

## Analysis on Problems of Textile and Garment Trade between China and ASEAN

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**Abstract.** With the current annual increase and rapid growth rate of trade scale, the mutual development of textile and garment trade between China and ASEAN has shown optimistic perspective. Since the establishment of CAFTA in 2010, bilateral trade between two sides has gained integrated development, towards institutionalization and maturity. This article aims at the analysis on problems existed between China and ASEAN.

### 1. Current situation of textile and garment trade

Through years of development and completion, CAFTA was finally activated in 2010, which revealed a whole new page to the substantial interaction and communication of trading activity between China and ASEAN.

#### 1.1 The bilateral trade volume of textile and garment trade

Through the promotion of CAFTA, the environment between China and ASEAN has made tremendous improvement over the past years, with rapid development of bilateral trading activity and bilateral trading companion. Particularly in textile and garment trade, the trading activity has developed enduringly. Based on the data of UN Conference on Trade and Development volume of textile and garment trade between China and ASEAN has multiplied during the year of 2002 to 2011.

In 2002, the bilateral trade volume was 2.578 billion dollar, whereas the number has turned into 5.923 billion dollar in 2006. Because of the impact by international financial crisis, there was a slight decline in bilateral trade volume in 2009, after that it has been rapidly bounced, reaching to 14.499 billion dollar in 2011, which has multiplied compared with 2006. Correspondently, the position for ASEAN in Chinese textile and garment market has achieved further progress. In 2006, ASEAN surpassed South Korea and Australia to rank as the fifth exporting market of Chinese textile and garment industry, sooner it has become the fourth in 2011.

Chart.1. Chinese import and export trade volume to ASEAN from 2002 to 2011

|                     | (unit: billion dollar) |       |       |       |       |       |       |       |        |        |
|---------------------|------------------------|-------|-------|-------|-------|-------|-------|-------|--------|--------|
| Year                | 2002                   | 2003  | 2004  | 2005  | 2006  | 2007  | 2008  | 2009  | 2010   | 2011   |
| <b>China export</b> | 2.338                  | 2.869 | 3.534 | 4.160 | 5.191 | 6.152 | 7.161 | 6.358 | 9.009  | 12.314 |
| <b>China import</b> | 0.420                  | 0.533 | 0.651 | 0.688 | 0.732 | 0.772 | 0.850 | 1.001 | 1.535  | 2.185  |
| <b>total</b>        | 2.758                  | 3.402 | 4.185 | 4.848 | 5.923 | 6.924 | 8.011 | 7.359 | 10.544 | 14.499 |

Data resource: ordered via relevant materials

With the establishment of CAFTA, China has focused on the cooperation and communication

with ASEAN, which strongly strengthens the trade scale and volume of textile and garment industry. Especially in 2012, the world economy was in a floundering circumstance, where the economic situation of the world's three largest economy entity was not optimistic.

### 1.2 The bilateral composition of commodity trade

Over the past ten years, the bilateral textile and garment trade between China and ASEAN has achieved spectacular development, at the same time the composition of commodity trade has changed to a certain extent.

Chart.2. composition for China exporting textile and garment to ASEAN

(unit: billion dollar, %)

| Year                   | 2002          |            | 2005          |            | 2008          |            | 2011          |            |
|------------------------|---------------|------------|---------------|------------|---------------|------------|---------------|------------|
|                        | Export Volume | Percentage | Export Volume | Percentage | Export Volume | Percentage | Export Volume | Percentage |
| Knitwear & Hook Fabric | 0.2697        | 11.54%     | 0.5035        | 12.10%     | 1.0331        | 14.43%     | 2.0718        | 16.82%     |
| Manufactured Garments  | 0.5134        | 21.96%     | 0.9688        | 23.31%     | 1.4988        | 20.93%     | 1.9784        | 16.07%     |
| Cotton Weaving Fabric  | 0.4307        | 18.43%     | 0.7405        | 17.80%     | 1.3230        | 18.47%     | 2.4047        | 19.53%     |
| Synthetic Fabric       | 0.4525        | 19.36%     | 0.8930        | 21.47%     | 1.4129        | 19.73%     | 2.2159        | 17.99%     |
| Textile Yarn           | 0.2625        | 11.23%     | 0.3324        | 7.99%      | 0.5183        | 7.24%      | 1.0053        | 8.16%      |
| Textile Fabric         | 0.0713        | 3.05%      | 0.0726        | 1.75%      | 0.1584        | 2.21%      | 0.3862        | 3.14%      |

Data resource: Database of the UN conference on trade and development committee

From the above chart, we can see the trade volume and percentage of China importing and exporting textile and garment to ASEAN. Intermediate products like cotton weaving fabric and synthetic fabric are the most exported product from China to ASEAN, while the percentage of intermediate products is rising continuously. Manufactured products like garments hold a less percentage, with a narrow range of decline from 21.96% in 2002 to 16.07% in 2011. Textile occupies a rising percentage in exporting volume.

