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STUDY TO PREPARE VARIOUS SOUTH AFRICAN MANUFACTURING SECTORS FOR EFFECTIVE NEGOTIATIONS FOR THE PROPOSED SACU/CHINA AND SACU/INDIA TRADE NEGOTIATIONS

REPORT NO 7

CHINA

THE TEXTILE, CLOTHING, FOOTWEAR AND LEATHER SECTORS

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ABREVIATIONS

ACFTU	All-China Federation of Trade Unions
ACT	Agreement on Textiles and Clothing
AD	Anti-dumping
AIL	Automatic Import License
AQSIQ	General Administration of Quality Supervision, Inspection and Quarantine
ASEAN	Association of South East Nations
CCC	China Compulsory Certification
CCP	Chinese Communist Party
CCPIT-TEX	Sub-Council for Textile Industry of the China Council for the Promotion of International Trade
CIF	Cost, insurance and freight
CLIA	China Leather Industry Association
CMT	Cut, make and trim
CNTAC	China National Textile and Apparel Council
CNTIC	China National Textile Industry Council
CQC	China Quality Certification Centre
EPZ	Export Processing Zone
EU	European Union
EURATEX	European Apparel and Textiles Organisation
FDI	Foreign Direct Investment
FICE	Foreign Investment Commercial Enterprise
FIE	Foreign Investment Enterprises
FOB	Free –on-board
FRIDGE	Fund for Research Into Industrial Development, Growth and Equity
FTA	Free Trade Agreement
GAC	General Administration of Customs
GDP	Gross Domestic Product
GNP	Gross National Product
GVW	Gross Vehicle Weight

HS	Harmonised (tariff) System
IDZ	Industrial Development Zone
IPR	Intellectual Property Rights
IWTO	International Wool Testing Organisation
JV	Joint Venture
MES	Market Economy Status
MFA	Multi Fibre Arrangement
MFN	Most Favoured Nation
MOFCOM	Ministry of Commerce of the People's Republic of China
MOU	Memorandum of Understanding
NBS	National Bureau of Statistics
NDRC	National Development and Reform Commission
NEDLAC	National Economic Development and Labour Council
NTB	Non-tariff barrier
NTM	Non-tariff measure
OEM	Original Equipment Manufacturer
p.a.	per annum
PTA	Preferential Trade Agreement
QR	Quantitative restriction
RCA	Revealed comparative advantage
R&D	Research and Development
RMB	Renminbi (US$ 1 = ± RMB 8)
RSA	Republic of South Africa
SACU	Southern African Customs Union
SAIC	State Administration for Industry and Commerce
SARS	South African Revenue Service
SASAC	State-owned Asset Supervision Administration Commission
SE	South Asian
SEZ	Special economic zone
SME	Small and Medium Enterprise
SOE	State Owned Enterprise
SSE	Statistically sizeable enterprise

TCFL	Textiles, Clothing, Leather and Footwear
TC	Textile and Clothing
the **dti**	Department of Trade and Industry (of South Africa)
TQR	Tariff rate quota
TRIMS	Trade Related Investment Measures
TRIPS	Trade Related Aspects on Intellectual Property Rights
US	United States of America
USD / US$	United States Dollar
USTR	United States Trade Representative
VAT	Value Added Tax
WP	Working Party
WTO	World Trade Organisation
Xinhua	China's official news agency

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EXECUTIVE SUMMARY

CROSS CUTTING ASPECTS

1. China is the world's third largest country, with a geographical area of 9.6 million km^2 and a population of approximately 1.3 billion people. In 2004 it was the 7^{th} largest economy and in five years time it can be 4^{th}. Its GDP growth rate has been above 8% over the last number of years. China is able to sustain a high growth rate with the help of an extraordinary high investment ratio equal to 40.2% of its GDP. Foreign investors target China's comparative advantage in low cost labour to supply world markets. In 2003 manufactured goods accounted for 92% of merchandise exports.

2. The bureaucratic hurdle is acute when it comes to starting a business, licensing applications and applying for credit. Foreign investors are also wary of a lack of transparency and high levels of corruption. Despite stronger statutory protection massive IPR infringements still exists.

3. China has relied on six types of industrial policy tools and incentives: central government financing and planning; empowering key industries with direct financing; preferential interest and tax rates and favourable financing for target industries; infant industry (trade) protection; pricing policies; and administrative means. In addition there are systematic guidelines to channel FDI into desired industries and various restrictions imposed on foreign ownership, business ranges, and the geographic scope of foreign-funded enterprises.

SECTOR SPECIFIC ASPECTS

POLICY

4. During the period 2000 to 2005 (10^{th} Five Year Plan) the focus of China's textiles and clothing industries was on technological

upgrading and industry consolidation.

5. It appears that the strategy for the 2006 to 2010 period will focus on innovation, independent (domestic) brand development, product upgrading (quality and fashion), research & development and social/environmental aspects. Large textile companies are to be encouraged to establish research centres, to increase independent patented products and exclusive technologies. Although China's textile exports are competitive in terms of pricing, they are mostly exported under designated brands and lack independent branding. Simple quantitative growth would not be the major objective for China's textile and clothing exports.

6. The Chinese Government plays a role in the implementation of strategies by, amongst others, creating a supporting environment, ‘authorising’ loans etc to desirable projects, issuing decrees on investment, launching brand recognition and development and supporting the establishment of special economic zones/industrial parks.

7. China has since 2003 failed to submit its obligatory notification on subsidies to the WTO Committee on Subsidies. The US and other governments as well as observers believe that China still apply some subsidies in certain sectors but are not able to proof the existence of such subsidies. The Chinese support measures are not transparent.

8. The termination of the WTO Agreement on Textiles and Clothing on 1 January 2005 was a historic event that has had and will in future have a dramatic impact on the international trade in textiles and clothing and the location of production. Few analysts expected the extent to and pace at which Chinese exports to the major markets would increase. China’s exports to the US increased from 6.1% of total US clothing imports in 2001 to 27.9% during the first eight

months of 2005. The termination of the ATC is likely to have major negative implications for most developing countries. Actions subsequently taken by the EU and the US to limit imports of certain categories of clothing from China – in volume and growth rate – can be seen as only a temporary respite for these countries. In an analysis, Sub-Saharan African countries were given the second highest risk rating.

MARKET

9. With 1.3 billion people, China is the world's most populous country and a massive market. China's GDP has grown 8% plus annually in recent years and this rapid growth translates into higher incomes and higher rates of consumption. Retail sales in 2005 were estimated to have reached 6.7 trillion Yuan ($831 billion). China's retail sales are estimated to have risen 12.9% in 2005.

10. Chinese industry representatives reported that the focus of Chinese textiles and apparel producers in the coming decade will be the growing domestic market. In 2005 retail sales of clothing, home textiles and industrial textiles increased 9.2%, 10% and 13% respectively. However, a survey on 600 categories of consumer goods found that garments and textiles are expected to be highly oversupplied in 2006. A recent investigation by the Ministry of Commerce showed that 86.9 percent of the 84 categories of textile goods in China are oversupplied.

11. China's production of leather products has become the largest in the world. The China Leather Industry Association (CLIA) believes that in the next 5 to 10 years, imports of raw hide and skins and finished leather will continue to increase. Opportunities for South Africa in the export of ostrich leather may exist.

12. Sixty-six percent of the purchases by Chinese customers made in 2005 were limited to the top ten brands, according to the National

Bureau of Statistics (NBS). Most people do not care much for the brands of clothing.

13. By 2010, the country's retail sales are expected to reach over US$1.2 trillion. Various factors will stimulate growth in Chinese retail sales in general and also clothing, footwear and leather goods sales over the coming years. China is the world's biggest market for footwear.

14. The Chinese Government is promoting domestic consumption as a basis of future economic growth. There has been a major expansion in formal retail trade and major international retailers are establishing themselves in China. The Government is stimulating the development of formal retailing. The State Council introduced three 'golden week' holidays every year in a bid to spur domestic demand, stimulate consumption and restructure the economy.

FEATURES OF THE INDUSTRY

15. China is the world's largest producer of textiles and apparel. In 2005 the Chinese textile and clothing (TC) industries produced about 14.4 million tons of spun yarn and 47 billion meters of fabrics. In 2003 China producedabout 36 billion pieces of garments. South Africa, in contrast, produced about 87 000 tons of spun yarn and 433 million m^2 of fabrics in the same year. China produced 166 times the SA spun yarn production and 130 times the SA fabric production. In 2005 China had about 35 000 textile and clothing manufacturers employing about 19 million workers.

16. China is highly price competitive in TC sector goods, largely reflecting its large supply of low-cost labour and (its) raw materials, which have enabled the sector to attract foreign direct investment (FDI). The sector is considered to have effective middle management and the technical expertise to produce a wide range of goods. The sector encompasses all segments of the supply chain,

from the production of raw materials to the manufacture of yarns and fabrics and the processing of these inputs into final goods.

17. China accounted for an estimated 29% of world fibre consumption in 2001 and this escalated to 38% in 2004, four times that of India, which has moved into second place, passing the US. It is the biggest producer of cotton and of man-made fibers in the world.

18. The large fabric-weaving industry was reportedly characterised by low fabric quality and limited fabric variety, design and innovation, but massive investments in new equipment and technology have been made over the last number of years. The dyeing and printing segment, which used old equipment and had weak management and marketing skills, focused on low-end products for domestic consumption. As China expanded its imports of dyestuffs and dyeing and printing equipment, this situation has improved significantly.

19. China is the world's major leather producing nation and the largest manufacturer of shoes, leather garments and bags. The industry numbers approximately 16 000 enterprises (excluding village enterprises, co-operatives, and businesses with annual sales less than US$ 125 000) with a work force of over two million people. Of these enterprises approximately 2 300 workers are involved in leather production, 7 200 in footwear, 1 700 in leather garments, 500 in leather suitcases and 1 500 in leather handbags.

20. The Chinese footwear industry produced more than 7 billion pairs of footwear in 2003. This accounted for about 56% of world production of about 12.9 billion pairs, followed by India (6%), Brazil (5%), Indonesia (4%) and Italy (3%). More than 2 billion pairs of leather shoes are produced.

21. Chinese textile and clothing manufacturers have the ability to produce a broad range of products — from the simplest of knitted T-shirts and briefs to complex sweaters, blouses and jackets incorporating fashionable designs and requiring intricate needlework. China's leather industry is evolving from low cost, quantity-focused production to include more high quality goods and greater variety.

22. Although wage rates are higher in China than in some other countries, productivity is considered much higher in China, making its overall labour cost less compared with others. In 2002, hourly compensation of apparel production workers averaged $0.68 in China. In the textile industry, hourly compensation averaged $0.69 in the coastal areas of China, compared with $5.73 in Korea and $0.57 in India. Sewing skills in China are considered to be very good. US apparel companies and retailers often import garments from China that require more sewing and construction, complex operations and detailed work.

23. Data for 2000 shows that foreign investment occurred in 5,336 enterprises (3,061 apparel firms, 2,063 textile firms, and 212 man-made-fibre firms). Contracted foreign investment totaled $2.0 billion, while actual investment was $1.37 billion. Hong Kong accounted for more than 70 percent of the investment.

24. China's textiles and clothing industries benefit from traditional competitiveness factors such as cheap but skilled labour; availability of raw materials; low cost of other inputs; relief from import duties on equipment; full VAT refund (export drawback); past subsidies and restructuring; technological upgrading; economies of scale; and an undervalued currency.

25. However, this does not fully explain China's international competitiveness. China's low cost producers are deeply embedded

within sophisticated and highly internationalised marketing, management, design and distribution networks of locally rooted Hong Kong, Taiwanese and South Korean 'triangle manufacturers'. These businessmen have experience of doing business with the most demanding of industrial markets, and have the capability to manage diversified production networks to deliver a wide range of quality products to its buyers in a timely way. These institutional factors have allowed the Chinese industry to out-compete other production bases, which may share similar 'traditional' factors of competitiveness.

26. Chinese policy-makers realised early that by creating favourable conditions, such as ensuring a stable and high quality supply of raw materials, simple and supportive customs procedures for the processing trade and (arguably) easy funding for capital investments, they could draw in the global Hong Kong/Taiwan entrepreneurs with their global networks and expertise into China.

27. The South African TCFL sectors produce 4.9% of the value added by the manufacturing industry. Wearing apparel is the largest sub-group with 46% of TCFL- generated value added. Textiles is 37.2%; Leather and Leather goods 8.6%; and Footwear 8.5%. In 2005 the TCFL-sectors employed 15.1% of manufacturing labour. The Clothing industry employed 59% of that. The Textiles sector employed 28%; footwear 8% and leather and leather goods 5.2%. The TCFL sector is thus important in the socio-economic fabric of the country.

28. Between 2000 and 2005 growth in the value added of leather and leather products was 11.1% p.a.; textiles 4.2% p.a.; wearing apparel 1.7% p.a. and footwear minus 2.5% p.a. Job losses were suffered among all TCFL sectors with the most severe in Leather and leather products (-4.6% p.a.) and footwear (-6.6% p.a.). Real labour

remuneration declined in all TCFL sectors except for an increase in the leather and leather goods sector.

29. The local textile industry seems to be able to supply around 78% to 79% of local demand with the rest coming from imports. Exports are 5% of total demand. Unfortunately the ratio for exports tended to tick downward and that of imports upwards in the past three years of relative Rand strength.

30. The clothing sector is under pressure to hold its own in the local market and is losing out in exports. Imports as a percentage of local demand touched 25% in 2005 after having been as low as 12.4% in 2002. Exports dropped in absolute terms in the past two years and are now only 6% of total demand while having been twice that ratio two to three years ago.

31. Export of leather and leather products is growing while inroads from imports seem to be absent.

32. Imports of footwear satisfied almost half of the domestic demand in 2005 and the ratio is ticking up rather rapidly annually. Exports have dwindled to one half percent of total demand.

PROTECTION AND ASSOCIATED ASPECTS

33. China has gone a long way in reducing tariffs and NTBs. This has opened up the Chinese market substantially, particularly since its accession to the WTO. Important concerns remain: the infringement of Intellectual Property Rights (IPR), lack of transparency in administration; unsustainable business models; favouritism to certain enterprises by officials; loans to enterprises in certain sectors that are never repaid; and uncertainty about the possible continued existence of subsidies.

34. China's applied rates on yarns are low at 5/6%, on fabrics they vary form 10 to 18%, on household textiles from 14 to 16% and on clothing the rate goes up to 25% (on some knits) with 16% and 17.5% the most common rates. South Africa's rates are generally higher at 7.5%/0% for fibres, 15% for yarns, 22% for fabrics, 30% for household textiles and 40% for clothing.

35. The Chinese applied rates for leather fluctuate from 5% to 14%. For leather goods the most common rates are 10% and 20%, and for footwear 24%. The SA rates are generally 10% for leather, 30/15% for leather goods and 30% for footwear.

36. According to reports, the situation in China in regard to transparency of customs procedures and delays has improved but remains a problem.

37. The non-respect for trademarks and designs remains one of the main concerns for the foreign exporting companies, the Chinese importers and the foreign investors in China. This impacts negatively on the business of foreign companies and explains the reluctance of SMEs to export to China. There is a double negative impact, namely (1) in the Chinese market and (2) in the existing export markets.

38. On 23 March the EU announced the imposition of anti-dumping duties on imports of leather shoes from China and Vietnam. The duties will take effect as from 7 April 2006. The initial rate will be 4% but the rate will increase, in the case of China to 19.4%. The EU did not grant market economy status to the footwear companies nominated by China as a sample. According to the EU: "In all cases there was clear evidence of state intervention or non-standard accounting practice. It is clear that these conditions have existed in China and Vietnam for some time. These conditions included:

- Non-commercial loans or capital grants from the state;

- Restrictions on selling on the Chinese domestic market – for example, production licenses granted only for the manufacture of products for export;
- Non-enforcement of international accounting standards;
- Improper evaluation of assets;
- Non-commercial conditions for land-use: it is not possible to own land in China, but EU investigators found clear evidence of factories being provided with land by the state rent-free;
- Other forms of state intervention: all the Chinese and Vietnamese companies were not able to show that "in fact and in law" they are free from unfair state intervention."

39. Since 1985, China has had in place a tax rebate system designed to support the export trade in key industries. It appears in a column 'Export drawback' in the tariff book. The tax rebate on the export of hides and leather (HS41) and wool/wool products ranges from 5-13%, while on all other TCFL products the rebate is 13%. According to information obtained, the rebate is on VAT (on imported or domestically consumed goods and services), business tax and special consumption taxes paid by the exporters.

40. China has invested extensively in technologies for the production of man-made fibres and the textile-related chemicals industry. Government intervention in the financing of investment is extensive. Chinese TCFL producers enjoy relatively low transportation, water, electricity and land-use costs, both in and outside industrial processing zones. China has encouraged the export processing industries with the waiving of import costs on machinery, technologies and materials, and encouraged exports by offering full VAT rebates (13%) on all T/C products.

41. China's undervalued currency gives it an absolute and relative advantage over developed countries but not necessarily over fellow

low-cost producers, many of whom also have undervalued currencies.

42. The Chinese Government established a $1.5 billion reserve fund in 1998 to reform the TC industries, and added unspecified amounts to this fund in the following years. As part of the plan 1.5 million workers became redundant. 10 million obsolete spindles were scrapped. In 2000, the State Textile Bureau stated that China committed $2.4 billion in grants to the industry's top 200 firms and $1.7 billion in bank loans to finance technological upgrades. The Government also pledged $1.8 billion in support and $1.2 billion in bank loans to the industry as a whole.

43. Irrational or 'blind' investment by Chinese enterprises where investments are made without any regard to normal business investment has been a common occurrence. This practice leads to overproduction that is accompanied by price cuts and is likely to lead to distortions in international markets.

44. It is alleged that Chinese businesses were not being run in a sustainable manner; that their ownership structures were not clear and this allowed management to exploit assets that were not theirs for short-term gain. Private money and 'private businessmen' are able to use political connections to run companies with special support from politicians. It is said that the issue lay at the provincial and municipal levels where a lack of control allowed local politicians to heavily 'subsidize' private companies through: cheap use of national assets; waiving of environmental standards and associated costs; allowing employees to exploit labour; arranging favourable finance through other 'private' funding institutions; waiving various local taxes and assisting to reduce national taxes. This will to some extent explain the difficulties of Western nations to understand the functioning of the Chinese economy and its price competitiveness.

TRADE

45. China completely dwarfs South Africa in terms of exports. Exports of TCFL products by South Africa came to 0.7% of that of China in 2004. In comparison to its exports, China's imports are low. In fact South Africa's imports were equal to 8.8% of that of China in 2004. A positive trade balance of US$88.1 billion was recorded by China in 2004. The negative trade balance by South Africa came to US$1.3 billion.

46. The export of TCFL products by China amounted to US$112.7 billion in 2004. That was 74.8% higher than in 2000. Exports of textiles were 27.9% of TCFL exports, exports of clothing were 48.6%, leather 9.9 % and footwear 13.5%. Export of textiles in 2004 was 120% higher than in 2000. Fabrics (57.4% of textile exports) and made-up articles (28.8%) dominate. The export of fabrics was 151% more than in 2000. Exports of made-up textiles increased by 117% between 2000 and 2004. Export of household made-ups dominates followed by other made-ups.

47. Clothing is half of all TCFL exports and in 2004 was 70% higher than in 2000 at US$54.8 billion. Export of knitted clothing is growing faster than that of other clothing but the latter is still 53% of clothing exports.

48. Export of leather and leather goods is 10.3% of TCFL exports and in 2004 were 59.6% higher than in 2000 due to growth in the export of leather goods.

49. Export of footwear showed the lowest growth in TCFL exports between 2000 and 2004. It was 54.3% higher at US$15.2 billion and 14% of TCFL exports. Exports of uppers with leather are 41% of footwear exports; uppers of rubber and plastic are 36.5% and that with uppers of textiles 12.3%.

50. 50% of China's exports of TCFL-products are marketed in Hong Kong, Japan and the USA. A further approximately 10% goes to EU members. The picture is expected to change with the termination of quotas in the trade in textile as from 2005. South Africa is the destination of about 1% of Chinese exports.

51. South Africa's import of textiles is 41% of TCFL imports; that of clothing 28.6%; leather and products 9.9% and footwear 20.6%. Between 2000 and 2004. The import of TCFL-products almost doubled from US$1 033 million in 2000 to US$1 968 million in 2004.

52. The import of textiles increased by 59% between 2000 and 2004. That of fibres, mainly cotton, doubled to reach 22.5% of textile imports in 2004. The import of cotton yarn and of fabric became more prominent between 2000 and 20004. Imports of made-up textiles remained at about 20% of textile imports but the amount of imports of household made-ups doubled between 2000 and 2004.

53. In 2004 imports of clothing were three times that of 2000.The upsurge in imports occurred in 2003 and 2004, the two years in which the Rand appreciated from its artificially low level in 2002.

54. Imports of prepared leather and leather goods increased strongly. Imports of footwear surged ahead in 2003 and 2004 when the Rand became stronger. This is true for all product categories except for waterproof footwear and parts of footwear.

55. China strengthened its position as main supplier to the South African TCFL market from 24% of total South African imports in 2000 to 46% in 2004. India remains in second position with 6% (7% in 2000). Zimbabwe and Zambia increased their market share.

56. Because of China's extremely strong showing in South African imports of TCFL products it can be asked why China needs more

encouragement in the form of a bi-lateral agreement. South Africa's import regime seems to be excessively friendly to imports from China.

57. Imports of textiles were 18.9% of TCFL imports from China in 2004. That of clothing was 44.2%, footwear 30.8% and leather and goods 6.4%. Among South Africa's textiles imports that of made-up textiles exhibits a high Chinese content. The Chinese content in clothing imports approached 75% in 2004. For imports of footwear with uppers of rubber or plastic it was at a high 91.3% in 2004 and in excess of 60% with regard to the remainder of the footwear headings. The Chinese are thus ably winning market share in all spheres of the TCFL sectors.

58. China runs a positive trade balance with South Africa that in 2004 amounted to US$925 million. Trade is in China's favour in all categories except for tanned and prepared leather and wool and cotton fibres.

59. The contents of table 6.2.9 make it clear that China has extensive revealed comparative advantages at the 4HS level. The list of 4HS headings can be taken as a defensive list in trade negotiations with China. Concessions should not be granted on these products.

60. Imports of TCFL products by China in 2004 were 39% higher than in 2000. Textile imports were 78.8% of the total, clothing 5.8%, leather 13.5% and footwear 1.9%. It is obvious that intermediates feature strongly in imports while that of final products i.e. clothing, footwear and even made-up textiles are small.

61. Imports of textiles in 2004 exceeded that of 2000 by 40% in 2004. Amongst textiles the import of fibres increased from 13.9% in 2000 to 27.2% in 2004 because of a surge in imports of cotton that started in 2003. Imports of clothing were 26.4% higher because of

an increase of 67.6% in imports of knitted clothing. Imports of Other clothing remained flat between 2000 and 2004.

62. Imported leather increased by 40%. Imports of leather goods increased steeply but from a very low base. Imported footwear increased by 48%. Parts of footwear are two thirds of footwear imports. However, the growth in imports came from an increase in imports of uppers of leather from a very low base.

63. Chinese imports of TCFL products are strongly Asia bound. The incidence of intermediates in imports possibly explains the imports from Japan and Korea. Imports from South Africa were 0.07% of Chinese imports in 2000 and 0.1% in 2004.

64. South African export of textiles increased from 47% of TCFL exports in 2000 to 50.9% in 2004. This came about by consistent increases in the export of yarns, fabrics and made-up textiles. Export of clothing also became more important rising from 25.7% of TCFL exports in 2000 to 32.5% in 2004. Export of leather declined in importance to 14.4% in 2004 and that of footwear to 2.1%

65. One quarter of South Africa's exports go to the USA, a further 14% to the UK and 8% to Italy. Asian countries are not prominent destinations of South African TCFL exports. China received 3% of South Africa's exports in 2004 up from 2% in 2000. Exports are mainly wool fibres, fibres of man-made staples, man-made filament yarn and raw leather.

66. South Africa's limited range of comparative advantages is found mostly in primary and intermediate products.

SYNTHESIS AND RECOMMENDATIONS

The following are relevant from a cross cutting perspective.

67. China's WTO accession has lead to its rapid integration into the global trading economy. China has opened its doors more comprehensively than many expected. Tariffs have dropped drastically, though many doubts over NTBs, possible subsidies, IPR infringement, unsustainable business models and problems in the banking/financial sector cast a shadow over this unprecedented achievement. Nevertheless, China now find itself on a high growth path that had been brought about by the many reforms that were undertaken in China's quest to establish a socialist market economy.

Threats

68. However, there are threats of a cross cutting nature with regard to a trade agreement with China.

- The Chinese economic system in transition from a communist to a socialist market economy. Pockets of the economy are "marketised" but a mixture of market conditions and state intervention apply in many others. The state (central, provincial and local) participates in capital formation and directs bank financing. Preferential interest and tax rates, subsidies contingent on exports and favourable financing of target industries apply.
- The Chinese government officials intervene in the economy in a way inconsistent with market principles. Subsidies are non-transparent. Practices lead to the creation of unsustainable and surplus capacity (globally) while pricing becomes non-transparent and divorced from market discipline because of interventions and support. Although China is obliged to do away with trade related investment measures, progress seems to be slow.
- The undervalued Chinese currency contributes considerably to competitiveness in international markets.
- Penetration of Chinese exports into the South African market is rapid. This questions the need for preferences as implied by a

bilateral trade agreement. The Chinese economy is 9 times South Africa's and its population 28 times. The difference in capacity to trade is to China's advantage.

- NAMA introduce a degree of uncertainty with respect to future MNF tariff levels that may render bilateral concessions premature.

Opportunities

69. Opportunities of a cross cutting nature lie in the sustained high growth in its economy that makes China a prominent modern day wealth creator. South Africa shares in the prosperity that is generated by the Chinese economy. However, bureaucracy, NTB's and a lack of transparency frustrates access of manufactured exports into the Chinese market. The Chinese market is more often than not entered in partnership with Chinese counterparts mostly in the form of a JV.

Conclusion

70. The cross cutting threats that China poses with regard to a bilateral trade agreement outweigh the opportunities and is reason to be extremely careful in the negotiation of such an agreement with China at least until such time as its economy becomes fully marketised, it fully complies with WTO obligations and a market determined exchange rate has come into operation. These threats also manifest themselves in the sector specific issues.

DEFENSIVE POSITION

71. A comparison of export values under certain TC chapters according to China's export data and South African import data for 2003 and 2004 shows Chinese export values that are on average 63% and 41% higher than the South African import values. The only logical explanation appears to be under invoicing by South African importers. This means that the extent of Chinese penetration of the RSA market has actually been understated.

72. The contents of tables 6.2.9 make it clear that China has extensive revealed comparative advantages at the 4HS level. The list of 4HS headings can be taken as a defensive list in trade negotiations with China. Concessions should not be granted for these products.

73. In view of

- China's overwhelming competitiveness in the trade in TCFL products in terms of both traditional factors of competitiveness and the involvement of sophisticated and highly internationalised marketing, management, design and distribution networks of locally rooted 'triangle manufacturers'
- the sheer size of the industries compared to the South African industries
- irrational or 'blind' investment that has lead to a situation of overproduction
- support by the Chinese Government to these sectors
- the undervaluation of the Yuan, and
- the extent of the penetration that China has already achieved in the South African market

South Africa should not grant any concessions in respect of TCFL products to China under a trade agreement. Although South Africa's tariffs on TFCL products may not be a sufficient deterrent to imports from China, customs duties do help and also contribute to confidence amongst investors and fiscal receipts.

OFFENSIVE POSITION

74. Based on the comparative advantages analysis, Table 7.4 (China comparative disadvantages) is an indicative list of potential opportunities for export to China by the world. However, Table 7.7 (4HS headings where South Africa has comparative advantages in TCFL trade with China) would be a more appropriate list for South African export opportunities to China.

75. Of current South African exports of TCFL products to China, wool fibre contributes 61% and synthetic filament yarn of HS54.02, about 15%. Concessions on these products probably present South Africa's best opportunity for increased TCFL products to China. China imports substantial quantities of synthetic filament yarn, namely US$1.4 billion in 2004, and this is a major export product of South Africa. The TCFL industries should however also consider the rest of the very limited number of 10 items shown in Table7.7. synthetic filament yarn of HS54.02

76. South Africa's limited range of products with comparative advantages is found mostly in primary and intermediate products. However, as long as

- the Yuan remains severely undervalued
- state support to the Chinese TCFL industries continues and China retains its advantages in being classically competitive in terms of labour costs, skills, raw materials and logistics
- the Chinese market is oversupplied by 89% of textile product categories
- NTBs remain a deterrent to imports,

South African manufacturers in the textiles, clothing and footwear industries seem to have little scope for broadening exports to the Chinese market. Wool fibre and synthetic filament yarn remain the best possibilities for increasing exports but the rest of the items in Table 7.7 should also be considered for possible concessions by China.

OVERALL CONCLUSION AND RECOMMENDATION

77. In the forthcoming trade negotiations, South Africa should not grant tariff concessions in the TCFL sector to China. The proposed position is to exclude textiles, clothing and footwear totally from any concessions. However, if China is prepared to make concessions in these sectors without expecting concessions from South Africa, a few products can possibly be identified in consultation with the

domestic industries for a South African list of export interest. Consultations should be based firstly on the list in Table 7.7 but the list in Table 7.4 should also be scrutinized.

78. In view of the current problems experienced by the TCFL industries in respect of imports from China, it is not expected that China will insist on concessions in these sectors.

79. A solution should be found for the apparent huge under invoicing of imports from China as this is a further factor that compounds the problems being experienced by the domestic industries.

BACKGROUND

The Southern African Customs Union (SACU) and China expressed the desire to enter into a trade agreement. NEDLAC launched a study into the implications of the envisaged agreement for a number of South African manufacturing sectors in preparation of stakeholders for the coming negotiations. It is accepted that the trade agreement with China could be selective in the format of a Preferential Trade Agreement (PTA) or it could be a Free Trade Agreement (FTA).

The primary objectives of the study are to obtain an insight into the business environment of doing business in China, and the attributes of its textile, clothing, leather and footwear sector as well as the stainless steel, metals, automotive and chemical industries. Threats and opportunities are to be identified and defensive and offensive strategies developed with regard to the envisaged trade deal.

TRADE AGREEMENTS

South Africa has granted market economy status to China as a political gesture but no agreement has been reached on implementation on a micro level. China and SACU agreed to encourage and support mutual trade and investment, to expand cooperation in areas of mutual economic interest and to launch trade negotiations. No time frame was set out for the negotiations.

China has followed a similar path to that of the large powers such as the EU and US in the trading system that have looked beyond the multilateral trading system to conclude bilateral deals furthering their national commercial interests. China is pursuing an extensive number of FTAs and brought a number of impressive ones to conclusion since its accession to the WTO in 2001. The Chinese are pragmatic in their approach to bilateral economic agreements, recognising differences across economic partners and allowing for linkages along conventional trade interests. The CEPA with Hong Kong focuses on trade in goods, cross border investment and financial activities,

while the agreements with Australia and New Zealand will cover a number of wider areas.

Currently China's FTA target partners are selected on a regional basis. From a long-term point of view, China must secure a place in the rising trading block within Asia. This has been achieved in the Asia Pacific and the Asean agreement. China's next move will be to begin official negotiations with Japan and Korea with the aim of creating an East Asian FTA bringing together China, Japan, South Korea and the ASEAN member states (ASEAN + 3). In this regard, China will be aiming to become the focal point of an East Asian free trade zone that will effectively rival others blocs such the EU and NAFTA (North American Free Trade Area).

China is seeking to penetrate other regions by signing FTAs with strategic countries in each region. For example China's FTA with Chile is seen by many as a gateway to other Latin American countries and indeed the region. As such China's impending FTA/PTA with SACU can be seen in the same light. Although China has economic and trade relationships with many African countries, FTA/PTA negotiations with SACU are a first for China on the African continent.

China's strong bilateral focus in its trade agenda has also been strategically oriented in order to secure commodity supplies. The rate of growth of the Chinese economy requires a constant supply of raw materials (SACU, Australia, GCC).

By becoming a member of the WTO, China agreed to the core principles governing the body. Undertakings by China require adherence to key agreements of the WTO transparency and independent reviews of administrative decisions, technical barriers to trade; sanitary and phyto-sanitary measures; trade-related investment measures (TRIMs); Intellectual Property Rights (TRIPS); subsidies; import licensing; rules of origin; customs valuation; distribution services; non-tariff measures; state-trading enterprises;

price controls and safeguard measures. Compliance to these commitments requires substantial reforms.

Market access to China was greatly improved when China agreed to reduce tariff rates. The tariff rates were reduced and are set out in China's Goods Schedule. Down phasing of tariffs should be largely completed by December 2007. China has selected to position itself with other developing countries and more specifically with the G-20, in the Doha negotiations.

MACRO MATTERS

China started with market orientated reforms in the 1980's to reduce the constraints on growth of its rigid communist economy. The ruling Chinese Communist Party (CCP) remains in firm control of reforms and its vision is for China to become a "socialist market economy". A FTA/PTA between SACU and China will thus be a trade deal between two different economic systems. Implications arise for cost competitiveness as determined under market conditions in South Africa and non-market conditions in China

The reforms that drive economic growth and transformation in China are the (1) rationalisation of the State Owned Enterprises (SOEs); (2) the regulatory framework of markets; and (3) the internationalisation of the economy.

The norm for growth in GDP in recent years came to more than 8% for China and 4% for South Africa. China is expected to grow at between 7 and 8% in future. South Africa has a vision of 6% growth. The population of China is about 23 times and its GDP 9 times that of South Africa. However, it's GDP per capita is more than 3 times less than South Africa's. China is catching up as one of the largest economies of the world. In 2004 it was the 7^{th} largest economy and in five years time it can be 4^{th}.

China is able to sustain a high growth rate with the help of an extraordinary high investment ratio equal to 40.2% of its GDP. Foreign direct investment is at the core of the internalisation of the Chinese economy. Incentives and subsidies that China offers to foreign investors are important promoters of

foreign investment. The expansion in its foreign trade opened the Chinese economy at an unprecedented rate. Whereas the sum of exports and imports of goods and services amounted to 38.1% of GDP in 1998, it rocketed to 70.8% in 2004.

The growth in merchandise trade and foreign direct investment are directly related. Foreign investors target China's comparative advantage in low cost labour to supply world markets. Foreign invested companies (FIEs) increased their share of Chinese exports from 20% in 1992 to 54.8% in 2003. The share of SOEs in exports fell from 46.7% in 2000 to 31.5% in 2003. The FIEs are also responsible for the change in the export structure from primary to manufactured goods. In 1985 primary exports was 50% of merchandise exports while in 2003 manufactured goods accounted for 92% thereof.

Total employment in the Chinese economy increased from 740 million in 2000 to 760 million in 2003 as the result of employment by private enterprise.

Accession to the WTO is set to change the present dispensation with regard to incentives. China is now committed to implement a comprehensive programme according to a set time table to prevent appeals to the WTO by trade partners. However, tax reforms to eliminate incentives as the result of accession to the WTO are expected not to come into force before 2007. Membership of the WTO is to benefit China because its exports will now have easier and more secure entry into foreign markets with the clothing industry to benefit immediately from the termination of the WTO Agreement on Textiles and Clothing.

In the mean time it is suspected that the investment which is taking place may remain less disciplined than would be the case in an environment of free capital markets. The inefficient SOE-sector poses a threat to the banking sector. Banking is still overwhelmingly state owned and the overwhelming majority of bank funds are being lent to state linked firms. Rationalisation of the banking sector included steps to allow banks to operate on a more commercially oriented basis. Solvency ratios were improved by state capital

injections and by shoving bad loans into government established asset management companies. These actions in effect constitute a subsidy on the cost of capital. Short term interest rates in China is about half of that in South Africa. The real interest rate is very low and possibly a contributing factor to the high investment ratio.

Chinese companies thus benefit from an uneven playing field. In the mean time rapid expansion of capacity may lead to excesses which may upset the markets of trading partners in the absence of market dictated investment discipline in China. However, a strong plus point of the Chinese economy is its investment in human resources as a long term platform for sustained growth. A high proportion of students are enrolled in engineering and management sciences.

Reforms that introduced private enterprise into manufacturing reduced the importance of SOEs in production from more than 80% of the output before 1980 to 37% in 2003. They are mainly found in heavy industry. The government follows aggressive strategies to improve the efficiency of SOEs through closures, mergers, sale of ownership and by allowing SOEs to shed redundant labour. The drive towards efficiency among SOEs, by necessity, has a serious socio-economic fall out. It is said that about 30 million work places became redundant between 1998 and end 2004. These workers and their families lost extensive social security benefits. As a consequence the government is trying to introduce a new social security system to complement SOE reforms.

The South African production structure conforms to that of a developed country. The Chinese economy apparently has a production structure of its own with inordinately high dependence on manufacturing and a low contribution by the services sector. The latter would be indicative of underdeveloped financial, business and commercial (retail) services and is commensurate with a society with a low per capita income.

BUSINESS ENVIRONMENT

China is the world's third largest country, with a geographical area of 9.6 million square kilometers (km^2) and a population of approximately 1.3 billion people. The country consists of 23 provinces, 5 autonomous regions, 4 municipalities, and 2 special administration regions directly under the Central Government. The State Council is responsible for exercising unified leadership over the local state administrative bodies and regulates the division of power and the functions of the state administrative organs at the central level and the provincial, regional and municipal levels. The bureaucratic hurdle is acute when it comes to starting a business, licensing applications and applying for credit. Foreign investors are also wary of a lack of transparency and high levels of corruption.

Uniform personal income taxes on locals and foreigners apply ranging from zero to 30%, differentiated over nine levels. Concessions serve to reduce the flat tax rate on profits.

For profits in SEZ's, ETDZ's, EPZ'S and the western region the income tax rate is reduced to 15%. The 15% tax rate may also apply to investment in transport-infrastructure and some other activities while refunds, tax holidays and allowances apply to targeted activities. A capital gains tax is in force. South Africa and China have signed an agreement for the avoidance of double taxation.

Financial sector reform is ongoing, having being identified as a key area for promoting economic growth and attracting FDI. The banking sector suffers from non-performing loans and the government strives to improve the situation in order to avoid a banking crisis.

The Chinese financial system is highly regulated and relatively underdeveloped. A number of international banks have been permitted to open branches in China, with only a few being permitted to carry out branch functions in Shanghai and Shenzhen. Participation in the financial sector has been minimal. As part of China's WTO commitments all remaining restrictions

on local currency transactions will have to be removed and foreign banks will be able to conduct transactions in yuan / renminbi with both Chinese companies and individuals. The rate of reform is slow.

The Chinese stock markets have been described as relatively underdeveloped and in need of internal reform.

The transport infrastructure in China is undergoing improvement, particularly with regards to port development and capacity and the improvement of road and rail networks. China has embarked on several power generation and hydro electric projects and has also urged foreign companies to become involved in the infrastructure development process in the country.

There are many cases where foreign products and brand names have been copied by unscrupulous Chinese operators. Registering a brand name, logo, patent, trademark, and copyright is a priority. Since joining the World Trade Organization, China has strengthened its legal framework and amended its IPR laws and regulations to comply with the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). Despite stronger statutory protection and committed officials, measures taken have not been sufficient to deter massive IPR infringements effectively.

TRADE AND INDUSTRIAL POLICIES

In its latest five year plan the Chinese government has undertaken to increase investment in rural construction; development of the middle and western areas of the country; social causes; science and technology; environmental protection; and infrastructure construction. The Chinese leadership is aware of the growing disparities between the wealth of the urban and rural areas, and endeavours to address these concerns.

A primary objective of its trade policy is to strengthen China's position vis-à-vis trade with the developing world. Presently China is challenged to develop high-technology products locally and is heavily reliant on imported technologies. In order to address this perceived shortfall, it is promoting the

development of its high-technology sectors. China is moving to a position where it will potentially be able not only to compete with the developed world in terms of high-technology goods and services, but also simultaneously supply them with all the low-technology goods it currently provides.

Resources companies have strategically positioned themselves in relation to China's booming commodity demand. However, it appears that the Chinese leadership is wary of over reliance on foreign companies and governments for its supplies of raw materials. The past two years have seen an incredible growth in China's direct interaction with natural resource rich regions and countries. Prominent among these are South America and most recently, Africa.

China is extracting significant amounts of raw materials from Africa and has also increasingly been promoting Africa as an investment destination for Chinese multinational corporations. There has been substantial investment in for example oil, construction, telecommunications, and transport and energy assets. A side effect of China's industrial or trade policy has been the further competitive marginalisation of Africa's manufacturing sector. Unable to compete against lesser priced Chinese imports, African economies continue to move further down the manufacturing value-chain. This further entrenches the lack of industrialisation amongst the continent's economies.

China is pursuing its various trade and industrial objectives through a number of means, incentives and initiatives. China relies heavily on foreign investment to build up its industrial sector, especially export manufacturing, high technology enterprises and investment in the central and western regions.

China is attempting to achieve its economic objectives by providing direct support for number of specific industries. Prominent among these are the automotive, agriculture, energy and transport industries. Many of these often appear in reference to certain "pillar industries" which receive direct support from the state. These industries are offered a large degree of protection by

the PRC government and some concerns have been raised about the lack of transparency and access in these industries.

Membership of The World Trade Organization (WTO) has been a significant target of its strategy. Within the WTO, and through various bilateral agreements pursued since 2001, China has been trying to acquire Market Economy Status (MES) from as many countries as possible. China is not recognised as a market economy by the US, a status that makes it easier for trade actions to be brought against Chinese firms. Dissatisfied by what it sees as discriminatory treatment and fearful that this status could make it vulnerable to Western protectionism, the People's Republic has embarked on a comprehensive campaign in the international community to gain MES.

China is supporting its manufacturers and industries through the retaliatory mechanisms of the WTO. An example is extensive use of the anti-dumping mechanism to protect its chemicals industry against imports from South Korea, Japan, the United States and even South Africa.

China is inclined to utilising political influence to support its trade and industrial policies. The most prominent has been the recent close political interaction with Africa and the release of its "Africa Policy" in January 2006. China has also used this appeal in South America, where Venezuela has stated openly a preference for a relationship with China over the US. These overtures are sometimes shored up by providing access to loans, technical assistance, expertise, and physical infrastructure development to countries that are dissatisfied with the assistance received from Western institutions.

China has relied on six types of industrial policy tools and incentives: central government financing and planning; empowering key industries with direct financing; preferential interest and tax rates and favourable financing for target industries; infant industry (trade) protection; pricing policies; and administrative means. In addition to these six tools, there are at least two additional important measures. One is the systematic guideline to channel FDI into desired industries. Based on these guidelines the government grants

licenses and approval of investment projects. The other is the various restrictions imposed on foreign ownership, business ranges, and geographic scope of foreign-funded enterprises.

The TCFL industries are to be analysed against the above background for South African stakeholders to become better informed on the implications of prospective trade negotiations with China.

1 INTRODUCTION

China is the largest producer of textiles, clothing, footwear and leather goods in the world. It is also by far the biggest exporter of all of these products. By 2005, Chinese exports have captured a share of 28% of US clothing imports and 37% of textiles imports. In 2003, China supplied 80% of Japan's imports of clothing.

China's textile and clothing sector encompasses all segments of the supply chain, from the production of raw materials (e.g., cotton and man-made fibres) to the manufacture of yarns and fabrics and the processing of these inputs into final goods such as garments, carpets, home furnishings and industrial textiles.

China accounted for an estimated 29% of world fibre consumption in 2001 and this escalated to 38% in 2004, four times that of India, which has moved into second place, passing the US. It is the biggest producer of cotton and of man-made fibres in the world.

In 2003 the Chinese TC industries produced about 99 million tons of yarn, 37 billion meters of fabrics and 36 billion pieces of garments. In 2005 China had about 35 000 textile and clothing manufacturers employing about 19 million workers. The leather sector has approximately 2 300 enterprises involved in leather production, 7 200 in footwear, 1 700 in leather garments, 500 in leather suitcases and about 1 500 in leather handbags. China produces about 56% of the world's footwear.

China used to have major disadvantages in respect of low technology and outdated equipment. However, over a substantial number of years massive investments have been made in technological upgrading and its backlog has diminished markedly.

China is highly price competitive in TC sector goods, largely reflecting its great supply of low-cost labour and its raw materials, which have enabled the sector to attract foreign direct investment (FDI). This report shows that China also have other factors present that explains its overwhelming international competitiveness.

The breadth and variety of China's apparel production is unmatched in the world and is sold at all price levels and in all types of stores, ranging from the lowest-end, most price conscious discount stores to the most prestigious, highest priced specialty and department stores.

The termination of the Agreement on Textiles and Clothing creates major additional opportunities for the Chinese textiles and clothing industries. At the same time this may seriously affect these industries in most other countries.

A recent investigation by the Ministry of Commerce showed that 86.9 percent of the 84 categories of textile goods in China are oversupplied.

2 SECTOR DEVELOPMENT POLICIES

2.1 Strategy/development plan

China has national five year plans, such as the '10th Five Year Plan' covering 2000 to 2005 and the '11th Five Year Plan' for 2006 to 2010. These are, however, not published. The NDRC's website does contain a speech setting out the 11th Five Year Plan. It reports on developments during the 10th Five Year Plan and spells out broad policies for the next five years in the economic and social fields. Although textiles and clothing – and other sectors

– are mentioned in respect of their importance, there is no reference to strategies for these or the leather and footwear sector.

The "**The Tenth Five-Year Plan of the Textile Industry and its Development**" is a five page document that:

(1) Sets out Development Objectives in terms of growth targets; labour productivity; technological progress; energy and cost efficiency; and water conservation;
(2) Deals with adjustment in respect of:
    - Technological and product structural adjustment, dealing with broad targets for individual sub-sectors in terms of new and improved technologies and equipment
    - Adjustment of the organizational structure, which 'will help form many large enterprises and enterprise groups, which will possess their own well-known brands, independent intellectual property rights and outstanding main-business and strong-core competence'
    - Adjustment of regional structure
    - The acceleration of the adjustment of the State-owned economic pattern and the enhancement of the strategic reorganization of the State-owned enterprises
    - The promotion of information construction; and
(3) Reports on highlights of textile development and adjustment.

All these are dealt with in very brief and broad terms except for the part on technological adjustment and the highlights (which forms half of the 'plan'). It is clear that during the period 2000 to 2005 the focus was on technological upgrading and industry consolidation.

A similar 'plan' for the 11th Five Year period 2006 to 2010 could not be found on the websites of the Ministry of Commerce of the People's Republic of China, the State Administration for Industry and Commerce or the National Development and Reform Council (NDRC) or anywhere else.

