries are becoming the most driving opponents to our country on producing common products with low benefit. Many foreign orders is transferring to some other countries, such as Vietnam, Indonesia, Bengal, Cambodia, and so on. Bengal has been the second biggest export country in American market. The bureau of the foreign economy and trade of Zibo province makes a survey to over 3,000 textile companies all over the province, and the result shows that over 30% of the orders has transferred to above countries. Though Vietnam is not a member of WTO, and can not enjoy the advantages of unity. But under the trade convention between America and Vietnam, the favorable treatment of no tariff and no quota make the textile products of Vietnam export to America freely, and the quantity is increasing. The most outstanding advantage of Vietnam is the low cost, 0.5 US dollar per hour, 50% time lower than China. In addition, the price of the earth of factory, water and electricity is very cheap. It only cost six or seven million yuan to set up a textile company with 1,000 people in Vietnam. However, if the same company is set up in China, the money spent would be several times more than that needed in Vietnam. So, Vietnam has become a very important producing place which could attract foreign investment to set up textile companies there. Indonesia has a large number of cheap labor force, and their salary is 0.32 US dollar per hour. In Asia, Indonesia and Vietnam are considered to be the potential competitive opponents, which are the most likely to instead of the position where China stands now in the textile market. Textile industry of our country is badly restricted by domestic and foreign trade surroundings, increasing cast and decreasing benefit. The benefit of our country's textile industry is very low now. With a lack of electric resource, increasing raw materials price, decreasing export drawback rate and more right social guarantee system, the facts which increase the cast and decrease benefit are increasing. The way of exporting a large number of goods with low benefit is very hard to continue.

## **2. Domestic reasons**

### *2.1 Concentrative export markets.*

The number of export markets for textile increases to about 210 or 220, and the number are stable. But, the top ten export markets import 70% of the total amount of Chinese textile exporting. The top three markets are Hong Kong, Japan and the US. We have not change the situation that we depend too much on traditional markets, in this condition, our country's textile export will be restricted in case a certain market limits import.

### *2.2 Low technology content and poor sense of brand.*

At present, the textile goods we export are of low technology content. They are mainly medium or low class goods, and the export structure is not reasonable. Textile goods are mainly exported by decided brand and coming material processing, the design and development of our own goods and the export of brand goods start just now, and we are also a lack of named brand. Many textile companies only depend on foreign orders, and don't cultivate their own brand, so they cannot face the international market directly. Although there are some brands which make figures in domestic market, such as younger, sans an, those brands cannot also do well in the international markets. At this

moment, the only rivalries feature of our country's textile export is the large quantity. Large quantity but low benefit badly restricts the export of textile.

### *2.3 Monotonously way to compete.*

After entering WTO, the amount of Chinese textile export increased sharply, but the quality and grade of textile goods are very poor just like before. Facing the furious international competition, Chinese textile companies mainly decrease price to compete. Domestic companies decrease their price to compete with each other, which makes the export price decrease continuously. In international market, the benefit that Chinese textile goods makes is as 1/2 as that the developed countries make, and the unit price of developed countries is two times higher than that of China. Low export price not only become the pivotal problem that restrict Chinese textile industry to improve international competitive ability, but also make Chinese textile industry repeatedly punished by anti-dumping in other countries or regions. In the new situation, the shortage of Chinese textile companies on independent innovation, original brand, modern management and the ability of industry conformity is exposed, which makes a great measure of benefit dominated by broker, brand owner and market monopoly.

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