Intermediate products such as textile yarn are the most imported products from ASEAN, whereas the percentage in import has declined slightly. On the other hand, percentage of manufactured garments has been rising as a whole (refer to chart.3).

Chart.3. composition for China importing textile and garment from ASEAN

(unit: billion dollar, %)

| Year                  | 2002          |            | 2005          |            | 2008          |            | 2011          |            |
|-----------------------|---------------|------------|---------------|------------|---------------|------------|---------------|------------|
|                       | Import Volume | Percentage | Import Volume | Percentage | Import Volume | Percentage | Import Volume | Percentage |
| Manufactured Garments | 0.0221        | 5.27%      | 0.0499        | 7.27%      | 0.1386        | 16.34%     | 0.3013        | 13.55%     |
| Cotton Weaving Fabric | 0.0332        | 7.91%      | 0.051         | 7.41%      | 0.0319        | 3.76%      | 0.0520        | 2.34%      |
| Synthetic Fabric      | 0.0568        | 13.55%     | 0.0816        | 11.88%     | 0.1348        | 15.90%     | 0.1532        | 6.89%      |
| Textile Yarn          | 0.1744        | 41.60%     | 0.2238        | 32.57%     | 0.2876        | 33.92%     | 0.9474        | 42.62%     |
| Textile Fabric        | 0.0934        | 22.29%     | 0.1702        | 24.78%     | 0.1048        | 12.36%     | 0.556         | 25.01%     |

Data resource: Database of the UN conference on trade and development committee

## **2. The existing problems of textile and garment trade**

### **2.1 Export competition**

China and ASEAN are both major exporting areas in textile and garment products. Two parties have high exporting market similarity, targeting the western countries. Therefore, China and ASEAN have competitiveness on the international market of some products to a certain extent. But as the pressure of the rising cost of Chinese manpower and raw material is increasing, the competitive advantage of some Chinese garment markets is decreasing. For instance, the market share of Japan that China possesses has been gradually replaced by ASEAN. According to the data, from January to October in 2012, the import of textile and garment in Japan reached 36.26 billion dollars with 2.3% increase. Amount of import from China was 26.47 billion dollars with 0.2% decrease. Market share of Chinese products in Japan has dropped 1.9% compared with the same period in 2011. Among them, the percentage of garments has dropped fast. Simultaneously, Japanese import of textile and garments from ASEAN increased rapidly, reaching 15.7%. Market share of ASEAN in Japan has increased 1.6% compared with the same period in 2011. Over intensified competition could be adverse to mutual cooperation in textile and garment trade between China and ASEAN.

No matter from export similarity, export commodity structure or trade structure, there exist high overlap ratio between China and ASEAN that makes two parties compete with each other spontaneously.

### **2.2 Discrepancy and competition of labor cost**

China has a large population base, which offers adequate lower cost manpower to Chinese market over the past years. However, as the value of Chinese money increases, export tax and the prices of energy sources required are rise and the average wage of labor forces also goes up, the cost of labor force has been influenced to a large extent. In terms of ASEAN, many ASEAN countries signed Trade Promotion Agreement with significant markets such as EU and America, making the tariff of homologous export products decreased. Meanwhile, many ASEAN countries represented by Vietnam have been confronted with drastic currency devaluation.

In 2007, deputy minister of Commerce Department in China said that through the data collected by consulting agency, the rising labor cost of Chinese most competitive industry- textile- was 3 to 4 times as much as the ASEAN countries. 2008 Global Comparison Report of World Major Textile Industry Labor Cost Per Hour has supported this perspective. What we can know from the report is that the labor cost of Chinese coastal region was expanding with nearly rate of 1 dollar per hour. But according to the official data published by Vietnam, Cambodia, Bangladesh and Indonesia, the labor cost of textile industry in these countries are merely \$0.29, \$0.36, \$0.22 and \$0.36.

### **2.3 Trade barrier of importing countries of major textile**

On May, 2005, the US government and UN commission separately adopted special safeguard measure to Chinese products such as cotton weaving and knitting shirts, T-shirts and yarn of flax and ramie. Same year, America and Mexico signed *US-CALA Textile and Garment Export Free Trade Tariff-free Agreement*, which meant Mexican textile and garment products were allowed to get into the US market with cost price. Because of the geographical priority between America and Mexico, it is a seriously negative effect for China and ASEAN, for the bottleneck that the export of major markets encountered could lead to much more fierce competition when both sides were fighting for other markets.