In the 2006 to 2010 period, the best sources of information for the strategic direction of the TC industries over the next five years, are speeches by Mr Du Yuzhou, President of the China National Textile & Apparel Council; Mr. Fu Ziyiing, Assistant Minister of Ministry of Commerce of China and Ms. Ou Xinqian, vice-director of National Development and Reform Commission, at a Textile Industry Development & Reformation Conference and a report on the Conference *"China's textile industry to enter restructuring period in next five years"* in the International Business News, a newspaper affiliated to China's Ministry of Commerce.

China has over many years used the TC industries as a vehicle for economic development, job creation and poverty relief. The industry has grown massively over these years to become by far the world's biggest textile and clothing producer and exporter. With China's accession to the WTO in 2000, it got a major boost by in one step qualifying for quota-free access in respect of all product categories that had been liberalised from quota control by the US, EU, Canada and Norway since 2005 under the Agreement on Textiles and Clothing (ATC).

Mr. Du Yuzhou's speech (in Chinese; had to be translated) started by listing the achievements of the TC industries over the five years 2000 to 2005 which included the following:

"A: Made the greatest progress, had the largest step

- *The production of man-made fibres increased from 13.6 to 26 billion tons*
- *China produces 24% of world cotton output; the textile industry's 'self-product' fibre increased by 142% (15.89% annually, 24% in 2005); self-sufficiency rate of 95%*
- *The number of TC corporations increased from 19 400 to 34 973 (in Nov. 2005); assets amount increasing 61%; present production value increasing 114%; production value (for 2005) will be 3000 billion Yuan (±US$375 billion)*
- *Textile and apparel export:*

$53.044 billion – $118 billion, increasing 122.6% five years: 2.41% (2001),16.01% (2002), 27.72% (2003), 21.01% (2004), 21.12% (Jan.-Nov. 2005). The total amount of export in the world increased from 14.6% to 22% (2004).

B: Made the greatest progress in textile technology

- *Large-scale technical reform: the amount of imported advanced equipment: $18.8 billion; textile production export: $44 billion, increased 175% (compared with 2004)*
- *Apparel export increased 104.8%: $36.02 billion (2000) – $73.77 billion; independent invention on several big projects: polyester technology, the technique of reeling off raw silk from cocoons, etc.*

C: Made the greatest increase on textile industry quality benefit

- *Employee number: from 7,380,000 to 9,620,000; increased 5.44% annually; labour productivity: per capita 30,000 Yuan to 51,000 Yuan, increased 11.42% annually*

D: Greatly activated the textile industry market

- *During the Tenth Plan, the transformation of government function has deepened the reform on investment system, tax system and financial system. The policy was greatly inclined on market-oriented economy and non state-owned economy was developed rapidly.*

E: The textile industry merged into globalization and got more attention

- *Since 2001, China joined WTO, even though there were some acts against China's textile industry such as act 242, China textile industry made a great progress: more famous brands, higher management level. Export increased greatly, more good enterprises in the world.*
- *Amount of apparel export: $107.1billion* (in 2005).

F: The achievements of textile industry proved that textile industry will play an irreplaceable role in the coming 15 years for establishing well-to-do society and completing Chinese industrialization.

Mr. Du then went on to list problems in the Chinese industry as follows:

"Compare with advanced and industrialized countries, there are several main problems in textile industry:

1. *Lack of strength on self-initiative and develop domestic brand.*
2. *There are some problems on system of organization and operating mechanisms.*
3. *The control ability, which integrates production chain that includes mode of production, management and administration mechanism, cannot meet the new demands and new characteristics of textile industry globalization.*
4. *OEM* (OEMs refer to foreign-owned international brand owners).

Finally, he listed the economic tasks of the textile industry in the year 2006 as follows:

"Firstly, all textile industry adheres to the Scientific View of Development, and deems it the guideline to lead textile industry development in new period.

Secondly, concerning more on improving the industry's innovation ability, to make advances in china textile productivity construction.

Thirdly, promoting and achieving enterprises' social responsibility, emphasizing self-discipline system.

Fourthly, enhancing industry's self-discipline and improving efficiency and capability of the textile consultation.

Last but not least, deepening open-up and extends international cooperation."

According to Ms. Ou Xinqian:

"Some sectors suffer blind investment. The polyester production capacity increased from 4.9 million tons in 2000 to 18 million tons in 2005. The spinning capacity grew from 34 million spindles in 2000 to 75 million spindles in 2005. The competition is increasingly heated and the constraints of resources are exposed."

“The industry self-discipline requires to be strengthened. It should be more normative in the fields of labor force, social insurance, environment protection, intellectual property protection, taxation system and land policy.”;
And -
“(The) National Development and Reform Commission drafted the Guiding Catalog for Industrial Structure Adjustment. According to the Catalog, 11 textile projects are encouraged by the country, and 32 outdated textile techniques and equipment are in the list of elimination. 1 textile project is in the restricted list.”

According to the newspaper report on the Conference:
“The Chinese textile industry is still weak in innovation, research and development, lacking core competitiveness and famous brands.
Expecting the global termination of textile quotas, Chinese textile firms blindly increased the fixed asset investment in this area in the past few years.
In 2002, the fixed asset investment in the textile industry grew 29.07 percent year on year; in 2003, the growth rate rose to 66.7 percent. In 2004 the investment in the textile industry still maintained a growth rate of 30.2 percent.
The expanding investment has led to the serious problem of oversupply in this industry, as well as disorder in this sector. From 2001 to November 2005, the number of Chinese textile and apparel exporters rose from 21,099 to more than 65,000.
The sudden increase of exporters led to a slump of export prices and increasing international trade protectionism, so the government and the chamber of commerce have decided to make efforts in the next five years to regulate the industrial order and lift up core competitiveness.”

A document released by the industry “**The Presentation on China's Textile Industry (2004)”** gives important strategic directions such as (own underlining):
“China's textile industry would put emphasis on industrial upgrade depending not on expanding market share with quantity, but on adapting to the market through improving quality, increasing its original technologies and brands and

establishing a rapid response system. Therefore it would guide large textile companies to the establishment of research centres and the increase of independent patent products and exclusive technologies. The small and medium-sized companies would continue to do a better job in works such as industrial innovation. In a word, the goal of the Chinese textile industry is to turn all the companies' attention to industrial upgrade and brands development."

"Although China's textile exports are competitive in terms of pricing, they are mostly exported under designated brands or by original equipment manufacturers (OEMs) and lack independent branding. As the biggest textile exporter in the world, simple quantitative growth should not be the major objective for China's textile exports. By way of levying export duties on certain garments, China intended to raise the prices of its textile exports accordingly to prevent and avoid the scenario of having an increase in textile exports and a drop in prices at the same time. It also hoped to raise its international competitiveness by accelerating technology reforms and structural adjustments within the textile industry."

It appears that the strategy for the 2006 to 2010 period will focus on innovation, independent (domestic) brand development, product upgrading (quality and fashion), research & development and social/environmental aspects.

According to Zhang Shuhua, vice-president of **China Leather Industry Association,** the industry will focus on improving product quality, developing high value-added products, learning international trade rules and exploring new overseas markets as well as the domestic market.
The industry association will also continue to foster brand building in the sector. It aims to build three to five internationally known brands by 2015.

2.2 Implementation and incentives

It is not quite clear how China's industry sectoral policies are implemented. The NDRC is the main body that deals with industry development and

restructuring. Apparently, government (mainly the NDRC) and industry bodies agree on the policy directions, after which the industry bodies inform the industries and enterprises/investors follow the directions. The Government plays a role in creating a supporting environment, 'authorising' loans etc to desirable projects and issuing decrees on investment, such as one on 'encouraged', 'restricted' and those technologies/projects that are to be 'eliminated'. The Government also launches brand recognition & development and similar initiatives, standards, supports the establishment of special economic zones/industrial parks, administers tender systems for US and EU quotas etc.

China's textile industry used to consist mostly of state-owned enterprises (SOEs), which reportedly had excess capacity and employment, and used outdated technology. Facing enormous losses in the textile industry, the Chinese government implemented a "reform equals rescue" plan in 1998 in an effort to increase production efficiencies and reduce redundant costs in the industry. The SOEs eliminated 1.5 million jobs and large numbers of obsolete spindles, and installed newer production technologies. According to the latest reports, the SOE sector currently constitutes less than 25% of the TC industries.

To assist the industry, the Government established a $1.5 billion reserve fund in 1998 and added unspecified amounts to this fund in the following years. As part of the plan, the industry has laid off more than 1.5 million workers and scrapped 10 million obsolete spindles. In 2000, the State Textile Bureau stated that China committed $2.4 billion in grants to the industry's top 200 firms and $1.7 billion in bank loans to finance technological upgrades. The Government also pledged $1.8 billion in support and $1.2 billion in bank loans to the industry as a whole. More recently, the China National Textile Industry Council (CNTIC) implemented a "Fabrics China" campaign in an effort to modernize the textile industry. According to the plan, the 600 "best" mills were to be organized into 24 groups. CNTIC indicated that the fabric industry needs to upgrade to higher value added fabrics and replace its current quality

standards with international standards. CNTIC is also trying to play a role as an “intermediary” between the fabric mills and foreign buyers.

2.3 Trade discriminatory incentives

There can be little doubt that the Chinese government in the past heavily supported the TCFL industries in the form of direct subsidies, financing, debt write-offs, loans that were never repaid and free or subsidized inputs. No evidence could be found of current subsidies.

However, China has since 2003 failed to submit its obligatory notification on subsidies to the WTO Committee on Subsidies. China has been promising to submit the notification but to date has failed to do so. The US and other governments as well as observers believe that China still apply some subsidies in certain sectors, but are not able to proof the existence of such subsidies.

2.4 International developments in textiles and clothing

The termination of the WTO Agreement on Textiles and Clothing on 1 January 2005 was a historic event that has had and will in future have a dramatic impact on the international trade in textiles and clothing and the location of production.

Protection of the textile and clothing sector has a long history in United States and Europe. In the 1950s, Japan, Hong Kong, China, India and Pakistan agreed to voluntary export restraints for cotton textile products to the United States. In 1962 a Long Term Agreement Regarding International Trade in Cotton Textiles (LTA) was signed under the auspices of the GATT (replacing a 1-year short-term agreement). The LTA was renegotiated several times until it was replaced by the Multi Fibre Arrangement (MFA), which came into force in 1974. The MFA, as the name suggests, extended restrictions on trade to wool and man-made fibres in addition to cotton. The MFA aimed at an orderly opening of restricted markets.

The MFA was renegotiated four times, the last time in 1991, and it finally expired in 1994. Six developed countries applied quotas under the MFA during the final years of the agreement (the EU, Austria, Canada, Finland, Norway and the United States), and the quotas were applied almost exclusively to imports from developing countries. The MFA was followed by the Agreement on Textiles and Clothing (ATC), which came into force with the establishment of the WTO in 1995 and automatically terminated on 1 January 2005. The ATC was *not* an extension of the MFA. Rather, it was a transitory regime between the MFA and the full integration of textiles and clothing into the multilateral trading system. Four countries carried the MFA restrictions into the ATC (Canada, the EU, Norway and the United States). The integration took place in four steps over a 10-year period. The steps could be seen as two separate processes:

- The progressive integration of products into the GATT 1994 as the integrated products were no longer part of the ATC but fell under the GATT;
- The progressive increase of the quotas that remained under the ATC.

As a part of its WTO accession bid, China signed a bilateral trade agreement with the United States in November 1999. China signed similar bilateral agreements with the EU and other WTO Working Party members before becoming a full member of the WTO in December 2001. As a member of the WTO, China participated in the 2005 phase-out of quotas mandated by the WTO Agreement on Textiles and Clothing (ATC). Quotas that previously restricted Chinese exports to the United States and the EU were removed, providing greater market access for Chinese goods. As part of its accession, China has committed to a wide range of market-access and trade barrier concessions, including a number of textile- and apparel-specific provisions. China's WTO protocol package includes product-specific and textile-specific safeguard mechanisms designed to prevent injury that US or other WTO members' industries and workers might experience based on import surges. Such safeguards can be applied for a period of four years by other WTO members, that is up to the end of 2008.

It was expected that the phase-out of quotas would lead to major changes in global trade in textiles and apparel. China was expected to become the "supplier of choice" because of its ability to make most textiles and apparel products at any quality level at a competitive price. Other major exporting countries considered likely to benefit from quota elimination were India, which has a large manufacturing base supplying a wide range of goods at competitive prices, as well as Pakistan and Bangladesh, which were likely to supply a narrower but still significant range of goods. Countries eligible for trade preferences were considered likely to be competitive in the US market, but some of them expected to lose market share because the trade preferences would not be enough to keep them competitive in relation to lower-cost Asian producers. Many other developing countries were expected to lose market share in the United States, particularly those that do not benefit from trade preferences, economies of scale, competitive labor costs, or proximity to the US market.

Although most commentators and analysts agreed on the above scenarios, few expected the extent to and pace at which Chinese exports to the major markets would increase.

From 2001 to 2004, Chinese exports of clothing to the EU15 grew by 84% in value and 126% in volume. The average price of imports from China decreased by 33%.

China's exports to the US increased even more dramatically. Table 2.1 shows the growth in Chinese exports to the US market, the biggest of all markets, over the years 2001 to August 2005, as well as Chinese exports' share in total US imports.

Table 2.1 USA: China as a supplier of textile and apparel imports, 2001-05: In Millions square meters equivalent

	2001	2002	2003	2004	Jan-Aug	Jan-Aug	% growth

					04	05	04 > 05
Textiles							
China	1 235	3 398	5 998	8 690	5 767	7 057	22.4
% Share	7.4	16.2	25.7	32.2	-	36.9	-
Clothing							
China	976	1 565	2 290	2 973	1 854	4 074	119.7
% share	6.1	9.1	12.1	14.9	-	27.9	-

From 2001 to 2004 the average price of imports from China decreased by 58%.

The actions subsequently taken by the EU and the US to limit imports of certain categories of clothing from China – in volume and growth rate – can be seen as a temporary limitation on the growth of Chinese exports. It will not stop the growth of Chinese exports as exporters will diversify into other product categories. However, this is assisting manufacturers in other developing countries that have been losing market share particularly in the US and the EU and were expected to suffer severely.

Apart from the US and EU, Turkey has imposed safeguard quotas and Colombia safeguard tariffs against China. Brazil investigated safeguard action but eventually entered into a voluntary restraint agreement with China in March this year.

According to reports, major US retailers intended to sharply reduce the number of their suppliers for the benefit of logistics but have now been forced to continue using more suppliers than they intended.

The question remains what will happen by the end of 2008 when action under the accession protocol has to lapse.

Robin Anson of Textiles Intelligence in his presentation *"Global Textile and Apparel Scenario: 2005 and beyond"* points out that, without quotas, China had by 2003 captured a 48% market share in Japan's imports of textiles and

80% in the case of clothing. In that year China's market shares of imports into the US and EU were still relatively low. The question is whether China will eventually capture the same market shares in these two key international markets.

In the same presentation, countries are ranked in order of risk as a result of the termination of the ATC, also giving the factors for and against the individual groups of countries. China and India are given a risk rating of 1 (lowest risk), Pakistan 2 and Turkey 3. Sub-Saharan Africa's risk rating is given as second highest at 11, while Mauritius is given the highest risk rating.

2.5 Considerations

1. China has national five year plans, such as the '10th Five Year Plan' covering 2000 to 2005 and the '11th Five Year Plan' for 2006 to 2010. Although textiles and clothing – and other sectors – are mentioned in respect of their importance, there is no reference to strategies for these or the leather and footwear sector.

2. The "The Tenth Five-Year Plan of the Textile Industry and its Development" set out Development Objectives in terms of growth targets, labour productivity, technological progress, energy and cost efficiency and water conservation, and dealt with adjustments in respect of technological and product structure, organizational structure, regional structure, SOEs and the promotion of information construction.

3. It is clear that during the period 2000 to 2005 the focus was on technological upgrading and industry consolidation. A similar 'plan' for the 11th Five Year period 2006 to 2010 could not be found. However, it appears that the strategy for the 2006 to 2010 period will focus on innovation, independent (domestic) brand development, product upgrading (quality and fashion), research & development and social/environmental aspects.

4. According to a presentation, China's textile and apparel industry would put emphasis on industrial upgrade through improving quality, increasing its original technologies and brands and establishing rapid response systems. It would guide large textile companies to the establishment of research centres and the increase of independent patent products and exclusive technologies. It is stated that although China's textile exports are competitive in terms of pricing, they are mostly exported under designated brands and lack independent branding. Simple quantitative growth should not be the major objective for China's textile exports.

5. The Chinese Government plays an important role in the implementation of strategies by, amongst others, creating a supporting environment, ‘authorising’ loans etc to desirable projects, issuing decrees on investment, launching brand recognition & development and supporting the establishment of special economic zones/industrial parks.

6. China has since 2003 failed to submit its obligatory notification on subsidies to the WTO Committee on Subsidies. The US and other governments as well as observers belief that China still apply some subsidies in certain sectors but are not able to proof the existence of subsidies.

7. The termination of the WTO Agreement on Textiles and Clothing on 1 January 2005 was a historic event that has had and will in future have a dramatic impact on the international trade in textiles and clothing and the location of production. Few analysts expected the extent to and pace at which Chinese exports to the major markets would increase. China’s exports to the US increased from 6.1% of total US clothing imports in 2001 to 27.9% during the first eight months of 2005. The termination of the ATC is likely to have major negative implications for most developing countries. Actions subsequently taken by the EU and the US to limit imports of certain

categories of clothing from China – in volume and growth rate – can be seen as only a temporary respite for these countries. In an analysis Sub-Saharan African countries were given the second highest risk rating.

3 OVERVIEW OF MARKETS

3.1 Structure, size, products, labels/brands

With 1.3 billion people, China is the world's most populous country and a massive market. China's GDP has grown 8 percent plus annually in recent years and this rapid growth translates into higher incomes and higher rates of consumption.

Retail sales in 2005 were estimated have reached 6.7 trillion Yuan ($831 billion). China's retail sales are estimated to have risen 12.9 percent in 2005. To make full use of the country's huge textile manufacture capacity, China has made an all-out effort to expand its domestic consumption market as well as tap the potential of the overseas market. Chinese industry representatives reported that the focus of Chinese textiles and apparel producers in the coming decade will be the growing domestic market.

Demand for clothes, home textiles and industrial textiles in the domestic market have become the main impetus to the development of the textile industry. In 2005, retail sales of these three kinds of textile products increased by 9.2 percent, 10 percent and 13 percent respectively. The China Textile Council reports that currently, the domestic market accounts for approximately two-thirds of Chinese production and this share is expected to increase.

However, a survey on 600 categories of consumer goods found that certain commodities such as beverages, **garments, textiles,** household electric appliances and home-use articles are expected to be highly oversupplied in 2006.

A recent investigation by the Ministry of Commerce showed that 86.9 percent of the 84 categories of textile goods in China are oversupplied.

With increases in China's **leather** product exports and a rise in domestic demand, China's production of leather products has become the largest in the world. Demand for light leather reached 450 million square meters in 2001, of which 160 million square meters were imported. China's charge to world leadership in leather production is evidenced by:

- producing over 5 billion pairs of shoes (of which 2 billion pairs were leather);
- producing 70 million pieces of leather in 2001;
- increasing the industry's worth to US$12.48 billion;
- increasing sheep and goatskin imports to 130 000 tons;
- increasing exports to 25 million pieces of goat leather product per year;
- increasing raw leather imports by 21% each year for the past five years.

These impressive and growing leather trade statistics make China an attractive market for hides, skins and leather. The China Leather Industry Association (CLIA) believes that in the next 5 to 10 years, imports of raw hide and skins and finished leather will continue to increase.

South Africa is the largest producer and exporter of ostrich skins, responsible for over 80% of production and trade. Most ostrich skin is traded at what is termed the 'crust' stage and then finished according to customer specifications. The majority of the tanning to crust and finished stages occur in South Africa. Over 80% of ostrich leather is finished for the manufacture of handbags. With China moving to luxury goods, it can become a major user of ostrich skins and leather. China and South Korea are currently manufacturing shoes from ostrich leather and both have plans to target the Japanese market.

Sixty-six percent of the purchases Chinese customers made in 2005 were limited to the top ten brands, according to the National Bureau of Statistics (NBS). This is two percentage points more than that of 2004, said Zhu Xinwu, an official with the NBS. According to the report '*most people do not care much for the brands of clothing*'.

3.2 Growth

Figures from the National Bureau of Statistics show that China's retail sales rose to 6.7 trillion Yuan (US$828.3 billion) in 2005, reflecting a 12.9 percent increase from the previous year.

China's total retail sales of consumer goods reached 1264.4 billion Yuan in the first two months of this year, up 12.5 percent from last year, according to the National Bureau of Statistics (NBS).

Huang Hai, assistant minister of commerce, said the nation's retail sales, an important indicator for the consumption demand, will grow at an average annual rate of more than 11 percent during the 11th Five-Year Plan (2006-10) period. 'By 2010, the country's retail sales will reach over 10 trillion Yuan (US$1.2 trillion),' Huang was quoted as saying by Xinhua, China's official news agency.

The Chinese government has decided to include the domestic consumption stimulation into its next Five-Year Plan.

According to reports, there has been rapid growth in the Chinese textiles, clothing and footwear markets. China's textile sales reached 3.3 trillion Yuan (408 billion US dollars) in 2005, surging 115.7 percent from 2001, according to the National Development and Reform Commission report. Retail sales of garments and textile products went up 16.6 percent.

It is reported by Xinhua that in 2005, the growth rate of Chinese-made knitted products in its domestic market reached 31.1 percent, 10.5

percentage points higher than in the overseas market, according to the latest figures from the China Textile Network.

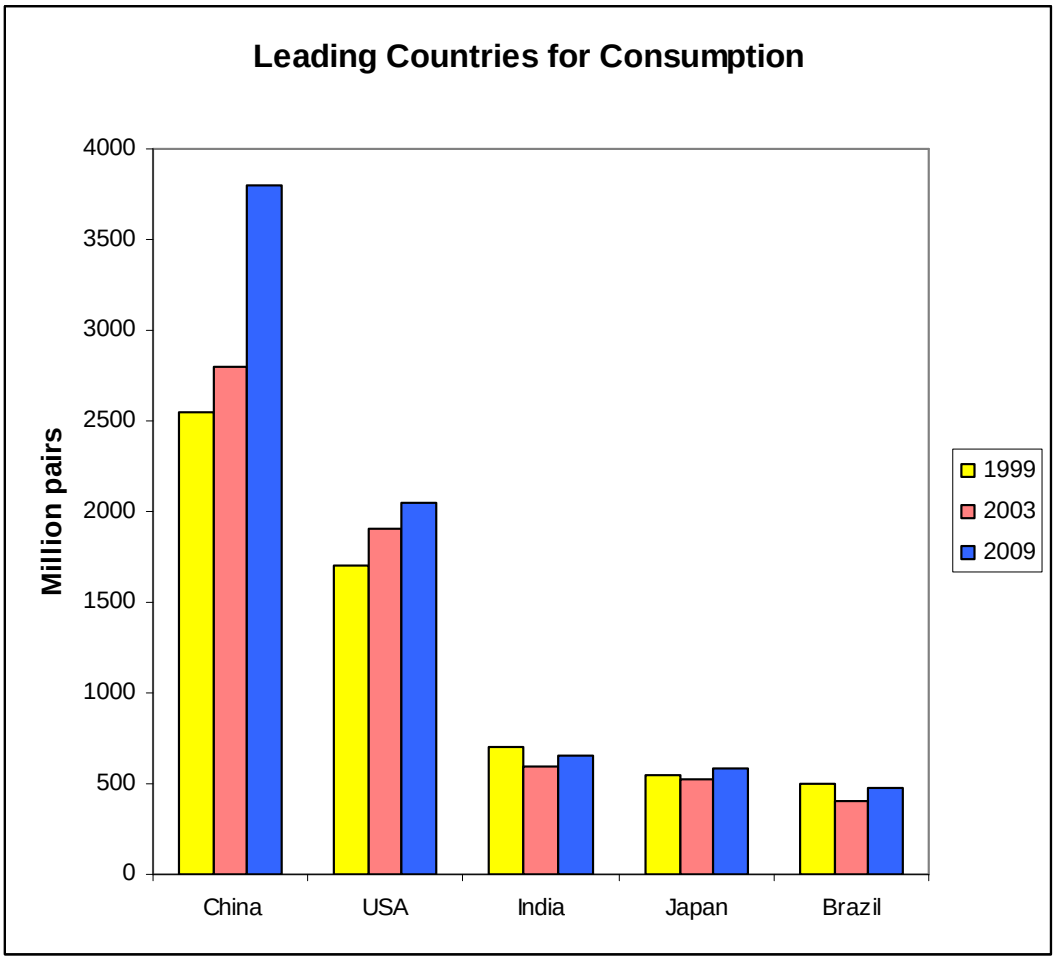
There are various factors that will stimulate growth in Chinese retail sales in general and also clothing, footwear and leather goods sales over the coming years. These include:

- GDP growth in the economy which has been consistent at about 8% per annum and does not show signs of decrease in the next few years (actually the published national GDP growth rate is considered to be understated as each province is growing at more than 10%)
- It is a stated objective of the Government to stimulate domestic consumption as a major contributor to future economic growth through fiscal policies (according to Huang Hai, assistant minister of commerce, 'the government wants to let consumption play a more important role in its future economic growth'). Steps being taken in this regard include tax reductions through doubling the tax threshold; increased spending in the fields of education, health care and social security ("With less financial burden, people will be more willing to spend"); removal of agriculture taxes and free compulsory school education in rural areas, which saves money for rural citizens
- Policies to encourage urbanization
- As Government policies attempt to raise the incomes of the rural west with a population of 750 million people, the textile industry expects to find more demand and higher consumption rates
- Chinese officials and industry representatives cite functional fabrics or industrial fabrics as a future growth area. As more roads and north-south highways are being built to connect the booming cities of the coast and to reach the western regions, demand grows for special industrial and nonwoven fabrics needed to line the roadways and shoulders of roads to prevent erosion. Similarly, to increase agricultural efficiency in feeding the enormous population, certain functional fabrics are used to prevent erosion, conserve moisture and control unwanted weeds. As developments continue, use of industrial fabrics is expected to rise.

- China has recently undertaken significant housing reforms. A result is that a much greater percentage of Chinese consumers now own their own homes instead of simply residing in state-owned residences. Chinese industry representatives consider this a significant opportunity for more domestic sales. Home owners are more likely to buy curtains, fabric sofas and furniture, textile rugs and carpeting, bedspreads, sheets and similar products associated with owning a home. Housing reforms combined with growing incomes constitute a significant growth opportunity for Chinese home textiles.

China is the world's biggest market for footwear (in terms of pairs) and in 2003 accounted for 23% of world footwear consumption. The Chinese market is expected to grow from about 2.6 billion pairs in 2003 to 3.7 billion in 2009.

The following graph shows footwear consumption growth in China from 1999 to 2003 and the projection for 2009.



Source: SATRA Technology Centre

3.3 Distribution

There has been a major expansion in formal retail trade and major international retailers are establishing in China, such as Wal-Mart (56 stores with another 20 planned for 2006), Metro and the French Group, Carrefour. This is leading to a shift in retail distribution for consumer goods such as clothing and footwear.

The Government is stimulating the development of formal retailing. According to a Beijing newspaper report, the Ministry of Commerce will entrust the State Development Bank to loan 50 billion Yuan (US$6 billion) to 20 large-scale retailing enterprises to support their development, according to the report from the Beijing Times newspaper. The twenty retailing companies, including

Beijing Hualian, Beijing Gomei and Wangfujing, were chosen by the Ministry of Commerce last year for policy support. This is the first time for the ministry to publicise detailed supporting measures after it disclosed the supporting list last year, according to the report.

3.4 Seasonal market

Information on seasonal markets for TCFL products could not be found. However, China has three 'golden week' holidays every year - the traditional Spring Festival or the Chinese Lunar New Year season, the International Labour Day holiday period and the National Day period starting Oct. 1. The State Council implemented the holiday scheme in 1999 in a bid to spur domestic demand, stimulate consumption and restructure the economy. The prolonged holiday periods turned out to be successful for the national economy, and have been popularly known as golden weeks.

3.5 Considerations

1. With 1.3 billion people, China is the world's most populous country and a massive market. China's GDP has grown 8 percent plus annually in recent years and this rapid growth translates into higher incomes and higher rates of consumption. Retail sales in 2005 were estimated have reached 6.7 trillion Yuan ($831 billion). China's retail sales are estimated to have risen 12.9 percent in 2005.

2. Chinese industry representatives reported that the focus of Chinese textiles and apparel producers in the coming decade will be the growing domestic market. In 2005, retail sales of clothing, home textiles and industrial textiles increased by 9.2 percent, 10 percent and 13 percent respectively. However, a survey on 600 categories of consumer goods found that garments and textiles are expected to be highly oversupplied in 2006. A recent investigation by the Ministry of Commerce showed that 86.9 percent of the 84 categories of textile goods in China are oversupplied.

3. China’s production of leather products has become the largest in the world. The China Leather Industry Association (CLIA) believes that in the next 5 to 10 years, imports of raw hide and skins and finished leather will continue to increase. Opportunities for South Africa in the export of ostrich leather may exist.

4. Sixty-six percent of the purchases Chinese customers made in 2005 were limited to the top ten brands, according to the National Bureau of Statistics (NBS). Most people do not care much for the brands of clothing.

5. By 2010, the country's retail sales is expected to reach over US$1.2 trillion. Various factors will stimulate growth in Chinese retail sales in general and also clothing, footwear and leather goods sales over the coming years. China is the world’s biggest market for footwear.

6. The Chinese Government is promoting domestic consumption as a basis of future economic growth. There has been a major expansion in formal retail trade and major international retailers are establishing in China. The Government is stimulating the development of formal retailing. The State Council introduced three ‘golden week’ holidays every year in a bid to spur domestic demand, stimulate consumption and restructure the economy.

4 FEATURES OF THE INDUSTRIES

4.1 Production, number of producers, capacity

China’s TCFL industries are massive in the international context. It is difficult to find comprehensive and recent figures of the size and characteristics of these industries as relevant websites are either in Chinese or not accessible. One therefore has to rely on reports which do not always contain recent figures, and on snippets of news released by local organizations such as the

China National Textile Industry Council (CNTIC) and the China National Textile and Apparel Council (CNTAC). An American report: "**Textiles and Apparel: Assessment of the Competitiveness of Certain Foreign Suppliers to the US Market**", 2004 ('US Competitiveness Report'), has been valuable in terms of analyses and statistics, although the latter is for 2001.

China is the world's largest producer of textiles and apparel, which accounted for 10 percent of its manufacturing output in 2000 and 20 percent of its total exports in 2001. China is upgrading its production capacity in the textile and apparel sector, as evidenced by the fact that it was the world's largest investor in new spinning and weaving equipment during 1997- 2001.

Table 4.1 shows China's production of TC products in 2003 as reported by the China National Textile & Apparel Council (CNTAC) and immediately thereafter an extract from a Statistical Communique on 2005 statistics for yarn, fabrics and chemical fibres.

Table 4.1 Output of China's Major Textile Products in 2003

Name	Unit	Output
Chemical fibers	10,000 t	1,181.14
Viscose fibers	10,000 t	80.02
Synthetic fibers	10,000 t	1,089.00
Polyamide fibers	10,000 t	56.51
Polyester fibers	10,000 t	933.18
Acrylic fibers	10,000 t	62.86
Polyvinyl formal fibers	10,000 t	3.26
Polypropylene fibers	10,000 t	27.50
Yarns	10,000 t	983.58
Cloths	Billion ms	37.464
Printed and dyed fabrics	Billion m	31.900
Knitting Wool	10,000 t	65.74
Woolen fabrics	Billion m	0.443
Ramie and linen fabrics	Billion m	0.368
Silk	10,000 t	11.10
Silk textiles	Billion m	6.328
Natural silk textiles	Billion m	1.000

Garments	Billion pieces	36.308
Woven clothes	Billion pieces	13.673
Knit clothes	Billion pieces	22.500
Down & feather clothes	Billion pieces	0.135

Note: Do not include products manufactured by home and self-employed workers.

STATISTICAL COMMUNIQUÉ OF THE PEOPLE'S REPUBLIC OF CHINA ON THE 2005 NATIONAL ECONOMIC AND SOCIAL DEVELOPMENT
National Bureau of Statistics of China February 28, 2006

Output of Major Industrial Products in 2005

Product	Unit	Output	Increase over 2004 (%)
Yarn	10000 tons	1440	11.5
Cloth	100 million meters	470	11.9
Chemical fibers	10000 tons	1618	13.6

The CNTAC also reported major economic indicators for TC enterprises with an annual sales revenues above RMB5 Million (± US$625 000) in 2003 as shown in Table 4.2

Table 4.2 Changes in Major Economic Indicators for Enterprises with Annual Sales Revenues above RMB5 Million in 2003

Indicator	Annual totals (RMB100 million)	Approx. US$ Mill. (own conversion)	Growth % year on year
Gross industrial output value (current price)	12,877.84	161 973	22.76
Gross industrial output value (fixed price)	12,149.06	151 863	20.75
Product sales revenue	12,342.46	154 281	24.60
Sales value (current price)	12,594.85	157 436	23.20
Industrial value added	3,176.96	39 712	22.76
Delivered export goods	4,185.91	52 323	21.98

Total profit	443.98	5 550	30.26

Source: CNTAC Statistics Center

China is highly price competitive in T&C sector goods, largely reflecting its huge supply of low-cost labour and raw materials, which have enabled the sector to attract foreign direct investment (FDI). Also, the sector is considered to have effective middle management and the technical expertise to produce a wide range of sector goods. China's textile and apparel sector encompasses all segments of the supply chain, from the production of raw materials (e.g., cotton and man-made fibres) to the manufacture of yarns and fabrics and the processing of these inputs into final goods such as garments, carpets, home furnishings, and industrial textiles.

Official Chinese statistics for 2001 show that the sector comprised about 21 000 enterprises with total output of $116 billion and employment of 7.9 million workers, or 14.5 percent of Chinese industrial employment. However, sector production and employment levels are believed to be much higher, because the official statistics include data only for "statistically sizeable enterprises" (SSEs), or firms having an annual output of more than 5 million renminbi (RMB, approximately $600,000). As such, the official statistics do not include data for the many small firms (mainly family-based production units) involved in production of sector goods in China. In 2002, CNTIC estimated that there were about 15 million workers in the Chinese textile and apparel sector.

According to the CNTAC the number of TC corporations increased from 19 400 in 2000 to 34 973 in November 2005 with a production value for 2005 of 3000 billion Yuan (±US$375 billion).

The US Competitiveness Report contains a statistical profile of the Chinese textiles and clothing industries as shown in Table 4.3. The data is for 2001 and it is known that the industries have grown substantially since then. There has been some consolidation in respect of enterprises encouraged by the

Government, but also major new investments and technological upgrading. However, this is the most comprehensive database that could be found.

Table 4.3 China: Statistical profile of textile and apparel sector and foreign trade for 2001

Item	2001
Number of textile and apparel establishments	[1]21,144
Number of textile and apparel workers *(1,000)*	[1]7,890
Installed spinning capacities:	
Short-staple spindles *(1,000)*	35,483.9
Long-staple spindles *(1,000)*	3,600.0
Open-end rotors *(1,000)*	711.5
Installed weaving capacities for the cotton system:	
Shuttleless looms (*number*)	82,900
Shuttle looms (*number*)	578,400
Purchases of large circular knitting machines	2,587
Average total labor cost per operator hour:	
Coastal China	$0.69
China, other than in coastal areas	$0.41
Mill fiber consumption:	
Cotton (1,000 metric tons)	5,210.6
Wool (1,000 metric tons)	314.4
Manmade fibers (1,000 metric tons)	10,211.2
Total (1,000 metric tons)	15,736.2
Production of selected products:	
Manmade fibers *(1,000 metric tons)*	[2]6,941.6
Synthetic fibers *(1,000 metric tons)*	[2]6,395.0
Rayon fibers *(1,000 metric tons)*	[2]547.0
Yarn *(1,000 metric tons)*	[2]6,574.
Cotton and manmade-fiber fabric (million meters)	[2]27,725.0
Cotton fabric (million meters)	[2]13,922.0
Cotton blend fabric (million meters)	[2]8,306.0
Manmade-fiber fabric (million meters)	[2]5,472.0

Printed and dyed fabric (million meters)	[2]15,871.0
Wool fabric (million meters)	[2]279.0
Ramie fabric (million meters)	[3]93.5
Linen fabric (million meters)	[3]35.5
Silk fabric (million meters)	
Apparel (million units)	[2]4,692.0
Foreign trade in textiles and apparel:	
Exports:	
Textiles (*million dollars*)	16,780.1
Apparel (*million dollars*)	36,496.5
Total (*million dollars*)	53,276.6
Imports:	
Textiles (*million dollars*)	12,560.4
Apparel (*million dollars*)	1,258.3
Total (*million dollars*)	13,818.6
Trade balance:	
Textiles (*million dollars*)	4,219.7
Apparel (*million dollars*)	35,238.2
Total (*million dollars*)	39,458.0
Foreign trade in manmade fibers:	
Exports (*million dollars*)	751
Imports (*million dollars*)	2,703
Trade balance (*million dollars*)	-1,952

[1] Only 'statistically sizeable enterprises' (SSEs)

[2] Figures 2001 not available. Figures of 2000 given.

Source**:** American report "Textiles and Apparel: Assessment of the Competitiveness of Certain Foreign Suppliers to the US Market", 2004.

China's textile and apparel sector is concentrated in the coastal areas of the country. In 2002, five coastal provinces (Zhejiang, Jiangsu, Guangdong, Shandong, and Fujian), along with the city of Shanghai, accounted for 79 percent of SSE sector shipments and 82 percent of China's exports of textiles

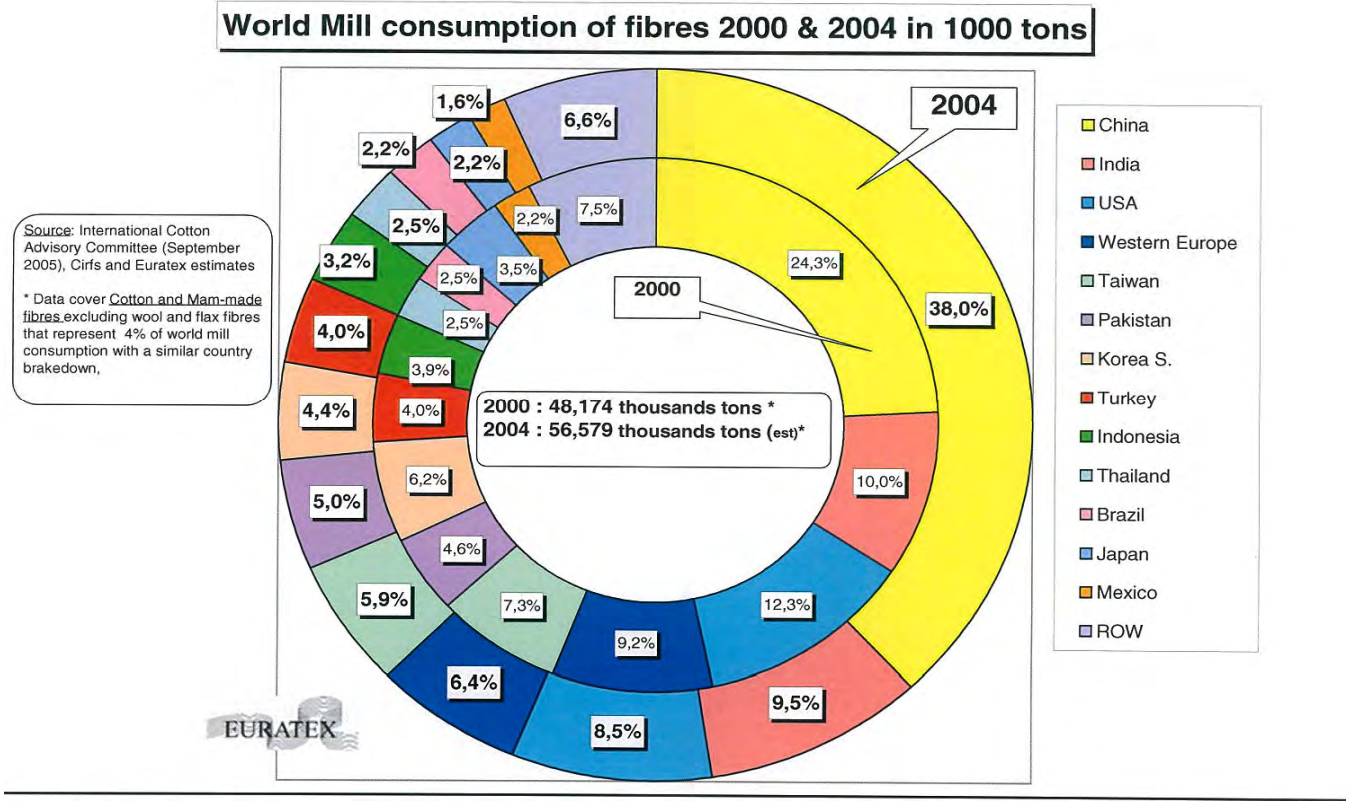
and apparel by value. Exports accounted for about one-third of sector output in 2001.

Textiles

China accounted for an estimated 29 percent of world fiber consumption in 2001 and according to EURATEX (European Apparel and Textile Organisation), this has escalated to 38% in 2004, four times that of India which has moved into second place, passing the US.

Mill consumption is probably a good indication of the relative size of textile industries internationally, particularly in the absence of comprehensive and comparable figures of production of different textiles products in leading manufacturing countries. It measures the quantity of fibres used in the manufacture of downstream textile products such as yarns, fabrics, carpets, other household textiles and industrial textiles, and therefore also the apparent textiles production of a country. (This cannot be pulled through to clothing production, as many developing clothing producing countries do not have substantial textile industries but produce clothing from imported fabrics). On this basis China produces more than one-third of the textile products manufactured internationally in 2004 according to the EURATEX calculations.

The following chart shows EURATEX's calculation of mill consumption of fibres in 2000 and 2004 for leading textiles producing countries in terms of percentage international share. Wool and flax fibres are excluded, but these represent only about 4% of international fibre consumption and it is known that China is also a major user of these fibres.



The chart shows the massive growth achieved by China and also its position as by far the biggest international textiles producer. Incidentally, the relevant fibres used by China are also mostly produced domestically and China imports only relatively small quantities of cotton and man-made fibres.

Figures from two Chinese sources put the figure of mill consumption as 36% and 40% of the world. The EURATEX figures, therefore, seem to be reliable.

China is the biggest international producer of cotton with a production of 29 million bales compared to the US's 23.2 million bales in the preliminary figures for 2004/05. The forecast production of China for 2005/06 was down to 24.5 million bales but it is known that programmes have been set in place to stimulate cotton production.

On 8 March 2006 the State Information Center reported that China's chemical fibre output is expected to grow 8 percent to reach 17.5-17.6 million tons in 2006 thanks to expanding domestic demand.

In 2005 China produced 14.124 million tons of cotton yarn, 24.6% up on production in 2004.

China's large fabric-weaving industry was reportedly characterised by low fabric quality and limited fabric variety, design and innovation. China has been the world's largest purchaser of new weaving equipment in recent years, accounting for 58 percent of world shipments of new shuttleless looms in 2000-01 and 72 percent of the total in 2002. According to CNTIC, China's imports of textile machinery tripled from slightly less than $1.2 billion in 1998 to $3.5 billion in 2002.

CNTIC officials stated that a major concern of the Chinese textile industry is the dyeing and printing segment, which uses old equipment and has weak management and marketing skills, and an "irrational structure of products" in which producers focus on low-end products for domestic consumption. According to the Chinese Dyeing and Printing Association, the dyeing and finishing segment consisted mostly of private firms rather than SOEs. During the 1990s, China commonly exported grey (unfinished) fabric to Korea and Hong Kong for dyeing and printing, and then re-imported the fabric for cutting and sewing into final goods. As China expanded its imports of dyestuffs and dyeing and printing equipment, this phenomenon has significantly decreased. Chinese industry officials stated that printing of multiple colours or patterns is more difficult than simple dyeing operations and that the Chinese industry is not yet able to produce functional fabrics with "nature-like" patterns. Despite concerns about Chinese fabric quality, local fabrics account for about 40 percent of the fabrics used by apparel producers in Guangdong, which has a large export oriented apparel industry.

The knitting segment is dominated by SOEs and generally consists of small firms that supply the low-end domestic market and larger firms having better equipment that generally supply export markets. Industry officials believe that future growth in the knitting segment will be driven by China's expanding domestic market. According to industry officials, the knitting segment lacked high-end production and suffered from low quality, limited technical advancement and innovation, weak marketing and management skills and sometimes an unsteady supply of raw materials. However, the knitting segment has been purchasing new equipment to upgrade its operations.

During 2000-02, China accounted for 27 percent of world purchases of new circular knitting machines.

Clothing

Official Chinese statistics for 2001 show that China's apparel industry comprised nearly 8,000 firms with an average of 300 employees each; however, the statistics exclude the many small apparel firms. The industry comprises three different groups of operations:

- Factories run by overseas Chinese investors, primarily based in Hong Kong, in joint ventures mainly in Guangdong, and which are China's major apparel exporters;
- SOEs which sell their output mostly for local consumption, and
- The former state-owned, now privatized "town and village" enterprises, which essentially make up China's "domestic apparel industry."

In general, the town and village firms are owned and operated by local managers, who typically were the managers of the plants when they were SOEs. The town and village firms tend to operate at a much higher level of efficiency than the SOEs and have lower overhead than the factories owned by the overseas Chinese, which incur Hong Kong-based overhead.

In addition, the low overhead of town and village firms reflects their "lean" management structure.

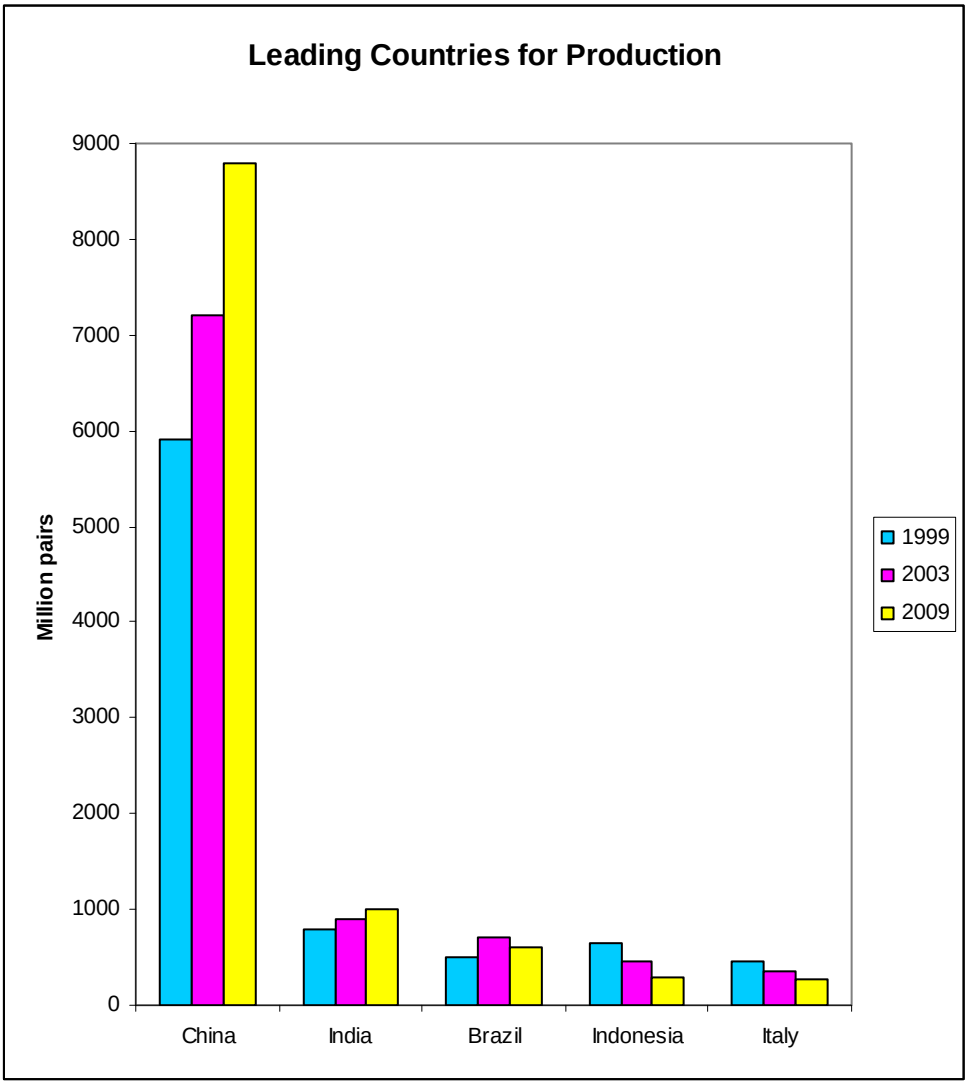
China has significant competitive advantages in apparel production, including low labour costs, high labour productivity and access to local supplies of raw materials. In general, sewing skills are considered to be very good in China, as is its middle management, which has the day-to-day responsibility for maintaining the reliability of product quality and supply and ensuring the flexibility to change orders as needed. The availability of fabric, trim, and accessories (e.g., buttons) is considered an advantage in sourcing apparel from China, because almost all the raw materials needed to make apparel are produced there.

Guangdong is China's major producer of apparel for export, accounting for one-third of the country's apparel exports in recent years. About 70 percent of Guangdong's apparel firms produce for export, with exports totalling about $10 billion in 2001. Guangdong has roughly 30,000 apparel plants employing about 5 million workers. Its apparel industry uses mostly imported materials (60 percent of the total), mainly from Taiwan, Korea, Italy, and Japan. The remainder (40 percent) of the inputs comes from local suppliers.

Leather and footwear

The Chinese **footwear** industry produced more than 7 billion pairs of footwear in 2003, accounted for about 56% of world production of about 12.9 billion pairs, followed by India (6%), Brazil (5%), Indonesia (4%) and Italy (3%). The following graph shows the massive dominance of China's footwear industry in 1999, 2003 and the projections for 2009:

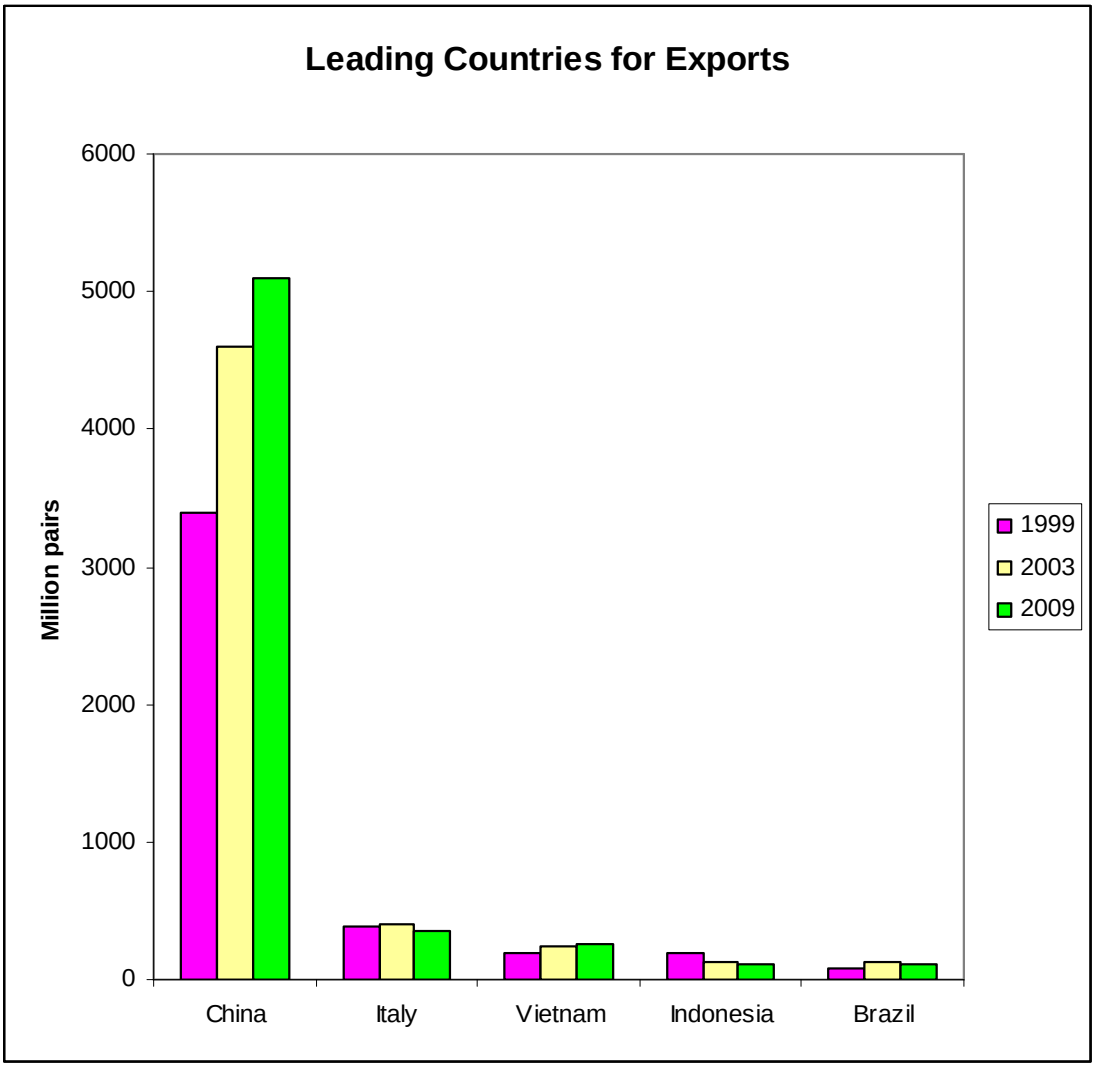
Figure 4.1 Leading Countries for production



Source: SATRA Technology Centre

The following graph shows the leading countries in footwear exports in 1999 and 2003 as well as the projections for 2009. Once again China's total dominance is evident.

Figure 4.2 Leading countries for export



Source: SATRA Technology Centre

China is the world's major **leather** producing nation, and the largest manufacturer of shoes, leather garments and bags. China's leather industry covers four sectors: leather making, leather shoes (including sports shoes), leather goods (including garments), and furs.

The industry numbers approximately 16 000 enterprises (excluding village enterprises, co-operatives, and businesses with annual sales less than one million Yuan / US$125 000) with a work force of over two million people. These enterprises include approximately 2 300 involved in leather production,

7 200 in shoemaking, 1 700 in leather garments, 1 200 in furs and fur products, 500 in leather suitcases and about 1 500 in leather handbags.

China produces more than 2 billion pairs of leather shoes, and more than 70 million leather garments annually. According to available statistics, China's annual demand for light leather ranks first in the world – up to 450 million m^2, among which imported finished leather accounts for 160 million m^2, supplementing the supply of domestic finished leather.

Canton is the key centre of the Chinese leather industry, especially for the manufacture of footwear and leather goods. It is China's most developed production base and the most active trading area of the Chinese leather industry, accounting for 50% of Chinese footwear production and 62.5% of exports. It is also the distribution centre of most imported products. Taiwanese, Hong Kong-invested, and foreign-invested tanneries possess most of the market in Canton. These tanneries, lead the market in economies of scale, and generate strong demand for skin imports.

While China possesses a local supply of small skins, cattle hides and calfskins need to be imported from abroad (United States, Australia and New Zealand). Consequently, the proportion of imported skins and leather in total consumption is high for bovine (approximately 80%), but relatively low for sheep and goat (around 22%).

The major high-volume market is in bovine skins and leather, where the local supply is not sufficient in terms of quantity or quality. Opportunities to supply goatskin are also present, with a smaller scope for ostrich and crocodile. However, as the production of finished articles in China diversifies into more luxury products, demand for some of the more exotic leathers can be expected to increase.

The trade statistics show China exported leather goods to the value of US$9.8 billion in 2004.

4.2 Focus of the industry and types of products

According to Textile Outlook International, September-October 2005: World Textile and Apparel Trade and Production Trends:

- China's **textiles and clothing industries** possesses a vertically integrated textile and clothing industry with ample access to raw materials and a relatively cheap and skilled workforce
- Moreover, Chinese textile and clothing manufacturers have the ability to produce a broad range of products – from the simplest of knitted T-shirts and briefs to complex sweaters, blouses and jackets incorporating fashionable designs and requiring intricate needlework
- These critically important features have turned China into a fearsome competitor in international markets, and have allowed Chinese manufacturers to excel in a quota-free trading environment.

US importers say there is no garment that they would not make in China.

The Chinese industry is considered to be among the best in making most garments and made-up textile articles at any quality or price level.

Historically, it has been argued that Chinese **leather** and in particular **footwear** production, was low cost and low-quality (World Footwear 2000). However, currently, with the high exposure that Chinese made footwear enjoys in the international markets, Chinese manufacturers are increasingly aware of the need for consistent and high quality production. China's leather industry is evolving from low cost, quantity-focused production to include more high quality goods and greater variety.

4.3 Linkages

China is the world's largest producer and exporter of textiles and apparel and it has invested in more spinning and weaving equipment than any other country during the last 5 years. Moreover, China's huge supply of inexpensive labour and skilled sewers, coupled with access to indigenous raw materials, has enabled the Chinese textile and apparel industries to

remain highly price competitive and attract foreign direct investment (FDI) in facilities and technologies. For US retailers, buying more from China will also allow them to take advantage of the existing infrastructure and logistics they have in place there for buying and shipping non-textile products (e.g. housewares and toys), in addition to textiles and apparel. Several retailers indicated that they have shifted sourcing of these products to China from countries such as the Philippines, Thailand, and Malaysia.

4.4 Performance (expansion/decline), outlook

Table 4.4 shows China's growth in respect of some TC products.

Table 4.4 China's growth in production of certain products

Product	Unit	1978	1990	2000	2002	2003
Chemical fibers	10,000 tons	28.46	165.42	694.00	991.20	1,181.10
Yarn	10,000 tons	238.2	462.6	657.0	850.0	983.6
Cloth	100 million m	110.3	188.8	277.0	322.4	374.6

Source: People's Daily Online, China

In the past five years, **China**'s per capita fibre consumption increased five kilograms to 13 kg, the China Chamber of Commerce for Import and Export of Textiles announced on 9 February 2006. In contrast, during the 20-year period from 1980 to 2000, the per capita fibre consumption only increased from 4.1 kg to 8 kg.

South Africa's per capita fibre consumption is about 5.6 kg, compared to China's 13 kg. South Africa's index of physical volume of production declined from 100 in 2000 to 94.5 in 2003.

During the 10th Five-Year period (2001-2005), China's textile industry made remarkable progress and played an important role in improving people's living standards, stabilizing price levels and shrinking the divide between China's eastern and western areas.

A national industrial survey showed that about 19 million people were working in China's textile industry in 2004, and figures show over 100 million Chinese farmers are providing agricultural products relating to textile production.

According to Xinhua, the Chinese official news agency, China's textile sales reached 3.3 trillion Yuan (US$408 billion) in 2005, surging 115.7 percent from 2001. This is according to a National Development and Reform Commission report.

The textile industry has become an important industry with tangible competitiveness in the international market, due to industrial restructuring and upgrading, the report said, adding that apparel exports reached US$116 billion in 2005, up 118.9 percent from five years ago.

Major textile enterprises posted 485.6 billion Yuan (US$60.7 billion) in added value in 2005, up 119.1 percent. These enterprises also reported doubled profits in the 2001-2005 period despite increasing trade disputes, oil price hikes and RMB revaluation.

Table 4.5 shows the growth in Chinese exports to the US market, the biggest of all markets, over the years 2001 to 2005 up to August, as well as Chinese exports' share in total US imports.

Table 4.5 USA: China as a supplier of textile and apparel imports, 2001-05: In Millions m^2 equivalent

	2001	2002	2003	2004	Jan-Aug 04	Jan-Aug 05	% growth 04 > 05
Textiles							
China	1 235	3 398	5 998	8 690	5 767	7 057	22.4
% Share	7.4	16.2	25.7	32.2	-	36.9	-
Clothing							
China	976	1 565	2 290	2 973	1 854	4 074	119.7

% share	6.1	9.1	12.1	14.9	-	27.9	-

The Chinese export and production performance during the first part of 2005 is analysed by Textiles Intelligence: *"Textile Outlook International, September-October 2005 World Textile and Apparel Trade and Production Trends"* as follows (including the action introduced by the US and EU):

"Clothing exports went up by 18.7% to US$61,616 mn while textile shipments rose by 22.9% to US$24,254 mn.

China's import market, on the other hand, expanded at a more measured pace. Textile and clothing imports rose by 1.4% to US$9,731 mn during January-July 2005. Moreover, within the overall total, textile imports increased by 1.9% to US$8,962 mn whereas clothing imports fell by 4.7% to US$769 mn.

Not surprisingly, the outstanding export performance of China's textile and clothing manufacturers has had a positive effect on domestic production. Output of man-made fibres went up by 9.9% to 8.8 mn tons during January-July 2005. Silk production also fared well, having increased by 23.3% to 69,688 tons. Yarn production advanced by 23.8% to 7.5 mn tons while fabric output rose by 19.4% to 20,388 mn metres.

Clothing production, meanwhile, climbed by 19.4% to 7,714 mn pieces.

The industry's strong export performance has also had a noticeable effect on investment. Between January-July 2004 and January-July 2005, investment in the textile and clothing sector grew by 36.9% in renminbi terms – from Rmb49,550 mn to Rmb67,852 mn (US$8,206 mn).

China's largest export market used to be Hong Kong, but in the first seven months of 2005 the EU was the leading destination. During this period, the EU took 18.2% of China's total textile and clothing shipments, up from 13.7% during the corresponding period in 2004. The USA was a very close second,

with a 17.0% share (up from 12.1% during January-July 2004) while Japan was third with a share of 14.9% (down from 17.0%).

Hong Kong's share of Chinese exports fell dramatically – from 18.6% in January-July 2004 to only 12.9% in January-July 2005. As a result, it dropped sharply in relative importance, from first to fourth place. Over the years, Hong Kong was used by Chinese manufacturers as a key co-production centre for a wide range of textile and clothing products. This was partly, however, for historical reasons and because Hong Kong possessed large amounts of quota for the EU and US markets. Once quotas were eliminated at the end of 2004, Hong Kong lost one of its main competitive advantages. Since then its usefulness as a production location has diminished considerably.

Chinese exports to the EU grew by 60.9% during the first seven months of 2005, reaching US$11,409 mn. Sales to the EU were helped by substantially higher shipments of knitted T-shirts, shirts, pullovers and woven trousers.

This unparalleled expansion in trade has, however, earned the wrath of European manufacturers who contend that increased imports of unfairly priced merchandise from China are having a deleterious effect on production and manufacturing employment. At the behest of the industry, the European Commission held bilateral negotiations with the Chinese government and reached a comprehensive agreement on June 10 2005, limiting the growth of textile and clothing shipments until the end of 2007. The quotas became effective on June 11.

China and the EU agreed to limit import growth in these categories by 8% to 12.5% a year during 2005-07. Additionally, the EU vowed to "undertake to exercise restraint" when considering applying safeguard quotas (see page 16) to categories excluded from the scope of the agreement during 2005-07, and to all products during 2008. The two sides also decided to establish a licensing system for restrained categories. The aim of the system was to provide for an orderly flow of textile and clothing trade, and to ensure that quotas would not be over-utilised.

However, the effectiveness of this rather straightforward licensing system was called into question in the first few weeks after the agreement became effective. In fact, the operation of the mechanism was undermined by the inability of the Chinese government to implement it until July 20, 2005.

There was thus an extended period of time – between the establishment of quotas on June 11 and the effective operation of the export licensing regime in China on July 20 – when a massive amount of merchandise was exported from China without any type of control. This left approximately 87 mn garments blocked at various EU ports.

This crisis caused an unprecedented outcry in the European retail sector, forcing the EU to negotiate a supplemental textile and apparel deal with China.

China has also been a victim of its own success in the US market. Rapid growth in textile and clothing exports to the USA has prompted the authorities to introduce restrictive quotas under the special safeguard mechanism which was incorporated in China's WTO accession agreement.

Textile and clothing exports to the USA surged by 69.0% to US$10,697 mn during the first seven months of 2005 spurred by exceptional growth in demand for cotton trousers, cotton knitted shirts and blouses, women's and girls' cotton and man-made fibre coats and jackets, women's and girls' man-made fibre knitted shirts and blouses, and cotton skirts. This dazzling performance boosted China's share of the US textile and clothing import market from 17.1% during January-July 2004 to 25.8% during the corresponding period in 2005.

The US government has responded by imposing safeguard quotas. Its objective has been to shield the US textile industry from Chinese competition, and to preserve the share of the US clothing market held by Western

Hemisphere producers – notably those in Mexico, the Caribbean Basin and the Andean region.

Over the course of the summer of 2005, safeguard quotas were introduced in order to restrict imports from China of products in 16 categories, namely: combed cotton yarn (Category 301), cotton knitted shirts and blouses (Category 338/339), men's and boys' cotton and man-made fibre woven shirts (Category 340/640), cotton trousers (Category 347/348), cotton and man-made fibre brassieres (Category 349/649), cotton and man-made fibre underwear (Category 352/652), synthetic filament yarn other than polyester (Category 620), man-made fibre knitted shirts and blouses (Category 638/639) and man-made fibre trousers (Category 647/648).

These quotas had varying start dates, ranging from May 23, 2005, to August 31, 2005, but are all scheduled to expire on December 31, 2005. The US textile industry has requested that the quotas be extended for an additional year.

Shipments of these products grew briskly in 2005, even after the establishment of the restraints, as Chinese factories continued to fill numerous orders from US clothing producers and retailers. The flurry of activity ended abruptly during July-August with the embargo of the quotas on cotton knitted shirts and blouses, cotton trousers, cotton and man-made fibre underwear, man-made fibre knitted shirts and blouses, and man-made fibre trousers.

China and the USA held four rounds of negotiations during summer and autumn 2005 in the hope of concluding a comprehensive bilateral agreement to regulate textile and clothing imports from China during 2005-08.

The USA and China finally reached a compromise on November 8, 2005. Under the new agreement, there will be 22 quotas restraining Chinese exports from January 1, 2006 until December 31, 2008. Annual growth rates

will range from 10.0% to 15.0% in 2006, from 12.5% to 16.0% in 2007 and from 15.0% to 17.0% in 2008.

The deal contains a clause which requires the USA to allow “prompt entry” to merchandise in Categories 338/339, 347/348, 352/652, 638/639 and 647/648 which were denied entry prior to November 8 as a result of the application of safeguard quotas. These goods were scheduled to be released during the period November 28-December 2, and the amounts of such goods will not be charged against any of the agreed quota levels. Chinese negotiators were able to include some wording in the agreement which requires the USA to exercise restraint until the end of 2008 in the application of any safeguard quotas on products outside the scope of the agreement. A similar provision was included in the EU-China Memorandum of Understanding on Textile Trade concluded earlier in 2005.

Furthermore, the USA committed not to pursue any safeguard actions with respect to:

- products already restrained by the new agreement; and
- products which were removed from quota before January 1, 2002.

China will also be able to increase the size of a quota during a particular quota-year by borrowing from the previous year’s quota (carry-over) and/or the following year’s quota (carry-forward), subject to certain limits.

Lastly, the deal establishes an electronic visa system for products which fall within the scope of the agreement. Furthermore, under the agreement both sides are committed to preventing the illegal transshipment of textile and clothing goods.

The US textile industry has contended on several occasions that one of the principal root causes of the bilateral trade deficit with China is the undervaluation of the Chinese currency, the renminbi.

It is uncertain whether this relatively modest step will be sufficient to quell ongoing legislative efforts in the US Congress – to impose an extra tariff of 27.5% on imports from China as a punitive measure for the alleged undervaluation of the renminbi."

4.5 Employment

The textile industry in China is a substantial job creator, employing some 19 million textile and clothing (referred to as 'textile workers') workers directly. Many textile producers have been claiming that, after expanding operations and employment in 2005, they have been forced to lay off substantial numbers of workers after first the voluntary export tariffs and now the export quota system to the US and EU.

The South African textiles and clothing industries employ about 163 000 workers in 2004 according to Stats SA.

Labor availability in China appears enormous. According to a US Government report, China has a "chronic and growing labor surplus" of about "23 million people laid off 'temporarily' in the state sector or approximately 150 million surplus rural workers who make up a 'floating population' that migrates between agriculture and urban jobs and that are at other times unemployed."

4.6 Productivity, wages and cost of capital

Much of the arguments explaining China's competitive advantage in the production of textiles have focused on low wages and the exploitation of labour in China's so-called 'sweatshops'. While the comparative hourly wage earned by textile workers in China is below that earned by workers in many other developing countries, this only explains a part of the competitiveness of the textile industry.

Reliable, independent statistics are hard to find and official Government statistics are in most cases quoted with insufficient methodological

explanation and so render accurate comparisons useless. Nonetheless, a discussion of two sets of wages figures may sketch a more accurate picture.

According to a 2004 article by Emerging Textiles, a Global Textile industry website, the hourly wage of a textile worker in China is US$0.25, (roughly equates to RMB 400/month and RMB 4500/year) compared with US$0.35 in Sri Lanka, US$0.26 in Vietnam and US$0.16 in Bangladesh. The equivalent hourly wage figure quoted for Mexican textile workers is US$1.00. The figure for China quoted above is probably on the bottom end of real current wages. A more widely quoted figure is RMB500/month (and RMB5700/year) for the lowest-end workers in unskilled factories.

However, much of China's textile industry is concentrated in southern Guangdong province. The Pearl River Delta has been labelled the world's manufacturing base but higher income levels, higher general prices and chronic labour shortages at the bottom end of the unskilled market has lead to upward pressure on wages in Guangdong.

This trend has lead some analysts to claim that, though Guangdong's manufacturing competitiveness is based on more than just cheap labour, some manufacturing at the low-end may move out of the province. Indeed, Jiangsu and Zhejiang have made strides in textiles and clothing production in recent years. According to China's National Bureau of Statistics' China Statistical Yearbook 2005, the average Guangdong manufacturing worker now earns RMB17,007/year (RMB1500/month) as against RMB16,140/year in Jiangsu and RMB14,722/year in Zhejiang. The Shanghai average is RMB27,456/year. (An industry source thought that these figures were perhaps 15% higher than what his company took as the 'manufacturing' worker's wage.) Even so, if we can assume that a textile factory requires many 'manufacturing sector' semi-skilled labourers as well as low-end unskilled labourers, then we can see that Guangdong is losing competitiveness in the low-end manufacturing sector, including TC production.

Some analysts have predicted that low-end labour intensive industries will start to move out of Guangdong and into the interior (Chongqing, Guizhou). They have also noticed a trend of Chinese TC producers opening factories in Vietnam, Cambodia and Bangladesh.

Comparing the cost of labour facing textile producers in China with those in other countries, we can use the following general benchmarks: From the above we see that the China Wage at the low-end is around RMB400/month and between RMB1250-RMB1500/month for semi-skilled 'manufacturing' workers. A December 2005 report by the China Economic Review (www.chinaeconomicreview.com), says that Chinese university graduates are willing to start out at between RMB1500 and RMB2000/month, moving up to RMB2500 within 3 years. Added to China's other sources of competitiveness in manufacturing, the option to employ university graduates at US$300/month means that manufacturers will still be able to absorb the upward wage trend in Guangdong for many years to come.

According to US firms, although wage rates are higher in China than in countries such as Bangladesh, India and Vietnam, productivity is considered much higher in China, making its overall labor cost lower. In 2002, hourly compensation of apparel production workers averaged $0.68 in China, compared with less than $0.50 in Bangladesh, India, Indonesia, and Pakistan, roughly $1.50 in Guatemala and Honduras and $2.45 in Mexico. In the textile industry, hourly compensation averaged $0.69 in the coastal areas of China, compared with $5.73 in Korea, $7.15 in Taiwan and $0.57 in India. In general, sewing skills in China are considered to be very good. As such, US apparel companies and retailers often import garments from China, as well as other East Asian countries, that require more sewing and construction, complex operations, and detailed work.

4.7 Cost structure, pricing and logistics

Explaining the competitiveness of China's textile industry: An evaluation in China

Much has been written in the past years about the end of the MFA and how Chinese Textiles and Clothing (T/C) products would flood the world, undercut domestic producers, leading to a massive shift East in the global production of zips, shoes and Italian suits. In almost every case, those industries losing market share have pointed fingers at the undervalued Chinese *Renminbi* and complained how they couldn't compete with China's 'sweatshop workers'.

This situation is an oversimplification on many levels. A large portion of the production of TC was shifted out of the US and EU to places like Mexico, Guatemala and Thailand many years ago. Yet China has been claiming market share not only from the small but vocal domestic producers, but also from the 'traditional' sweatshops in Central America, Bangladesh, Sri-Lanka and SE Asia.

The often quoted labour cost and exchange rate factors are obviously significant in explaining China's competitive advantage over Italian suit-makers, but China is also undercutting prices of clothes produced in Guatemala and Bangladesh, where labour costs are still cheaper than in China.

A growing pool of academic literature tries to explain China's competitiveness in the global textile industry by looking at factors beyond the traditional factors contributing to competitiveness, showing how China's textile industry benefits from an institutional organisation (domestically, regionally and globally) that lowers transaction costs and matches economies of scale with the flexibility to meet the changing demands and supply-side constraints of the global textile market.

First, we look at the 'traditional' factor contributing to the competitiveness of China's textile industry:

1. Cheap labour: According to a 2005 article by *Emerging Markets*, a Textile industry website, the hourly wage of a low-end textile worker in China is US$0.25, compared with US$0.35 in Sri Lanka, US$0.26

in Vietnam and US$0.16 in Bangladesh. The equivalent figure quoted for Mexican textile workers is US$1.00.

2. Skilled labour: As part of the Tenth Five-Year Plan for the Textile Industry, China encouraged textile factories to conduct technical training programmes for workers (see below). The current starting wage of a university graduate is US$300/month.

3. Material input costs: China has invested extensively in technologies in the production of man-made fibres, as well as synthetic fibres, and the textile-related chemicals industry.

4. Other input costs: Chinese producers enjoy relatively low transportation, water, electricity and land-use costs, both in and outside industrial processing zones.

5. Favourable tariff and customs conditions: China has encouraged the export processing industries with the waiving of import duties on machinery, technologies and materials, and encouraged exports by offering full VAT rebates (13%) on all T/C products.

6. China's undervalued currency: This is an absolute and relative advantage over developed countries, but not necessarily over fellow low-cost producers – many of whom also have undervalued currencies.

7. Subsidies: In 2003, 8 of China's 34 Textile Industry SOEs, accounting for 30% of textile industry output, were loss-making. While much criticism has been levelled at the irrational business and pricing models used by these SOEs, it must be said that, under the auspices of the 10th Five Year plan, the number of operating and loss-making SOEs have both been substantially reduced. The state-owned companies are losing prominence in a sector now driven by private investment in medium-sized firms.

8. Scales of production: Alongside the huge SOEs, China's Textile Industry is characterized by a high competitiveness and a high number of firms. While the official figure is more than 30,000 textile enterprises, there has been a strong trend toward consolidation. The movement up the value chain (up-scale) in recent years has necessitated massive investment in machinery upgrading, skills training and capacity building. This has allowed the benefits of economies of scale which are increasingly a characteristic of China's textile industry. For example, a privately-owned textile factory complex in Dongguan, Guangdong, employs more than 40,000 workers.

Reducing unit costs by utilising large scales of production also brings about 'costs of scale'. These include rigidity in uncertain markets, high inventories and narrow specialization.

China's low cost producers are deeply embedded within the marketing, distribution and supply management networks of locally rooted Hong Kong, Taiwanese and South Korean 'triangle manufacturers'. These businessmen have experience of doing business with the most demanding of industrial markets, and have the capability to manage diversified production networks to deliver a wide range of quality products to its buyers in a timely way. These institutional factors have allowed the Chinese industry to out-compete other production bases which may share similar of even more favourable 'traditional' factors of competitiveness. These factors make China much more than a merely low-cost textile producer.

The classical model of the global textile industry is called the CMT (Cut, Make, Trim). Companies in advanced markets design specify all component parts and quality, ship materials and instructions to manufacturing plants that are subcontracted to assemble the product and ship back the finished product with the designing company's brand on. This outsourcing model has kept many textile manufacturers in low-cost production bases dependent on

advanced country designers and lacking leverage to take on the massive retailers in price negotiations. Competition between production bases has lowered costs further and allowed insufficient profits to invest in the technologies to move up-scale in quality and infiltrate more of the supply chain.

China's advantage rests not only on its low cost production operations, but how these operations are combined with two of the most important assets that allow its large scale operations to elude scale rigidities: advanced downstream networks and favourable upstream conditions.

China's textile industry has had the advantage of leveraging its unique position at the centre of the Pearl River Delta manufacturing base. This intangible asset is made up of the hundreds of highly experienced, and by now powerful, global intermediaries from Hong Kong, Taiwan and South Korea who manage the "Triangle Manufacturing" networks of textile and apparel production. These global expatriate traders have grown up on outsourcing and are now using their experience and networks to push the industry to produce output of good and consistent quality in a timely and adaptable way and at reasonable cost.

The embedding of low cost Chinese producers into these sophisticated and highly internationalized marketing, management, design and distribution networks, run from Taipei and Hong Kong, and gives China an advantage on ordinary CMT operations, which derive a competitive edge solely from low costs. These networks have brought direction based on rational and market-focussed models and access to capital networks. China has been able to upgrade its production technology rapidly in recent years and the latest machines imported from Germany, Italy, Japan and the US are in use in many of its plants. Similarly, the massive scale of production and repeat orders from giant retailers gives Chinese firms the power to put pressure on fabric producers to constantly innovate to keep prices low.

The other characteristic of China's textile industry that explains its competitiveness is that it has strong backward linkages into a robust and diversified fibre, fabric, accessories and industrial inputs industry in China. China is a prolific and increasingly low-cost producer of a wide range of material inputs and its ability to link efficiently with this input base is key to China's competitiveness. With textile producers showing reluctance to move fabric around the world, and the design advantage of advanced country producers quickly eroded by counterfeiting, global textile technology companies are moving to Guangdong, Zhejiang and Jiangsu to join the party. For example, the Textile, Chemical and Dyes association of the US decided in 2001 to open some of its largest and most sophisticated wet-processing operations in China.

Chinese government policy-makers have played a central role in building competitiveness in the textile and apparel industry. Importantly, this has not been limited to funding and policy incentives that artificially lower costs on a temporary basis. It has been the support in building sustainable capacity and nurturing the industry with the goal of long term global market share in mind. But the government did not see the technological upgrading of the textile industry as a goal in itself, rather it was a means for increasing China's market share at both the 'low-cost, high volume' and the 'high value-added, low-volume' ends of the global market. Chinese policy-makers realised early that by creating favourable conditions, such as ensuring a stable and high quality supply of raw materials, simple and encouraging customs procedures for the processing trade, and (arguably) easy funding for capital investments, they could draw the global Hong Kong/Taiwan entrepreneurs with their global networks and expertise into China.

The Chinese government has focused heavily on providing strong support for technical training as well as educational programs related to the textiles industry (10^{th} Five Year Plan for Textiles). Chinese firms, in turn, have also invested heavily in training their workforce in modern technology and management skills. For example, in 2000 a Chinese firm, on average,

provided about 70 hours of training per year to its workers and managers compared to only 10 hours in India.

Besides ensuring a stable supply of input natural fibres such as cotton and wool, the Government has encouraged investment in the production of synthetic fibres and the textile-related chemical industry. Perhaps its most successful contribution to competitiveness has been to bring these inputs spatially together in sites where production takes place. A clothing manufacturer in Guangzhou's special industrial zones has more to gain than just low-cost utility incentives. In the same industrial park is a factory producing cotton fabric, a industrial chemicals factory, a zip making factory, a factory producing synthetic fabric and just outside the park is the petro-chemical plant that producers the polymers. The industrial park has its own customs services and an efficient rail service to the nearby international port.

In conclusion, Chinese producers are capable exploiters of the CMT model with large production capacity and low unit costs. But the Chinese textile industry's real competitive advantage is that it lies at the centre of highly integrated up and downstream supply chains. A stable supply of quality inputs, close proximity to upstream industries and full government support has embedded the industry within the global 'Triangle Networks' of offering the full package of capital, entrepreneurial drive, global experience with local knowledge.

History has shown that the production base which relies merely on the low-cost model will soon lose it competitive edge to 'the next low-cost base'. Low-cost competition is high amongst SE Asian countries. Embedded buyer-seller relationships and the flexibility of suppliers to meet the several other, non-price criteria that buyers demand will be equally, if not more critical in shaping the new geography of textile and apparel production, sourcing and supply in a post-MFA world. The above factors paint the picture of China as the place to produce textiles and clothing today. Due to both the 'traditional' and organisational factors of competitiveness, it will retain its status as the world's major textile producer.

Other logistics

Chinese apparel producers tend to be highly flexible in making samples and small runs.

China enjoys a 13 percent cost advantage to India in shipping garments from Shanghai to the US East Coast, or in weighted terms an even larger advantage of 37 percent. In addition, delivery times from India are longer than from other comparable countries. The minimum delivery time (transportation alone) from India to the United States is 24 days compared to 18 days from Thailand, 15 days from China, 12 days from Hong Kong SAR and 3 days from Mexico (Winters and Mehta, 2003). While geographic location might explain this partly, a major factor for the delays can be attributed to lower efficiency and smaller tonnage of berthing capacity at Indian ports. Moreover, India does not seem to compare favorably in terms of customs processing.

China remains attractive to US buyers because Chinese firms tend to offer more value added services, react faster to changes in fashion and retailer demands, and meet customer product standards better than producers in other parts of the world. Currently, most Chinese apparel exports are made in response to orders received, often with samples and materials supplied by clients. China has few internationally recognized brand names and few experienced apparel designers. There is evidence that this is changing and that China is starting to participate more actively in design and innovation.

US industry representatives noted that China is investing heavily in infrastructure throughout the country, including a major highway system linking western China with the more developed eastern part of the country. In terms of location, industry sources indicate that shipping times from China to the West Coast of the United States are relatively fast, particularly compared with many of the ASEAN countries or India. China is also investing in deep water port facilities that will further shorten shipping times.

Cost structures

Table 4.6 shows cost comparisons for 2003 of different yarn and fabric types for a number of developing countries and for Italy and the US, and in each case an index with Italy being 100. In some cases total costs (including raw materials) are shown and in some cases only manufacturing costs. The information appears on the website of the Indian Commissioner of Textiles.

Table 4.6 International Cost Comparisons, Yarns and Fabrics, 2003

Total Costs of Ring-Yarn 2003	**(In US $ per yard of fabric)**						
Cost Element	**Brazil**	**China**	**India**	**Italy**	**Korea**	**Turkey**	**USA**
Waste	0.19	0.31	0.17	0.23	0.22	0.22	0.17
	7%	11%	7%	6%	8%	8%	6%
Labour	0.06	0.04	0.05	0.85	0.2	0.13	0.55
	2%	2%	2%	24%	8%	4%	19%
Power	0.11	0.23	0.30	0.37	0.17	0.25	0.16
	4%	8%	12%	10%	6%	9%	6%
Auxiliary material	0.11	11.00	0.11	0.12	0.11	0.11	0.12
	4%	4%	5%	3%	4%	4%	4%
Capital (depreciation & interest)	0.84	0.39	0.57	0.60	0.57	0.73	0.60
	32%	14%	23%	17%	21%	26%	21%
Manufacturing Cost(A)	1.31	1.08	1.20	2.17	1.27	1.44	1.60
	50%	39%	49%	60%	47%	51%	56%
Raw Material (B)	1.30	1.68	1.25	1.42	1.41	1.41	1.26
	50%	61%	51%	40%	53%	49%	44%
Total costs (A+B)(per kg yarn)	**2.61**	**2.76**	**2.45**	**3.59**	**2.68**	**2.85**	**2.86**
	100%	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
Index (Italy:100)	**73**	**77**	**68**	**100**	**75**	**79**	**80**
Total Cost of O-E yarn –	**(In US $ per yard of fabric)**						

2003							
Cost Element	**Brazil**	**China**	**India**	**Italy**	**Korea**	**Turkey**	**USA**
Waste	0.13	0.22	0.12	0.16	0.16	0.16	0.13
	6%	9%	6%	6%	7%	6%	6%
Labour	0.02	0.01	0.02	0.30	0.07	0.04	0.19
	1%	1%	1%	11%	3%	2%	8%
Power	0.08	0.17	0.21	0.27	0.12	0.18	0.11
	3%	7%	10%	10%	5%	7%	5%
Auxiliary material	0.13	0.13	0.13	0.13	0.13	0.13	0.14
	6%	5%	6%	5%	6%	5%	6%
Capital (Depreciation & interest)	0.65	0.30	0.44	0.47	0.46	0.56	0.47
	28%	12%	20%	17%	19%	23%	20%
Manufacturing Cost(A)	1.01	0.83	0.92	1.33	0.94	1.07	1.04
	44%	33%	42%	48%	40%	43%	45%
Raw Material(B)	1.30	1.68	1.25	1.42	1.41	1.41	1.26
	56%	67%	58%	52%	60%	57%	55%
Total costs (A+B)(per kg. yarn)	**2.31**	**2.51**	**2.17**	**2.75**	**2.35**	**2.48**	**2.30**
Index (Italy:100)	**84**	**91**	**79**	**100**	**85**	**90**	**84**
Total Costs of Textured yarn - 2003	**(In US $ per yard of fabric)**						
Cost Element	**Brazil**	**China**	**India**	**Italy**	**Korea**	**Turkey**	**USA**
Packing	0.04	0.04	0.04	0.04	0.04	0.04	0.04
	2%	3%	2%	2%	2%	1%	2%
Labour	0.03	0.02	0.02	0.20	0.08	0.06	0.15
	2%	2%	1%	10%	5%	2%	7%
Power	0.05	0.11	0.13	0.17	0.07	0.09	0.07
	3%	8%	6%	8%	4%	3%	3%
Auxiliary material	0.01	0.01	0.01	0.01	0.01	0.01	0.01
	0%	1%	1%	0%	1%	1%	0%

Capital (Depreciation & interest)	0.29	0.14	0.16	0.20	0.22	0.29	0.16
	15%	9%	8%	10%	13%	11%	8%
Manufacturing Cost(A)	0.42	0.32	0.36	0.62	0.42	0.49	0.43
	22%	23%	17%	29%	25%	18%	20%
Raw Material(B)	1.48	1.08	1.70	1.50	1.26	2.20	1.70
	78%	77%	83%	71%	75%	82%	80%
Total costs (A+B) (per kg yarn)	**1.90**	**1.40**	**2.06**	**2.12**	**1.68**	**2.69**	**2.13**
Index (Italy:100)	**89**	**66**	**97**	**100**	**79**	**126**	**100**

Manufacturing Costs of Ring/O-E Yarn Weaving – 2003

	(In US $ per yard of fabric)						
Cost Element	**Brazil**	**China**	**India**	**Italy**	**Korea**	**Turkey**	**USA**
Labour	0.02	0.02	0.03	0.23	0.08	0.03	0.17
	10%	7%	11%	49%	28%	11%	48%
Power	0.03	0.05	0.06	0.08	0.04	0.05	0.04
	14%	23%	25%	17%	14%	24%	12%
Auxiliary material	0.04	0.04	0.06	0.06	0.09	0.06	0.04
	19%	17%	24%	13%	31%	24%	13%
Depreciation	0.05	0.09	0.05	0.07	0.06	0.07	0.07
	28%	45%	22%	15%	20%	29%	21%
Interest	0.06	0.02	0.04	0.03	0.02	0.03	0.02
	29%	8%	18%	6%	7%	12%	6%
Total manufacturing costs (per yard of fabric)	**0.20**	**0.22**	**0.24**	**0.47**	**0.29**	**0.24**	**0.34**
Index (Italy:100)	**41**	**45**	**50**	**100**	**60**	**51**	**73**

Total costs of Woven Ring - Yarn Fabric – 2003

	(In US $ per yard of fabric)

Cost Element	Brazil	China	India	Italy	Korea	Turkey	USA
Waste	0.033	0.054	0.030	0.039	0.039	0.039	0.030
	5%	8%	5%	3%	5%	5%	4%
Labour	0.029	0.022	0.034	0.378	0.116	0.050	0.263
	4%	3%	5%	34%	16%	7%	31%
Power	0.046	0.089	0.112	0.146	0.070	0.098	0.068
	7%	13%	17%	13%	9%	13%	8%
Auxiliary material	0.057	0.055	0.074	0.084	0.108	0.077	0.065
	9%	8%	11%	8%	14%	11%	8%
Capital (Depreciation & interest)	0.260	0.178	0.195	0.205	0.175	0.228	0.198
	40%	26%	29%	19%	23%	31%	23%
Raw Material	0.227	0.293	0.218	0.248	0.246	0.246	0.220
	35%	42%	33%	23%	33%	33%	26%
Total fabric costs (per yard of fabric)	**0.652**	**0.691**	**0.663**	**1.100**	**0.754**	**0.738**	**0.844**
Index (Italy:100)	**59**	**63**	**60**	**100**	**69**	**67**	**77**

Total Costs of Woven O-E Yarn Fabric – 2003

	(In US $ per yard of fabric)						
Cost Element	**Brazil**	**China**	**India**	**Italy**	**Korea**	**Turkey**	**USA**
Waste	0.023	0.038	0.022	0.028	0.028	0.028	0.022
	4%	6%	3%	3%	4%	4%	3%
Labour	0.023	0.018	0.028	0.281	0.093	0.036	0.201
	4%	3%	5%	30%	13%	5%	27%
Power	0.041	0.077	0.097	0.127	0.062	0.086	0.060
	6%	12%	16%	13%	9%	13%	8%
Auxiliary material	0.059	0.058	0.077	0.086	0.111	0.080	0.068
	10%	9%	13%	9%	16%	12%	9%
Capital (depreciation & interest)	0.227	0.163	0.172	0.183	0.156	0.199	0.175

	38%	25%	28%	19%	23%	30%	23%
Raw Material	0.227	0.293	0.218	0.248	0.246	0.246	0.220
	38%	45%	35%	26%	35%	36%	30%
Total fabric costs (per yard of fabric)	**0.600**	**0.647**	**0.614**	**0.953**	**0.696**	**0.675**	**0.746**
Index (Italy:100)	**63**	**68**	**64**	**100**	**73**	**71**	**78**

Manufacturing Costs of Ring Yarn Knitting – 2003

	(In US $ per yard of fabric)						
Cost Element	**Brazil**	**China**	**India**	**Italy**	**Korea**	**Turkey**	**USA**
Labour	0.010	0.010	0.005	0.130	0.040	0.020	0.110
	6%	10%	5%	54%	34%	17%	56%
Power	0.010	0.020	0.020	0.030	0.010	0.020	0.010
	6%	22%	20%	12%	10%	15%	6%
Auxiliary material	0.020	0.015	0.015	0.02	0.02	0.01	0.02
	15%	19%	13%	8%	14%	14%	9%
Depreciation	0.040	0.030	0.040	0.050	0.040	0.050	0.040
	32%	37%	32%	19%	33%	37%	23%
Interest	0.060	0.010	0.040	0.010	0.010	0.020	0.010
	41%	12%	30%	7%	9%	17%	6%
Total manufacturing costs (per yard of fabric)	**0.14**	**0.08**	**0.12**	**0.24**	**0.12**	**0.12**	**0.19**
Index (Italy:100)	**59**	**34**	**50**	**100**	**50**	**50**	**80**

Total Costs of Knitted Ring – Yarn Fabric – 2003

	(In US $ per yard of fabric)						
Cost Element	**Brazil**	**China**	**India**	**Italy**	**Korea**	**Turkey**	**USA**
Waste	0.077	0.127	0.070	0.092	0.091	0.091	0.071
	6%	11%	6%	5%	8%	7%	5%
Labour	0.034	0.025	0.027	0.477	0.126	0.072	0.335

	3%	2%	2%	28%	10%	6%	24%
Power	0.053	0.113	0.144	0.180	0.081	0.120	0.077
	4%	9%	13%	11%	7%	9%	6%
Auxiliary material	0.067	0.060	0.061	0.069	0.063	0.063	0.067
	6%	5%	6%	4%	5%	5%	5%
Capital (depreciation & interest)	0.446	0.198	0.306	0.308	0.285	0.364	0.302
	37%	16%	27%	18%	23%	28%	22%
Raw Material	0.531	0.686	0.510	0.580	0.576	0.576	0.514
	44%	57%	46%	34%	47%	45%	38%
Total fabric costs (per yard of fabric)	**1.208**	**1.209**	**1.118**	**1.706**	**1.222**	**1.286**	**1.366**
Index (Italy:100)	**71**	**71**	**65**	**100**	**72**	**75**	**80**