After that, the EU announced to cancel the GSP treatment of Chinese textile. This announcement indicated that the import tariff of Chinese textile has increased 3% since then, which doubtlessly aggravated the export situation of textile and garment industry under such drastic international markets. On the other hand, the circumstance that ASEAN is against is better than China is. With the proposition of *EU- ASEAN trade soar plan*, two economy entities have reached EU-ASEAN Preferential Trade Agreement and promised to utterly reduce the tax of relevant commodity trade involving textile and garment.

Chinese textile and garment industry indeed suffered the impact of trade barriers and anti-dumping measures, which has weakened the international competitiveness of textile and garment. What's more, the same industry in ASEAN countries was faced with fact that their production capability cannot satisfy the quota requirements, urging them to develop rapidly, which, on the other side, promoted the trade competitiveness of this field. Through these aspects, Vietnam, Indonesia and Thailand have become the powerful competitor against Chinese textile and garment industry.

### **3. Countermeasure analysis on existing problems**

#### **3.1 Reinforcement and perfection about textile and garment trade policy**

Establish effective early-warning mechanism and complete kinds of laws and regulations. Due to the imperfection of Chinese early-warning mechanism of textile and garment export trade, relevant enterprises cannot perceive promptly when some of the export products encounter trade barriers coming from importing countries, thus having lost the opportunity to settle trade disputes with importing countries immediately. Therefore, the government should establish efficient early-warning mechanism to supervise and forecast the export trade of textile and garment comprehensively and accurately.

Because of the great complementation that China and ASEAN possess in both resource endowment and industrial structure, China has achieved zero tax in lots of product trade with ASEAN since the entrance of CAFTA in 2010, which accelerated the trade development of China and ASEAN to a great extent.

#### **3.2 Sustainable development**

Chinese enterprises should focus on the brand development and promotion. Especially for those large enterprises, they can choose suitable brand strategy such as setting up factories in appropriate foreign position, intervening foreign marketing network to build global supply chain, based on their own specialties and advantages. Besides, enterprises should establish public service system for local medium and small enterprises, create regional brand image step by step and promote domestic and abroad and enhance the degree of trust for market to vast medium and small enterprises in distributing center. This industry is supposed to establish industrial collectivity brand that contains both quality and innovation and promote this brand on behalf of the textile and garment industry and country.

Taking "Chinese popular fabric project" as an entry point, Chinese textile industry devote themselves to centering technology innovation and product innovation to transfer from the world's biggest process factory to the world's significant fashion birthplace. By the means of information, a lot of enterprises can drive more enterprises to transform traditional textile industry via information in order to revitalize and make it competitive in the industry. Improving environment quality and enhancing technology progress are the crucial measures to boost export competitiveness. These measures not only enhance the mutual promotion of textile and garment industry and environmental protection, but also help realize the sustainable development of Chinese textile industry.

#### **3.3 Further communication and cooperation**

China and ASEAN are both international major areas of exporting textile and garment but with different factor endowment. China is the prime producing area for cotton and jute, which has provided adequate textile raw material supply. Besides, Chinese textile and garment industry had a relatively early start, so the whole production chain was comparatively comprehensive.

However, industrial transfer and upgrading have stressed us as the labor cost was rising year after year. If both sides deepen industrial division according to respective factor endowment in CAFTA, it is not only helpful for China to realize production transfer and structure upgrading, but also beneficial for ASEAN countries to develop textile and garment industry, reaching win-win situation. For example, China can transfer some cost-sensitive garment process industry to ASEAN, exclusively producing reverse fiber that is capital demanding and fashionable garments that are demanding on perfect production chain. Due to limited intra-industry trade in international textile

and garment trade, it would be much more reasonable and realistic to conduct division via the theory of comparative advantage and achieve win-win by comprehensively utilizing bilateral advantages. Hence, both sides have extensive prospect in technical cooperation and communication, cooperative production and joint venture.

#### **4. Conclusion**

This essay depicts the current situation of textile and garment trade between China and ASEAN from bilateral trade volume and analyses the composition of commodity and quality. Combining with the analysis, this essay finds the major problems that limit and hinder the mutual development of textile and garment trade, mainly covering the export competition, difference on labor cost and trade barriers from importing countries and objectively make comments about the origins and essence of these problems. Based on the problems, it finally offers countermeasures and advices that help resolve them.

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