Manufacturing costs of O-E Yarn Knitting – 2003

	(In US $ per yard of fabric)						
Cost Element	**Brazil**	**China**	**India**	**Italy**	**Korea**	**Turkey**	**USA**
Labour	0.005	0.005	0.003	0.065	0.020	0.010	0.055
	7%	10%	5%	54%	34%	17%	57%
Power	0.005	0.010	0.015	0.017	0.008	0.010	0.007
	7%	26%	23%	14%	12%	18%	7%
Auxiliary material	0.010	0.005	0.006	0.008	0.007	0.007	0.007
	12%	15%	10%	7%	11%	12%	7%
Depreciation	0.020	0.015	0.020	0.022	0.020	0.023	0.022
	32%	37%	32%	19%	33%	37%	23%
Interest	0.030	0.005	0.020	0.007	0.006	0.010	0.005
	42%	12%	30%	6%	10%	16%	6%
Total manufacturing costs (per yard of fabric)	**0.07**	**0.04**	**0.06**	**0.12**	**0.06**	**0.06**	**0.1**
Index (Italy:100)	**57**	**34**	**50**	**100**	**50**	**50**	**80**

Total Costs of Knitted O-E Yarn Fabric – 2003							
	(In US $ per yard of fabric)						
Cost Element	**Brazil**	**China**	**India**	**Italy**	**Korea**	**Turkey**	**USA**
Waste	0.028	0.046	0.026	0.034	0.034	0.034	0.027
	5%	8%	5%	5%	6%	6%	5%
Labour	0.009	0.007	0.007	0.127	0.036	0.020	0.095
	2%	1%	1%	18%	6%	3%	16%
Power	0.022	0.046	0.058	0.073	0.033	0.049	0.031
	4%	8%	11%	10%	6%	8%	5%
Auxiliary Material	0.036	0.033	0.033	0.036	0.034	0.340	0.036
	6%	6%	7%	5%	6%	6%	6%
Capital	0.187	0.083	0.129	0.130	0.123	0.152	0.127
(Depreciation & interest)	34%	15%	25%	19%	22%	26%	22%
Raw material	0.275	0.355	0.264	0.300	0.298	0.298	0.266
	49%	62%	51%	43%	54%	51%	46%
Total fabric costs (per yard of fabric)	**0.557**	**0.570**	**0.517**	**0.700**	**0.588**	**0.587**	**0.582**
Index (Italy:100)	**79**	**81**	**74**	**100**	**79**	**84**	**83**

Manufacturing Costs of Textured Yarn Weaving – 2003							
	(In US $ per yard of fabric)						
Cost Element	**Brazil**	**China**	**India**	**Italy**	**Korea**	**Turkey**	**USA**
Labour	0.030	0.02	0.03	0.29	0.10	0.04	0.22
	7%	5%	9%	34%	27%	9%	30%
Power	0.030	0.060	0.080	0.280	0.050	0.070	0.240
	8%	16%	20%	33%	13%	18%	34%
Auxiliary material	0.070	0.060	0.080	0.070	0.080	0.060	0.060
	20%	16%	20%	8%	20%	18%	9%
Depreciation	0.120	0.200	0.110	0.150	0.120	0.150	0.150
	32%	54%	28%	18%	30%	39%	21%
Interest	0.120	0.030	0.090	0.060	0.040	0.060	0.040
	33%	9%	23%	7%	10%	16%	6%

Total manufacturing costs (per yard of fabric)	**0.37**	**0.37**	**0.39**	**0.85**	**0.39**	**0.380**	**0.71**
Index (Italy:100)	**43**	**43**	**46**	**100**	**46**	**44**	**84**
Total Costs of Woven Textured Yarn fabric – 2003							
	(In US $ per yard of fabric)						
Cost Element	**Brazil**	**China**	**India**	**Italy**	**Korea**	**Turkey**	**USA**
Packing	0.004	0.004	0.004	0.004	0.004	0.004	0.004
	1%	1%	1%	0%	1%	1%	0%
Labour	0.029	0.021	0.036	0.315	0.112	0.042	0.231
	5%	4%	6%	30%	20%	7%	25%
Power	0.033	0.072	0.089	0.300	0.055	0.075	0.247
	6%	14%	15%	28%	10%	12%	27%
Auxiliary material	0.073	0.059	0.082	0.070	0.079	0.066	0.064
	13%	12%	14%	7%	14%	10%	7%
Capital (Depreciation & interest)	0.266	0.246	0.216	0.227	0.179	0.237	0.210
	49%	49%	36%	21%	33%	37%	23%
Raw material	0.143	0.104	0.164	0.145	0.122	0.212	0.164
	26%	20%	28%	14%	22%	33%	18%
Total Fabric costs (per yard of fabric)	**0.548**	**0.506**	**0.591**	**1.061**	**0.551**	**0.636**	**0.920**
Index (Italy:100)	**52**	**48**	**56**	**100**	**52**	**60**	**87**
Manufacturing costs of Textured Yarn Knitting – 2003							
	(In US $ per yard of fabric)						
Cost Element	**Brazil**	**China**	**India**	**Italy**	**Korea**	**Turkey**	**USA**
Labour	0.004	0.003	0.003	0.05	0.017	0.009	0.045
	6%	10%	5%	52%	33%	16%	55%
Power	0.005	0.010	0.012	0.015	0.007	0.010	0.007
	8%	28%	24%	15%	13%	19%	8%
Auxiliary material	0.008	0.006	0.006	0.008	0.006	0.007	0.007

	14%	16%	12%	8%	12%	13%	8%
Depreciation	0.018	0.012	0.015	0.019	0.017	0.019	0.019
	31%	35%	31%	19%	33%	36%	23%
Interest	0.024	0.004	0.014	0.006	0.005	0.008	0.005
	41%	11%	28%	6%	9%	16%	6%
Total manufacturing costs (per yard fabric)	0.06	0.04	0.05	0.10	0.05	0.05	0.08
Index (Italy:100)	58	35	50	100	50	50	80

Total Costs of Knitted Textured Yarn Fabric – 2003

	(In US $ per yard of fabric)						
Cost Element	**Brazil**	**China**	**India**	**Italy**	**Korea**	**Turkey**	**USA**
Packing	0.003	0.003	0.003	0.003	0.003	0.003	0.003
	1%	2%	1%	1%	2%	1%	1%
Labour	0.006	0.005	0.004	0.068	0.023	0.013	0.056
	3%	4%	2%	26%	13%	5%	23%
Power	0.008	0.018	0.022	0.028	0.012	0.017	0.012
	4%	13%	11%	11%	7%	7%	5%
Auxiliary material	0.008	0.006	0.006	0.008	0.006	0.007	0.007
	4%	4%	3%	3%	4%	3%	3%
Capital (depreciation & interest)	0.064	0.026	0.042	0.040	0.038	0.049	0.036
	32%	19%	20%	16%	21%	19%	15%
Raw Material	0.112	0.081	0.128	0.113	0.095	0.166	0.128
	56%	58%	63%	43%	54%	65%	53%
Total fabric costs (per yard of fabric)	**0.201**	**0.139**	**0.205**	**0.260**	**0.177**	**0.255**	**0.242**
Index (Italy:100)	**77**	**53**	**79**	**100**	**68**	**98**	**93**

Source: ITMF (International Production cost Comparison) '2003 & Compendium of International Textile Statistics, 2004 published by the Office of the Textile Commissioner, Mumbai

In most cases China's total product cost is the lowest or close to the lowest, as shown in the index.

China compare very well in respect of labour and cost of capital where it is the lowest in almost all cases. The cost of labour is, however, in these comparisons, only a small element of total costs while capital is a very substantial part of total costs. China scores badly in respect of waste, power and particularly the cost of raw materials.

Cost of capital

Report No. 2, "CROSS CUTTING ASPECTS CHINA", contains the following comparison of inflation and interest rates between South Africa and China:

Table 4.3 Inflation and Interest rates: South Africa and China (2004)

	South Africa	China
Inflation (cpi) % increase	4.3	3.9
Short term interest rate	10.5	5.38
Real interest rate	6.2	1.48

Sources: South African Reserve and EIU

It is clear that enterprises in China benefit from very low real interest rates.

4.8 Presence of multi-nationals

Many international groups in the textiles, clothing and footwear industries have established manufacturing operations in China as a low-cost base for manufacturing their branded products for the international markets.

CNTIC data on investment in the textile and apparel sector for 2000 show that there was foreign investment in 5,336 enterprises (3,061 apparel firms, 2,063 textile firms and 212 man-made-fibre firms). In 2000, these enterprises had $31.8 billion in gross output, $30.0 billion in sales and $1.3 billion in

profit. Contracted foreign investment totaled $2.0 billion, while actual investment was $1.37 billion. Hong Kong accounted for more than 70 percent of the investment in the Chinese textile and apparel sector, followed by Taiwan with 10 percent. Most of the investment was in the eastern coastal region; however, Chinese officials hope to promote further investment in the less developed western regions of the country. In recent years, China has relied on FDI to finance equipment upgrades in the sector, especially in the cotton textile industry.

4.9 Import and export structure (product groups)

China's exports of T & C amounted to US$86.3 billion in 2004. This consisted of 63.5% clothing and 36.5% textiles.

In respect of textiles, fabrics were dominant with a share of 57.4%. Exports of cotton fabrics amounted to US$5.2 billion, followed by fabrics of filament yarn at US$4.5 billion, knitted fabrics at US$3.0 billion, special woven fabrics at US$2.5 billion and fabrics of man-made staple fibres at US$2.4 billion.

Figures of fabric exports and imports should be treated with caution. The bulk of such trade consists of fabrics imported on account of buyers of clothing specifying the fabric and supplier, or fabrics exported for further treatment and then re-imported for the manufacturing of clothing. The Chinese dyeing and printing sector lags behind in terms of equipment, technology, expertise, product innovation, variety, and research and development. For these reasons, some Chinese grey fabric is exported to Japan, Hong Kong or Korea for finishing before being re-imported for manufacture in the Chinese apparel sector.

Chinese clothing exports amounted to US$86.3 billion in 2004 of which 36.5% was knitted clothing and 63.5% clothing of woven fabrics.

China exported leather and products to the value of US$11.2 billion in 2004 of which 88% was manufactured leather goods.

Footwear exports amounted to US$15.2 billion, consisting mainly of footwear with uppers of leather (41%), rubber or plastics (37%) and textiles (12%),

China's imports of TCFL products consisted mainly of inputs and intermediary products such as cotton (13%), man-made staple fibres (8%), cotton yarn (6%), filament yarn (9%), cotton fabrics (9%) and hides & skins (13%).

Final goods made up only 10% of total TCFL imports by China in 2004.

The following graphs show the export and import structure of China in respect of TCFL goods.

Figure 4.3 Export of textiles 2000-2004

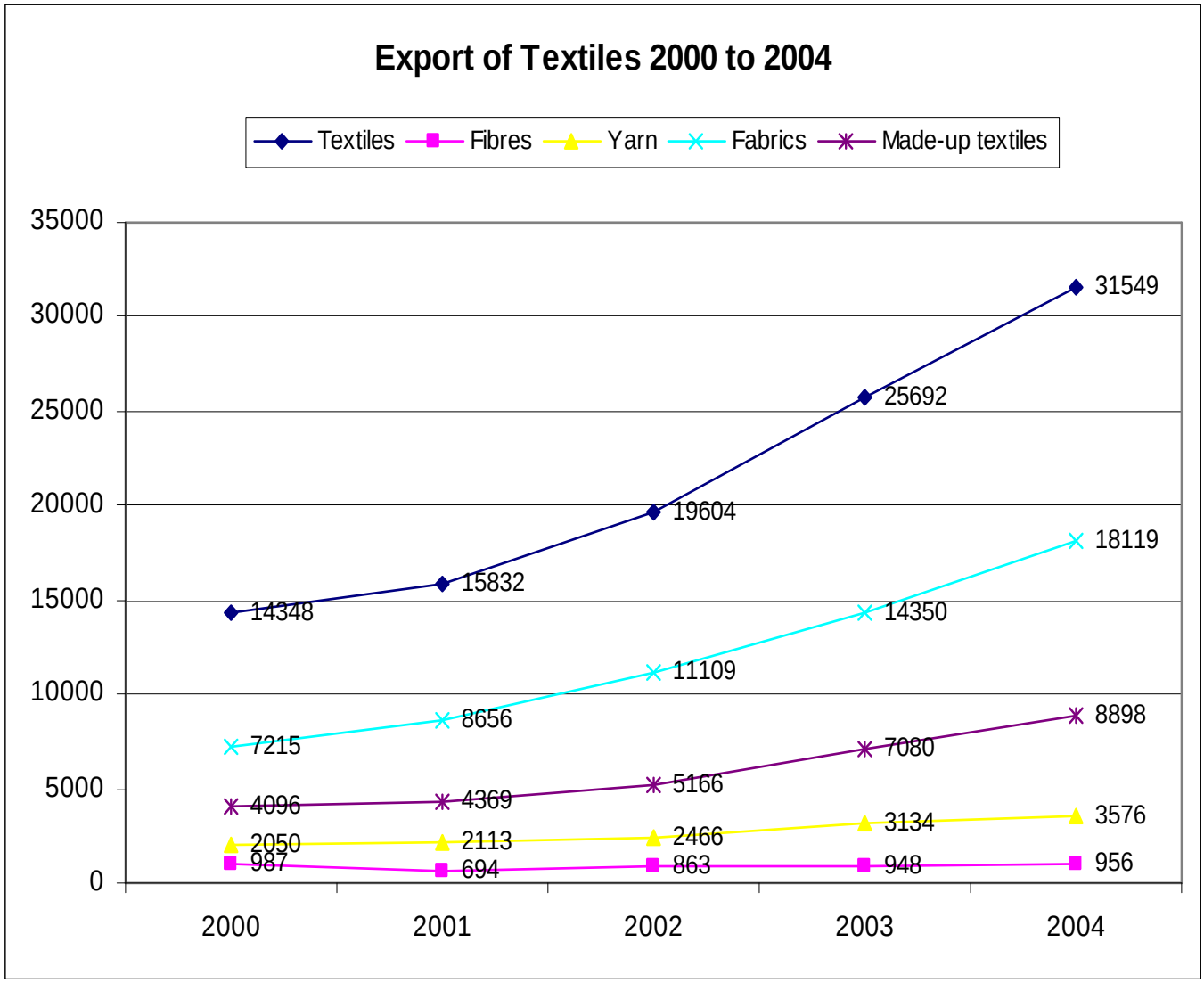

Export of Textiles 2000 to 2004
Textiles
Fibres
Yarn
Fabrics
Made-up textiles
35000
30000
25000
20000
15000
10000
5000
0
2000
2001
2002
2003
2004
14348
15832
19604
25692
31549
7215
8656
11109
14350
18119
4096
4369
5166
7080
8898
2050
2113
2466
3134
3576
987
694
863
948
956

Figure 4.4 Import of TCFL products by China

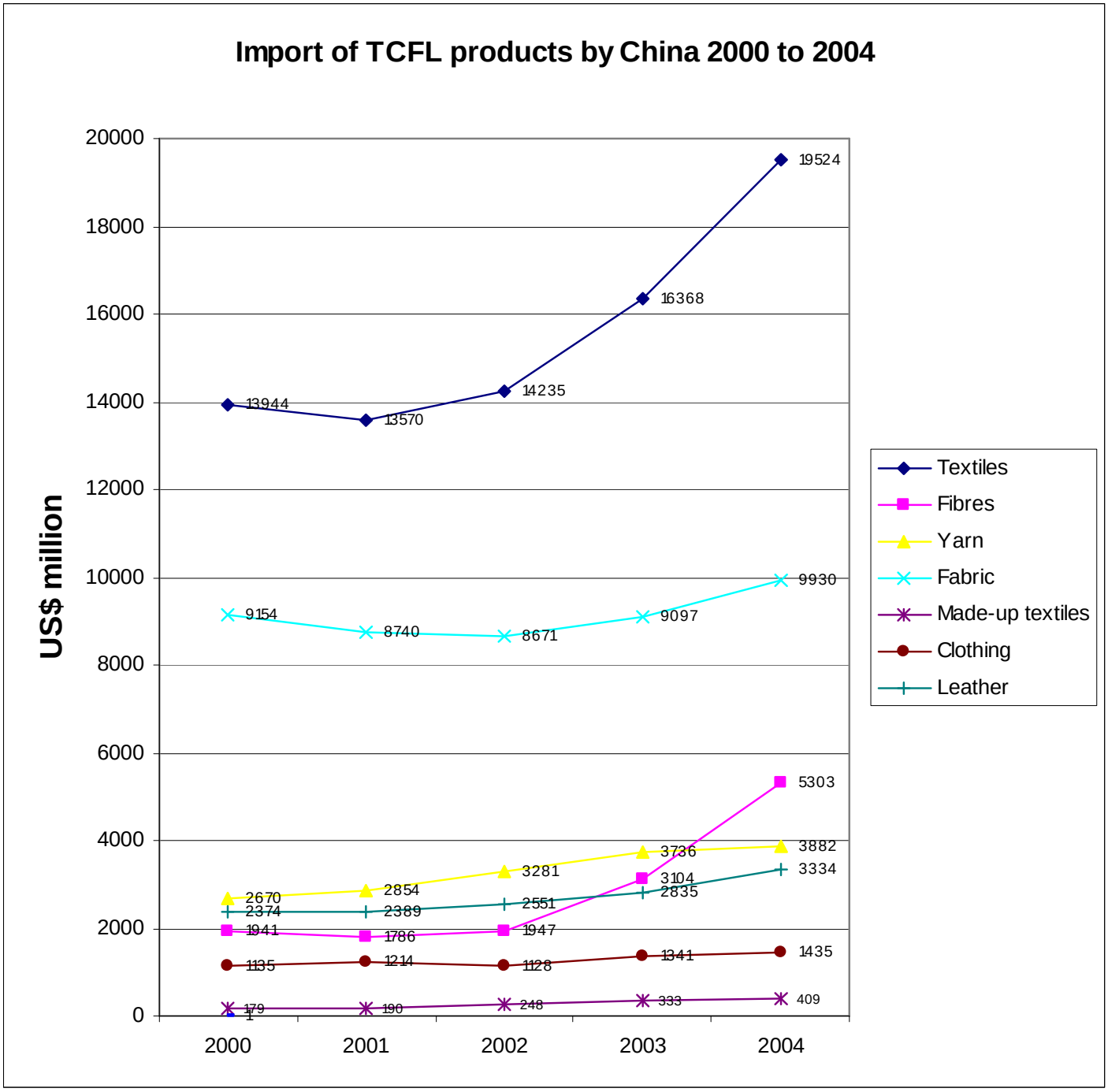
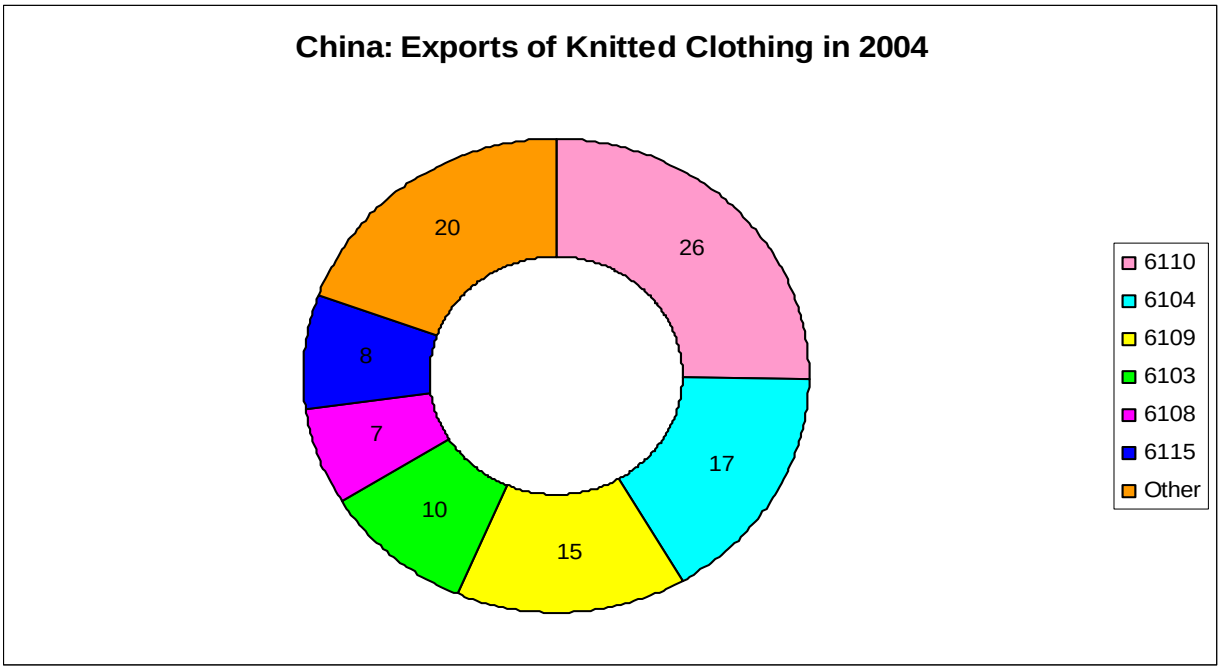
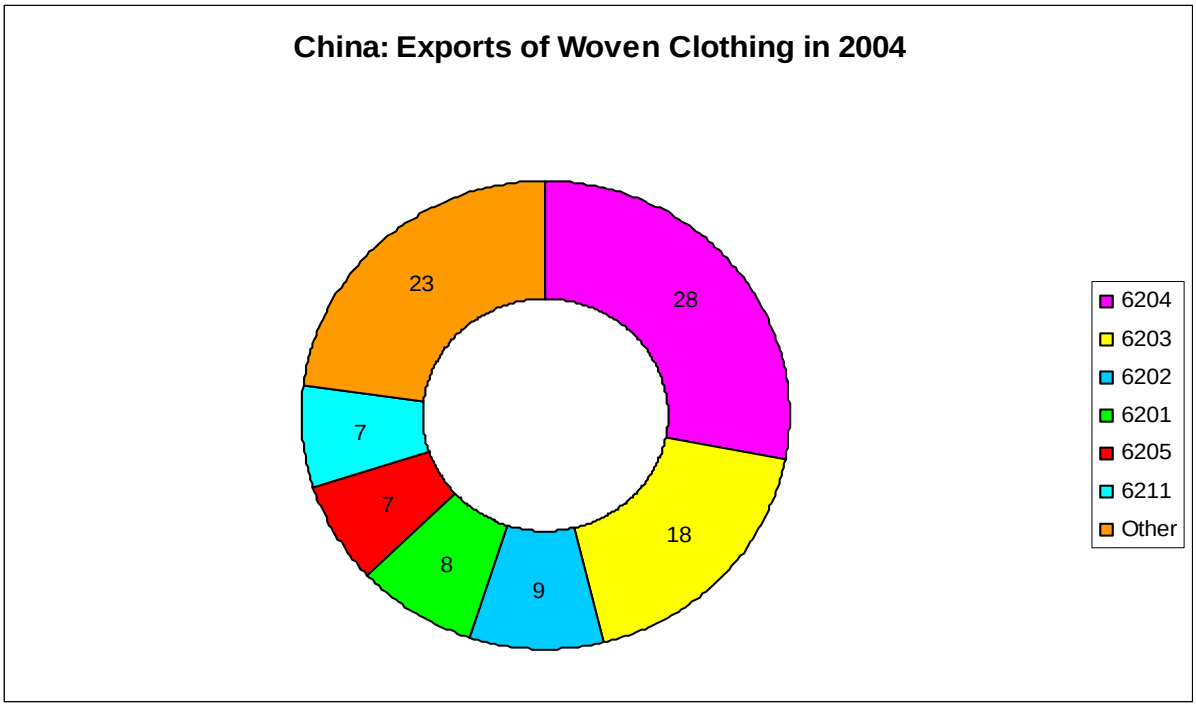


Figure 4.5 China: Exports of Knitted Clothing



6110	Jerseys, cardigans, waistcoats
6104	Women's suits, jackets, dresses, skirts, trousers and overalls
6109	T-shirts, vests
6103	Men's suits, jackets, trousers and overalls
6108	Women's slips, briefs, panties, nightdresses and bathrobes
6115	Pantyhose, stockings and other hosiery
–	Other

Figure 4.6 China: Exports of Woven Clothing



6204	Women's suits, dresses, skirts, etc
6203	Men's suits, jackets, trousers etc
6202	Women's coats, capes and anoraks
6201	Men's coats, capes and anoraks
6205	Men's shirts
6211	Track suits etc
–	Other

Figure 4.7 Imports vs. Exports of Textiles and Clothing by China

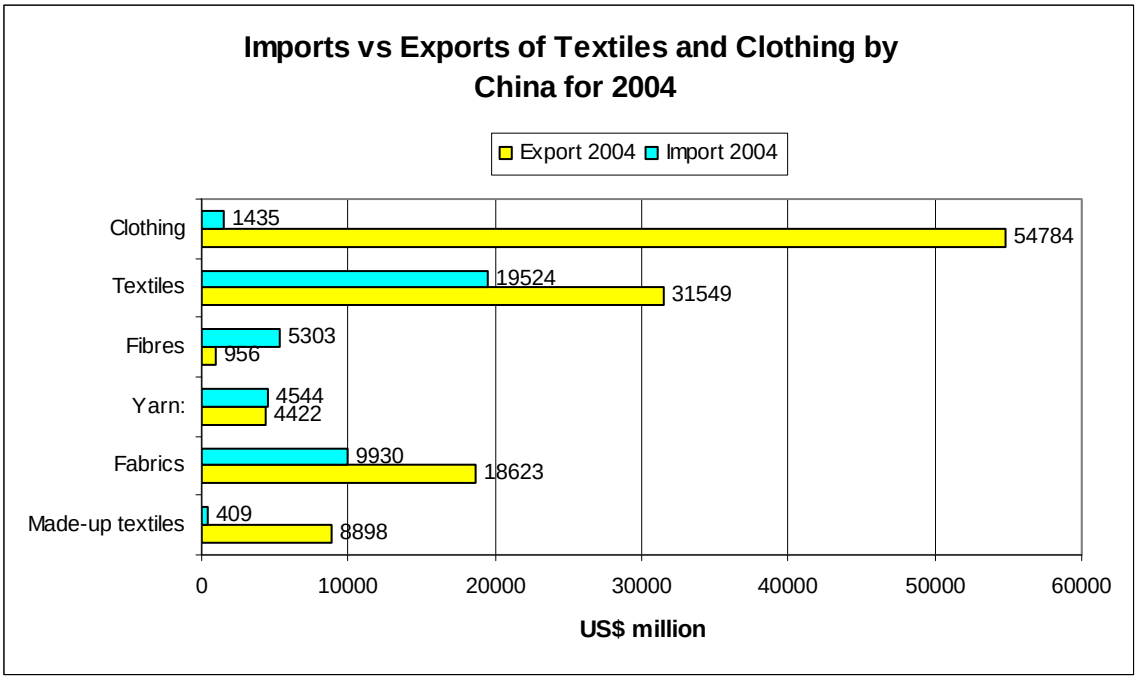
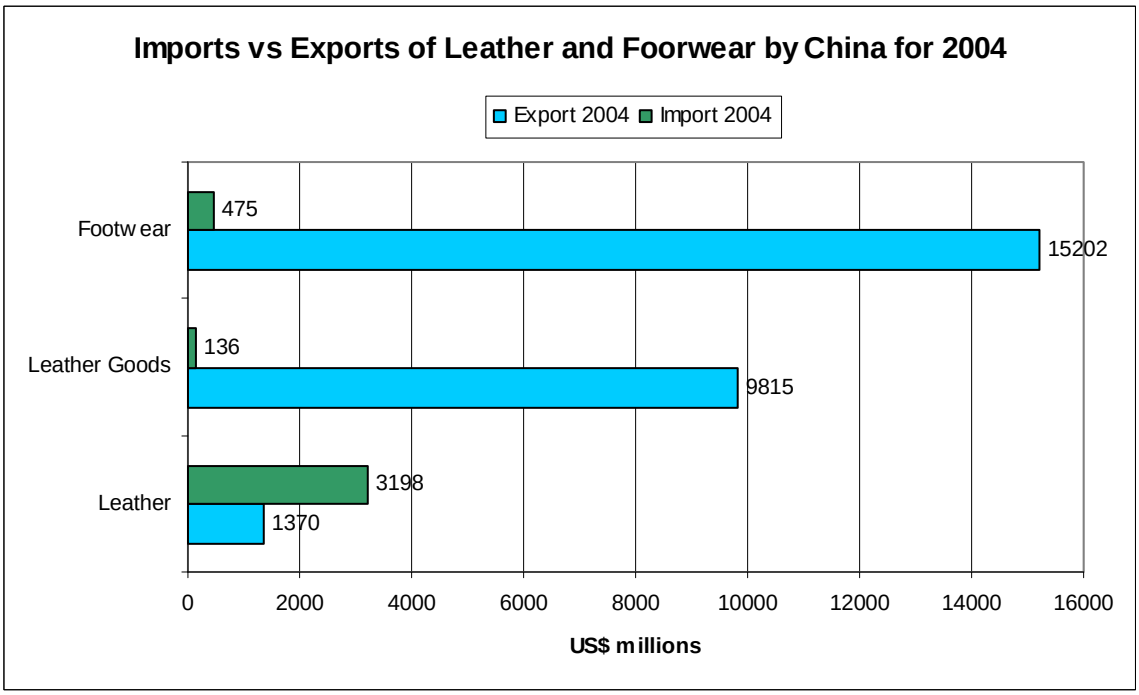


Figure 4.8 Imports vs. Exports for Leather and Footwear by China



The following graph shows the massive difference in size of Chinese and South African production, exports, imports and consumption of footwear:

Figure 4.9 Country analyses for China and South Africa

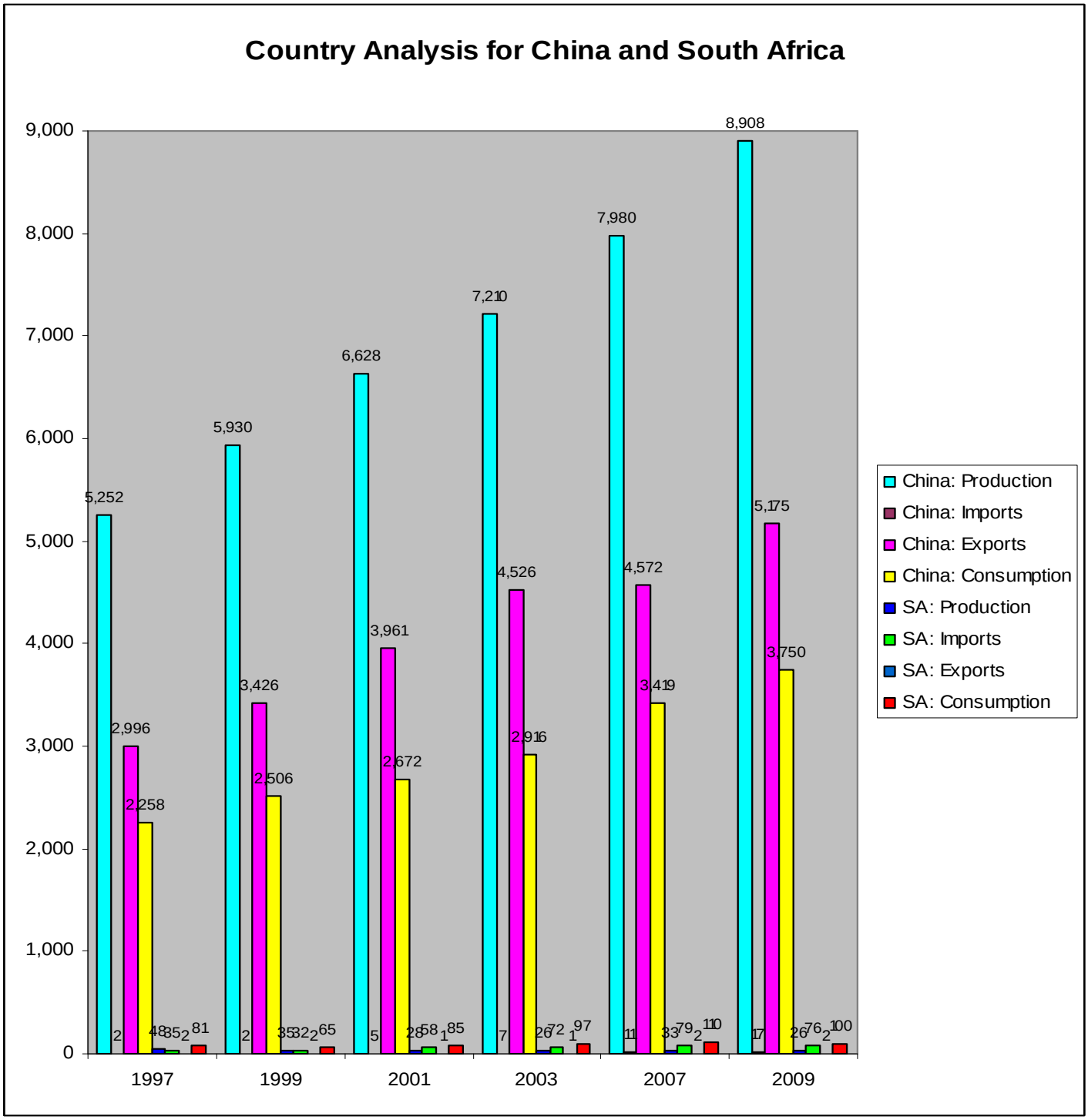


Table 4.8 showing imports of Chinese textiles and clothing into the US market in 1997 and 2002, according to US product groups, also gives an interesting breakdown of the structure of China's exports of these products.

Table 4.8 US General Imports of Textiles and Apparel from China, by Specific Product Categories, 1997 and 2002

Cat. No	Description	1997	2002
0	Textiles and apparel, total	2,094,944	4,963,259
1	Apparel	947,376	1,565,247
2	Textiles	1,147,569	3,398,012
11	Yarns	28,165	31,594
12	Fabrics	437,960	612,640
14	Other miscellaneous articles	681,444	2,753,778
30	Cotton textiles and apparel	984,302	2,000,000
40	Wool textiles and apparel	18,820	27,182
60	Manmade-fiber textiles and apparel	752,484	529,103
80	Silk blend/veg fiber textiles/apparel	339,338	565,610
222	Knit fabric	6,998	86,241
223	Nonwoven fabric	587	16,551
224	Pile and tufted fabric	23,467	12,783
226	Cheesecloth, batistes, lawns, voile	9,485	12,992
229	Special purpose fabric	8,848	51,983
237	Playsuits	44,076	54,244
239	Babies' apparel	18,857	188,630
313	Cotton sheeting fabric	41,718	47,469
314	Cotton poplin and broadcloth fabric	64,594	61,285
315	Cotton printcloth fabric	148,456	148,397
317	Cotton twill fabric	13,425	19,297
326	Cotton sateen fabric	147	6,119
330	Cotton handkerchiefs	3,621	8,224
331	Cotton gloves	16,743	49,707
334	Other cotton coats, men/boys	13,012	13,797

Cat. No	Description	1997	2002
335	Cotton coats, women/girls	14,411	14,176
336	Cotton dresses	4,866	9,099
338	Cotton knit shirts, men/boys	9,449	8,107
339	Cotton knit shirts, women/girls	5,766	8,979
340	Cotton not knit shirts, men/boys	17,814	21,250
341	Cotton not knit blouses	8,342	9,684
342	Cotton skirts	2,495	4,585
345	Cotton sweaters	4,014	3,664
347	Cotton trousers, men/boys	22,587	16,156
348	Cotton trousers, women/girls	16,910	25,376
349	Cotton brassieres	8,721	11,180
350	Cotton robes	7,506	58,422
351	Cotton nightwear	23,588	25,349
352	Cotton underwear	18,013	14,478
359	Other cotton apparel	73,009	142,293
360	Cotton pillowcases	5,452	5,357
361	Cotton sheets	21,350	27,207
362	Cotton bedspreads and quilts	38,436	51,3
363	Cotton terry and other pile towels	10,513	10,352
369	Other cotton manufactures	257,323	719,891
446	Wool sweaters, women/girls	2,936	3,156
447	Wool trousers, men/boys	1,078	1,128
465	Wool floor coverings	4,240	6,556
600	Textured filament yarn	173	9,222
604	Yarn of synthetic staple fiber	6,255	408
606	Non-textured filament yarn	3,940	3,803
611	Woven fabric, artificial staple	7,037	3,098
613	Manmade-fiber sheeting fabric	3,052	9,926
614	Manmade-fiber poplin/broadcloth	14,560	15,838
615	Manmade-fiber printcloth fabric	20,762	31,004
617	Manmade-fiber twill/sateen fabric	18,462	18,031
631	Manmade-fiber gloves	3,826	15,108

Cat. No	Description	1997	2002
632	Manmade-fiber hosiery	412	20,658
634	Other manmade coats, men/boys	22,100	27,287
635	Manmade-fiber coats, women/girls	23,000	25,496
636	Manmade-fiber dresses	20,433	28,726
638	Manmade knit shirts, men/boys	16,166	7,085
639	Manmade knit shirts, women/girls	19,298	26,677
640	Manmade not knit shirts, men/boys	29,200	29,804
641	Manmade-fiber not knit blouses	18,085	16,147
642	Manmade-fiber skirts	4,638	7,886
643	Manmade-fiber suits, men/boys	2,076	2,286
644	Manmade-fiber suits, women/girls	10,456	15,989
645	Manmade-fiber sweaters, men/boys	2,433	2,559
646	Manmade-fiber sweaters, women/girls	23,973	22,760
647	Manmade-fiber trousers, men/boys	27,413	29,074
648	Manmade-fiber trousers, women/girls	17,746	21,080
649	Manmade-fiber brassieres	3,978	31,140
650	Manmade-fiber robes	4,762	34,101
651	Manmade-fiber nightwear	36,538	36,392
652	Manmade-fiber underwear	40,486	38,494
653	Manmade down-fill coats, men/boys	11,774	14,920
654	Manmade down-fill coats, women/girls	4,154	14,092
659	Other manmade-fiber apparel	76,362	133,498
666	Other manmade-fiber furnishings	53,181	769,873
669	Other manmade-fiber manufactures	45,110	181,383
670	Manmade-fiber handbags/luggage	94,515	672,698
836	Dresses, silk blends/vegetable fibers	8,478	12,721
838	Knit shirts, silk blends/vegetable fibers	5,650	33,363
840	Shirts, not knit, silk/vegetable fibers	9,819	28,089
845	Sweaters, other vegetable fibers	111,080	98,211
847	Trousers, silk blends/vegetable fibers	12,796	32,442
870	Luggage of silk blends/vegetable fibers	142,094	135,117
899	Other, silk blends/vegetable fibers	4,718	157,737

Note: To administer the US textiles and apparel quota programs, articles are grouped under 3-digit category numbers, which cover many 10-digit statistical reporting numbers under which goods are classified for statistical purposes in the Harmonized Tariff Schedule of the United States (HTS). The 1-digit and 2-digit numbers represent specific levels of import aggregation for articles covered by the quota program e.g., the number “1" represents total imports of apparel, while “31" represents total imports of cotton apparel.

Source*:* American report “Textiles and Apparel: Assessment of the Competitiveness of Certain Foreign Suppliers to the US Market”, 2004.

4.10 Profile of the socio-economic importance of the South African TCFL sectors

In this paragraph some indicators are reviewed to gain a sense of the socio-economic attributes and performance of the TCFL sectors. All monetary aggregates are in real terms at constant 2000-prices.

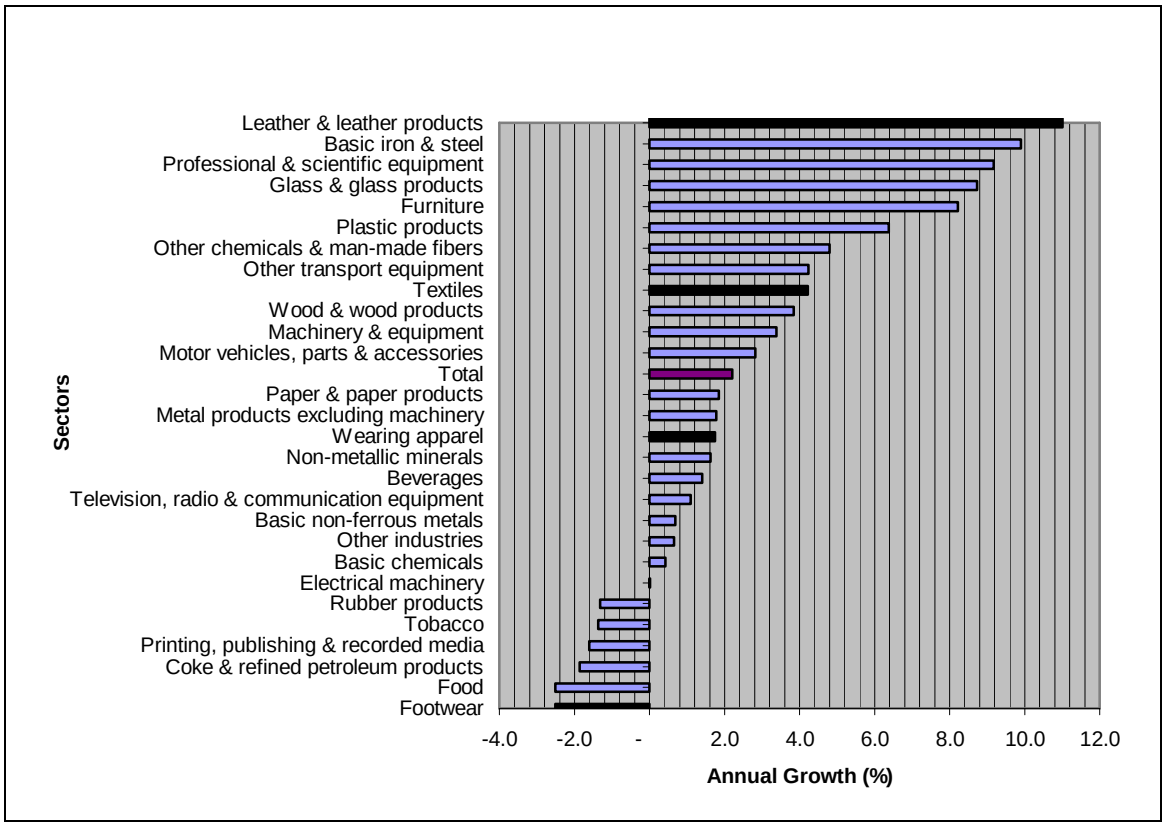
4.10.1 Value added

In 2005 the TCFL sectors produced 4.9% of the value added by the manufacturing sector.[1] Wearing apparel is the largest sub-group with 46% of TCFL-generated value added Textiles produced 37.2%; Leather and Leather goods 8.6% and Footwear 8.5%.

Growth in value added of Leather and leather products increased by 11.1% p.a. between 2000 and 2005 – the fastest growth among all manufacturing sectors. Growth by Textiles came to 4.2% p.a. twice as fast as that of total manufacturing. The value added by wearing apparel increased by 1.7% p.a. while Footwear recorded a decline of 2.5% p.a.

[1] Manufacturing added 18.2% of the value of gdp in 2004 and the TCFL sectors 0.9%.

Figure 4.10 Growth in the value added by manufacturing sectors 2000 to 2005 percent p.a. constant 2000-prices

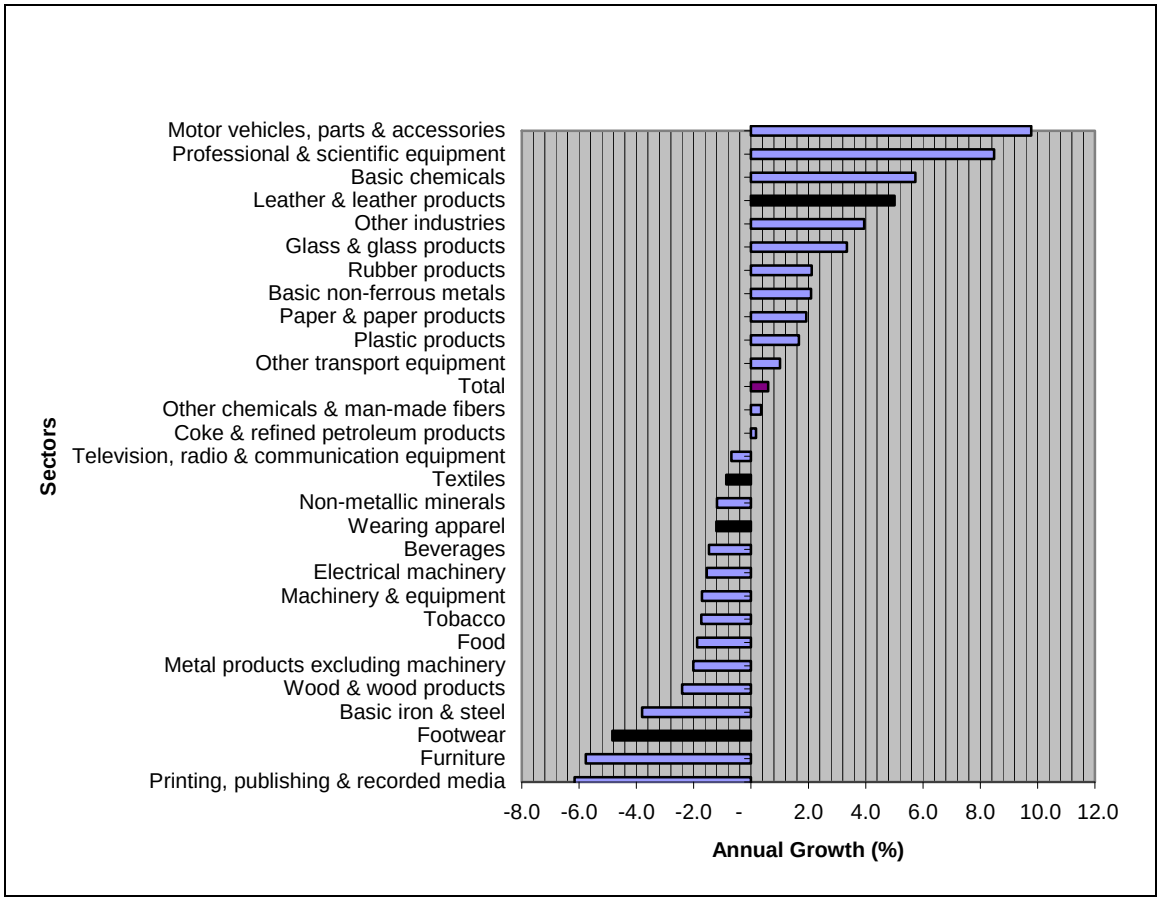


4.10.2 Capital stock

About 2 % of the fixed capital stock of manufacturing is found in the TCFL-sectors with 69% invested in Textiles.

The fixed capital stock of the Leather and leather goods sub-sector increased by 4.5% p.a. between 2000 and 2005. The capital stock of all other TCFL sectors shrank between 2000 and 2005.

Figure 4.11 Growth in the capital stock of manufacturing sectors 2000 to 2005 percent p.a. constant 2000-prices

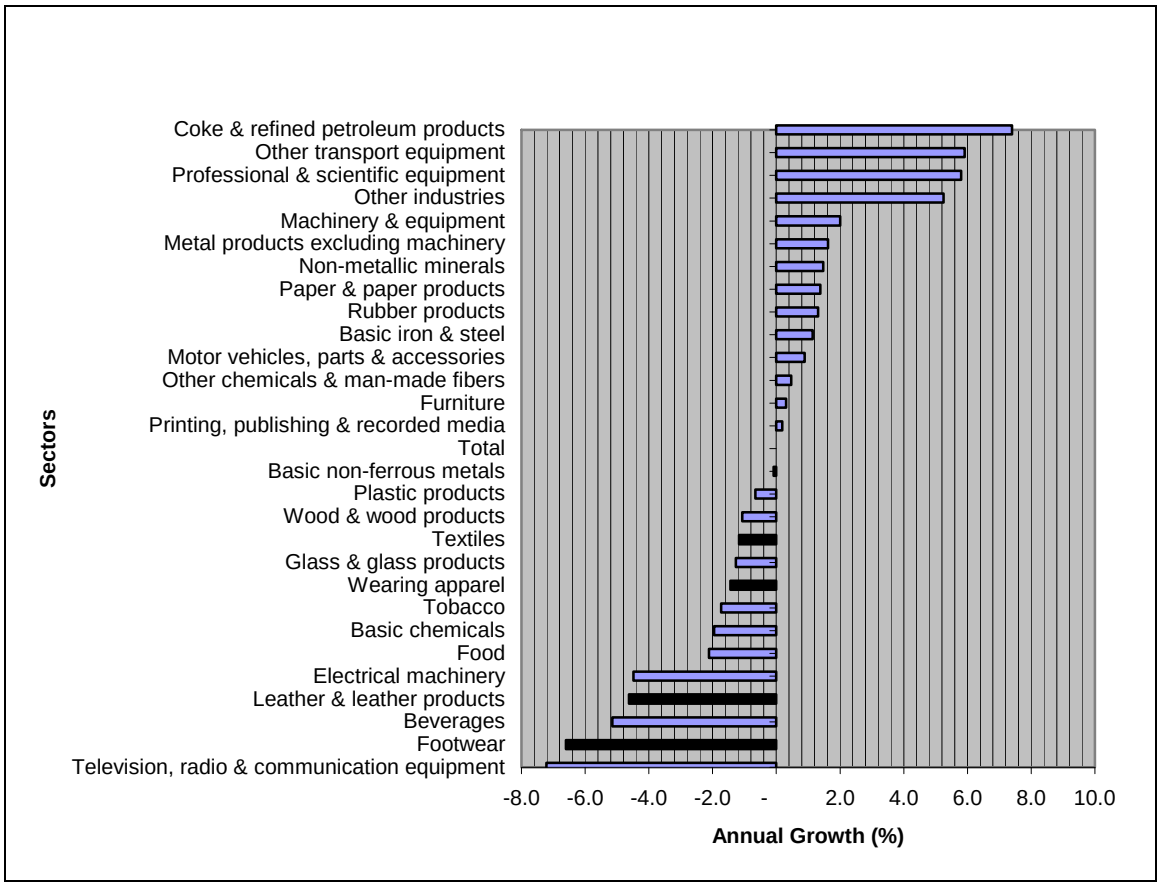


4.10.3 Employment

In 2005 the TCFL-sectors employed 15.1% of manufacturing labour. The Clothing industry employed 59% of that. The Textiles sector employed 28%; footwear 8% and leather and leather goods 5.2%.

Between 2000 and 2005 job losses were suffered among all TCFL sectors with the most severe in Leather and leather products (-4.6% p.a.) and footwear (-6.6% p.a.)

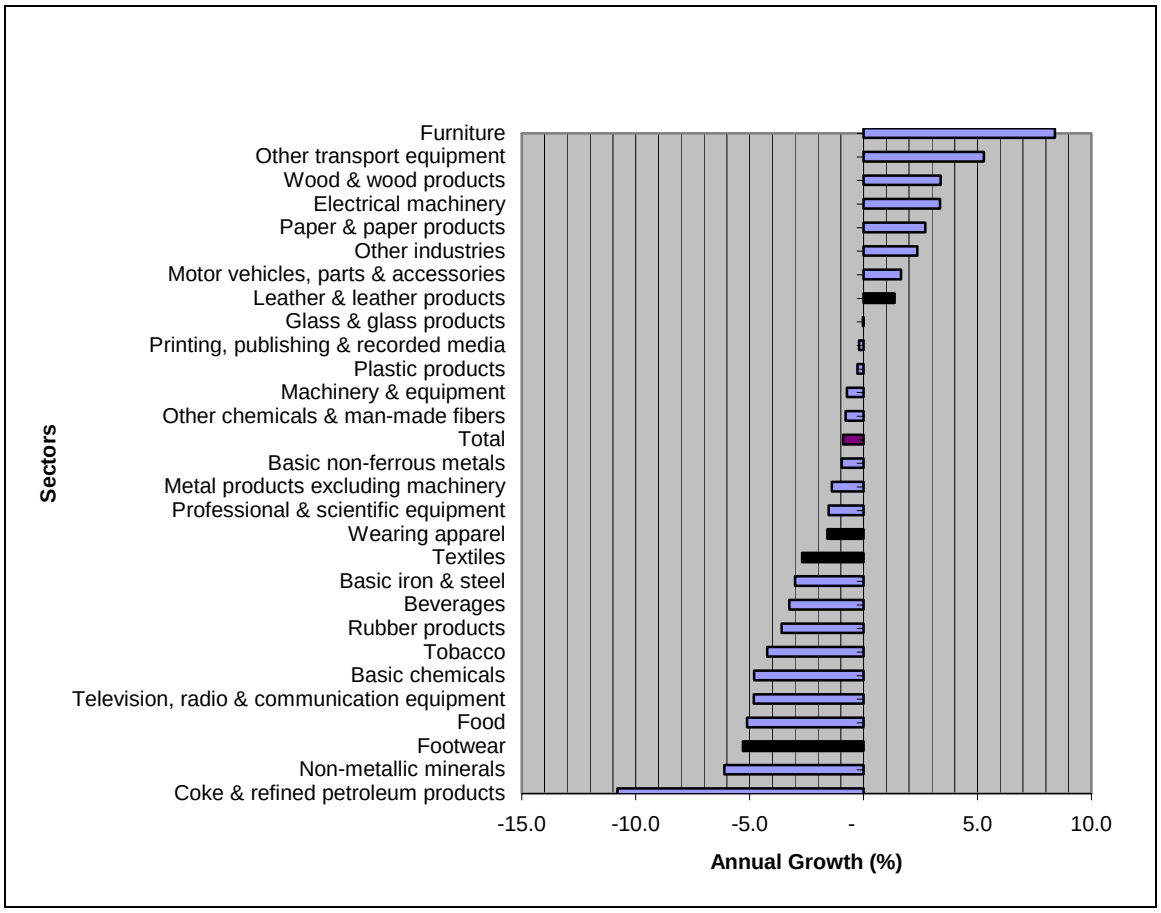
Figure 4.12 Growth in the employment of manufacturing sectors 2000 to 2005 percent p.a. (Textile sectors highlighted)



4.10.4 Labour remuneration

Real labour remuneration declined in all TCFL sectors except for an increase in the leather and leather goods sector.

Figure 4.13 Growth in the labour remuneration of manufacturing sectors 2000 to 2005 percent p.a.



4.10.5 Internationalisation

The local **textile** industry seems to be able to supply around 78% to 79% of local demand with the rest coming from imports. In addition, exports of equal to more than 5% of total demand are produced. Unfortunately the ratio for exports tended to tick downward and that of imports upwards in the past three years of relative Rand strength.

The **clothing** sector is under pressure to hold its own in the local market and is losing out in exports. Imports as a percentage of local demand touched 25% in 2005 after having been as low as 12.4% in 2002. About 75% of local demand was satisfied from local production in 2005 as opposed to about 87% in 2002. Exports dropped in absolute terms in the past two years and are now

only 6% of total demand while having been twice that ratio two to three years ago.

Export of **leather and leather products** is growing while inroads from imports seem to be absent.

Imports of **footwea**r satisfied almost half of domestic demand in 2005 (in terms of value; in terms of pairs the figure was more than 80%) and the ratio is ticking up rather rapidly annually. Supply from local sources is receding equally rapidly while exports have dwindled to one half percent of total demand.

Table 4.9 Demand variables 1994 to 2005

Textiles	2000	2001	2002	2003	2004	2005
1. Sales Rbill	12.9	12.8	15.2	15.8	16.9	18.3
2. Exports Rbill	1.5	1.6	1.5	1.4	1.2	1.3
3. Imports Rbill	3.5	3.3	3.6	3.8	4.4	4.7
4 Total demand Rbill (1+3)	16.4	16.1	18.8	19.7	21.3	23.0
5 Domestic demand (4 less 2)	14.9	14.5	17.3	18.3	20.1	21.7
6. Domestic sales (1 less 2)	11.3	11.2	13.7	14.5	15.7	17.0
7.Domestic sales as % of 5	76.2	77.4	79.2	79.1	78.2	78.5
8.Imports/ domestic demand%	23.8	22.6	20.8	20.9	21.8	21.5
9.Exports/ Sales%	11.9	12.3	10.1	8.5	7.2	6.9

10.Ex+Im/ total demand %	30.9	30.2	27.3	26.3	26.3	25.9
11.Exports/total demand %	9.3	9.8	8.2	6.9	5.7	5.5
Total manufacturing						
Ex+Im/total demand %	37.9	36.6	35.4	35.5	36.6	37.3
Wearing apparel	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**
1. Sales Rbill	13.0	12.4	13.2	13.8	14.3	15.3
2. Exports Rbill	2.1	2.1	1.8	1.7	1.2	1.2
3. Imports Rbill	1.9	1.8	1.6	2.6	3.7	4.6
4 Total demand Rbill (1+3)	14.9	14.2	14.8	16.3	18.0	19.9
5 Domestic demand (4 less 2)	12.9	12.0	13.1	14.6	16.8	18.7
6. Domestic sales (1 less 2)	11.0	10.2	11.5	12.0	13.1	14.1
7Domestic sales as % of 5	85.2	85.2	87.6	82.4	77.9	75.3
8.Imports/ domestic demand%	14.8	14.8	12.4	17.6	22.1	24.7
9.Exports/ Sales%	15.9	17.3	13.4	12.5	8.3	8.1
10.Ex+Im/ total demand %	26.6	27.7	22.8	26.3	27.2	29.4
11.Exports/total demand %	13.9	15.1	11.9	10.6	6.6	6.2
Total manufacturing						
Ex+Im/total demand %	37.9	36.6	35.4	35.5	36.6	37.3

Leather & leather products	2000	2001	2002	2003	2004	2005
1. Sales Rbill	2.9	2.8	3.6	3.7	4.5	5.0
2. Exports Rbill	1.1	0.9	0.8	1.2	1.5	1.7
3. Imports Rbill	0.9	0.7	0.3	0.7	1.0	0.9
4 Total demand Rbill (1+3)	3.8	3.5	4.0	4.5	5.5	5.8
5 Domestic demand (4 less 2)	2.7	2.7	3.2	3.3	4.0	4.2
6. Domestic sales (1 less 2)	1.8	1.9	2.9	2.5	3.1	3.3
7.Domestic sales as % of 5	67.7	72.8	89.9	77.4	75.6	79.2
8.Imports/ domestic demand%	32.3	27.2	10.1	22.6	24.4	20.8
9.Exports/ Sales%	36.8	30.6	20.9	32.2	32.7	33.3
10. Ex+Im/ total demand %	51.5	44.9	27.3	43.4	44.7	43.3
11.Exports/total demand %	28.3	24.3	19.2	26.9	26.9	28.3
Total manufacturing						
Ex+Im/total demand %	37.9	36.6	35.4	35.5	36.6	37.3
Footwear	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**
1. Sales Rbill	3.4	2.9	2.9	3.0	2.9	3.0
2. Exports Rbill	0.1	0.1	0.1	0.1	0.0	0.0

3. Imports Rbill	1.5	1.5	1.5	1.8	2.3	2.8
4 Total demand Rbill (1+3)	4.8	4.4	4.4	4.8	5.2	5.8
5 Domestic demand (4 less 2)	4.7	4.3	4.4	4.7	5.1	5.8
6. Domestic sales (1 less 2)	3.3	2.8	2.9	2.9	2.9	3.0
7.Domestic sales as % of 5	68.6	64.4	65.9	62.5	56.0	51.7
Imports/ domestic demand%	31.4	35.6	34.1	37.5	44.0	48.3
Exports/ Sales%	2.8	2.4	2.1	1.9	1.2	1.2
Ex+Im/ total demand %	32.7	36.6	34.9	38.2	44.4	48.6
Exports/total demand %	2.0	1.6	1.4	1.2	0.7	0.6
Total manufacturing						
Ex+Im/total demand %	37.9	36.6	35.4	35.5	36.6	37.3

4.11 Considerations

1. China is the world's largest producer of textiles and apparel. In 2005the Chinese TC industries produced about 14,4 million tons of spun yarn and 47 billion meters of fabrics. In 2003, 36 billion pieces of garments were produced. South Africa, in contrast, produced about 87 000 tons of spun yarn and 433 000m² of fabrics in the same year. China produced about 166 times the SA spun yarn production and 130 times the SA fabric production.

2. In 2005 China had about 35 000 textile and clothing manufacturers employing about 19 million workers.

3. China is highly price competitive in TC sector goods, largely reflecting its huge supply of low-cost labour and its raw materials, which have enabled the sector to attract foreign direct investment (FDI). The sector is considered to have effective middle management and the technical expertise to produce a wide range of sector goods. The sector encompasses all segments of the supply chain, from the production of raw materials to the manufacture of yarns and fabrics and the processing of these inputs into final goods.

4. China accounted for an estimated 29% of world fibre consumption in 2001 and this escalated to 38% in 2004, four times that of India, which has moved into second place, passing the US. It is the biggest producer of cotton and of man-made fibres in the world.

5. The large fabric-weaving industry was reportedly characterized by low fabric quality and limited fabric variety, design and innovation but massive investments in new equipment and technology have been made over the last number of years. The dyeing and printing segment, which uses old equipment and has weak management and marketing skills, focus on low-end products for the domestic consumption. As China expanded its imports of dyestuffs and dyeing and printing equipment, this has improved significantly.

6. China has significant competitive advantages in apparel production, including low labour costs, high labour productivity and access to local supplies of raw materials. Sewing skills are considered to be very good in China, as is its middle management, which has the day-to-day responsibility for maintaining the reliability of product quality and supply and ensuring the flexibility to change orders as needed.

7. China is the world's major leather producing nation, and the largest manufacturer of shoes, leather garments and bags. The industry numbers approximately 16 000 enterprises (excluding village enterprises, co-operatives, and businesses with annual sales less than US$125 000 with a work force of over two million people. These enterprises include approximately 2 300 involved in leather production, 7 200 in footwear, 1 700 in leather garments, 1 200 in furs and fur products, 500 in leather suitcases and about 1 500 in leather handbags.

8. The Chinese footwear industry produced more than 7 billion pairs of footwear in 2003, which accounted for about 56% of world production of about 12.9 billion pairs, followed by India (6%), Brazil (5%), Indonesia (4%) and Italy (3%). More than 2.5 billion pairs of leather shoes are produced.

9. Chinese textile and clothing manufacturers have the ability to produce a broad range of products – from the simplest of knitted T-shirts and briefs to complex sweaters, blouses and jackets incorporating fashionable designs and requiring intricate needlework. China's leather industry is evolving from low cost, quantity-focused production to include more high quality goods and greater variety.

10. According to US firms, although wage rates are higher in China than in some other countries, productivity is considered much higher in China, making its overall labor cost lower. In 2002, hourly compensation of apparel production workers averaged $0.68 in China. In the textile industry, hourly compensation averaged $0.69 in the coastal areas of China, compared with $5.73 in Korea and $0.57 in India. Sewing skills in China are considered to be very good. US apparel companies and retailers often import garments from China that require more sewing and construction, complex operations and detailed work.

11. Data for 2000 shows that there was foreign investment in 5,336 enterprises (3,061 apparel firms, 2,063 textile firms, and 212 man-made-fiber firms). Contracted foreign investment totaled $2.0 billion, while actual investment was $1.37 billion. Hong Kong accounted for more than 70 percent of the investment.

12. China's textiles and clothing industries benefit from traditional competitiveness factors such as cheap but skilled labour; availability of raw material, low cost of other inputs, relief from import duties on equipment, full VAT refund (export drawback), past subsidies and restructuring, technological upgrading, economies of scale and an undervalued currency.

13. However, this does not fully explain China's international competitiveness. China's low cost producers are deeply embedded within sophisticated and highly internationalized marketing, management, design and distribution networks of locally rooted Hong Kong, Taiwanese and South Korean 'triangle manufacturers'. These businessmen have experience of doing business with the most demanding of industrial markets, and have the capability to manage diversified production networks to deliver a wide range of quality products to its buyers in a timely way. These institutional factors have allowed the Chinese industry to out-compete other production bases which may share similar 'traditional' factors of competitiveness.

14. Chinese policy-makers realised early that by creating favourable conditions, such as ensuring a stable and high quality supply of raw materials, simple and encouraging customs procedures for the processing trade, and (arguably) easy funding for capital investments, they could draw in the global Hong Kong/Taiwan entrepreneurs with their global networks and expertise into China.

15. China's exports of T & C amounted to US$86.3 billion in 2004. This consisted of 63.5% clothing and 36.5% textiles. The bulk of TCFL imports are cotton, certain yarns and fabrics. Most of the fabrics imports are on account of buyers of clothing specifying the fabric and supplier, or fabrics exported for further treatment and then re-imported for the manufacturing of clothing. Final product imports are extremely low.

16. The South African TCFL sectors produce 4.9% of the value added by the manufacturing industry. Wearing apparel is the largest sub-group with 46% of TCFL- generated value added. Textiles is 37.2%, Leather and Leather goods 8.6% and Footwear 8.5%.

17. Growth in value added of Leather and leather products increased by 1.1% p.a. between 2000 and 2005 – the fastest growth among all manufacturing sectors. Growth by Textiles came to 4.2% p.a. twice as fast as that of total manufacturing. The value added by wearing apparel increased by 1.7% p.a. while Footwear recorded a decline of 2.5% p.a.

18. In 2005 the TCFL-sectors employed 15.1% of manufacturing labour. The Clothing industry employed 59% of that. The Textiles sector employed 28%; footwear 8% and leather and leather goods 5.2%.

19. Between 2000 and 2005 job losses were suffered among all TCFL sectors with the most severe in Leather and leather products (-4.6% p.a.) and footwear (-6.6% p.a.)

    Real labour remuneration declined in all TCFL sectors except for an increase in the leather and leather goods sector.

20. The local textile industry seems to be able to supply around 78% to 79% of local demand with the rest coming from imports. Exports are 5% of total demand. Unfortunately the ratio for exports tended to tick

downward and that of imports upwards in the past three years of relative Rand strength.

21. The clothing sector is under pressure to hold its own in the local market and is losing out in exports. Imports as a percentage of local demand touched 25% in 2005 after having been as low as 12.4% in 2002. About 75% of local demand was satisfied from local production in 2005 as opposed to about 87% in 2002. Exports dropped in absolute terms in the past two years and are now only 6% of total demand while having been twice that ratio two to three years ago.

22. Export of leather and leather products is growing while inroads from imports seem to be absent. Imports of footwear satisfied almost half of domestic demand in 2005 and the ratio is ticking up rather rapidly annually. Supply from local sources is receding equally rapidly while exports have dwindled to one half percent of total demand.

5 PROTECTION AND ASSOCIATED ASPECTS

Introduction

This Chapter deals with tariffs (5.1 and 5.2) and associated aspects such as NTBs (from 5.3 onwards). The section on NTBs consists mainly of an analysis by EMFs local representatives in China but also contains some information and views obtained from other sources such as:

- A report prepared by a panel of experts from MAIA / IFM: “Market Access Analysis to identify and update the existing information on trade barriers in third countries affecting EU exports of textile and clothing, footwear and leather”, of 15 December 2004 [This report was prepared with the financial assistance from the Commission of the European Communities. The views expressed herein are those of

the Consultant and do not represent any official view of the Commission.] ('EU Market Access Report')

- USTR (US Trade Representative) Foreign Trade Barriers reports: China Trade Estimate ('US Trade Barriers Report')
- "U.S.-China Trade Relations: Entering a New Phase of Greater Accountability and Enforcement: Top-to-Bottom Review", February 2006 United States Trade Representative ('USTR Report')

The general impression from all sources is that China has gone a long way in reducing tariffs and NTBs and that this has opened up the Chinese market substantially, particularly since its accession to the WTO. However, issues such as infringement of Intellectual Property Rights (IPR), lack of transparency, unsustainable business models, favouritism shown to certain enterprises by officials, loans to enterprises in certain sectors that are never repaid, uncertainty about the possible continued existence of subsidies are still problems.

In the EU Market Access Report the opening up of the market is confirmed. However, it is stated that EU TCFL firms are simply not price competitive in the Chinese market. It is stated that tariffs are still relatively high but that the undervalued exchange rate is more important than the duties.

In the USTR Report the progress made by China in the implementation of its WTO commitments is acknowledged but reservation is expressed in regard to industrial policies and the possible existence of subsidies China had to terminate, while the IPR issue is said to remain a major problem.

The following classification of markets in the EU Trade Barriers Report is quite interesting:

GROUP	**CRITERIA**
Group 1	

▪ **CHINA** ▪ **INDIA** ▪ **MEXICO** ▪ **BRAZIL** ▪ **ARGENTINA**	*Huge potential for EU exports or supply of raw materials, existence of serious Market Access problems, bilateral free trade Agreement.*
Group 2 ▪ **RUSSIA** ▪ **USA** ▪ **JAPAN** ▪ **THAILAND** ▪ **EGYPT** ▪ **PAKISTAN**	*Important markets for EU exports or supply of raw materials, persistence of trade barriers.*
Group 3 ▪ **SOUTH KOREA** ▪ **CANADA** ▪ **AUSTRALIA** ▪ **TAIWAN** ▪ **INDONESIA** ▪ **MALAYSIA** ▪ **SOUTH AFRICA**	*Improvement of Market Access, less important markets for EU Industry, no specific complaints in questionnaire and interviews*

5.1 Tariffs

The extent of tariff bindings, bound rates and applied or actual rates are analysed.

5.1.1 Bindings and bound rates

Bound rates are the maximum rates a country is allowed to apply under its WTO commitments. Countries generally increased the coverage of their tariff bindings substantially during the Uruguay Round. In the case of most developing countries there are substantial differences between bound and

applied rates. This has the implication that countries are allowed to increase current rates of duty up to the level of bound rates without transgressing their WTO commitments. In the words of the WTO (Trade Policy Review of Brazil, 2004): "--the average bound rate considerably exceeds the average applied rate, thus imparting a degree of uncertainty to the tariff and providing scope for the authorities to raise applied MFN rates".

5.1.1.1 South Africa

All South African tariff lines are bound with the exception of Chapters 3 (fish), 27 (mineral oil and fuels) and 93 (arms and ammunition) and a few lines in chemicals. The binding coverage is 96.4%.

The average bound rate for industrial products is 16.6%. The highest bound rate is 30% with the exception of two product groups, namely clothing (45%) and motor vehicles (50%).

The South African tariffs on TCFL products are bound as follows (with a few exceptions):

Product group	Bound rate
Fibres (excluding agriculture)	
Polyester and polypropylene	10%
Other	0
Yarn	17.5%
Fabrics	25%
Household	30%
Clothing	45%
Leather	15%
Leather goods	30%
Footwear	30%

The finalisation of the Doha Round of the WTO may require a drastic reduction to the SA bound rates for TCFL products.

5.1.1.2 China

Under the terms of its WTO accession, China submitted a schedule of tariffs and tariff reductions, prepared in 2001, which is China's binding schedule. It covers all tariff lines (100% binding coverage). The schedule shows

- The HS code
- Description
- The bound rate at accession
- The final bound rate
- Implementation (meaning the year in which the final bound rate would be implemented)
- The rates for each year in columns from 2002 to 2010.

China committed to substantial annual reductions in its tariff rates, with most of them taking place within five years of China's WTO accession. The largest reductions took place in 2002, immediately after China acceded to the WTO, when the overall average tariff rate fell from over 15 percent to 12 percent.

While China's final bound tariffs on most products were implemented immediately or phased in over a short period, the bound tariffs on textiles and clothing were generally phased in over longer periods of up to 2005. In the case of cotton products and leather & footwear the bound tariffs were reached in 2003 and 2004. All of the final bound rates were phased in by January 2005 with the single exception of HS5512.11 where the base rate was 30%, the current level is 18%, up to 2008, and the final bound rate of 15% will only be reached in 2010.

5.1.2 Applied tariffs

5.1.2.1 South Africa

South Africa's tariffs are applied on the FOB value of imports.

The simple average tariff rate for industrial products is 11.4% according to the recent exercise of compiling the bound rates of the tariff lines as at 1 January 2005, and the applied rates, for the purpose of the Doha Round NAMA analysis.

A comparison of the South African and China's applied rates in respect of the tariff lines under the chapters covered by this study follows in par 5.1.3.

5.1.2.2 China

China's customs duties are applied on a CIF basis. This means that the value for calculation of the basic duty is up to 20% higher than South Africa's FOB value basis. This has the following affect:

	Basic customs duty	Effective customs duty
South Africa	15%	15%
China	15%	18%

In addition to the basic duty, China applies import VAT of 17% compared to South Africa's 14%.

5.1.3 Comparison

The following is a comparison of the South African and China's applied tariff rates as at January 2006.

Table 5.1 Comparison of China and RSA Applied Tariffs on Wool, Fine or Coarse Animal Hair, Horsehair Yarn and Woven Fabric of Chapter 51 as at January 2006

HS4	Description	China: % (Frequency)	RSA: % (Frequency)
	Chapter 51: Wool, Fine Or Coarse Animal Hair; Horsehair Yarn And Woven Fabric		
5104	Garnetted stock of wool or of fine or coarse animal hair	5 (3) 15 (1)	0 (1)
5105	Wool and fine or coarse animal hair, carded or combed (including combed wool in fragments)	3 (3) 5 (9) 38 (3)	0 (6)
5106	Yarn of carded wool, not put up for retail sale	5 (2)	0 (2)

5107	Yarn of combed wool, not put up for retail sale	5 (2)	15 (2)
5108	Yarn of fine animal hair (carded or combed), not put up for retail sale	5 (4)	0 (2)
5109	Yarn of wool or of fine animal hair, put up for retail sale	6 (2)	0 (2) 5 (2) 15 (8)
5110	Yarn of coarse animal hair or of horse hair (including gimped horsehair yarn), whether or not put up for retail sale	6 (2)	0 (1)
5111	Woven fabrics of carded wool or of carded fine animal hair	10 (18)	22 (5)
5112	Woven fabrics of combed wool or of combed fine animal hair	10 (11)	22 (5)
5113	Woven fabrics of coarse animal hair or of horsehair	10 (1)	22 (1)

China has tariffs ranging from 3% to 38% on raw materials, while South Africa's rate is free. On yarn, China has a rate at 5% or 6%, whereas South Africa's rate varies from 0% to 15%. China has a rate of 10% on woven fabrics, while the tariff rate of South Africa is 22%.

Table 5.2 Comparison of China and RSA Applied Tariffs on Cotton of Chapter 52 as at January 2006

HS4	Description	China: % (Frequency)	RSA: % (Frequency)
	Chapter 52: Cotton		
5201	Cotton, not carded or combed * Out-of-quota rate	1 (1) *40 (1)	0 (1) 15 (1) 160c/kg (1)
5202	Cotton waste (including yarn waste and garnetted stock)	10 (3)	0 (3)
5203	Cotton, carded or combed * Out-of-quota rate	1 (1) *40 (1)	15 (1)

5204	Cotton sewing thread, whether or not put up for retail sale	5 (3)	15 (3)
5205	Cotton yarn (excluding sewing thread), containing 85 % or more by mass of cotton, not put up for retail sale	5 (24)	15 (24)
5206	Cotton yarn (excluding sewing thread), containing less than 85 % by mass of cotton, not put up for retail sale	5 (20)	15 (20)
5207	Cotton yarn (excluding sewing thread) put up for retail sale	6 (2)	15 (2)
5208	Woven fabrics of cotton, containing 85 % or more by mass of cotton, of a mass of not exceeding 200 g/m^2	10 (74) 12 (1)	22 (20)
5209	Woven fabrics of cotton, containing 85 % or more by mass of cotton, of a mass exceeding 200 g/m^2	10 (33) 12 (8)	22 (16)
5210	Woven fabrics of cotton, containing less than 85 % of cotton, mixed mainly or solely with man-made fibres, of a mass not exceeding 200 g/m^2	10 (72) 12 (20) 14 (30)	22 (15)
5211	Woven fabrics of cotton, containing less than 85 % by mass of cotton, mixed mainly or solely with man-made fibres, of a mass exceeding 200 g/m^2	10 (62) 12 (16) 14 (24)	22 (16)
5212	Other woven fabrics of cotton	10 (57) 12 (22) 14 (20)	22 (10)

China's tariffs on raw cotton is 1%, 10% or 40%, and South Africa's rate is either 0% or 15%, with the exception of the rate of 160c/kg on ginned cotton. The rate on cotton sewing thread and yarn is 5% or 6% for China and 15% for South Africa. On fabrics, China's has rates ranging from 10% to 14%, where South Africa's rate is fixed at 22%.

Table 5.3 Comparison of China and RSA Applied Tariffs on Man-Made Filaments of Chapter 54 as at January 2006

HS4	Description	China: % (Frequency)	RSA: % (Frequency)
	Chapter 54: Man-Made Filaments		
5401	Sewing thread of man-made filaments, whether or not put up for retail sale	5 (4)	5 (1) 15 (2)
5402	Synthetic filament yarn (excluding sewing thread), not put up for retail sale, including synthetic monofilament of less than 67 decitex	5 (61)	0 (2) 15 (16)
5403	Artificial filament yarn (excluding sewing thread), not put up for retail sale, including artificial monofilament of less than 67 decitex	5 (19)	0 (10) 10 (2) 15 (1)
5404	Synthetic monofilament of 67 decitex or more and of which no cross-sectional dimension exceeds 1 mm; strip and the like (for example, artificial straw) of synthetic textile materials of an apparent width not exceeding 5 mm	5 (3)	15 (2)
5405	Artificial monofilament of 67 decitex or more and of which no cross-sectional dimension exceeds 1 mm; strip and the like (for example, artificial straw) of artificial textile materials of an apparent width not exceeding 5 mm	5 (1)	5 (1)
5406	Man-made filament yarn (excluding sewing thread), put up for retail sale	5 (2)	5 (1) 15 (1)
5407	Woven fabrics of synthetic filament yarn, including woven fabrics obtained from materials of heading 54.04	10 (110)	20 (1) 22 (24)
5408	Woven fabrics of artificial filament yarn, including woven fabrics obtained from materials of heading 54.05	10 (54) 12 (4)	22 (9)

China has low tariffs of 5% on sewing thread, yarn and monofilaments, while South Africa's rate ranges from 0% to 15%. On woven fabrics, China's tariffs vary from 10% to 12% while those of South Africa are 22%, except for the rate of 20% on woven fabrics obtained from strip or the like.

Table 5.4 Comparison of China and RSA Applied Tariffs on Man-Made Staple Fibres of Chapter 55 as at January 2006

HS4	Description	China: % (Frequency)	RSA: % (Frequency)
	Chapter 55: Man-Made Staple Fibres		
5501	Synthetic filament tow	5 (4)	0 (3) 7.5 (1)
5502	Artificial filament tow	3 (1) 5 (1)	0 (1)
5503	Synthetic staple fibres, not carded, combed or otherwise processed for spinning	5 (5)	0 (3) 7.5 (1) 11 (1)
5504	Artificial staple fibres, not carded, combed or otherwise processed for spinning	5 (2)	0 (2)
5505	Waste (including noils, yarn waste and garnetted stock) of man-made fibres	5 (2)	0 (2) 7.5 (1)
5506	Synthetic staple fibres, carded, combed or otherwise processed for spinning	5 (4)	0 (3) 7.5 (1)
5507	Artificial staple fibres, carded, combed or otherwise processed for spinning	5 (1)	0 (1)
5508	Sewing thread of man-made staple fibres, whether or not put up for retail sale	5 (5)	15 (2)
5509	Yarn (excluding sewing thread) of synthetic staple fibres, not put up for retail sale	5 (19)	15 (18)
5510	Yarn (excluding sewing thread) of artificial staple fibres, not put up for retail sale	5 (5)	15 (5)
5511	Yarn (excluding sewing thread) of man-made	5 (3)	15 (3)

	staple fibres, put up for retail sale		
5512	Woven fabrics of synthetic staple fibres, containing 85 % or more by mass of synthetic staple fibres	10 (30) 13 (8) 18 (16)	22 (6)
5513	Woven fabrics of synthetic staple fibres, containing less than 85 % by mass of such fibres, mixed mainly or solely with cotton, of a mass not exceeding 170g/m^2	10 (36) 15 (4) 16 (8) 18 (11)	22 (16)
5514	Woven fabrics of synthetic staple fibres, containing less than 85 % by mass of such fibres, mixed mainly or solely with cotton, of a mass exceeding 170 g/m^2	10 (32) 16 (12) 18 (7)	22 (16)
5515	Other woven fabrics of synthetic staple fibres	10 (118) 12 (8)	22 (10)
5516	Woven fabrics of artificial staple fibres	10 (60) 12 (35)	22 (20)

China has low tariffs of mostly 5% on filament tow, staple fibres, sewing thread, waste of man-made fibres and yarn of staple fibres, while South Africa's tariff varies between 0% and 15%. On woven fabrics of staple fibres, China's tariff rate ranges from 10% to 18%, and South Africa's rate is uniform at 22%.

Table 5.5 Comparison of China and RSA Applied Tariffs on Wadding, Felt and Nonwovens, Special Yarns, Twine, Cordage, Ropes and Cables and Articles thereof of Chapter 56 as at January 2006

HS4	Description	China: % (Frequency)	RSA: % (Frequency)
	Chapter 56: Wadding, Felt And Nonwovens; Special Yarns; Twine, Cordage, Ropes And Cables And Articles Thereof		

5601	Wadding of textile materials and articles thereof; textile fibres, not exceeding 5 mm in length (flock), textile dust and mill neps	10 (8) 12 (2)	0 (1) 15 (2) 20 (2)
5602	Felt, whether or not impregnated, coated, covered or laminated	10 (7)	10 (4)
5603	Nonwovens, whether or not impregnated, coated, covered or laminated	10 (20)	10 (8) 20 (8)
5604	Rubber thread and cord, textile covered; textile yarn, and strip and the like of heading 54.04 or 54.05, impregnated, coated, covered or sheathed with rubber or plastics	5 (9)	15 (3)
5605	Metallised yarn, whether or not gimped, being textile yarn, or strip or the like of heading 54.04 or 54.05, combined with metal in the form of thread, strip or powder or covered with metal	5 (2)	10 (1)
5606	Gimped yarn, and strip and the like of heading 54.04 or 54.05, gimped (excluding those of heading 56.05 and gimped horsehair yarn); chenille yarn (including flock chenille yarn); loop wale-yarn	5 (1)	20 (1)
5607	Twine, cordage, rope and cables, whether or not plaited or braided and whether or not impregnated, coated, covered or sheathed with rubber or plastics	5 (14)	5 (1) 15 (7)
5608	Knotted netting of twine, cordage or rope; made up fishing nets and other made up nets, of textile materials	10 (7) 12 (2)	20 (3)
5609	Articles of yarn, strip or the like of heading 54.04 or 54.05, twine, cordage, rope or cables, not elsewhere specified or included	10 (1)	20 (1)

China has a tariff rate ranging from 10% and 12% on wadding, felt and non-wovens, while South Africa's rate ranges from 0% to 20%. On rubber thread, yarn and textile yarn, China has a tariff of 5% and South Africa a rate of 15%. Metallised and gimped yarn has a tariff of 5% while South Africa's rate is 10% on metallised yarn and 20% on gimped yarn. On twine, cordage, rope or cables, China has a tariff ranging from 5% to 12%, while South Africa's tariff rate ranges from 5% to 20%.

Table 5.6 Comparison of China and RSA Applied Tariffs on Carpets and Other Textile Floor Coverings of Chapter 57 as at January 2006

HS4	Description	China: % (Frequency)	RSA: % (Frequency)
	Chapter 57: Carpets And Other Textile Floor Coverings		
5701	Carpets and other textile floor coverings, knotted, whether or not made up	14 (3) 16 (1)	5 (2)
5702	Carpets and other textile floor coverings, woven, not tufted or flocked, whether or not made up, including "kelem", "schumacks", "karamanie" and similar hand-woven rugs	10 (3) 14 (8) 16 (3)	5 (1) 30 (13)
5703	Carpets and other textile floor coverings, tufted, whether or not made up	10 (2) 14 (2)	30 (4)
5704	Carpets and other textile floor coverings, of felt, not tufted or flocked, whether or not made up	10 (1) 14 (1)	30 (2)
5705	Other carpets and other textile floor coverings, whether or not made up	10 (1) 14 (2)	30 (1)

China has a tariff rate ranging from 10% to 16% of carpets and other textile floor covering. South Africa has a rate of mostly 30%, with the exception of a rate of 5% on knotted and hand-woven rugs.

Table 5.7 Comparison of China and RSA Applied Tariffs on Special Woven Fabrics; Tufted Textile Fabrics; Lace; Tapestries; Trimmings; Embroidery of Chapter 58 as at January 2006

HS4	Description	China: % (Frequency)	RSA: % (Frequency)
	Chapter 58: Special Woven Fabrics; Tufted Textile Fabrics; Lace; Tapestries; Trimmings; Embroidery		
5801	Woven pile fabrics and chenille fabrics, (excluding fabrics of heading 58.02 or 58.06)	10 (19) 12 (2)	0 (2) 20 (2) 22 (11)
5802	Terry towelling and similar woven terry fabrics (excluding narrow fabrics of heading 58.06); tufted textile fabrics, (excluding products of heading 57.03)	10 (8) 12 (5) 14 (1)	22 (4)
5803	Gauze (excluding narrow fabrics of heading 58.06)	10 (7) 12 (4)	10 (2)
5804	Tulles and other net fabrics (excluding woven, knitted or crocheted fabrics); lace in the piece, in strips or in motifs (excluding fabrics of heading 60.02 to 60.06)	10 (13) 12 (1)	0 (2) 22 (2)
5807	Labels, badges and similar articles of textile materials, in the piece, in strips or cut to shape or size, not embroidered	10 (6)	22 (1) 25 (1)
5808	Braids in the piece; ornamental trimmings in the piece, without embroidery (excluding knitted or crocheted); tassels, pompons and similar articles	10 (5)	22 (2)

China has a tariff rate that ranges from 10% to 14% on woven pile fabrics and terry fabrics, while South Africa mostly has a tariff rate of 22%, except for corduroy which is free, and other special woven fabrics, which has a rate of 20%. On gauze, net fabrics and lace, China has a rate of 10% or 12%, while South Africa has a varied rate from 0% to 22%. Textile materials and braids

in the piece, has a stable rate of 10% in China, with a higher rate of 22% and 25% in South Africa.

Table 5.8 Comparison of China and RSA Applied Tariffs on Impregnated, Coated, Covered Or Laminated Textile Fabrics; Textile Articles Of A Kind Suitable For Industrial Use of Chapter 59 as at January 2006

HS4	Description	China: % (Frequency)	RSA: % (Frequency)
	Chapter 59: Impregnated, Coated, Covered Or Laminated Textile Fabrics; Textile Articles Of A Kind Suitable For Industrial Use		
5902	Tyre cord fabric of high tenacity yarn of nylon or other polyamides, polyesters or viscose rayon	10 (3)	15 (3)
5903	Textile fabrics impregnated, coated, covered or laminated with plastics (excluding those of heading 59.02)	10 (47)	0 (3) 5 (3) 15 (3) 20 (2) 22 (3)
5904	Linoleum, whether or not cut to shape; floor coverings consisting of a coating or covering applied on a textile backing, whether or not cut to shape	14 (2)	10 (1) 20 (1)
5905	Textile wall coverings	10 (6)	0 (2) 22 (1)
5906	Rubberised textile fabrics (excluding those of heading 59.02)	10 (14)	5 (1) 15 (2) 20 (1) 22 (3)

5907	Textile fabrics otherwise impregnated, coated or covered; painted canvas being theatrical scenery, studio back-cloths or the like	10 (14)	0 (3) 5 (1) 15 (1) 17.5 (1) 20 (1) 22 (1)
5908	Textile wicks, woven, plaited or knitted, for lamps, stoves, lighters, candles or the like; incandescent gas mantles and tubular knitted gas mantle fabric therefor, whether or not impregnated	10 (1)	5 (1) 20 (1) 22 (1)
5909	Textile hosepiping and similar textile tubing, with or without lining, armour or accessories of other materials	8 (1)	15 (1)
5910	Transmission or conveyor belts or belting, of textile material, whether or not impregnated, coated, covered or laminated with plastics, or reinforced with metal or other material	8 (1)	5 (1) 20 (1)
5911	Textile products and articles, for technical uses, specified in Note 7 to this Chapter	8 (8)	0 (6) 5 (3) 20 (4) 27 (1)

For this Chapter, China mainly has a tariff rate of 10%, with the exceptions of linoleum and floor covering, with a rate of 14% and tubing, conveyor belts and textile products for technical uses which have a rate of 8%. South Africa has a very varied rate, from 0% to 27%.

Table 5.9 Comparison of China and RSA Applied Tariffs on Knitted Or Crocheted Fabrics of Chapter 60 as at January 2006

HS4	Description	China: % (Frequency)	RSA: % (Frequency)

	Chapter 60: Knitted Or Crocheted Fabrics		
6001	Pile fabrics, including "long pile" fabrics and terry fabrics, knitted or crocheted	10 (8) 12 (5)	22 (7)
6002	Knitted or crocheted fabrics of a width not exceeding 30cm, containing by mass 5 per cent or more of elastomeric yarn or rubber thread (excluding those of heading 60.01)	10 (10)	22 (2)
6003	Knitted or crocheted fabrics of a width not exceeding 30 cm (excluding those of heading 60.01 or 60.02)	10 (5)	22 (5)
6004	Knitted or crocheted fabrics of a width exceeding 30 cm, containing by mass 5 % or more of elastomeric yarn or rubber thread (excluding those of heading 60.01)	10 (10)	22 (2)
6005	Warp knit fabrics (including those made on galloon knitting machines) (excluding those of headings 60.01 to 60.04)	10 (12) 12 (2)	5 (8) 22 (14)
6006	Other knitted or crocheted fabrics	10 (12) 12 (3)	5 (8) 22 (14)

China has rate of 10% to 12% on all knitted or crocheted fabrics. South Africa's rate is mostly 22%, with the exception of a 5% rate for tulle.

Table 5.10 Comparison of China and RSA Applied Tariffs on Other Made-up Textile Articles; Sets; Worn Clothing and Worn Textile Articles; Rags, of Chapter 63 as at January 2006

HS4	Description	China: % (Frequency)	RSA: % (Frequency)
	Chapter 63: Other Made Up Textile Articles; Sets; Worn Clothing And Worn Textile Articles; Rags		
6301	Blankets and travelling rugs	16 (7) 17.5 (1)	30 (5)

6302	Bed linen, table linen, toilet linen and kitchen linen	14 (61) 16 (13)	30 (17)
6303	Curtains (including drapes) and interior blinds; curtain or bed valances	14 (16) 16 (5)	30 (6)
6304	Other furnishing articles (excluding those of heading 94.04)	14 (59) 16 (4)	30 (7)
6305	Sacks and bags, of a kind used for the packing of goods	10 (2) 14 (3) 16 (6)	0 (2) 20 (6) 25 (4)
6306	Tarpaulins, awnings and sunblinds; tents; sails for boats, sailboards or landcraft; camping goods	14 (12) 16 (6)	20 (12) 25 (2)
6307	Other made up articles, including dress patterns	14 (20)	0 (1) 15 (1) 20 (2) 25 (2) 30 (3)
6308	Sets consisting of woven fabric and yarn, whether or not with accessories, for making up into rugs, tapestries, embroidered table cloths or serviettes, or similar textile articles, put up in packings for retail sale	14 (4)	20 (1)
6309	Worn clothing and other worn articles	14 (1)	20 (1) 35c/u (1) 50c/u (1) 60/2500c/kg(2)
6310	Used or new rags, scrap twine, cordage, rope and cables and worn out articles of twine, cordage, rope or cables, of textile materials	14 (4)	20 (2)

On made up textile articles, sets, worn clothing and rags, China has tariff rates ranging from 10% to 16% and a rate of 17.5% on blankets and travelling rugs of synthetic fibres. On blankets, linen, curtains and blinds, and

furnishing articles, South Africa has a tariff rate of 30%. On other textile articles, South Africa's rate is varied, ranging from 0% to 30%. On worn clothing and rags, South Africa has a rate of 60% or 2500c/kg on coats and other worn clothing, 50c/unit on worn travelling rugs and blankets and 35c/unit on worn headgear.

Table 5.11 Comparison of China and RSA Applied Tariffs on Articles of Apparel And Clothing Accessories, Knitted Or Crocheted of Chapter 61 as at January 2006

HS4	Description	China: % (Frequency)	RSA: % (Frequency)
	Chapter 61: Articles Of Apparel And Clothing Accessories, Knitted Or Crocheted		
6101	Men's or boys' overcoats, car-coats, capes, cloaks, anoraks (including ski- jackets), wind-cheaters, wind-jackets and similar articles, knitted or crocheted (excluding those of heading 61.03)	17.5 (27) 25 (4)	40 (4)
6102	Women's or girls' overcoats, car-coats, capes, cloaks, anoraks (including ski- jackets), wind-cheaters, wind-jackets and similar articles, knitted or crocheted (excluding those of heading 61.04)	17.5 (12) 20 (15) 25 (4)	40 (4)
6103	Men's or boys' suits, ensembles, jackets, blazers, trousers, bib and brace overalls, breeches and shorts (excluding swimwear), knitted or crocheted	16 (45) 17.5 (16) 19 (2) 20 (1) 25 (13)	40 (15)
6104	Women's or girls' suits, ensembles, jackets, blazers, dresses, skirts, divided skirts, trousers, bib and brace overalls, breeches and shorts (excluding swimwear), knitted or crocheted	14 (9) 15 (6) 16 (61) 17.5 (20) 19 (4) 25 (4)	40 (25)

6105	Men's or boys' shirts, knitted or crocheted	16 (16) 17.5 (6)	40 (3)
6106	Women's or girls' blouses, shirts and shirt-blouses, knitted or crocheted	16 (8) 17.5 (3)	40 (3)
6107	Men's or boys' underpants, briefs, nightshirts, pyjamas, bathrobes, dressing gowns and similar articles, knitted or crocheted	14 (15) 16 (4)	0 (1) 40 (10)
6108	Women's or girls' slips, petticoats, briefs, panties, nightdresses, pyjamas, negligés, bathrobes, dressing gowns and similar articles, knitted or crocheted	14 (19) 16 (6)	0 (1) 40 (11)
6109	T-shirts, singlets and other vests, knitted or crocheted	14 (31)	40 (2)
6110	Jerseys, pullovers, cardigans, waist-coats and similar articles, knitted or crocheted	14 (118) 16 (36)	40 (6)
6111	Babies' garments and clothing accessories, knitted or crocheted	14 (25) 16 (5)	40 (4)
6112	Track suits, ski suits and swimwear, knitted or crocheted	16 (18) 17.5 (4) 19 (4)	40 (8)
6113	Garments, made up of knitted or crocheted fabrics of heading 59.03, 59.06 or 59.07	16 (30)	40 (1)
6114	Other garments, knitted or crocheted	16 (37) 17.5 (10)	40 (4)
6115	Panty hose, tights, stockings, socks and other hosiery, including stockings for varicose veins and footwear without applied soles, knitted or crocheted	14 (21) 16 (9)	0 (4) 20 (4) 40 (4)
6116	Gloves, mittens and mitts, knitted or crocheted	14 (15) 16 (2)	30 (5)

6117	Other made up clothing accessories, knitted or crocheted; knitted or crocheted parts of garments or of clothing accessories	14 (39)	30 (1) 40 (3)

China's rates vary from 14% to 25% with 16% and 17.5% the most common rates, except for jerseys etc at 14%. South Africa has a uniform rate of 40% with a few exceptions such as rates of 20% and 30% on some clothing accessories.

Table 5.12 Comparison of China and RSA Applied Tariffs on Articles Of Apparel And Clothing Accessories, Not Knitted Or Crocheted of Chapter 62 as at January 2006

HS4	Description	China: % (Frequency)	RSA: % (Frequency)
	Chapter 62: Articles Of Apparel And Clothing Accessories, Not Knitted Or Crocheted		
6201	Men's or boys' overcoats, car-coats, capes, cloaks, anoraks (including ski- jackets), wind-cheaters, wind-jackets and similar articles (excluding those of heading 62.03)	16 (40) 17.5 (12)	40 (8)
6202	Women's or girls' overcoats, car-coats, capes, cloaks, anoraks (including ski- jackets), wind-cheaters, wind-jackets and similar articles (excluding those of heading 62.04)	16 (32) 17.5 (5) 19 (6)	40 (8)
6203	Men's or boys' suits, ensembles, jackets, blazers, trousers, bib and brace overalls, breeches and shorts (excluding swimwear)	16 (85) 17.5 (58)	40 (15)
6204	Women's or girls' suits, ensembles, jackets blazers, dresses, skirts, divided skirts, trousers, bib and brace overalls, breeches and shorts (excluding swimwear)	14 (16) 16 (59) 17.5 (30) 20 (6)	40 (25)
6205	Men's or boys' shirts	16 (29)	40 (4)

6206	Women's or girls' blouses, shirts and shirt-blouses	16 (20) 17.5 (5)	40 (5)
6207	Men's or boys' singlets and other vests, underpants, briefs, nightshirts, pyjamas, bathrobes, dressing gowns and similar articles	14 (32) 16 (9)	40 (8)
6208	Women's or girls' singlets and other vests, slips, petticoats, briefs, panties, nightdresses, pyjamas, négligés, bathrobes, dressing gowns and similar articles	14 (29) 16 (6)	40 (8)
6209	Babies' garments and clothing accessories	14 (19) 16 (4)	40 (4)
6210	Garments, made up of fabrics of heading 56.02, 56.03, 59.03, 59.06 or 59.07	16 (61) 17.5 (3)	0 (3) 40 (5)
6211	Track suits, ski suits and swimwear; other garments	16 (80) 17.5 (21) 19 (3)	0 (4) 25 (4) 40 (11)
6212	Brassieres, girdles, corsets, braces, suspenders, garters and similar articles and parts thereof, whether or not knitted or crocheted	14 (20) 16 (4)	30 (1) 40 (5)
6213	Handkerchiefs	14 (12)	30 (5)
6214	Shawls, scarves, mufflers, mantillas, veils and the like	14 (6) 16 (1)	30 (5)
6215	Ties, bow ties and cravats	14 (6) 16 (1)	40 (3)
6216	Gloves, mittens and mitts	14 (22)	30 (1)
6217	Other made up clothing accessories; parts of garments or of clothing accessories (excluding those of heading 62.12)	14 (31)	25 (1) 30 (2)

China’s rates vary from 14% to 20% with 16% and 17.5% the most common rates. South Africa has a uniform rate of 40% with a few exceptions such as rates of 25% and 30% on some clothing accessories.

Table 5.13 Comparison of China and RSA Applied Tariffs on Raw Hides and Skins (Other Than Furskins) and Leather of Chapter 41 as at January 2006

HS4	Description	China: % (Frequency)	RSA: % (Frequency)
	Chapter 41: Raw Hides And Skins (Other Than Furskins) And Leather		
4104	Tanned or crust hides and skins of bovine (including buffalo) or equine animals, without hair on, whether or not split, but not further prepared	5 (9) 7 (15) 8 (3)	0 (4) 10 (4)
4105	Tanned or crust skins of sheep or lambs, without wool on, whether or not split, but not further prepared	8 (1) 10 (1) 14 (1)	10 (2)
4106	Tanned or crust hides and skins of other animals, without wool or hair on, whether or not split, but not further prepared	14 (18)	0 (7)
4107	Leather further prepared after tanning or crusting, including parchment-dressed leather, of bovine (including buffalo) or equine animals, without hair on, whether or not split (excluding leather of heading 41.14)	5 (18) 7 (6) 8 (6)	0 (3) 10 (6)
4112	Leather further prepared after tanning or crusting, including parchment-dressed leather, of sheep or lamb, without wool on, whether or not split (excluding leather of heading 41.14)	8 (1)	10 (1)
4113	Leather further prepared after tanning or crusting, including parchement-dressed leather, of other animals, without wool or hair on, whether or not split (excluding leather of heading 41.14)	14 (8)	0 (4)

4114	Chamois (including combination chamois) leather; patent leather and laminated leather; metallised leather	10 (1) 14 (3)	0 (2)
4115	Composition leather with a basis of leather or leather fibre, in slabs, sheets or strip, whether or not in rolls; parings and other waste of leather or of composition leather, not suitable for the manufacture of leather articles; leather dust, powder and flour	14 (4)	0 (2)

China's rates vary from 5% to 14% while South Africa has a uniform rate of 10% except for some products where the rate is free.

Table 5.14 Comparison of China and RSA Applied Tariffs on Articles Of Leather; Saddlery And Harness; Travel Goods, Handbags And Similar Containers; Articles Of Animal Gut (Other Than Silk-Worm Gut) of Chapter 42 as at January 2006

HS4	Description	China: % (Frequency)	RSA: % (Frequency)
	Chapter 42: Articles Of Leather; Saddlery And Harness; Travel Goods, Handbags And Similar Containers; Articles Of Animal Gut (Other Than Silk-Worm Gut)		
4201	Saddlery and harness for any animal (including traces, leads, knee pads, muzzles, saddle cloths, saddle bags, dog coats and the like), of any material	20 (3)	30 (1)

4202	Trunks, suit-cases, vanity-cases, executive-cases, brief-cases, school satchels, spectacle cases, binocular cases, camera cases, musical instrument cases, gun cases, holsters and similar containers; travelling-bags, insulated food or beverages bags, toilet bags, rucksacks, handbags, shopping bags, wallets, purses, map-cases, cigarette-cases, tobacco-pouches, tool bags, sports bags, bottle-cases, jewellery boxes, powder-boxes, cutlery cases and similar containers, of leather or of composition leather, of sheeting of plastics, of textile materials, of vulcanised fibre or of paperboard, or wholly or mainly covered with such materials or with paper	10 (14) 15 (3) 20 (7)	30 (12)
4203	Articles of apparel and clothing accessories, of leather or of composition leather	10 (9) 20 (12)	10 (1) 20 (1) 30 (3)
4204	Articles of leather or of composition leather, of a kind used in machinery or mechanical appliances or for other technical uses	8 (3)	0 (1)
4205	Other articles of leather or of composition leather	12 (7)	15 (1)
4206	Articles of gut (excluding silk-worm gut), of goldbeater's skin, of bladders or of tendons	20 (2)	15 (2)

China’s rates fluctuate from 8% to 20% with 10% and 20% the most common rates. South Africa’s rates are generally 30% for final goods and 15% for intermediates.

Table 5.14 Comparison of China and RSA Applied Tariffs on Footwear, Gaiters And The Like; Parts Of Such Articles of Chapter 64 as at January 2006

HS4	Description	China: % (Frequency)	RSA: % (Frequency)
	Chapter 64: Footwear, Gaiters And The Like; Parts Of Such Articles		
6401	Waterproof footwear with outer soles and uppers of rubber or of plastics, the uppers of which are neither fixed to the sole nor assembled by stitching, riveting, nailing, screwing, plugging or similar processes	24 (4)	30 (4)
6402	Other footwear with outer soles and uppers of rubber or plastics	10 (1) 24 (5)	30 (1) 30/500c/2u(5)
6403	Footwear with outer soles of rubber, plastics, leather or composition leather and uppers of leather	10 (8) 15 (2) 24 (7)	30 (9)
6404	Footwear with outer soles of rubber, plastics, leather or composition leather and uppers of textile materials	24 (3)	0 (2) 15 (1) 30 (5) 30/500c/2u (3)
6405	Other footwear	15 (1) 22 (2) 24 (2)	0 (3) 30 (5) 30/500c/2u (2)
6406	Parts of footwear (including uppers whether or not attached to soles (excluding outer soles)); removable in-soles, heel cushions and similar articles; gaiters, leggings and similar articles, and parts thereof	15 (5)	0 (5) 20 (10) 30 (1)

China's most common rate for footwear is 24% while South Africa has a uniform rate of 30% with the exception of a few lines at free and an

alternative specific rate of 500 cents per pair on footwear with uppers of rubber, plastics and textiles.

5.2 Tariffs ex other agreements better than 9.1

5.2.1 China – ASEAN:

Under the China-ASEAN Free Trade Area agreement, China and the ASEAN countries agreed to a gradual, bi-lateral tariff reduction process on a wide range of goods including Chinese textiles and apparel.

Beginning from July 2005, China, Brunei, Malaysia, Indonesia, Myanmar, Singapore and Thailand gave tariff cuts to each other on 7,455 kinds of commodities, including Textiles and Clothing (T/C) products. The practice was launched in compliance with the Trade in Goods Agreement of a Framework Agreement for Overall Economic Cooperation between China and the ASEAN countries.

By 2010, China and six old ASEAN member nations (Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand) will impose zero tariffs on textiles and apparel, while the other four new ASEAN members of Cambodia, the Laos, Myanmar and Vietnam will do the same in 2015.

5.2.2 China – Pakistan:

In December 2005, China and Pakistan concluded a T/C agreement, billed as an "early harvest" preferential tariff program, as part of its on-going negotiations for an FTA. The two countries will continuously lower tariffs on textile and apparel products, categorized by 501 tariff numbers, including wool, cotton fabric, chemical fibre yarn, chemical fibre fabric, non-wovens, carpet, fleece fabric, knitted or crocheted fabric, knitted or crocheted apparel and accessories, bed sheet and other home textiles. In 2006, products under 30 tariff numbers will enjoy the preferential tariff, and by 2008 the zero-tariff products will cover the remaining 471 tariff lines.

The following is a schedule that shows China's tariff concessions in respect of non-agricultural products and textiles/clothing, respectively, earlier in 2005 as contained in the WTO Secretariat's Report for the Trade Policy Review of China. This Report was released by the WTO on 19 April 2006. It will be noted that up to the two agreements mentioned above, China's preferential margins in respect of TC have been minimal.

Summary analysis of the Chinese preferential tariff, 2005

(Per cent)

	Number of preferential lines	WTO non-agriculture	Textiles & clothing
MFN		8.8	11.5
Agreement Tariff Rates			
Bangkok Agreement[a]	749	8.5	10.6
ASEAN[b]			
Brunei Darussalam	533	8.6	11.5
Cambodia	477	8.6	11.5
Indonesia	529	8.6	11.5
Lao PDR	358	8.6	11.5
Malaysia	535	8.6	11.5
Myanmar	515	8.6	11.5
Singapore	536	8.6	11.5
Thailand	516	8.6	11.5
Viet Nam	484	8.6	11.5
Hong Kong, China	1,061	7.2	8.1
Macao, China	502	7.8	8.3
Pakistan	748	8.5	10.6
Least developed preferential rates			
Special preferential tariff agreement[c]	182	8.6	11.1
Special preferential tariff agreement for:			

Bangladesh	196	8.6	11.0
Cambodia	491	8.4	10.9
Lao PDR	406	8.4	10.7
Myanmar	299	8.5	11.0
Memorandum:			
Bangladesh[d]	893	8.3	10.2
Lao PDR[e]	1,306	8.1	9.9
Cambodia[f]	789	8.3	10.9
Myanmar[f]	690	8.4	11.0

a Preferential rates under the Bangkok Agreement are applicable to the Republic of Korea, Sri Lanka, Bangladesh, India, and Lao PDR.
b Including early harvest arrangement as applicable.
c See section (ii)(a) for list of countries under the special preferential tariff agreement.
d Including Bangkok Agreement and special preferential tariff rates.
e Including Bangkok Agreement, ASEAN preferences and special preferential tariff rates.
f Including ASEAN preferences and special preferential tariff rates.

Note: Calculations exclude in-quota rates, and specific rates, and include interim duty rates.

Source: WTO Secretariat calculations, based on information provided by the Chinese authorities.

NON TARIFF BARRIERS (NTBS)

5.3 Import quotas and restrictions

5.3.1 Wool Tariff-rate Quota (TRQ)

A TRQ was put on the import of wool and wool tops in 2004 and this remains in 2006. Importers must apply for the License for Import Tariff Quota of Agricultural Products to be issued with quota. The 'Implementation Measures of 2006 TRQ Allocation for Wool and Wool Tops', was issued by MOFCOM on 30 September 2005.

The 2006 TRQ amount for imported wool is 287,000 metric tons and that for wool tops is 80,000 metric tons. The in-quota import tariff is 3% and the out-of-quota tariff is 38%.

The TRQ applies to the following tariff categories:
- Wool (51011100, 51011900, 51012100, 51012900, 51013000, 51031010)
- Wool Tops (51051000, 51052100, 51052900)

According to the regulation, applicants shall provide import contracts of wool or wool tops or a Processing Trade Business Certificate in applying for import TRQ. Applications for import TRQ for wool and wool tops will no longer be accepted at a time when all 2006 import TRQ for wool and wool tops have been allocated.

The above paragraph describes the official Wool TRQ policy. However, a representative of an Australian wool importer said the actual process of applying for a wool import license and getting quota was less transparent and more flexible. He mentioned that his company had good 'guanxi' (relationships) in Beijing. He also had the full support of the Shandong local Bureau of MOFCOM where his company has made a large investment in a wool processing enterprise for the domestic market. If his company did run out of quota to import wool, he had in every case been successful in getting additional quota, regardless of the status of the annual overall import quantity. He thought the wool quota was a 'paper quota' as China desperately needed the wool imports to meet the demand from the textile industry, but was reluctant to lose this leverage during the FTA negotiations with Australia.

The representative commented that he thought the TRQ on wool imports had very little to do with protecting the local industry, and everything to do with China's trade policy of maintaining leverage over certain important sectors in trade negotiations with other countries.

5.3.2 Lack of transparency in wool quota allocation system

Although the wool quota system is no longer a direct price regime, importers have called on policy-makers to accelerate the formulation of a more market oriented quota allocation system, congruent with China's ambition for Market Economy Status.

According to official policy, wool quotas are allocated under a system of 'sub-quotas'; quota is allocated separately for the internal market or for the export processing trade. These 'sub-quotas' have not been made public, thus compounding uncertainty and price distortions.

Importers have also called for the revising of the method for setting up annual wool quantitative limits. It is suggested that these levels be set according to current year market demand estimation, rather than on past year trade performance as currently occurs. For example, quota allocation could be equivalent to the maximum industry capacity for end users, fixed once per year. The current method leads to a lower quota level than end-user demand and results in substantial out-of quota imports every year.

5.3.3 Cotton TRQ

The Cotton Tariff Rate Quota (TRQ) is 894, 000 metric tonnes. The in-quota tariff rate is 1% while the out-of-quota tariff rate is 40%. The Ministry of Commerce will issue an Agricultural Product Import TRQ Certificate, through authorized agencies, to eligible quota applicants on first-come-first-serve basis. Moreover, 33% of the TRQ will be reserved for importation through state trading enterprises (such as Chinatex Group) and 67% will be allocated to non-state trading entities.

Briefly, according to the China Cotton Association, China produced 5.5 million tons on cotton in 2005, reflecting a 13.8% y/y decrease. At the same time, demand for cotton soared 9% to 9.4 million tonnes. According to the TRQ regulations, only 25% of the imports needed to make up this supply deficit will carry the in-quota tariff. Unless these TRQ limits are being seriously infringed by the allocation process under China's Cotton Trading Scheme, this

constitutes serious discretionary policy, and significant protectionism and regulation in the cotton sector.

5.3.4 Export Quotas

Export quotas exist on certain categories of textile and clothing exports to the EU and US. These are imposed both on the EU/US and Chinese side. See Annex for a summary of each agreement and how the export quota system is administered on the Chinese side.

5.3.5 Export Tariffs: A summary of China's voluntary export tariff regime in 2005

Under pressure from foreign Governments to alleviate the potential flood of Chinese T/C products into their markets brought on by the end of the Multi-Fibre Agreement (MFA), China's State Council agreed to voluntarily impose export tariffs. The Office of Tariff Commission under the State Council, agreed to impose export tariffs on 148 Clothing product types (HS 61 and 62) with effect from 1 January 2005. The tariffs would be collected on each item rather than by value of export. Most export tariffs were 0.2 or 0.3 RMB per item of clothing.

At the time, foreign trade officials, largely the EU and US, argued that, should China voluntarily place effective restrictions on its textiles exports, they would in turn try to hold back the huge tide of criticism from their domestic textile producers for implementing safeguard measures on Chinese imports. Hence, Chinese officials pleaded with their textile exporters to exercise restraint, as a flood of exports to the world would merely kill the goose that lays the golden egg. Also, Chinese officials hoped the per-item export tariff on textile products would improve China's textile export structure - from mostly low value-added products to high-end goods.

As it turned out, the voluntary export tariff system failed miserably. Perhaps this was due to poor enforcement, but analysts say it is more because export tariffs were so low so as not to significantly affect the relative competitiveness of the Chinese T/C sector. Although textile producers' profitably was slightly

reduced, this did not prevent the actualisation of the EU and US textile sector fears that they would rapidly loss market share to Chinese imports.

As pressure from US and EU textile industries mounted on their trade commissioners, it became clear that China's voluntary export restrictions were insufficient to restrict volumes. Under a barrage of strongly worded rhetoric from both sides, EURATEX, the major EU textile industry body, threatened to seek quota action on a wide range of T/C imports from China. On 20 May 2005, China attempted to ameliorate the situation by increasing the export tariff on the 81 most pertinent products to between RMB0.25 and RMB4.00 per item.

This last ditch attempt to appease the Europeans failed and on 1 June 2005 the European Commission (EC) and Chinese policy-makers accepted that the situation was unsustainable and signed an MOU that they would negotiate the terms of a two-sided quota system on Chinese imports.

So, after only 10 days, the export tariffs on the 81 previously increased products was lifted as these were now the focus of attention under the new quota system.

The export tariffs on the remaining 67 clothing product categories, was lifted on 1 January 2006. And with it, the short-lived voluntary export restrictions regime of 2005 was also scrapped.

5.3.6 Prohibited, Restricted goods: Processing Trade restrictions

To prevent China being more than a low-value processing zone of raw materials and to encourage beneficiation, Chinese policy-makers place certain restrictions on the 'for-export' processing trade. This does not mean that trade in these products is always restricted. It only means that if you want to import a specific raw material solely for the purpose of exporting the processed product, without sufficient value-add for China, this is prohibited.

MOFCOM, The General Administration of Customs (GAC) and the State Environmental Protection Agency (SEPA) jointly promulgated the 'Catalogue of prohibited products for processing trade' on 11 December 2005. The Notice 105/2005, took effect on 1 January 2006.

5.3.7 Imports for use in processing trade prohibited

Raw Hides and Skins
(4101201110, 4101201190, 4101201910, 4101201990, 4101202010, 4101202090, 4101501110, 4101501190, 4101501910, 4101501990, 4101502010, 4101502090, 4101901110, 4101901190, 4101901910, 4101901990, 4101902010, 4101902090, 4102100000, 4102211000, 4102219000, 4102291000, 4102299000, 4103101100, 4103101900, 4103109100, 4103109900, 4103200000, 4103300010, 410330009, 4103900010, 4103900090)

By the inclusion of these products in the 'Catalogue of prohibited products for processing trade', policy-makers hope to prevent the import of raw hides and skins and the subsequent export of the processed/tanned leather. These products may still be imported but should be processed and the leather used to make higher-value leather products which may then be exported. This would constitute sufficient value-add to justify the encouragement of the export processing trade for this product.

5.3.8 Forbidden Imports

According to the 'Catalogue of Commodities Forbidden to Import of 2006', the import of the following 'Textiles' products is forbidden under any normal circumstances:

Leather waste residue, ash, sludge and its powder (41152000)
Old clothing (63090000)

5.3.9 Dual Purpose Use / Double Function restrictions

The 'Administrative Measures on Import and Export License of Substances and Technologies of Double Functions' took effect on 1 January 2006 and was promulgated by Decree No.29/2005 of MOFCOM and GAC.

No products under the TCFL sectors appear on the above 'double use' catalogue.

5.3.10 Sanitary and Phytosanitary restrictions

AQSIQ import license for Raw Hides and Skins

The import of raw hides and skins requires a special import license from AQSIQ. A representative from an Australian meat and hides importer said that even though his company had not yet been issued a FICE trading license, an agent working for the Waigaiqiao Free Trade Zone (Shanghai Municipality) where his company was based, assisted in handling the necessary importation of the products.

He commented that, once an initial agreement had been reached with AQSIQ that his company's product met AQSIQ import requirements, he could easily re-apply for the license every 3 months. He said that this was done via the AQSIQ website and was reasonably straightforward. However, he did mention an experience which reflects the lack of transparency in handling customs procedures in China, and he had heard that this lack of transparency was especially evident in AQSIQ.

The representative re-applied for his company's AQSIQ license online, but received no reply from AQSIQ after the usual week-long waiting period. Over the following two weeks, he called AQSIQ frequently only to be given 'pathetic excuses' by the AQSIQ officials as to why they would not extend his license. Finally, he 'heard via the grape-vine' that a high-ranking Australian Government official had made comments about Taiwan that were not well received by China. The Australian company's representative was not sure whether the decision to delay the extension of his company's license had

come from high-up in the Chinese government or from a patriotic mid-level official in AQSIQ. But he said that this experience reflected the arbitrary application of regulations which was still inherent to importing into China.

Finally, when his old 3-month license expired, he was unable to continuing importing and went to Beijing. There, he called upon his personal 'guanxi' (relationship) network and was able to have his company's import license extended without further paperwork.

Meat and Hides Protocol

According to the representative of an Australian meat and hides importer, the import of untreated, raw hides and skins (HS 4101, 4102, 4103) requires a specific bi-lateral 'Meat and Hides Protocol' to have been signed between the two countries, that respects the internal sanitary and phytosanitary control of the exporting country. Australia does have such a Protocol with China, whereas South Africa, at present, does not. Following the outbreaks of FMD in Southern Africa in 2000, China suspended import licenses for meat and hides imports from South Africa. As the whole of South Africa has not yet been re-granted FMD-free zone status by the World Organisation for Animal Health (OIE), China continues to ban the imports of meat and untreated, raw hides from South Africa.

AQSIQ Import license for Hides

See 5.13: Environmental regulations and imports

5.4 Additional taxes discriminatory to imports

Not applicable.

The standard rate of VAT in China of 17% is payable on imported TCFL products. In the tariff book it appears under a column "Import VAT".

5.5 Customs procedures

In regard to customs procedures, the following is stated in the EU Market Access Report:

"Although interviews conducted with freight forwarders, importers and customs confirmed that customs clearance has been significantly improved over the last years, clearance delays remain an area of concern for EU companies (questionnaires, interviews). Various operators have indeed ranked, "excessive documentary requirements" and time-consuming customs procedures as damaging restrictions to their business with China.

In particular, it seems that EU tanners and importers of semi-finished and finished leather are more concerned regarding clearance delays caused by inspections during clearance and sanitary requirements.

According to Chinese customs Administration, the import documents required at the point of entry are as follows:

- *Contract;*
- *Commercial invoice;*
- *Packing list;*
- *Bill of lading;*
- *Manifest;*
- *Agreement with the customs agent, if any;*
- *Certificate of origin, if needed;*
- *Import or export permit (needed only for some products);*
- *Phyto-sanitary certificate (if required, e.g. for leather or raw wool).*

The import documentation in itself is not a significant problem for EU operators. However, sometimes the authorities are slow to make a full check of the documentation. Therefore, this creates delays and additional costs, while the duration of the procedure exceeds the 3 days free storage period.
Delays are caused mainly by the important volumes of cargo in the Chinese ports and not attributed to a deliberate will of the Chinese authorities to slow down the procedure. According to all companies interviewed, the customs clearance for textile, leather and footwear products not subject to specific authorisation and certificate rarely exceeds 3 working days."

5.6 Import Licensing

Distribution and Trading:

It is necessary to have a specific trading and distribution license to trade in any products. (See General Section: FICE regulations)

Product specific import license:

Apart from the necessary licenses issued as part of the above NTB restrictions, a product specific license are necessary for each shipment of goods to pass through Customs. The applicant must prove that the import is "necessary" and that there is sufficient foreign exchange available to pay for the transaction. In reality, provided all the important conditions are complied with, the application of import licenses for 'Textiles' products is straight forward and can be handled by an agent.

Automatic Import License (AIL):

The import of all yarn from man-made filaments (HS 54) requires an AIL. Applicable products are found in the Catalogue of Commodities under Administration of Automatic Import Permission of 2006, promulgated by Announcement No.101/2005 of MOFCOM and the GAC. This regulation covers a wide range of goods under most two-digit HS code sections and is therefore not only applicable to these products.

Applications for AIL may be submitted online or in writing. Licenses should generally be issusd within 10 days of the receipt of application and complete applications. An AIL is valid for 6 months within a calendar year. Although MOFCOM generally requires a single import license for each shipment, for certain products, MOFCOM will permit entry of up to 6 shipments based on a single AIL.

AIL are not required for products processed for export in the processing trade.

Products requiring an AIL include:

- various yarn for man-made (synthetic) filaments: (HS 54)
- various man-made staple fibres (HS 55)

and are mostly yarns containing 50% or more of polyester.

Certificates of Origin:

Importers should show a certificate of origin to Customs at the port of entry. If the importers cannot present the certificates of origin, the China Customs official will inspect other supporting documents such as contract, invoice, bill of landing, etc. to substantiate the origin of the imports. If the Customs cannot verify the origin of the goods based on the above documents, they may refer the case to the tariff department for a professional assessment. Additional duty will be levied on imports where origin cannot be verified. An industry analyst said there were no exceptional issues relating to certificates of origin in the 'Textiles' sector which could be viewed as an NTB.

Export license: Cotton

The export of Cotton and Cotton yarn requires an export license. This requirement falls under China's State-Trading policy for cotton. This export license requirement is contained in the Catalogue of Commodities Subject to Export License in 2006, promulgated by MOFCOM and GAC Announcement 85/2005.

5.7 Standards

The Australian Wool Council has complained that the import of wool is subject to mandatory re-testing by AQSIQ. They have complained that, often due to the incapacity of AQSIQ to efficiently handle the testing procedures, this has lead to unnecessary costs and delays. They claim that Australia's internal testing standards meet all International Wool Testing Organisation (IWTO) standards, and this should be accepted as sufficient by Chinese authorities.

As a result of the re-testing or re-clarification of wool quality, Australian exporters have reported numerous contractual disputes with Chinese

importers over quality standards. Adherence to international Wool Quality Standards and increased transparency in any AQSIQ re-testing would be sufficient to eliminate this NTB.

5.8 Intellectual Property Rights (IPR)

The non-respect of intellectual property rights remains one of the main concerns for the foreign exporting companies, the Chinese importers and the foreign investors in China. The problems are related to the non-respect of trademarks and the non-respect of the designs.

According to EU companies, the Chinese authorities have improved the enforcement of the respect of trademarks. However, given the importance of the counterfeiting industry and the size of the country, these efforts are far from being sufficient.

Several companies have stated that Chinese authorities issue injunction to close the counterfeiting factory as soon as the infringement is alleged. However, the low fines involved makes that another factory opens 200 km away almost immediately. According to some operators, they obtain the close down of one factory per week and have been obliged to use the services of a special company to trace copies of their products in Chinese markets and shops.

It should also be noticed, that in several cases, the copies are sold by the Chinese suppliers of the foreign companies. Therefore, the foreign companies must specifically pay attention in their contracts to the use of production overruns by the Chinese suppliers. The situation is even more difficult when the products are copied without the use of the trademark or with a trademark which is slightly modified. In these cases, the foreign companies are engaged in a long procedure before the Chinese courts and suffer losses of market share. The copies of designs of fabrics are also an important issue. In order to avoid copies and to maintain their market share, the foreign companies must be involved in constant innovation.

The non-respect of intellectual property rights is a strong disincentive for foreign companies, and in particular SMEs, to export to China. Several SMEs are involved in expensive research and development projects for their products. They often lack sufficient resources to track and sue the counterfeiters. Therefore, the copies restrict their market share in the Chinese market and damage the image of their products. More important is the prejudice suffered in the other export markets of foreign suppliers, when their products are copied in China and exported to the US, the Middle East, the EU or other markets.

This impacts negatively the business of foreign companies and explains the reluctance of SMEs to export to China. There is therefore a double negative impact: (1) in the Chinese market and (2) in the existing export markets.

Chinese authorities seem to be more open for cooperation on intellectual property issues, given the fact that domestic brands suffer more and more from trade marks infringement. In China, copies of local brands of men's suits and casual wear can be found at 1/10 of the price.

According to the USTR Report, IPR enforcement is one of China's greatest shortcomings. The United States took several aggressive steps in 2005 in an effort to obtain meaningful progress in this area. First, the United States conducted an out-of-cycle review under the Special 301 provisions of U.S. trade law. At the conclusion of this review in April 2005, the Administration elevated China to the Special 301 "Priority Watch" list and set forth a comprehensive strategy for addressing China's ineffective IPR enforcement regime, which included the possible use of WTO mechanisms as appropriate.

5.9 Lack of transparency and general

Although reports confirms China's implementation of its WTO commitments and the opening up of the Chinese market, they also refer to various problems with trade barriers, industrial policies that favour domestic industries, possible subsidies, lack of transparency and need to eliminate

mechanisms that allow government officials to intervene in the Chinese economy in a manner that is inconsistent with market principles.

According to the US Trade Barriers Report:
“China has also increasingly resorted to industrial policies that limit market access by non-Chinese origin goods and that aim to extract technology and intellectual property from foreign rights-holders. The objective of these policies seems to be to support the development of Chinese industries that are higher up the economic value chain than the industries that make up China’s current labour-intensive base, or simply to protect less-competitive domestic industries.

Meanwhile, transparency concerns cut across sectors, as China’s various regulatory regimes continue to suffer from systemic opacity, frustrating efforts of foreign – and domestic – businesses to achieve the potential benefits of China’s WTO accession. Although China has made important strides in improving transparency across a wide range of national and provincial regulatory authorities, particularly at the Ministry of Commerce (MOFCOM), many other ministries and agencies have made less than impressive efforts to improve their transparency.

Overall, while China has a more open and competitive economy than 25 years ago, and China’s WTO accession has led to the removal of many trade barriers, there are still substantial barriers to trade that have yet to be dismantled. In addition, some agencies and trade associations have renewed efforts to erect new technical barriers to trade. In many sectors, import barriers, opaque and inconsistently applied legal provisions, and limitations on foreign direct investment often combine to make it difficult for foreign firms to operate in China. The central government continues to implement industrial policies and protect uncompetitive or emerging sectors of the economy from foreign competition. Many provincial and lower-level governments have strongly resisted certain reforms that would eliminate sheltered markets for local enterprises or reduce jobs and revenues in their

jurisdictions, although they have also supported market access for other foreign investors that do not pose a threat to local vested interests.

If China is to complete the implementation of its WTO commitments and institutionalize market oriented reforms, it will need to eliminate mechanisms that allow government officials to intervene in the Chinese economy in a manner that is inconsistent with market principles."

According to the USTR Report:
"Other key areas where limitations in China's implementation and compliance efforts continue to cause trade friction include:
services sectors in which Chinese regulators continue to frustrate the efforts of foreign suppliers to achieve their full market potential in China through the use of an opaque regulatory process, overly burdensome licensing and operating requirements, and other means;
industrial policies that appear to limit market access by non- Chinese origin goods or bring substantial government resources to bear to support increased Chinese production and exports;
China's failure to fully implement its WTO subsidy obligations, particularly with respect to (i) prohibited subsidies and (ii) providing notification of its subsidies to the WTO, as required by WTO rules and as it committed to do at the 2005 JCCT;
promulgation of standards and other technical regulations that appear to favour locally produced products, and discriminatory enforcement of standards against non-Chinese products; selective intervention in the agriculture market by Chinese regulators; administration of China's antidumping laws in ways that appear inconsistent with WTO requirements; and inadequate regulatory transparency and uneven application of laws."

According to the EU Market Access Report, EU companies have complained about the general lack of transparency that affects their exports or potential exports to China and their supply of raw materials. While there have been certain improvements since WTO accession (some legal texts are notified in English and some unofficial translations are put on Government web sites),

China is still perceived as a country with non-transparent import and export procedures.

The lack of transparency is alleged to affect trade in textiles, clothing, leather and footwear products in the following aspects:

- Coverage of products subject to import authorisations: specific products to be imported into China must be accompanied by specific import authorisations (import licences or specific certificates). Even if in practice, most of importers do not seem to face significant difficulties to get the authorisations, the lack of transparency regarding (1) the exact coverage of products subject to authorisations and (2) the description of procedures of issuing the required authorisations is alleged to affect EU daily business.
- Lack of English translation on trade rules and procedures: since China's accession, there have been strong improvements. China as a new Member must notify to WTO its trade legislation and must create WTO enquiry points. Most of trade rules are published almost exclusively in Chinese. Even while English translations exist, they are not official, which leaves a huge room for interpretation. As most of the rules remain general and sometimes ambiguous, EU companies experience difficulties in determining whether their activities contravene a particular Law or regulation, or if they fully comply with Chinese rules and standards. This affects in particular standards and customs clearance.
- All customs requirements are not fully available to the public. For example, in the field of customs deposits, EU companies have already urged the Chinese authorities to set and publish nation-wide standards for customs deposits.
- Non-availability of official translation of Chinese standards is a real concern for EU exporters. Chinese authorities were to implement a new Safety Technical Code for textile products in January 2005. Under this code, EU exporters must comply with Chinese standards. However, they lack official translation of these rules.

5.10 Trade Action Issues

Trade Actions initiated by China:

China has not made taken any formal AD actions against dumped imports of products under the TCFL sectors.

China has not taken any new, formal safeguard measures against imports of goods under the TCFL sectors.

Significant Trade Actions against China:

EU/US: Clothing: Safeguard measures

The EU and the US have both negotiated safeguard measures against the import of Chinese textiles and clothing products during the course of 2005. (See ANNEX).

EU: Footwear: Anti-dumping action

On 30 June 2005, EU manufactures requested the EC for AD action against Chinese imports of two categories of safety shoes. In July 2005, European shoe manufactures formally approached the EC to impose AD action against Chinese certain shoe manufacturers. They claimed that Chinese and Vietnamese manufacturers were dumping shoes with leather uppers (Footwear with uppers of leather HS 6403) on the European market 'at less than its normal value in order to grab market share by undercutting competitors unfairly or because of illegal state aid'. Imports of Chinese-made shoes with leather uppers jumped 320% between April 2004 and March 2005, while imports from Vietnam surged 700%.

On 20 February 2006, the EC announced that it was poised to take anti-dumping action. A Chinese official said China was particularly concerned that none of the 13 Chinese companies involved in the sampling process were given market economy status (MES), especially since no shoe producer in China was state-owned.

According to the EU Trade Commissioner, Mr. Peter Mandelson, most of the companies investigated in the sample were nominated by the Chinese and Vietnamese governments for the purpose of the investigation. EU investigators worked closely with Chinese and Vietnamese governments and travelled to both countries to offer technical assistance before the actual investigation started– highly unusual in an anti-dumping investigation. He added:

“Although the companies were designated by the Chinese and Vietnamese governments as model producers the Commission was not able to confirm that any of the companies sampled were operating in market economy conditions. In all cases there was clear evidence of state intervention or non-standard accounting practice. It is clear that these conditions have obtained in China and Vietnam for some time.

These conditions included:

- Non-commercial loans or capital grants from the state;
- Restrictions on selling on the Chinese domestic market – for example, production licenses granted only for the manufacture of products for export;
- Non-enforcement of international accounting standards;
- Improper evaluation of assets;
- Non-commercial conditions for land-use: it is not possible to own land in China, but EU investigators found clear evidence of factories being provided with land by the state rent-free;
- Other forms of state intervention: all the Chinese and Vietnamese companies were not able to show that “in fact and in law” they are free from unfair state intervention.”

The EU used Brazil as analogue country because its footwear sector, production range and export capacity is of analogous size to that of China and Vietnam.

On 23 March the EU announced the imposition of anti-dumping duties on imports of leather shoes from China and Vietnam. The duties took effect as from 7 April 2006. The initial rate is 4% but the rate will increase, in the case of China to 19.4%.

EU: Polyester filament fabric: Successful AD action

In September 2005, the EC agreed to the imposition of definitive AD duties in the anti-dumping investigation concerning imports of certain finished polyester filament fabrics (HS 5407). 25 Chinese companies were granted Market Economy Treatment (MET) and 18 companies were granted individual treatment (IT). The final duties vary between 14.1% and 56.2% - the country-wide definitive duty rate for mainland China. The measures, which entered into force on 17 September 2005, will remain in place for a period of five years subject to interim and expiry reviews.

Turkey: Textiles and Clothing: Safeguard measures

On 1 January 2005, Turkey applied safeguard measures on 44 categories of Chinese apparel and textile products. In January 2006, Turkey's announcement that it had re-applied safeguard measures for 2006 'angered' Beijing. Beijing invited Turkish officials for talks between the two countries following Beijing's 'disappointment' over Turkey's unilateral move. The result of the talks are that quota growth rates for 2006 have been set higher in smaller categories whilst larger bulk categories, such as woven cotton cloth, remain roughly unchanged from 2005.

Turkey policy-makers set quota growth rates for 2005 at 7.5 per cent, the minimum allowed by the WTO regulation that allows countries to unilaterally impose safeguard measures against Chinese textile and apparel imports until 2008. Turkish officials commented that these quotas could stay until 2008.

Argentina: Textiles and Clothing: Safeguard measures

In December 2004, Argentina decided to take the same action as Turkey to limit imports of Chinese T/C products. The regulation, which became effective on 1 January 2005, regulates that the imports of Chinese textile products and

ready-made garments should not exceed by 7.5 percent and 6 percent respectively of the total imports of similar products in the previous year.
Argentina has already imposed high tariffs on Chinese textile products. This further safeguard action makes Chinese textile access to the Argentine market very difficult.

Brazil: Textiles and Clothing: Safeguard measures
On October 17, 2005, Brazilian textile manufactures petitioned for quota and import tariff action on imports of silk, velour and polyester thread from China. According to the Brazilian Textile and Apparel Industry Association (ABIT), it would continue petitioning the Brazilian Department of Trade on another 70 articles of imported China-made TC, to decide whether the similar protection is needed or not.

However, Chinese and Brazilian officials then held talks over their textile disputes on the sidelines of the World Trade Organization Ministerial Conference in Hong Kong late last year. Then on 9 February 2006, China announced it has made an agreement that will manage the growth of Chinese textile exports to Brazil until 2008.

That agreement covers 8 categories (70 tariff numbers), including synthetic and silk fabric, velvet, waistcoats, pullovers, embroidered fabric. These categories account for 60% of the total amount of Chinese textile exports to Brazil. The deal, based on the negotiated export quota system being used in T/C exports to the EU and US, is apparently more comprehensive than those agreements. Textile groups in Brazil have welcomed the move hoped to alleviate pressure on domestic producers.

5.11 Price Controls

Wool Designated Trader System phased out:
As part of its WTO accession terms, China has phased out its Designated Trader System for Wool. Wool importers have commended this achievement

but complain that a lack of transparency around quota allocation still constitutes a significant NTB.

Cotton: State-run industry and Designated Trader System:

The production and trade of cotton in China falls under a quasi-State trading system. Since China's admission into the WTO, it has promised to reduce trade-distorting subsidies and state-trading systems on all products. In 2000, 100% of the cotton import quota was allocated to the state trading system. While the monopoly no longer exists, the government is able to assert a degree of price control. In 2006, certain large state owned enterprises (SOEs) are granted designated trading authority and a minimum of 33% of the cotton import quota is granted to them. However, apparently more around 50% the cotton imports come in through the SOEs, such as Chinatex.

Imports of cotton are regulated by a TRQ and the export of cotton and cotton yarn requires a specific export license. The lack of transparency in the application of these import and export restrictions allows this 'state trading system' to maintain significant control even over the non-state trade in cotton. Note, due to the strategic nature of cotton and the large and increasing percentage of cotton supply being made up by imports, this system is increasingly being managed within the global market for cotton trading and hence showing greater marketisation.

To illustrate this reduction in Government intervention: In 1996, the Chinese Government spent today's equivalent of US$ 3.8bn on the 'control of price increases' on grains, cotton and edible oil. This price control figure rose to US$ 7.5bn in 2000 and has since dropped steadily to US$ 4.0bn in 2004. This trend reflects the increasing reduction in market-distorting policies in the staple food and cotton industries, as China integrates into the global trading system for these products.

Textiles and Clothing:

Despite the relative consolidation that is being forced onto the Textile industry from China's policy-makers, it is still a sector dominated by small, private

enterprises. In March 2005 there were 32,474 textile production enterprises, including 34 large SOEs employing more than 19 million people. The Government has been vocal in its encouragement of textile players to consolidate and then invest in equipment to improve product quality. Though it is also hoped that the export quota regime will force consolidation in the sector, it remains entirely marketised and there are no signs of price controls or pricing regimes in the sector. If anything, the multitude of enterprises and the marketisation in the industry has raised competition and driven down profits.

5.12 Labels

Apparently, the labelling requirements are not a significant problem. In most cases the required labels are attached by the importer.

5.13 Environmental regulations and imports

The Implementation Details of the Registration Scheme Concerning Overseas Suppliers of Waste Material Imports, promulgated and implemented by AQSIQ, make it mandatory for foreign enterprises to apply for registration with AQSIQ. Importers need also apply for a product specific import license from AQSIQ. Those which fail to obtain registration will not be allowed to export waste material to China, nor will their requests for inspection and quarantine be accepted by the departments concerned. This new rule is believed to ensure that imported wastes will comply with the environmental protection standards as well as other mandatory requirements and technical regulations of the state.

In this section, the above importer registration and AQSIQ import license applies to the import of the following products:

Various Textile waste: (52021000, 52029900, 55051000, 55052000, 63101000, 63109000)

5.14 Labour aspects

The textile industry in China is a substantial job creator, employing some 19 million textile workers directly. Many textile producers have been claiming that, after expanding operations and employment in 2005, they have been forced to lay off substantial numbers of workers after first the voluntary export tariffs and now the export quota system to the US and EU.

Much of the arguments explaining China's competitive advantage in the production of textiles have focused on low wages and the exploitation of labour in China's 'sweatshops'. While the comparative hourly wage earned by textile workers in China is below that earned by workers in many other developing countries, this only explains part of the competitiveness of the textile industry.

Reliable commentary on labour working conditions in China's textile factories is hard to come by. Much has been written in the international media but this has most often reflected the writer's subjective interpretation on second-hand news. On the Chinese side, commentary on the issue of labour working conditions is even less forthcoming.

All workers in China belong to a single trade union. "The All-China Federation of Trade Unions (ACFTU)" is a mass organization of the working class formed voluntarily by the Chinese workers and staff members. Founded on May 1, 1925, it now has a membership of 134 million in more than 1.713 million primary trade union organizations." (www.acftu.org.cn). However, all respondents spoken to said that this trade union had no real power in wage negotiations within China's government structures. On a national level, it forms a useful part of the bureaucracy of the state through which the CCP rules. On a city-level, it organizes conferences and functions.

There has been little reported labour action against employers in China. However, their have been signs of an increasing number of pay-related strikes in the Guangdong province in the last few years. In November 2004, there was a five-day strike over wages by 3,000 workers at the Haiyan

Electronics factory in Shenzhen. A representative of a large SOE textile trading company said he believed the problem of exploitation of labour lay in the private sector. He mentioned that in most cases the issue was that promised wages were not paid, rather than worker's being unhappy with working conditions. He said that because the textile industry was dominated by medium-sized private enterprises, there were few effective mechanisms available to workers to claim unpaid wages. He said Taiwanese factory owners in the textile sector had a particularly bad reputation for paying low wages and also not delivering on compensation promises.

The attitude of many Chinese industry sources was that the issue of wage and working conditions should be viewed in the light of China's 150 million-strong 'floating population'. China is still a poor, developing country and Chinese farmers migrating to the cities are very willing to accept any opportunities available to them. Another widely held sentiment is that textile workers are in a much better position than SOE workers (lack of job security and future benefits); mine workers (poor, unsafe working conditions) and migrants working in construction in the cities (poor working conditions, no job security, significant exploitation by non-payment of wages).

5.15 Other trade discrimination

Provinces:

Guangdong, Jiangsu and Zhejiang ended up with two thirds of the allocated textile export quota for the EU and US for 2006. This was allocated online on a national level with no inter-provincial discrimination. This allocation reflects the concentration of China's 'for export' T/C production industries in these 3 provinces.

Export Rebates:

Since 1985, China has had in place a tax rebate system designed to support the export trade in key industries.

After a product is exported, a producer may apply to the State Administration of Taxation for a rebate on taxes previously paid on the production of the

exported product. Such taxes should be incurred during the processes of domestic production and circulation. In China's tariff book this rebate appears in a column called "Export Drawback".

Generally speaking, the rebate is on VAT (on imported or domestically consumed goods and services), business tax and special consumption taxes. The standard VAT in China is 17 %, though many special/staple products enjoy 13% VAT (policy set by The State Council).

The tax rebate on the export of hides and leather (HS41) ranges from 5-13%, while HS 42 leather products all enjoy 13% rebates. Wool and wool products face a range of 5-13% rebates. The export rebate on all cotton and cotton yarns and fabrics is 13%. All export of all Textiles, Clothing and Footwear products (HS 54-64) enjoy a 13% tax rebate.

Undervalued currency:

China's undervalued currency gives it an absolute and relative advantage over developed countries but not necessarily over fellow low-cost producers, many of whom also have undervalued currencies.

Other Government support:

Skilled labour: As part of the Tenth Year plan for the Textile Industry, China encouraged textile factories to conduct technical training programmes for workers. The current starting wage of a university graduate is US$300/month.

Material input costs: China has invested extensively in technologies in the production of man-made fibres, as well as synthetic fibres, and the textile-related chemicals industry.

Cotton Subsidies: Under its admittance into the WTO, China promised to eliminate export subsidies for agricultural products as well as to cap and reduce trade-distorting domestic subsidies. Cotton is a very sensitive product in the global trading system and China, among other nations, continues to heavily subsidise the production of cotton domestically. This should not be

seen as an export subsidy as China has not exported cotton in the last decade. Export subsidies are illegal under the WTO. However, China has still not delivered a final report to the WTO on the status of its progress in eliminating subsidies. This report is now 4 years overdue.

Other input costs: Chinese producers enjoy relatively low transportation, water, electricity and land-use costs, both in and outside industrial processing zones.

Favourable tariff and customs conditions: China has encouraged the export processing industries with the waiving of import costs on machinery, technologies and materials, and encouraged exports by offering full VAT rebates on export products.

Subsidies: In 2003, 8 of China's 34 Textile Industry SOEs, accounting for 30% of textile industry output, were loss-making. While much criticism has been levelled at the irrational business and pricing models used by these SOEs, it must be said that, under the auspices of the 10th Five-Year plan, the number of operating and loss-making SOEs have both been substantially reduced. The state-owned companies are losing prominence in a sector now driven by private investment in medium-sized firms.

To assist the industry, the Government established a $1.5 billion reserve fund in 1998 and added unspecified amounts to this fund in the following years. As part of the plan, the industry has laid off more than 1.5 million workers and scrapped 10 million obsolete spindles. In 2000, the State Textile Bureau stated that China committed $2.4 billion in grants to the industry's top 200 firms and $1.7 billion in bank loans to finance technological upgrades. The Government also pledged $1.8 billion in support and $1.2 billion in bank loans to the industry as a whole.

Non-sustainable business model of producers: Analysts refer to 'irrational investment' by Chinese enterprises. This apparently has been a common occurrence in many sectors where investments are made without any regard to normal business investment principles. Specifically in the TCFL sectors this has been referred to by an official as 'blind' investment. This practice leads to overproduction that is accompanied by price cuts and is likely to lead to distortions in international markets.

The following is an extract from the China Automotive report. Although this was found and reported in the automotive sector, there seems to be no reason why particular elements of this situation would not also apply in the TCFL industries. This may to some extent explain the difficulties of Western nations to understand the functioning of the Chinese economy and its price competitiveness.

"The industry source also highlighted what his company referred to as the 'non-sustainable business model' used by many Chinese components producers. He said his company had been very surprised by an internal survey done to set a 'benchmark price' for its entire cost-structure. They found that there were quality components available on the Chinese market for significantly less than his company's benchmark price. Taking into consideration the market costs of imported metals, machinery, labour and capital, components were available in the market by as much as 15% less than their benchmark price. He said that Chinese businesses were not being run sustainability. Their ownership structures were not clear and this allowed management to exploit assets that were not theirs for short-term gain. He dismissed the myth that this was only an SOE problem. Private money and 'private businessmen' are now able to use political connections to run companies with special support from politicians. He thought that the issue lay at the provincial and municipal levels where a lack of control allowed local politicians to heavily 'subsidize' private companies through: cheap use of national assets; waiving of environmental standards and associated costs; allowing employees to exploit labour; arranging favourable finance through

other 'private' funding institutions; waiving various local taxes and assisting to reduce national taxes.

He said that this 'non-sustainable business model' allowed an irrational pricing model that was only sustainable due to the continued support by local governments for private investment in their regions. An employee for another final assembler re-iterated this irrationality in pricing in the auto components market. He further said that his company feared that the 'National brand' final assemblers were also following an irrational pricing model. He said that, at the moment the brand power of the global brands was still high enough to prevent a major loss of domestic market share. But he thought that the 'national brands' were receiving significant financial support and/or long-term guarantees maintain an unsustainably low-price business model to aggressively gain market share in the international market."

5.16 Important government departments

1. Ministry of Commerce (MOFCOM)
   Address: No.2 Dong Chang'an Avenue, Beijing, 100731
   Post Code: 100731
   Tel:+86 10 67184455
   Fax: +86 10 67081513
   Website: www.mofcom.gov.cn

2. Bureau of Fair Trade for Imports and Exports
   Tel: +86 10 65198924
   Fax: +86 10 65198915
   Bureau of Industry Injury Investigation
   (both involved in Trade Actions)
   Quota License Affairs Bureau

3. General Administration for Quality Supervision, Inspection and Quarantine (AQSIQ)
   - responsible for port cargo inspection and special scrap metal import licenses

Address: No. 6 Madian Road, Haidian District, Beijing, 100088
Email: webmaster@aqsiq.gov.cn
Website : http://www.aqsiq.gov.cn (Chinese only)

4. State Environmental Protection Agency (SEPA)
Address: No.115 Xizhimennei Nanxiaojie, Beijing (100035)
Tel: +86 10 66556006
Fax: +86 10 66556010
Website: http://www.zhb.gov.cn (English and Chinese)

5. General Administration of Customs
Foreign Affairs Division
No. 6 Jianguomenwai DaJie, Beijing
Tel: +86-10-6519-5263 or 6519-5246
Fax: +86-10-6519-5394
Website: http: // www.customs.gov.cn (currently under construction)

6. China Cotton Association
Address:No.45 Fuxingmennei Street, Beijing,100801
Tel: +86 10 66050406
Fax: +86 10 66053496
Website: http://www.china-cotton.org/english/INDEX.htm
E-mail:info@china-cotton.org

7. China National Textile and Apparel Council (CNTAC)
The major industry-wide body involved in policy-making and policy implementation.
Linked to the CCPIT TEX. (see below)
Address: 12 East Chang An Avenue, Beijing 100742
Tel: +86 10 85229207
Fax: +86 10 65129545
Website: http://www.ctei.gov.cn/cntac/e_xhjj.asp

8. Sub-Council for Textile Industry of the China Council for the Promotion of International Trade (CCPIT-TEX)
(also known as the China Chamber of Commerce for Import and Export of Textiles) government body responsible for communicating national-level policies
Address: No.12,East Chang An Street, Beijing,100742
Tel: +86 10 85229450
Fax: +86 10 65121732
Website: http://www.ccpittex.com/eng/
E-mail:hwb@ccpittex.com

9. China Textile Information Institute
Address: No.6 South Dongzhimen Street Beijing 100027

10. All-China Federation of Trade Unions (ACFTU)
Address:10 Fuxingmenwai Street, Beijing 100865
Tel: +86 10 68592730
Fax:: +86 10 68562031
Website: http://www.acftu.org.cn/ (English)

5.17 China-EU and China-US T&C Agreements

Summaries of the background, development and final outcomes of the China-EU and China-US T&C Agreements appear in the ANNEX. Although CPG members would have followed developments in the press and these are not NTBs applied by China, these summaries may be interesting for some members.

5.18 Considerations

1. The general impression from all sources is that China has gone a long way in reducing tariffs and NTBs and that this has opened up the Chinese market substantially, particularly since its accession to the WTO. However, issues such as infringement of Intellectual Property Rights (IPR), lack of transparency, unsustainable business

models, favouritism shown to certain enterprises by officials, loans to enterprises in certain sectors that are never repaid, uncertainty about the possible continued existence of subsidies are still problems.

2. South Africa's bound rates are, generally, 10%/0 for fibres, 17.5% for yarns, 25% for fabrics, 30% for household textiles, 45% for clothing, 15% for leather, 30% for leather goods and 30% for footwear.

3. China's final bound tariffs on textiles and clothing were generally phased in over periods of up to 2005, which were longer than for other product groups except automotive. In the case of cotton products and leather & footwear the bound tariffs were reached in 2003 and 2004. All of the final bound rates were phased in by January 2005 with the single exception of HS5512.11.

4. China's applied rates on yarns are low at 5/6%, on fabrics they vary form 10 to 18%, on household textiles from 14 to 165 and on clothing the rate go up to 25% (on some knits) with 16% and 17.5% the most common rates. South Africa's rates are generally 10%/0 for fibres, 17.5% for yarns, 22% for fabrics, 30% for household textiles and 40% on clothing.

5. In respect of F & L, the Chinese applied rates for leather fluctuate from 5 to 14%, for leather goods the most common rates are 10% and 20%, and for footwear 24%. The SA rates are generally 10% for leather, 30/15% for leather goods and 30% for footwear.

6. China applies tariff quotas on wool and cotton fibres. The out-of-quota tariff rates are 38% and 40%, respectively, but importers can apparently get additional permits for imports at the in-quota rate.

7. China has a total prohibition on the importation of used (old) clothing. (South Africa allows limited imports under certain circumstances subject to permits.)

8. According to reports, the situation in China in regard to transparency of customs procedures and delays has improved but remains a problem.

9. The non-respect of intellectual property rights remains one of the main concerns for the foreign exporting companies, the Chinese importers and the foreign investors in China. The problems are related to the non-respect of trademarks and the non-respect of the designs. This impacts negatively the business of foreign companies and explains the reluctance of SMEs to export to China. There is a double negative impact, namely (1) in the Chinese market and (2) in the existing export markets.

10. On 23 March the EU announced the imposition of anti-dumping duties on imports of leather shoes from China and Vietnam. The duties will take effect as from 7 April 2006. The initial rate will be 4% but the rate will increase, in the case of China to 19.4%. The EU did not grant market economy status to the 13 footwear companies nominated by China as a sample. According to the EU: “In all cases there was clear evidence of state intervention or non-standard accounting practice. It is clear that these conditions have obtained in China and Vietnam for some time. These conditions included:

- Non-commercial loans or capital grants from the state;
- Restrictions on selling on the Chinese domestic market – for example, production licenses granted only for the manufacture of products for export;
- Non-enforcement of international accounting standards;
- Improper evaluation of assets;

- Non-commercial conditions for land-use: it is not possible to own land in China, but EU investigators found clear evidence of factories being provided with land by the state rent-free;
- Other forms of state intervention: all the Chinese and Vietnamese companies were not able to show that "in fact and in law" they are free from unfair state intervention."

11. Since 1985, China has had in place a tax rebate system designed to support the export trade in key industries. It appears in a column 'Export drawback' in the tariff book. The tax rebate on the export of hides and leather (HS41) and wool/wool products ranges from 5-13%, while on all other TCFL products the rebate is 13%. According to information obtained, the rebate is on VAT (on imported or domestically consumed goods and services), business tax and special consumption taxes paid by the exporters.

12. Other Government support enjoyed by the Chinese TCFL industries include:

- China has invested extensively in technologies in the production of man-made fibres, as well as synthetic fibres, and the textile-related chemicals industry.

- Chinese producers enjoy relatively low transportation, water, electricity and land-use costs, both in and outside industrial processing zones.

- China has encouraged the export processing industries with the waiving of import costs on machinery, technologies and materials, and encouraged exports by offering full VAT rebates (13%) on all T/C products.

- China's undervalued currency gives it an absolute and relative advantage over developed countries but not necessarily over

fellow low-cost producers, many of whom also have undervalued currencies.

- The Chinese Government established a $1.5 billion reserve fund in 1998 to reform the TC industries, and added unspecified amounts to this fund in the following years. As part of the plan, the industry has laid off more than 1.5 million workers and scrapped 10 million obsolete spindles. In 2000, the State Textile Bureau stated that China committed $2.4 billion in grants to the industry's top 200 firms and $1.7 billion in bank loans to finance technological upgrades. The Government also pledged $1.8 billion in support and $1.2 billion in bank loans to the industry as a whole.

13. In the China Automotive Report, evidence was given of 'non-sustainable business models' of producers. It is alleged that Chinese businesses were not being run sustainably; that their ownership structures were not clear and this allowed management to exploit assets that were not theirs for short-term gain; private money and 'private businessmen' are able to use political connections to run companies with special support from politicians. It is said that the issue lay at the provincial and municipal levels where a lack of control allowed local politicians to heavily 'subsidize' private companies through: cheap use of national assets; waiving of environmental standards and associated costs; allowing employees to exploit labour; arranging favourable finance through other 'private' funding institutions; waiving various local taxes and assisting to reduce national taxes. There seems to be no reason why particular elements of this situation would not also apply in the TCFL industries.

14. Analysts refer to 'irrational investment' by Chinese enterprises. This apparently has been a common occurrence in many sectors where investments are made without any regard to normal business

investment principles. Specifically in the TCFL sectors this has been referred to by an official as 'blind' investment. This practice leads to overproduction that is accompanied by price cuts and forced exports.

6 TRADE FLOW ANALYSIS OF THE DEFENSIVE POSITION OF CHINA

6.1 Introduction

The defensive position as determined by trade flows is analysed by the following approach:

- An analysis of TCFL exports by China to the world.
- An analysis of export growth of TCFL products by China to the world.
- The revealed comparative advantages of China.
- Exports of TCFL products by China to South Africa.
- Export penetration of China into RSA.
- Revealed comparative disadvantages of RSA against China.
- A synthesis of the contents of this chapter and the previous ones appears in Chapter 8. In Chapter 8 the defensive position of South Africa is formulated for the China –negotiations on TCFL products.

The source of data is UN Comtrade and is in US$.

6.2 Comparative size

Exports of TCFL products by South Africa came to 0.7% of that of China in 2004 and imports to 8.8% of imports. A positive trade balance of US$ 88.1 billion was recorded by China in 2004. The negative trade balance by South Africa came to US$ 1.4 billion in 2004. China thus completely dwarfs the South African TCFL industries.

Table 6.1 Imports and exports of TCFL products by South Africa and China US$ million

	Exports		Imports	
Year	**China**	**SA**	**China**	**SA**
2000	64478	671	17775	1149
2004	112720	756	24653	2104

6.3 Export to the world according to product categories

The export of TCFL products by China amounted to US$112.7 billion in 2004. That was 74.8% higher than in 2000. Exports of textiles were 27.9% of TCFL exports, exports of clothing were 48.6%, leather 9.9 % and footwear 13.5%.

Textiles

Export of textiles in 2004 was 120% higher than in 2000.The focus of textile exports is fabrics (57.4 of textile exports) and made-up articles (28.8%) in 2004 The export of fibres was 3.0% of textile exports in 2004 and 3% less than in 2000 possibly as the result of adverse conditions in cotton production. Export of yarn is 11.3% of textile exports with cotton yarn prominent. Yarn exports in 2004 were 74.4% more than in 2000.

In 2004 the export of fabrics (57.4% of textile exports) was 151% more than in 2000. Cotton fabrics dominate followed by fabric from man-made filament yarn, knitted fabrics, special wovens and man-made staples. The export of special woven fabrics increased by 182% between 2000 and 2004. It amounted to more than 9% in 2004 as opposed to 6.2% in 2000.

Exports of made –up textiles increased by 117% between 2000 and 2004. Export of household made-ups dominates followed by other made-ups.

Table 6.2 Chinese exports of textiles 2000 to 2004 (US$ million)

Sub-group	2000	2001	2002	2003	2004
TEXTILES	**14348**	**15832**	**19604**	**25692**	**31549**
Fibres	**987**	**694**	**863**	**948**	**956**
Wool	361	291	316	358	390
: Cotton	307	82	172	135	17
: Man-made staples	319	321	375	455	549
Yarn	**2050**	**2113**	**2466**	**3134**	**3576**
Wool	640	562	497	590	774
Cotton	631	722	1007	1378	1334
: Man-made filament	274	276	410	560	743
: Man-made staples	462	509	504	554	653
Special yarns	43	44	48	52	72
Fabrics	**7215**	**8656**	**11109**	**14350**	**18119**
: Wool	189	213	240	341	504
: Cotton	2792	2854	3715	4707	5236
Man-made filament	1097	1397	2084	3275	4534
: Man-made staples	1943	1829	1644	1778	2353
: Knitted fabrics	1288	1361	2006	2508	2994
Special wovens	886	1002	1420	1901	2498
Made-up Textiles	**4096**	**4369**	**5166**	**7080**	**8898**
Ropes, netting, etc	136	139	157	212	251
Textiles: Carpets	471	491	557	637	773
Coated, laminated	37	39	57	62	91
: Household	2357	2575	3016	4220	5351
Other made-ups	1085	1117	1373	1945	2428
Used clothing	3	3	2	1	0
Rags	7	5	4	3	4

Some of the 4-digit headings that gained more than average and those that lose out appear in Table 6.2.2. A full version can be found in ANNEX 1.

Table 6.3 Chinese exports of textiles 2000 to 2004 (US$ million) selected 4HS headings

HS4	Description	2000	2004
		USD m	USD m
5112	Woven fabrics of combed wool or of combed fine animal hair.	150.7	415.8
5208	Woven fabrics of cotton, containing 85 % or more by mass of cotton, of a mass of not exceeding 200 g/m2.	1,649.8	2,883.1
5209	Woven fabrics of cotton, containing 85 % or more by mass of cotton, of a mass exceeding 200 g/m2.	916.8	1,787.0
5407	Woven fabrics of synthetic filament yarn including materials obtained from heading 5404	1,002.4	4, 373.5
5513	Woven fabrics of synthetic staple fibres, containing less than 85 % by mass of such fibres, mixed mainly or solely with cotton, of a mass not exceeding - 170g/m2.	975.8	945.4
6002	Knitted or crocheted fabrics of a width not exceeding 30cm, containing by mass 5 per cent or more …..	1,105.1	2,398.3
6302	Bed linen, table linen, toilet linen and kitchen linen.	1,772.6	2,667.0
6303	Curtains (including drapes) and interior blinds; curtain or bed valances.	143.3	911.4

Clothing

Clothing is half of all TCFL exports and in 2004 was 70% higher than in 2000.at US$ 54.8 billion. Export of knitted clothing is growing faster than that of other clothing but the latter is still 53% of clothing exports.

Table 6.4 Chinese exports of clothing 2000 and 2004 (US$ million)

Sub-group	2000	2001	2002	2003	2004
Clothing	**32289**	**32408**	**36566**	**45757**	**54784**
Knitted, etc	13424	13456	15984	20678	25803
Other clothing	18865	18952	20582	25079	28981

The contents of table 6.2.5 show that women's and girls suits, ensembles etc. gained in importance between 2000 and 2004.

Table 6.5 Chinese exports of clothing 2000 and 2004 selected 4HS headings

HS4	Description	2000		2004	
		USD m	%	USD m	%
6110	Jerseys, pullovers, cardigans, waist- coats and similar articles, knitted or crocheted.	4,576.7	34	6,753.9	26
6104	Women's or girls' suits, ensembles, jackets, blazers, dresses, skirts, divided skirts, trousers, bib and brace overalls, breeches and shorts (excluding swimwear), knitted or crocheted.	1,697.7	13	4,443.3	17
6109	T-shirts, singlets and other vests, knitted or crocheted.	2,275.4	17	3,914.6	15
6103	Men's or boys' suits, ensembles, jackets, blazers, trousers, bib and brace overalls, breeches and shorts (excluding swimwear), knitted or crocheted.	1,166.4	9	2,461.1	10
6108	Women's or girls' slips, petticoats, briefs, panties, nightdresses, pajamas, negligees, bathrobes, dressing gowns and similar articles, knitted or crocheted.	979.4	7	1,928.7	7
6115	Panty hose, tights, stockings, socks and other hosiery, including stockings for varicose veins and footwear without applied soles, knitted or crocheted.	440.3	3	1,226.4	5
	Other	2,288.5	17	5,074.7	20
	TOTAL	13,424.4	100	25,802.5	100
6204	Women's or girls' suits, ensembles, jackets blazers, dresses, skirts, divided skirts, trousers, bib and brace overalls, breeches and shorts (excluding swimwear).	4,589.8	24	8,207.1	28
6203	Men's or boys' suits, ensembles, jackets, blazers, trousers, bib and brace overalls, breeches and shorts (excluding swimwear):	4,186.4	22	5,079.0	18

6202	Women's or girls' overcoats, car-coats, capes, cloaks, anoraks (including ski- jackets), wind-cheaters, wind-jackets and similar articles, (excluding those of heading no. 62.04).	1,048.6	6	2,677.1	9
6201	Men's or boys' overcoats, car-coats, capes, cloaks, anoraks (including ski- jackets), wind-cheaters, wind-jackets and similar articles, (excluding those of heading no. 62.03).	1,494.3	8	2,398.7	8
6205	Men's or boys' shirts.	1,614.9	9	2,117.5	7
6211	Track suits, ski suits and swimwear; other garments.	1,336.3	7	1,956.3	7
6210	Garments, made up of fabrics of heading no. 56.02, 56.03, 59.03, 59.06 or 59.07.	951.4	5	1,231.4	4
	Other	3,643.4	19	5,313.7	18
	TOTAL	**18,865.1**	**100**	**28,980.9**	**100**

Leather

Export of leather and leather goods is 10.3% of TCFL exports and in 2004 were 59.6% higher than in 2000. . Export of leather improved the most but is a small part of leather and leather and leather goods exports. Export of leather goods is 87.8% out of a total of US$ 11.2 billion. Among exports of leather goods that of HS 4202 Trunks, suitcases etc came to US$ 6.2 billion in 2004 and that of HS 4203 Articles of apparel to US$ 3.4 billion.

Table 6.6 Chinese exports of leather 2000 to 2004

Sub-group	2000	2001	2002	2003	2004
Leather	**7010**	**7712**	**8503**	**10316**	**11185**
Tanned/crust hides & skins	468	758	802	985	1213
Leather, further prepared	63	132	128	136	157
Leather goods	6479	6822	7573	9195	9815

Footwear

Export of footwear showed the lowest growth in TCFL exports between 2000 and 2004. It was 54.3% higher at US$ 15.2 billion and 14% of TCFL exports. Exports of uppers with leather are 41% of footwear exports; uppers of rubber and plastic are 36.5% and that with uppers of textiles 12.3%.

Table 6.7 Chinese exports of footwear 2000 to 2004 (US$ millions)

Sub-group	2000	2001	2002	2003	2004
Footwear	**9851**	**10095**	**11090**	**12955**	**15202**
Waterproof	119	133	123	137	154
Uppers of rubber or plastics	3411	3510	3925	4654	5554
Uppers of leather	4289	4283	4753	5279	6249
Uppers of textile materials	1195	1401	1419	1612	1874
Other	453	349	461	808	795
Parts	384	419	409	465	576

The sub-groups are at 4HS level.

6.3.1 Destination

50% of China's exports of TCFL –products are marketed in Hong Kong, Japan and the USA. A further approximately 10% goes to EU members. South Africa is the destination of about 1% of Chinese exports.

Table 6.8 Destination of exports of TCFL products by China 2000 to 2004 ($million and percentage share)

Partner	2000		2004	
	USD m	%	USD m	%
China, Hong Kong SAR	12,338	19%	19,037	17%
Japan	14,704	23%	18,179	16%
USA	11,206	17%	17,839	16%
Rep. Of Korea	2,451	4%	4,495	4%
Russian Federation	1,483	2%	4,284	4%
Germany	1,574	2%	2,891	3%

United Kingdom	1,092	2%	2,245	2%
Australia	1,293	2%	2,128	2%
Italy	1,048	2%	2,190	2%
United Arab Emirates	784	1%	2,486	2%
Canada	980	2%	1,689	1%
France	840	1%	1,509	1%
Singapore	658	1%	1,429	1%
Spain	521	1%	1,306	1%
Kazakhstan	380	1%	1,228	1%
Panama	834	1%	1,191	1%
Netherlands	591	1%	1,159	1%
Mexico	336	1%	1,146	1%
China, Macao SAR	476	1%	1,010	1%
Other	10,519	16%	24,153	21%
South Africa	**373**	**1%**	**950**	**1%**
TOTAL	**64,481**	**100%**	**112,719**	**100%**

6.3.2 Revealed comparative advantages

Ratios greater than 1 represent a revealed comparative advantage. A full explanation appears in ANNEX 2. The contents of table 6.2.9 make it clear that China has extensive revealed comparative advantages against the world. The list of 4HS headings can be taken as a defensive list in trade negotiations with China. Concessions should not be granted for these products.

Table 6.9 Chinese revealed comparative advantages in TCFL products exported to the world and export growth

HS4	Description	RCA China export to World		Growth of exp. 2000-2004
		2000	2004	
6103	Men's or boys' suits, ensembles, jackets, blazers, trousers, bib and brace overalls,	4	5	22

HS4	Description	RCA China export to World		Growth of exp. 2000-2004
		2000	2004	
	breeches and shorts (excluding swimwear), knitted or crocheted.			
5108	Yarn of fine animal hair (carded or combed), not put up for retail sale.	4	3	3
6301	Blankets and traveling rugs.	2	3	39
5508	Sewing thread of man-made staple fibres, whether or not put up for retail sale.	4	3	4
5407	Woven fabrics of synthetic filament yarn including materials obtained from heading 5404	1	2	29
6104	Women's or girls' suits, ensembles, jackets, blazers, dresses, skirts, divided skirts, trousers, bib and brace overalls, breeches and shorts (excluding swimwear), knitted or crocheted.	2	3	30
5803	Gauze, (excluding narrow fabrics of heading no. 58.06.)	2	3	16
6213	Handkerchiefs.	2	2	10
4203	Articles of apparel and clothing accessories, of leather or of composition leather.	3	2	10
5801	Woven pile fabrics and chenille fabrics, (excluding fabrics of heading no. 58.02 or 58.06.)	2	2	30
5513	Woven fabrics of synthetic staple fibres, containing less than 85 % by mass of such fibres, mixed mainly or solely with cotton, of a mass not exceeding - 170g/m2.	3	2	-2
6306	Tarpaulins, awnings and sunblinds; tents sails for boats, sailboards or landcraft, camping goods.	3	2	17

HS4	Description	RCA China export to World		Growth of exp. 2000-2004
		2000	2004	
6304	Other furnishing articles (excluding those of heading no. 94.04).	1	2	53
6405	Other footwear.	3	2	22
6402	Other footwear with outer soles and uppers of rubber or plastics.	2	2	13
6113	Garments, made up of knitted or crocheted fabrics of heading no. 5903, 5906 or 5907	2	2	5
6207	Men's or boys' singlets and other vests, underpants, briefs, nightshirts, pajamas, bathrobes, dressing gowns and similar articles.	2	2	6
6201	Men's or boys' overcoats, car-coats, capes, cloaks, anoraks (including ski- jackets), wind-cheaters, wind-jackets and similar articles, (excluding those of heading no. 62.03).	2	2	15
5113	Woven fabrics of coarse animal hair or of horsehair.	2	2	15
6208	Women's or girls' singlets and other vests, slips, petticoats, briefs, panties, nightdresses, pajamas, negligees , bathrobes, dressing gowns and similar articles.	2	2	5
6303	Curtains (including drapes) and interior blinds; curtain or bed valances.	1	2	62
5516	Woven fabrics of artificial staple fibres.	1	2	10
5208	Woven fabrics of cotton, containing 85 % or more by mass of cotton, of a mass of not exceeding 200 g/m2.	2	2	17
6202	Women's or girls' overcoats, car-coats, capes, cloaks, anoraks (including ski- jackets), wind-cheaters, wind-jackets and similar articles,	1	2	31

HS4	Description	RCA China export to World		Growth of exp. 2000-2004
		2000	2004	
	(excluding those of heading no. 62.04).			
6216	Gloves, mittens and mitts.	2	2	3
6210	Garments, made up of fabrics of heading no. 56.02, 56.03, 59.03, 59.06 or 59.07.	2	2	6
6209	Babies' garments and clothing accessories.	1	2	27
6211	Track suits, ski suits and swimwear; other garments.	2	2	11
6116	Gloves, mittens and mitts, knitted or crocheted.	1	2	22
6305	Sacks and bags, of a kind used for the packing of goods.	1	2	19
5104	Garnetted stock of wool or of fine or coarse animal hair.	5	2	-10
5705	Other carpets and other textile floor coverings, whether or not made up.	1	2	34
6117	Other made up clothing accessories, knitted or crocheted; knitted or crocheted parts of garments or of clothing accessories.	1	1	23
6401	Waterproof footwear with outer soles and uppers of rubber or of plastics, the uppers of which are neither fixed to the sole nor assembled by stitching, riveting, nailing, screwing, plugging or similar processes.	2	1	6
5109	Yarn of wool or of fine animal hair, put up for retail sale.	1	1	14
6214	Shawls, scarves, mufflers, mantillas, veils and the like.	1	1	9
6001	Pile fabrics, including "long pile" fabrics and terry fabrics, knitted or crocheted.	1	1	39

HS4	Description	RCA China export to World		Growth of exp. 2000-2004
		2000	2004	
6404	Footwear with outer soles of rubber, plastics, leather or composition leather and uppers of textile materials.	1	1	11
5909	Textile hosepiping and similar textile tubing, with or without lining, armour or accessories of other materials.	1	1	37
6111	Babies' garments and clothing accessories, knitted or crocheted.	1	1	33
6302	Bed linen, table linen, toilet linen and kitchen linen.	2	1	11
6215	Ties, bow ties and cravats.	1	1	27
4202	Trunks, suitcases, vanity-cases, executive-cases, brief-cases, school satchels, spectacle cases, binocular cases, camera cases, musical instrument cases, gun cases, holsters & similar containers, traveling-bags, toilet bags, rucksacks, handbags, sh	1	1	13
5105	Wool and fine or coarse animal hair, carded or combed (including combed wool in fragments).	1	1	4
6108	Women's or girls' slips, petticoats, briefs, panties, nightdresses, pajamas, negligees, bathrobes, dressing gowns and similar articles, knitted or crocheted.	1	1	23
6112	Track suits, ski suits and swimwear, knitted or crocheted.	1	1	21
4107	Leather of other animals, without hair on, (excluding leather of heading no. 41.14)	1	1	20
5808	Braids in the piece; ornamental trimmings in the piece, without embroidery (excluding knitted or	0	1	43

HS4	Description	RCA China export to World		Growth of exp. 2000-2004
		2000	2004	
	crocheted); tassels, pompons and similar articles.			
5608	Knotted netting of twine, cordage or rope; made up fishing nets and other made up nets, of textile materials.	1	1	16
4201	Saddlery and harness for any animal (including traces, leads, knee pads, muzzles, saddle cloths, saddle bags, dog coats and the like), of any material.	1	1	16
5209	Woven fabrics of cotton, containing 85 % or more by mass of cotton, of a mass exceeding 200 g/m2.	1	1	20
5206	Cotton yarn (excluding sewing thread), containing less than 85 % by mass of cotton, not put up for retail sale.	1	1	36

6.4 Imports of Clothing and Textiles by South Africa

6.4.1 Data

Customs data from the South African Revenue Services is used. The analysis is for the period 2000 to 2004. Data is analysed on the 4-digit-level of the HS. Exports are measured in US$. The Rand per $ conversion rates are as follows

2000 6.9353
2001 8.6031
2002 10.5165
2003 7.5647
2004 6.449

6.4.2 Analysis

6.4.2.1 South African imports of TCFL- products from the world

South Africa's import of textiles is 44.5% of TCFL exports; that of clothing 26.8%; leather and products 9.3% and footwear 19.3%. Between 2000 and 2004.the import of TCFL –products increased by 83% from US$ 1033 million in 2000 to US$ 2104million in 2004.

Textiles

The import of textiles increased by 50% between 2000 and 2004. That of fibres, .mainly cotton, doubled to reach 22.5% of textile imports in 2004. The import of cotton yarn and of fabric became more prominent between 2000 and 20004. Imports of made-up textiles are about 17% of textile imports but that of household made-ups doubled between 2000 and 2004.

Table 6.10 South African imports of textiles 2000 to 2004 (USD million)

Sub-group	2000	2001	2002	2003	2004
TEXTILES	**629**	**575**	**575**	**712**	**942**
Fibres	**90**	**94**	**118**	**135**	**182**
Fibres: Wool	1	1	2	1	2
Fibres: Cotton	32	47	60	76	116
Fibres: Man-made staples	57	46	56	58	64
Yarn	**90**	**92**	**109**	**121**	**140**
Yarn: Wool	1	1	2	2	2
Yarn: Cotton	8	21	23	29	40
Yarn: Man-made filament	67	61	71	74	78
Yarn: Man-made staples	13	8	13	15	18
Yarn: Special yarns	1	1	1	1	2
Fabric	**356**	**306**	**264**	**367**	**458**
Fabrics: Wool	3	3	3	3	3
Fabrics: Cotton	49	48	54	69	90

Sub-group	2000	2001	2002	2003	2004
Fabrics: Man-made filament	119	98	100	114	133
Fabrics: Man-made staples	62	55	52	63	82
Fabrics: Knitted fabrics	50	44	42	46	59
Fabrics: Special wovens	70	56	61	69	88
Made-up Textiles	**93**	**83**	**84**	**89**	**162**
Made-up Textiles: Ropes, netting, etc	5	4	3	4	7
Made-up Textiles: Carpets	21	18	16	18	33
Made-up Textiles: Coated, laminated	26	26	29	40	44
Made-up Textiles: Household	18	11	12	27	40
Made-up Textiles: Other made-ups	19	19	19	22	32
Made-up Textiles: Used clothing	4	5	5	5	6
Made-up Textiles: Rags	0	0	0	0	0

Source: South African Customs and Excise

Clothing

In 2004 imports of clothing were three times that of 2000.The upsurge in imports occurred in 2003 and 2004, the two years in which the Rand appreciated from its artificially low level in 2002.

Table 6.11 South African imports of clothing 2000 to 2004 (US$ million)

Sub-group	2000	2001	2002	2003	2004
Clothing	**194**	**170**	**176**	**305**	**562**
Clothing: Knitted, etc	74	70	69	114	231
Clothing: Other clothing	120	100	107	191	331

Leather

Imports of prepared leather and leather goods increased strongly. Imports of hides and skins declined strongly when the Rand was weak and recovered to some extent in 2004.

Table 6.12 South African imports of leather and products 2000 to 2004 (USD million)

Sub-group	2000	2001	2002	2003	2004
Leather	**125**	**107**	**102**	**130**	**195**
Leather: Tanned/crust hides & skins	70	58	35	34	53
Leather: Leather, further prepared	5	4	20	32	42
Leather: Other leather	0	0	1	2	2
Leather goods: Leather goods	50	45	46	62	98

Table 6.13 South African imports of footwear 2000 to 2004 (US$ million)

Sub-group	2000	2001	2002	2003	2004
Footwear	**202**	**192**	**190**	**270**	**405**
Footwear: Waterproof	0	0	0	1	1
Footwear: Uppers of rubber or plastics	76	82	80	107	166
Footwear: Uppers of leather	79	63	58	80	136
Footwear: Uppers of textile materials	30	34	40	64	81
Footwear: Other	2	2	3	8	9
Footwear: Parts	15	11	9	10	12

Footwear

Imports of footwear surged ahead in 2003 and 2004 when the Rand became stronger. This is true for all categories that are shown in Table 6.8 except for waterproof footwear and parts for footwear

6.4.2.2 Origin of South African imports of TCFL-products

China strengthened its position as main supplier to the South African TCFL market from 22% of total South African imports in 2000 to 45% in 2004.India remains in second position with 5% (6% in 2000). As can be seen from the table, supplier countries lost 1% or sometimes 2 % or more of their market share compared with 2000 to make room for China. Zimbabwe and Zambia are the only other countries that increased their market share.

Table 6.14 Origin of TCFL-imports by South Africa 2000 and 2004 (R million)

Partner	2000		2004	
	USD m	%	USD m	%
China	249	22%	951	45%
India	72	6%	114	5%
Zimbabwe	32	3%	89	4%
Taiwan Province of China	84	7%	81	4%
Pakistan	38	3%	70	3%
Germany	48	4%	67	3%
Italy	58	5%	65	3%
Hong Kong	50	4%	64	3%
United States	52	5%	49	2%
Indonesia	59	5%	46	2%
Zambia	10	1%	41	2%
Brazil	16	1%	39	2%
Other	383	33%	420	20%
TOTAL	**1,150**	**100%**	**2,097**	**100%**

Imports of TCFL products increased almost four fold between 2000 and 2005. It can thus be asked why China needs any preferential treatment with such a high penetration rate. South Africa's import regime seems to be excessively friendly to imports from China.

6.4.2.3 South African Imports from China

Product Groups

Table 6.15 Imports of TCFL products by South Africa from China: 2000 to 2004 (USD million)

Sub-group	2000	2001	2002	2003	2004
Fibres: Wool	0	0	0	0	0.1
Fibres: Cotton	0.1	0.2	0.3	0.1	0
Fibres: Man-made staples	0.2	0.5	0.4	0.6	0.9
Yarn: Wool	0.2	0.1	0.3	0.4	0.5
Yarn: Cotton	0	0.1	0.1	0.6	0.9
Yarn: Man-made filament	**7.7**	**14.2**	**20.2**	**35.2**	**51.6**
Yarn: Man-made staples	1.2	0.8	2.2	1.4	1.8
Yarn: Special yarns	0	0.2	0	0.1	0.5
Fabrics: Wool	0	0	0	0.1	0.4
Fabrics: Cotton	**7.3**	**7.6**	**13.8**	**23.8**	**36.3**
Fabrics: Man-made filament	0.2	0.2	0.2	0.2	0.5
Fabrics: Man-made staples	**8.9**	**8.8**	**10.1**	**15**	**21.9**
Fabrics: Knitted fabrics	**2.6**	**2.7**	**3.5**	**6.5**	**11.7**
Fabrics: Special wovens	**6.8**	**6.6**	**10.5**	**12.7**	**18.6**
Made-up Textiles: Ropes, netting, etc	0.1	0.1	0.1	0.2	0.6
Made-up Textiles: Carpets	0.7	0.4	0.2	0.2	1.2
Made-up Textiles: Coated, laminated	0	0.1	0.5	0.2	0.5
Made-up Textiles:	**2.8**	**2.9**	**4.1**	**8.2**	**14.5**

Sub-group	2000	2001	2002	2003	2004
Household					
Made-up Textiles: Other made-ups	**8.3**	**7.4**	**8.3**	**9.4**	**16.8**
Made-up Textiles: Used clothing	0	0	0	0	0
Made-up Textiles: Rags	0	0	0	0	0
Clothing: Knitted, etc	**37.2**	**37.5**	**40.3**	**78.4**	**172.1**
Clothing: Other clothing	**58.3**	**48.3**	**55.8**	**124.2**	**245.6**
Leather: Tanned/crust hides & skins	0.1	0	0	0	0.1
Leather: Leather, further prepared	0.1	0	0	0.3	0.2
Leather: Other leather	0	0	0	0.2	0.3
Leather goods: Leather goods	**23.2**	**22**	**25.2**	**37.9**	**59.8**
Footwear: Waterproof	0	0	0	0.1	0.2
Footwear: Uppers rubber/ plastics	**37.6**	**61.2**	**66.2**	**94.8**	**151.6**
Footwear: Uppers of leather	**25.4**	**28.2**	**25.6**	**39.3**	**76.2**
Footwear: Uppers of textile materials	**13.9**	**21.6**	**24.4**	**46.9**	**55.8**
Footwear: Other	0.7	1.1	1.8	4.8	5.7
Footwear: Parts	4.7	2.4	2.4	2.7	3.1
TOTAL	248	274.7	315.4	544.8	950.8

The following shows a comparison of export values under certain TC chapters according to China's export data and South African import data for 2003 and 2004. The Chinese export values are substantially higher than the South African import values. The only logical explanation for this situation appears to be under invoicing by South African importers. This means that the extent of Chinese penetration of the RSA market has actually been understated.

Chinese Exports of Certain TCF Products to South Africa (chapters with export value > US$10 mil): Comparison of Chinese Export Statistics and RSA Import Statistics: US$ millions

HS	DESCRIPTION	2003			2004	
		China Export Stats[1]	RSA Import Stats[2]		China Export Stats[1]	RSA Import Stats[2]
52	Cotton/yarn/fabric	43.0	24.5		49.4	37.3
54	Manmade filament yarn; and fabric	49.2	35.4		80.3	52.1
55	Manmade staple fibres/yarn/fabric	40.2	17.0		56.3	24.6
58	Special woven fabrics etc	14.1	12.7		25.0	18.6
60	Knitted; crocheted fabrics	29.6	6.5		34.8	11.7
61	Knitted apparel	131.2	78.4		227.1	172.1
62	Woven apparel	171.1	124.2		296.9	245.6
63	Miscellaneous textile articles	38.3	17.7		64.7	31.4
TOTAL		**516.7**	**316.4**		**834.5**	**593.4**
	% Difference	+63%	-39%		+41%	-29%

[1] China Customs through World Trade Atlas /COMTRADE

[2] RSA SARS

Table 6.16 Prominent imports of product categories of TCFL products by South Africa from China: 2000 to 2004 (USD million)

CATEGORY	CHINA		WORLD		CHINA SHARE	
	2000	2004	2000	2004	2000	2004
	US$m	US$m	US$m	US$m	%	%
Fabrics: Cotton	7.3	36.3	49	90	14.9	40.3
Fabrics: Man-made staples	8.9	21.9	62	82	14.4	26.7
Fabrics man-made filament yarn	7.7	14.2	113	127	6.8	11.2

	CHINA		WORLD		CHINA SHARE	
Fabrics: Knitted fabrics	2.6	11.7	50	59	5.2	19.8
Fabrics: Special wovens	6.8	18.6	70	88	9.7	21.1
Made-up Textiles: Household	2.8	14.5	18	40	15.6	36.3
Made-up Textiles: Other made-ups	8.3	16.8	19	32	43.4	52.5
Clothing: Knitted, etc	37.2	172.1	74	231	50.3	74.5
Clothing: Other clothing	58.3	245.6	120	331	48.6	74.2
Leather goods: Leather goods	23.2	59.8	50	98	46.4	61
Footwear: Uppers rubber/ plastics	37.6	151.6	76	166	49.5	91.3
Footwear: Uppers of leather	25.4	76.2	79	136	32.1	56
Footwear: Uppers of textile materials	13.9	55.8	30	81	46.3	68.9
TOTAL	**248**	**950.8**	**1146**	**2041**	**21.6**	**46.6**

Imports of TCFL products from China appear in Table 6.2.15. Imports of textiles were 18.9% of TCFL imports in 2004. That of clothing was 44.2%, footwear 30.7% and leather and goods 6.4%. Among the product categories those marked in bold represents 98.9% of TCFL imports from China. Their share in all TCFL imports appears in table 6.2.16. From the table it can be observed that among textiles imports that of made-up textiles exhibits a high Chinese content. The Chinese content in clothing imports approached 75% in 2004. For imports of footwear with uppers of rubber or plastic it was at a high 91.3% in 2004 and in excess of 60% with regard to the remainder of the footwear headings. The Chinese are thus ably winning market share in all spheres of the TCFL sectors.

6.4.2.4 Trade Balance

Table 6.17 South African TCFL imports from and exports to China 2000 and 2004 and trade balances (USD million)

Sub-group	2000			2004		
	Import	Export	Balance	Import	Export	Balance
Fibres: Wool	0	9	9	0.1	13.6	13.5
Fibres: Cotton	0.1	0	-0.1	0	0.4	0.4
Fibres: Man-made staples	0.2	0.2	-0.1	0.9	0.5	-0.4
Yarn: Wool	0.2	0	-0.2	0.5	0	-0.5
Yarn: Cotton	0	0	0	0.9	0.1	-0.8
Yarn: Man-made filament	1.8	0.4	-1.4	4.6	3.3	-1.3
Yarn: Man-made staples	1.2	0	-1.2	1.8	0	-1.8
Yarn: Special yarns	0	0	0	0.5	0.1	-0.5
Fabrics: Wool	0	0.1	0	0.4	0	-0.4
Fabrics: Cotton	7.3	0	-7.3	36.3	0.1	-36.2
Fabrics: Man-made filament	7.7	0.4	-7.3	51.6	6.9	-44.7
Fabrics: Man-made staples	8.9	0	-8.9	21.9	0	-21.9
Fabrics: Knitted fabrics	2.6	0	-2.6	11.7	0	-11.7
Fabrics: Special wovens	6.8	0	-6.8	18.6	0	-18.6
Made-up Textiles: Ropes, netting, etc	0.1	0	-0.1	0.6	0	-0.6
Made-up Textiles: Carpets	0.7	0	-0.7	1.2	0	-1.1
Made-up Textiles: Coated, laminated	0	0	0	0.5	0	-0.5
Made-up Textiles: Household	2.8	0	-2.8	14.5	0	-14.5
Made-up Textiles: Other made-ups	8.3	0	-8.3	16.8	0.1	-16.7
Made-up Textiles: Used clothing	0	0	0	0	0	0
Made-up Textiles: Rags	0	0	0	0	0	0
Clothing: Knitted, etc	37.2	0	-37.2	172.1	0	-172.1
Clothing: Other clothing	58.3	0	-58.3	245.6	0.1	-245.5
Leather: Tanned/crust hides & skins	0.1	0.1	0	0.1	2.7	2.6
Leather: Leather, further	0.1	0.1	0	0.2	1.1	0.8

Sub-group	2000			2004		
	Import	Export	Balance	Import	Export	Balance
prepared						
Leather: Other leather	0	0	0	0.3	0.1	-0.2
Leather goods: Leather goods	23.2	0	-23.2	59.8	0	-59.7
Footwear: Waterproof	0	0	0	0.2	0	-0.2
Footwear: Uppers of rubber or plastics	37.6	0	-37.6	151.6	0	-151.6
Footwear: Uppers of leather	25.4	0	-25.4	76.2	0	-76.2
Footwear: Uppers of textile materials	13.9	0	-13.9	55.8	0	-55.8
Footwear: Other	0.7	0	-0.7	5.7	0	-5.7
Footwear: Parts	4.7	0	-4.7	3.1	0	-3.1
TOTALS	248	8	-240	951	25.8	-925

Source: SARS.

China runs a positive trade balance with South Africa that in 2004 amounted US$ 925 million. Trade is in China's favour in all categories except for tanned and prepared leather and wool and cotton fibres.

6.4.2.5 Revealed comparative advantages

Table 6.18 The revealed comparative advantage of China in trade in TCFL products with South Africa

HS4	Description	RCA of China exporting to SA				
		2000	2001	2002	2003	2004
6111	Babies' garments and clothing accessories, knitted or crocheted.	3.8	3.2	3	2.4	2
6114	Other garments, knitted or crocheted.	2.6	2.5	2.7	2.3	2
6306	Tarpaulins, awnings and sunblinds; tents sails for boats, sailboards or landcraft, camping goods.	3.2	2.7	2.4	2	2

HS4	Description	RCA of China exporting to SA				
		2000	2001	2002	2003	2004
6202	Women's or girls' overcoats, car-coats, capes, cloaks, anoraks (including ski-jackets), wind-cheaters, wind-jackets and similar articles, (excluding those of heading no. 62.04).	3.6	3.1	2.8	2.1	2
6209	Babies' garments and clothing accessories.	3	2.6	2.9	2.1	2
6402	Other footwear with outer soles and uppers of rubber or plastics.	2.1	2.7	2.7	2.2	2
5407	Woven fabrics of synthetic filament yarn including materials obtained from heading 5404	0.7	1	1	2	2
6112	Track suits, ski suits and swimwear, knitted or crocheted.	3.4	2.7	2	2.2	1.9
5802	Terry toweling and similar woven terry fabrics, (excluding narrow fabrics of heading no. 58.06); tufted textile fabrics, (excluding products of heading no. 57.03.)	0.1	0.4	1.5	1.7	1.9
6108	Women's or girls' slips, petticoats, briefs, panties, nightdresses, pajamas, negligees, bathrobes, dressing gowns and similar articles, knitted or crocheted.	3	2.6	2.3	2.3	1.9
6213	Handkerchiefs.	3.2	2.4	2.9	2.2	1.9
6107	Men's or boys' underpants, briefs, nightshirts, pajamas, bathrobes, dressing gowns and similar articles, knitted or crocheted.	3.4	3	2.6	1.9	1.9
6212	Brassieres, girdles, corsets, braces, suspenders, garters and similar articles and parts thereof, whether or not knitted	1.9	1.8	1.9	2	1.8

HS4	Description	RCA of China exporting to SA				
		2000	2001	2002	2003	2004
	or crocheted.					
6201	Men's or boys' overcoats, car-coats, capes, cloaks, anoraks (including ski-jackets), wind-cheaters, wind-jackets and similar articles, (excluding those of heading no. 62.03).	3.3	3	2.8	2.1	1.7
6102	Women's or girls' overcoats, car-coats, capes, cloaks, anoraks (including ski-jackets), wind-cheaters, wind-jackets and similar articles, knitted or crocheted, (excluding those of heading no. 61.04.):	3.3	2	2.2	1.9	1.7
6204	Women's or girls' suits, ensembles, jackets blazers, dresses, skirts, divided skirts, trousers, bib and brace overalls, breeches and shorts (excluding swimwear).	1.8	1.5	1.8	1.8	1.7
6113	Garments, made up of knitted or crocheted fabrics of heading no. 5903, 5906 or 5907	2.9	3.2	2.3	1.5	1.7
6104	Women's or girls' suits, ensembles, jackets, blazers, dresses, skirts, divided skirts, trousers, bib and brace overalls, breeches and shorts (excluding swimwear), knitted or crocheted.	2.1	1.6	1.5	1.6	1.7
6203	Men's or boys' suits, ensembles, jackets, blazers, trousers, bib and brace overalls, breeches and shorts (excluding swimwear):	2.5	1.9	1.6	1.8	1.7
6106	Women's or girls' blouses, shirts and shirt-blouses, knitted or crocheted.	2.3	1.9	1.1	1.5	1.5

HS4	Description	RCA of China exporting to SA				
		2000	2001	2002	2003	2004
5107	Yarn of combed wool, not put up for retail sale.	0	0	1.5	1.2	1.5
6101	Men's or boys' overcoats, car-coats, capes, cloaks, anoraks (including ski-jackets), wind-cheaters, wind-jackets and similar articles, knitted or crocheted, (excluding those of heading no. 61.03):	1.8	1.1	1.2	1.4	1.5
6208	Women's or girls' singlets and other vests, slips, petticoats, briefs, panties, nightdresses, pajamas, negligees , bathrobes, dressing gowns and similar articles.	2.5	1.7	2.3	1.6	1.5
6110	Jerseys, pullovers, cardigans, waist-coats and similar articles, knitted or crocheted.	2.2	2.3	2.1	1.7	1.5
6109	T-shirts, singlets and other vests, knitted or crocheted.	1.1	1.3	1.5	1.6	1.5
6404	Footwear with outer soles of rubber, plastics, leather or composition leather and uppers of textile materials.	2	2.3	2	1.9	1.5
6103	Men's or boys' suits, ensembles, jackets, blazers, trousers, bib and brace overalls, breeches and shorts (excluding swimwear), knitted or crocheted.	1.6	1.2	1.9	1.5	1.5
5801	Woven pile fabrics and chenille fabrics, (excluding fabrics of heading no. 58.02 or 58.06.)	2	1.9	2.2	1.5	1.5
6207	Men's or boys' singlets and other vests, underpants, briefs, nightshirts, pajamas, bathrobes, dressing gowns and similar articles.	1.7	2	2.1	1.9	1.5

HS4	Description	RCA of China exporting to SA				
		2000	2001	2002	2003	2004
4202	Trunks, suitcases, vanity-cases, executive-cases, brief-cases, school satchels, spectacle cases, binocular cases, camera cases, musical instrument cases, gun cases, holsters & similar containers, traveling-bags, toilet bags, rucksacks, handbags, sh	2.2	1.9	1.9	1.6	1.4
6117	Other made up clothing accessories, knitted or crocheted; knitted or crocheted parts of garments or of clothing accessories.	1.1	1.8	1.8	1.6	1.4
6405	Other footwear.	1.5	1.6	1.7	1.5	1.4
5803	Gauze, (excluding narrow fabrics of heading no. 58.06.)	0	0.7	0	0.1	1.3
6217	Other made up clothing accessories; parts of garments or of clothing accessories, (excluding those of heading no. 62.12).	0.5	1.1	1	1.3	1.3
5514	Woven fabrics of synthetic staple fibres, containing less than 85 % by mass of such fibres, mixed mainly or solely with cotton, of a mass exceeding 170 g/m2.	0.9	0.8	1.2	1.4	1.3
6210	Garments, made up of fabrics of heading no. 56.02, 56.03, 59.03, 59.06 or 59.07.	3.1	2.5	1.9	1.1	1.2
6116	Gloves, mittens and mitts, knitted or crocheted.	1.8	1.5	1.7	1.5	1.2
6206	Women's or girls' blouses, shirts and shirt-blouses.	0.9	0.9	1	1	1.2
6205	Men's or boys' shirts.	1.4	1.2	1.1	1.1	1.2
6403	Footwear with outer soles of rubber, plastics, leather or composition leather	1.4	1.6	1.4	1.2	1.2

HS4	Description	RCA of China exporting to SA				
		2000	2001	2002	2003	2004
	and uppers of leather.					
6211	Track suits, ski suits and swimwear; other garments.	1.7	1	1.5	1.1	1.2
6216	Gloves, mittens and mitts.	1.6	2	1.7	1.5	1.1
6105	Men's or boys' shirts, knitted or crocheted.	1.5	1.6	1.4	1.2	1.1
5208	Woven fabrics of cotton, containing 85 % or more by mass of cotton, of a mass of not exceeding 200 g/m2.	0.9	0.7	1	1	1.1
6301	Blankets and traveling rugs.	0.4	0.7	1.4	0.9	1.1
6303	Curtains (including drapes) and interior blinds; curtain or bed valances.	1.4	1.2	1.2	1.3	1.1

China boasts an extensive list of 4HS headings in which it has a revealed comparative advantage against South Africa. This must be viewed as the primary defensive list in trade negotiations with China in respect of TCFL products.

6.5 Considerations

1. China completely dwarfs South Africa in terms of exports. Exports of TCFL products by South Africa came to 0.7% of that of China in 2004. In comparison to its exports, China's imports are comparatively low. In fact South Africa's imports were equal to 8.8% of that of China in 2004. A positive trade balance of US$ 88.1 billion was recorded by China in 2004. The negative trade balance by South Africa came to US$ 1.3 billion.

2. The export of TCFL products by China amounted to US$112.7 billion in 2004. That was 74.8% higher than in 2000. Exports of textiles were 27.9% of TCFL exports, exports of clothing were 48.6%, leather 9.9 % and footwear 13.5%.

3. Export of textiles in 2004 was 120% higher than in 2000.The focus of textile exports is fabrics (57.4 of textile exports) and made-up articles (28.8%) in 2004 The export of fibres was 3.0% of textile exports in 2004 and 3% less than in 2000 possibly as the result of adverse conditions in cotton production. Export of yarn is 11.3% of textile exports with cotton yarn prominent. Yarn exports in 2004 were 74.4% more than in 2000.

   In 2004 the export of fabrics (57.4% of textile exports) was 151% more than in 2000. Cotton fabrics dominate followed by fabric from man-made filament yarn, knitted fabrics, special wovens and man-made staples. The export of special woven fabrics increased by 182% between 2000 and 2004. It amounted to more than 9% in 2004 as opposed to 6.2% in 2000.

   Exports of made –up textiles increased by 117% between 2000 and 2004. Export of household made-ups dominates followed by other made-ups.

   Clothing is half of all TCFL exports and in 2004 was 70% higher than in 2000.at US$ 54.8 billion. Export of knitted clothing is growing faster than that of other clothing but the latter is still 53% of clothing exports.

4. Exports of made –up textiles increased by 117% between 2000 and 2004. Export of household made-ups dominates followed by other made-ups.

5. Clothing is half of all TCFL exports and in 2004 was 70% higher than in 2000.at US$ 54.8 billion. Export of knitted clothing is growing faster than that of other clothing but the latter is still 53% of clothing exports.

6. Export of leather and leather goods is 10.3% of TCFL exports and in 2004 were 59.6% higher than in 2000 due to growth in the export of leather goods.

7. Export of footwear showed the lowest growth in TCFL exports between 2000 and 2004. It was 54.3% higher at US$ 15.2 billion and 14% of TCFL exports. Exports of uppers with leather are 41% of footwear exports; uppers of rubber and plastic are 36.5% and that with uppers of textiles 12.3%.

8. 50% of China's exports of TCFL –products are marketed in Hong Kong, Japan and the USA. A further approximately 10% goes to EU members. The picture is expected to change with the termination of quotas in the trade in textile as from 2005. South Africa is the destination of about 1% of Chinese exports.

9. The contents of table 6.2.9 make it clear that China has extensive revealed comparative advantages against the world. The list of 4HS headings can be taken as a defensive list in trade negotiations with China. Concessions should not be granted for these products.

10. South Africa's import of textiles is 41% of TCFL exports; that of clothing 28.6%; leather and products 9.9% and footwear 20.6%. Between 2000 and 2004.the import of TCFL –products almost doubled from US$ 1033 million in 2000 to US$ 1968 million in 2004.

11. The import of textiles increased by 59% between 2000 and 2004. That of fibres, .mainly cotton, doubled to reach 22.5% of textile imports in 2004. The import of cotton yarn and of fabric became more prominent between 2000 and 20004. Imports of made-up textiles remained at about 20% of textile imports but the amount in imports of household made-ups doubled between 2000 and 2004.

12. In 2004 imports of clothing were three times that of 2000.The upsurge in imports occurred in 2003 and 2004, the two years in which the Rand appreciated from its artificially low level in 2002.

13. Imports of prepared leather and leather goods increased strongly. Imports of footwear surged ahead in 2003 and 2004 when the Rand became stronger. This is true for all product categories except for waterproof footwear and parts of footwear

14. China strengthened its position as main supplier to the South African TCFL market from 24% of total South African imports in 2000 to 46%. in 2004. India remains in second position with 6% (7% in 2000). Zimbabwe and Zambia increased their market share.

15. Because of China's extremely strong showing in South African imports of TCFL products it can be asked why China needs more encouragement in the form of a bi-lateral agreement. South Africa's import regime seems to be excessively friendly to imports from China.

16. Imports of textiles were 18.9% of TCFL imports from China in 2004. That of clothing was 44.2% of footwear 30.8% and leather and goods 6.4%. Among South Africa's textiles imports that of made-up textiles exhibits a high Chinese content. The Chinese content in clothing imports approached 75% in 2004. For imports of footwear with uppers of rubber or plastic it was at a high 91.3% in 2004 and in excess of 60% with regard to the remainder of the footwear headings. The Chinese are thus ably winning market share in all spheres of the TCFL sectors.

17. China runs a positive trade balance with South Africa that in 2004 amounted US$ 925 million. Trade is in China's favour in all categories except for tanned and prepared leather and wool and cotton fibres.

18. A comparison of export values under certain TC chapters according to China's export data and South African import data for 2003 and 2004 shows Chinese export values that are on average 63% and 41% higher than the South African import values. The only logical explanation appears to be under invoicing by South African importers. This means that the extent of Chinese penetration of the RSA market has actually been understated.

19. China boasts an extensive list of 4HS headings in which it has a revealed comparative advantage against South Africa. This must be viewed as the primary defensive list in trade negotiations with China in respect of TCFL products.

7 TRADE FLOW ANALYSIS OF THE OFFENSIVE POSITION OF CHINA

7.1 Introduction

The offensive position as determined by trade flows is analysed by the following approach:

- An analysis of TCFL imports by China from the world.
- An analysis of import growth of TCFL products by China from the world.
- The revealed comparative disadvantages of China of trade in world trade of TCFL products.
- Exports of TCFL products TCFL products.
- Export penetration of China by RSA of TCFL products.
- Revealed comparative advantages of China in trade of TCFL products with South Africa.

A synthesis of the contents of this chapter and the previous ones appears in paragraph 6. In paragraph 6 the defensive position of South Africa's TCFL products is formulated with respect to the negotiations with China
The analysis of the exports of Clothing and Textiles by China is undertaken at the 4-digit-level of the Harmonised System. Data is available for the period 2000 to 2004. Trade data was procured via Quantec from UN Commodity Trade Statistics Database (UN Comtrade). The data is in US$.

The size of the database renders it impracticable to provide it on hard copy. More detailed information than that appearing in this is available electronically on request.

7.2 Product categories

Imports of TCFL products by China in 2004 were 39% higher than in 2000. Textile imports were 78.8% of the total, clothing 5.8%, leather 13.5% and footwear 1.9%. It is obvious intermediates feature strongly in imports while that of final products .i.e. clothing, footwear and even made-up textiles are small.

Imports of textiles in 2004 exceeded that of 2000 by 40% in 2004. Amongst textiles the import of fibres increased from 13.9% in 2000 to 27.2% in 2004 because of a surge in imports of cotton that started in 2003.Imports of clothing were 26.4% higher because of an increase of 67.6% in imports of knitted clothing. Imports of Other clothing remained flat between 2000 and 2004. Imports of leather increased by 40%. Imports of leather goods increased steeply but from a very low base. Imports of footwear increased by 48%. Parts of footwear are two thirds of footwear. However, the growth in imports came from an increase in imports of uppers of leather from a very low base.

Table 7.1 Imports of TCFL products by China from the World 2000 to 2004 (US$ million)

Sub-group	2000	2001	2002	2003	2004
Textiles	**13944**	**13570**	**14235**	**16368**	**19524**
Fibres	**1941**	**1786**	**1947**	**3104**	**5303**
Fibres: Wool	344	295	242	179	155
Fibres: Cotton	86	84	191	1187	3196
Fibres: Man-made staples	1511	1407	1514	1738	1952
Yarn	**2670**	**2854**	**3281**	**3736**	**3882**
Yarn: Wool	208	223	233	208	216
Yarn: Cotton	952	1123	1322	1503	1533
Yarn: Man-made filament	2486	2411	2195	2217	2293
Yarn: Man-made staples	423	471	476	512	460
Yarn: Special yarns	28	25	25	30	42
Fabric	**9154**	**8740**	**8671**	**9097**	**9930**
Fabrics: Wool	499	570	536	519	610
Fabrics: Cotton	1750	1735	1814	1959	2169
Fabrics: Man-made filament	104	93	88	97	116
Fabrics: Man-made staples	1176	1054	1005	1011	1009
Fabrics: Knitted fabrics	1339	1336	1432	1640	1812
Fabrics: Special wovens	1704	1634	1689	1751	1921
Made-up textiles	**179**	**190**	**248**	**333**	**409**
Made-up Textiles: Ropes, netting, etc	51	46	48	56	63
Made-up Textiles: Carpets	26	33	35	47	59
Made-up Textiles: Coated, laminated	68	77	121	164	199
Made-up Textiles: Household	9	11	12	19	16
Made-up Textiles: Other made-ups	18	18	27	41	62
Made-up Textiles: Used clothing	2	2	2	1	0

Sub-group	2000	2001	2002	2003	2004
Made-up Textiles: Rags	5	3	3	5	10
Clothing	**1135**	**1214**	**1288**	**1341**	**1435**
Clothing: Knitted, etc	383	475	523	557	642
Clothing: Other clothing	752	739	765	784	793
Leather	**2374**	**2389**	**2551**	**2835**	**3334**
Leather: Tanned/crust hides & skins	2242	2263	2409	2675	3118
Leather: Leather, further prepared	89	77	90	83	80
Leather goods: Leather goods	43	49	52	77	136
Footwear	**321**	**329**	**304**	**374**	**475**
Footwear: Waterproof	0	0	0	0	0
Footwear: Uppers of rubber or plastics	2	3	8	17	29
Footwear: Uppers of leather	20	28	39	57	107
Footwear: Uppers of textile materials	4	7	9	14	20
Footwear: Other	2	2	2	3	2
Footwear: Parts	293	289	246	283	317
TOTAL TCFL	17878	17593	18397	20915	24769

7.3 Origin of imports

The incidence of intermediates in imports possibly explains the imports from Japan and Korea. Chinese imports of TCFL products are strongly Asia bound. Imports from South Africa were 0.07% of Chinese imports in 2000 and 0.1% in 2004.

Table 7.2 Percentage Composition of TCFL product imports by China from the World: 2000 and 2004

Partner	2000		2004	
	USD m	%	USD m	%

Other Asia, nes	3,803	21%	4,107	17%
Japan	3,402	19%	3,713	15%
Rep. of Korea	3,976	22%	3,484	14%
Free Zones	1,195	7%	2,705	11%
USA	463	3%	2,507	10%
China, Hong Kong SAR	1,966	11%	1,955	8%
Italy	548	3%	821	3%
Pakistan	429	2%	499	2%
Thailand	188	1%	412	2%
Other	1,806	10%	4,449	18%
TOTAL	**17,776**	**100%**	**24,653**	**100%**

Imports of 4HS headings in excess of US$ 20 million in 2004 and high growth between 2000 and 2004 appear in Table 6.3.3

Table 7.3 Imports of TCFL products by China at 4HS level with high annual growth 2000 and 2004.

Sub-group	HS4	Description	Growth 2000-2004
Fibres: Cotton	5201	Cotton, not carded or combed.	180
Fibres: Man-made staples	5504	Artificial staple fibres, not carded, combed or otherwise processed for spinning.	22
Fibres: Man-made staples	5501	Synthetic filament tow.	22
Fibres: Man-made staples	5505	Waste (including noils, yarn waste and garnetted stock) of man-made fibres.	17
Yarn: Cotton	5206	Cotton yarn (excluding sewing thread), containing less than 85 % by mass of cotton, not put up for retail sale.	21

Sub-group	HS4	Description	Growth 2000-2004
Yarn: Man-made filament	5402	Synthetic filament yarn (excluding sewing thread), not put up for retail sale, including synthetic monofilament of less than 67 decitex.	14
Yarn: Man-made filament	5404	Synthetic monofilament of 67 decitex or more and of which no cross-sectional dimension exceeds 1 mm; strip and the like (for example, artificial straw) of synthetic textile materials of an apparent width not exceeding 5 mm.	12
Yarn: Man-made filament	5403	Artificial filament yarn (excluding sewing thread), not put up for retail sale, including artificial monofilament of less than 67 decitex.	11
Yarn: Special yarns	5604	Rubber thread and cord, textile covered; textile yarn, and strip and the like of heading no. 54.04 or 54.05, impregnated, coated, covered or sheathed with rubber or plastics.	14
Fabrics: Cotton	5211	Woven fabrics of cotton, containing less than 85 % by mass of cotton, mixed mainly or solely with man-made fibres, of a mass exceeding 200 g/m2.	16
Fabrics: Cotton	5212	Other woven fabrics of cotton.	11

Sub-group	HS4	Description	Growth 2000-2004
Fabrics: Knitted fabrics	6002	Knitted or crocheted fabrics of a width not exceeding 30cm, containing by mass 5 per cent or more of elastomeric yarn or rubber thread (excluding those of heading 60.01):	9
Fabrics: Special wovens	5602	Felt, whether or not impregnated, coated, covered or laminated.	26
Fabrics: Special wovens	5906	Rubberised textile fabrics, (excluding those of heading no. 59.02):	18
Fabrics: Special wovens	5801	Woven pile fabrics and chenille fabrics, (excluding fabrics of heading no. 58.02 or 58.06.)	13
Fabrics: Special wovens	5902	Tyre cord fabric of high tenacity yarn of nylon or other polyamides, polyesters or viscose rayon.	12
Fabrics: Special wovens	5603	Nonwovens, whether or not impregnated, coated, covered or laminated.	9
Fabrics: Special wovens	5907	Textile fabrics otherwise impregnated, coated or covered; painted canvas being theatrical scenery, studio back-cloths or the like.	9
Made-up Textiles: Carpets	5703	Carpets and other textile floor coverings, tufted, whether or not made up.	37
Made-up Textiles: Coated, laminated	5911	Textile products and articles, for technical uses, specified in note 7	35

Sub-group	HS4	Description	Growth 2000-2004
		to this chapter.	
Made-up Textiles: Other made-ups	6307	Other made up articles, including dress patterns.	39
Clothing: Knitted, etc	6103	Men's or boys' suits, ensembles, jackets, blazers, trousers, bib and brace overalls, breeches and shorts (excluding swimwear), knitted or crocheted.	48
Clothing: Knitted, etc	6108	Women's or girls' slips, petticoats, briefs, panties, nightdresses, pajamas, negligees, bathrobes, dressing gowns and similar articles, knitted or crocheted.	37
Clothing: Knitted, etc	6109	T-shirts, singlets and other vests, knitted or crocheted.	25
Clothing: Other clothing	6202	Women's or girls' overcoats, car-coats, capes, cloaks, anoraks (including ski- jackets), wind-cheaters, wind-jackets and similar articles, (excluding those of heading no. 62.04).	62
Clothing: Other clothing	6201	Men's or boys' overcoats, car-coats, capes, cloaks, anoraks (including ski- jackets), wind-cheaters, wind-jackets and similar articles, (excluding those of heading no. 62.03).	29
Clothing: Other clothing	6204	Women's or girls' suits, ensembles, jackets blazers, dresses, skirts, divided skirts, trousers, bib and	18

Sub-group	HS4	Description	Growth 2000-2004
		brace overalls, breeches and shorts (excluding swimwear).	
Clothing: Other clothing	6203	Men's or boys' suits, ensembles, jackets, blazers, trousers, bib and brace overalls, breeches and shorts (excluding swimwear):	15
Leather: Tanned/crust hides & skins	4104	Leather of bovine or equine animals, without hair on, other than leather of heading no.41.08 or 41.09.	12
Leather goods: Leather goods	4202	Trunks, suitcases, vanity-cases, executive-cases, brief-cases, school satchels, spectacle cases, binocular cases, camera cases, musical instrument cases, gun cases, holsters & similar containers, traveling-bags, toilet bags, rucksacks, handbags, shopping	35
Footwear: Uppers of rubber or plastics	6402	Other footwear with outer soles and uppers of rubber or plastics.	101
Footwear: Uppers of leather	6403	Footwear with outer soles of rubber, plastics, leather or composition leather and uppers of leather.	50

There may be export potential to China in these products.

7.4 Revealed Comparative Disadvantages

Table 7.4 China importing from the world/world exporting to China comparative disadvantages (ratio's > 1 China at a disadvantage to the world)

HS4	Description	RCA World exporting to China		Growth of exp. 2000-2004
		2000	2004	
5501	Synthetic filament tow.	5.9	8	22.3
5201	Cotton, not carded or combed.	0.3	7.4	180.2
5804	Tulle and other net fabrics,(excluding woven, knitted or crocheted fabrics); lace in the piece, in strips or in motifs (excluding fabrics of heading no. 60.02)	8.7	6.6	3.9
5502	Artificial filament tow.	7.1	6.5	5.6
5505	Waste of man-made fibres.	4	5.3	16.7
4105	Leather of bovine or equine animals, without hair on, other than leather of heading no.41.08 or 41.09.	6.7	4.9	-10.9
5503	Synthetic staple fibres, not carded, combed or otherwise processed for spinning.	5.5	4.5	4.3
4104	Leather of bovine or equine animals, without hair on, other than leather of heading no.41.08 or 41.09.	4.4	4.5	11.8
5512	Woven fabrics of synthetic staple fibres, containing 85 % or more by mass of synthetic staple fibres.	4.6	4.1	2
	Cotton yarn (excluding sewing thread), containing	3.8	4.1	13

HS4	Description	RCA World exporting to China		Growth of exp. 2000-2004
		2000	2004	
5205	85 % or more by mass of cotton, not put up for retail sale.			
5112	Woven fabrics of combed wool or of combed fine animal hair.	4.4	4	3.9
5903	Textile fabrics impregnated, coated, covered or laminated with plastics, (excluding those of heading no. 59.02).	5.4	3.9	-1.1
5604	Rubber thread and cord, textile covered; textile yarn, and strip and the like of heading no. 54.04 or 54.05, impregnated, coated, covered or sheathed with rubber or plastics.	2.7	3.7	13.8
6001	Pile fabrics, including "long pile" fabrics and terry fabrics, knitted or crocheted.	3.4	3.5	6.4
5210	Woven fabrics of cotton, containing less than 85 % of cotton, mixed mainly or solely with man-made fibres, of a mass not exceeding 200 g/my.	3.2	3.5	8.4
5506	Synthetic staple fibres, carded, combed or otherwise processed for spinning.	5.5	3.4	-10.3
5405	Artificial monofilament of 67 decitex or more and of which no cross-sectional dimension exceeds 1 mm; strip and the like (for example, artificial straw) of artificial textile materials of an apparent width not exceeding 5 mm.	1.4	3.4	22.2
6002	Knitted or crocheted fabrics of a width not exceeding 30cm, containing by mass 5 per cent or more of elastomeric yarn or rubber thread (excluding those of heading 60.01):	3	2.9	8.9
5206	Cotton yarn (excluding sewing thread), containing less than 85 % by mass of cotton, not put up for	2	2.9	21

HS4	Description	RCA World exporting to China		Growth of exp. 2000-2004
		2000	2004	
	retail sale.			
5802	Terry toweling and similar woven terry fabrics, (excluding narrow fabrics of heading no. 58.06); tufted textile fabrics, (excluding products of heading no. 57.03.)	5	2.9	-1.5
4107	Leather of other animals, without hair on, (excluding leather of heading no. 41.14)	3.4	2.8	-1.2
5402	Synthetic filament yarn (excluding sewing thread), not put up for retail sale, including synthetic monofilament of less than 67 decitex.	2.2	2.7	14
5107	Yarn of combed wool, not put up for retail sale.	3.3	2.6	0.8
5807	Labels, badges and similar articles of textile materials, in the piece, in strips or cut to shape or size, not embroidered.	3.3	2.5	2.8
5211	Woven fabrics of cotton, containing less than 85 % by mass of cotton, mixed mainly or solely with man-made fibres, of a mass exceeding 200 g/m2.	2.2	2.4	15.8
5209	Woven fabrics of cotton, containing 85 % or more by mass of cotton, of a mass exceeding 200 g/m2.	3	2.4	5.5
5504	Artificial staple fibres, not carded, combed or otherwise processed for spinning.	2	2.4	22.5
4106	Goat or kid skin leather, without hair on, (excluding than leather of heading 41.08 or 41.09.)	3	2.4	7.2
5514	Woven fabrics of synthetic staple fibres, containing less than 85 % by mass of such fibres, mixed mainly or solely with cotton, of a mass exceeding 170 g/m2.	3.3	2.4	-2.3
	Sewing thread of man-made staple fibres,	3.8	2.4	-4.8

HS4	Description	RCA World exporting to China		Growth of exp. 2000-2004
		2000	2004	
5508	whether or not put up for retail sale.			
5513	Woven fabrics of synthetic staple fibres, containing less than 85 % by mass of such fibres, mixed mainly or solely with cotton, of a mass not exceeding - 170g/m2.	3.2	2.3	-5.6
5401	Sewing thread of man-made filaments, whether or not put up for retail sale.	2.5	2.2	5
5105	Wool and fine or coarse animal hair, carded or combed (including combed wool in fragments).	5.9	2.2	-18.9
5510	Yarn (excluding sewing thread) of artificial staple fibres, not put up for retail sale.	3.7	2.2	-4.1
5208	Woven fabrics of cotton, containing 85 % or more by mass of cotton, of a mass of not exceeding 200 g/m2.	2.8	2.2	3.4
5509	Yarn (excluding sewing thread) of synthetic staple fibres, not put up for retail sale.	2.5	2.2	4.1
5801	Woven pile fabrics and chenille fabrics, (excluding fabrics of heading no. 58.02 or 58.06.)	2.4	2	13.4
5808	Braids in the piece; ornamental trimmings in the piece, without embroidery (excluding knitted or crocheted); tassels, pompons and similar articles.	2.3	1.9	2.6
5803	Gauze, (excluding narrow fabrics of heading no. 58.06.)	1.6	1.8	3.3
5907	Textile fabrics otherwise impregnated, coated or covered; painted canvas being theatrical scenery, studio back-cloths or the like.	1.5	1.8	9.3
5516	Woven fabrics of artificial staple fibres.	2.4	1.8	-12.1
	Cotton, carded or combed.	2.2	1.8	6.2

HS4	Description	RCA World exporting to China		Growth of exp. 2000-2004
		2000	2004	
5203				
5908	Textile wicks, woven, plaited or knitted, for lamps, stoves, lighters, candles or the like; incandescent gas mantles and tubular knitted gas mantle fabric therefore, whether or not impregnated.	0.5	1.7	45
5911	Textile products and articles, for technical uses, specified in note 7 to this chapter.	0.9	1.6	34.7
5111	Woven fabrics of carded wool or of carded fine animal hair.	1.7	1.6	-1.4
6406	Parts of footwear (including uppers whether or not attached to soles (excluding outer soles)); removable in-soles, heel cushions and similar articles; gaiters, leggings and similar articles, and parts thereof.	1.8	1.5	1.5
5202	Cotton waste (including yarn waste and garnetted stock).	0.5	1.5	48.9
6217	Other made up clothing accessories; parts of garments or of clothing accessories, (excluding those of heading no. 62.12).	5.2	1.5	-20.5
5403	Artificial filament yarn (excluding sewing thread), not put up for retail sale, including artificial monofilament of less than 67 decitex.	1.1	1.4	11
5507	Artificial staple fibres, carded, combed or otherwise processed for spinning.	1.9	1.4	12.7
5603	Nonwovens, whether or not impregnated, coated, covered or laminated.	1.7	1.3	9.3
5902	Tyre cord fabric of high tenacity yarn of nylon or other polyamides, polyesters or viscose rayon.	1.2	1.2	11.6
	Other woven fabrics of synthetic staple fibres.	2	1.2	-5.3

HS4	Description	RCA World exporting to China		Growth of exp. 2000-2004
		2000	2004	
5515				
5602	Felt, whether or not impregnated, coated, covered or laminated.	0.7	1.2	25.6
5906	Rubberised textile fabrics, (excluding those of heading no. 59.02):	0.9	1.2	18.2
5212	Other woven fabrics of cotton.	1.5	1.1	11
5404	Synthetic monofilament of 67 decitex or more and of which no cross-sectional dimension exceeds 1 mm; strip and the like (for example, artificial straw) of synthetic textile materials of an apparent width not exceeding 5 mm.	0.9	1.1	11.7
5601	Wadding of textile materials and articles thereof; textile fibres, not exceeding 5 mm in length (flock), textile dust and mill neps.	1.5	1.1	2.6

The list in table 7.4 would be the first range of products that may be targeted in an offensive position.

7.5 Exports of TCFL products by South Africa

7.5.1 Data

Customs data from the South African Revenue Services is used. The analysis is for the period 2000 to 2004. Data is analysed on the 4-digit-level of the HS. Exports are measured in US$.

Conversion of currency is as follows:

2000 6.9353

2001 8.6031

2002 10.5165

2003 7.5647

2004 6.449

7.5.2 Product Groups

The export of textiles increased from 47% of TCFL exports in 2000 to 50.9% in 2004. This came about by consistent increases in the export of yarns, fabrics and made-up textiles. Export of clothing also became more important rising from 28.79% of TCFL exports in 2000 to 32.5% in 2004. Export of leather declined in importance to 14.4% in 2004 and that of footwear to 2.1%

Table 7.5 South African exports of TCFL products to the world 2000 to 2004 (US$ million)

Sub-group	2000	2001	2002	2003	2004
Textiles	**293**	**297**	**338**	**391**	**381**
Fibres	**112**	**103**	**103**	**110**	**99**
Fibres: Wool	86	79	79	94	84
Fibres: Cotton	6	1	1	2	2
Fibres: Man-made staples	20	23	23	14	13
Yarns	**61**	**69**	**85**	**102**	**84**
Yarn: Wool	4	3	3	6	5
Yarn: Cotton	4	7	10	11	10
Yarn: Man-made filament	51	66	69	82	65
Yarn: Man-made staples	2	3	3	2	3
Yarn: Special yarns	0	0	0	1	1
Fabrics	**75**	**81**	**94**	**111**	**120**
Fabrics: Wool	3	4	3	5	5
Fabrics: Cotton	24	26	26	25	29
Fabrics: Man-made filament	21	20	22	30	29
Fabrics: Man-made staples	6	5	7	7	8
Fabrics: Knitted fabrics	7	6	8	9	10
Fabrics: Special wovens	14	20	28	35	39
Made-up textiles	**45**	**44**	**56**	**68**	**78**
Made-up Textiles: Ropes,	2	1	3	2	2

Sub-group	2000	2001	2002	2003	2004
netting, etc					
Made-up Textiles: Carpets	15	16	21	22	23
Made-up Textiles: Coated, laminated	3	3	3	5	7
Made-up Textiles: Household	15	13	19	21	19
Made-up Textiles: Other made-ups	9	11	10	18	27
Made-up Textiles: Used clothing	1	0	0	0	0
Made-up Textiles: Rags	0	0	0	0	0
Clothing	**192**	**221**	**246**	**299**	**243**
Clothing: Knitted, etc	104	125	119	127	108
Clothing: Other clothing	88	96	127	172	135
Leather	**173**	**118**	**101**	**93**	**107**
Leather: Tanned/crust hides & skins	83	52	40	27	32
Leather: Leather, further prepared	79	58	50	53	60
Leather: Other leather	0	0	1	1	1
Leather goods: Leather goods	11	8	10	12	14
Footwear	**12**	**10**	**15**	**18**	**16**
Footwear: Waterproof	1	1	2	3	3
Footwear: Uppers of rubber or plastics	1	1	1	1	2
Footwear: Uppers of leather	5	4	7	8	8
Footwear: Uppers of textile materials	2	1	1	1	1
Footwear: Other	1	1	1	2	1
Footwear: Parts	2	2	3	3	1
TOTAL	**670**	**659**	**698**	**801**	**748**

Source: South African Customs and Excise

7.5.3 Destination of South African TCFL-exports

One quarter of South Africa's exports go to the USA, a further 14% to the UK and 8% to Italy. Asian countries are not prominent destinations of South African TCFL exports.

Table 7.6 Destination of South African exports of TCFL-products: 2000 and 2004

Partner	2000		2004	
	US$ m	%	US$ m	%
United States	158	24%	186	25%
United Kingdom	77	11%	107	14%
Italy	111	17%	58	8%
Germany	16	2%	29	4%
Zimbabwe	19	3%	27	4%
China	10	1%	22	3%
Australia	11	2%	21	3%
France	15	2%	16	2%
Japan	41	6%	15	2%
Mauritius	17	3%	15	2%
Belgium	3	0%	15	2%
Netherlands	5	1%	14	2%
Republic of Korea	20	3%	14	2%
United Arab Emirates	7	1%	11	2%
Mozambique	13	2%	11	1%
Spain	2	0%	11	1%
Brazil	8	1%	10	1%
Zambia	15	2%	10	1%
Malawi	9	1%	9	1%
Other	112	17%	145	19%
TOTAL	**670**	**100%**	**748**	**100%**

Source: SARS

Table 7.7 shows the structure of exports to the world and to China. The four product groups that appear in bold are those where exports to China is proportionately more than they are to the world. They are intermediate products.

Table 7.7 Percentage of South African exports of TCFL products to China and the World - 2000 and 2004

Sub-group	2000		2004	
	China	World	China	World
Fibres: Wool	**90.1**	**13**	**61.2**	**11.5**
Fibres: Cotton	0	0.9	1.8	0.3
Fibres: Man-made staples	**1.5**	**2.9**	**2.3**	**1.8**
Yarn: Wool	0	0.6	0	0.7
Yarn: Cotton	0	0.6	0.4	1.4
Yarn: Man-made filament	**4.4**	**7.6**	**14.8**	**8.9**
Yarn: Man-made staples	0	0.3	0	0.4
Yarn: Special yarns	0	0	0.3	0.1
Fabrics: Wool	1	0.5	0	0.7
Fabrics: Cotton	0	3.6	0.5	4
Fabrics: Man-made filament	0	2.2	0	1.8
Fabrics: Man-made staples	0	0.8	0	1
Fabrics: Knitted fabrics	0	1.1	0	1.4
Fabrics: Special wovens	0.2	2.2	0	5.3
Made-up Textiles: Ropes, netting, etc	0	0.4	0	0.3
Made-up Textiles: Carpets	0	2.3	0.2	3.2
Made-up Textiles: Coated, laminated	0	0.5	0	0.9
Made-up Textiles: Household	0	2.2	0	2.6
Made-up Textiles: Other made-ups	0	1.3	0.6	3.7
Made-up Textiles: Used	0	0.1	0	0.1

Sub-group	2000		2004	
	China	World	China	World
clothing				
Made-up Textiles: Rags	0	0	0	0.1
Clothing: Knitted, etc	0.2	15.6	0	14.8
Clothing: Other clothing	0.3	13.2	0.4	18.5
Leather: Tanned/crust hides & skins	**0.8**	**12.5**	**12.1**	**4.3**
Leather: Leather, further prepared	1.2	11.9	4.8	8.3
Leather: Other leather	0	0	0.6	0.1
Leather goods: Leather goods	0.1	1.7	0	1.9
Footwear: Waterproof	0	0.2	0	0.4
Footwear: Uppers of rubber or plastics	0	0.2	0	0.2
Footwear: Uppers of leather	0	0.7	0	1.1
Footwear: Uppers of textile materials	0	0.3	0	0.1
Footwear: Other	0	0.2	0	0.1
Footwear: Parts	0	0.2	0	0.2
TOTAL	100	100	100	100

Source: SARS

7.5.4 Revealed comparative advantages

As can be seen from table 7.7 South Africa's limited range of comparative advantages is found mostly in intermediate products.

Table 7.7 4HS headings where South Africa has comparative advantages in TCFL trade with China

HS4	Description	RCA SA export to China				
		2000	2001	2002	2003	2004

HS4	Description	RCA SA export to China				
		2000	2001	2002	2003	2004
6306	Tarpaulins, awnings and sunblinds; tents sails for boats, sailboards or landcraft, camping goods.	10.8	0	0.04	0.89	125.
5105	Wool and fine or coarse animal hair, carded or combed (including combed wool in fragments).	39.77	4	40.5	46.5	91.89
5606	Gimped yarn, and strip and the like of heading no.54.04 or 54.05, gimped (excluding those of heading no.56.05 and gimped horsehair yarn); chenille yarn (including flock chenille yarn); loop wale-yarn.	0	0	0	0	13.99
5704	Carpets and other textile floor coverings, of felt, not tufted or flocked, whether or not made up.	0	0	0	0	12.52
4107	Leather of other animals, without hair on, (excluding leather of heading no. 41.14)	2	1	5	6	5.02
6211	Track suits, ski suits and swimwear; other garments.	0	5.44	61.6	4.58	2.86
5402	Synthetic filament yarn (excluding sewing thread), not put up for retail sale, including synthetic monofilament of less than 67 decitex.	0	0.49	3.12	6.95	2.43
6304	Other furnishing articles (excluding those of heading no. 94.04).	0	0	0.05	14.8	1.69
4104	Leather of bovine or equine animals, without hair on, other than leather of heading no.41.08 or 41.09.	0	0	0.11	0.04	1

7.6 Considerations

1. Imports of TCFL products by China in 2004 were 39% higher than in 2000. Textile imports were 78.8% of the total, clothing 5.8%, leather 13.5% and footwear 1.9%. It is obvious that intermediates feature strongly in imports while that of final products .i.e. clothing, footwear and even made-up textiles are small.

2. Imports of textiles in 2004 exceeded that of 2000 by 40% in 2004. Amongst textiles the import of fibres increased from 13.9% in 2000 to 27.2% in 2004 because of a surge in imports of cotton that started in 2003.Imports of clothing were 26.4% higher because of an increase of 67.6% in imports of knitted clothing. Imports of Other clothing remained flat between 2000 and 2004.

3. Imported leather increased by 40%. Imports of leather goods increased steeply but from a very low base. Imported footwear increased by 48%. Parts of footwear are two thirds of footwear imports. However, the growth in imports came from an increase in imports of uppers of leather from a very low base.

4. Chinese imports of TCFL products are strongly Asia bound. The incidence of intermediates in imports possibly explains the imports from Japan and Korea. Imports from South Africa were 0.07% of Chinese imports in 2000 and 0.1% in 2004.

5. South African export of textiles increased from 47% of TCFL exports in 2000 to 50.9% in 2004. This came about by consistent increases in the export of yarns, fabrics and made-up textiles. Export of clothing also became more important rising from 25.7% of TCFL exports in 2000 to 32.5% in 2004. Export of leather declined in importance to 14.4% in 2004 and that of footwear to 2.1%

6. One quarter of South Africa's exports go to the USA, a further 14% to the UK and 8% to Italy. Asian countries are not prominent destinations of South African TCFL exports. China received 3% of South Africa's exports in 2004 up from 2% in 2000.

   Exports are mainly wool fibres, fibres of man-made staples, man-made filament yarn and raw leather.

7. South Africa's limited range of comparative advantages is found mostly in intermediate products.

8 SYNTHESIS AND RECOMMENDATIONS

8.1 General

CROSS CUTTING THREATS AND OPPORTUNITIES

The cross cutting threats and opportunities as they also apply to the TCFL sectors are:

Threats

1. The Chinese economic system in transition from a communist to a socialist market economy. Pockets of the economy are "marketised" but a mixture of market conditions and state intervention apply in many others. The TCFL industries are generally described as marketised, but SOEs still play a major role in this sector. WTO membership imposes requirements for China to become fully market orientated.

2. There is intensive involvement by the state (central, provincial and local) in capital formation. Industries are empowered with direct financing, preferential interest and tax rates, subsidies contingent on exports and favourable financing of target industries.

3. Banks are state controlled and they are bailed out when bad debts become a burden.

4. Chinese government officials intervene in the economy in a way inconsistent with market principles. Subsidies are non-transparent. Practices lead to the creation of unsustainable and excess (global) capacity while pricing becomes non-transparent and divorced from

market discipline because of interventions and support. Although China is obliged to do away with trade related investment measures, progress seems to be slow.

5. The undervalued Chinese currency contributes considerably to competitiveness in international markets.

6. Non tariff barriers and bureaucracy prevail that discourages trade.

7. Despite a willingness to comply with WTO requirements, contravention of intellectual property rights remains a huge problem.

8. Penetration of Chinese exports into the South African market is rapid. This questions the need for preferences as implied by a bilateral trade agreement.

9. The Chinese economy is 9 times South Africa's and its population 28 times. The difference in capacity to trade is to China's advantage.

10. The applied tariff rates of some product groups will be subject to reduction over a period of time in terms of NAMA (non-agricultural market access) if the Doha Round is successfully concluded. NAMA introduces a degree of uncertainty with respect to future MNF tariff levels that may render bilateral concessions premature.

The cross cutting threats should make South Africa extremely careful in the negotiation of a trade agreement with China at least until such time as it fully complies with WTO obligations and the exchange rate has become market related.

Opportunities

11. Sustained high growth in economy makes China a prominent modern day wealth creator. China will soon advance from the 7th to the fourth 4th largest market in the world.

12. South Africa is to share in the prosperity that generated by the Chinese economy.

13. Rapid growth gives rise to supply shortages that can be taken advantage of by South African exporters in the primary sectors.

SECTOR SPECIFIC ASPECTS

14. China is the world's largest producer of textiles and apparel. In 2005 the Chinese textile and clothing (TC) industries produced about 14.4 million tons of spun yarn and 47 billion meters of fabrics. In 2003, about 36 billion pieces of garments were produced. South Africa, in contrast, produced about 87 000 tons of spun yarn and 433 000 m² of fabrics in the same year. China produced 166 times the SA yarn production and 130 times the SA fabric production. In 2005 China had about 35 000 textile and clothing manufacturers employing about 19 million workers.

15. China is highly price competitive in TC sector goods, largely reflecting its large supply of low-cost labour and its raw materials, which have enabled the sector to attract foreign direct investment (FDI). The sector is considered to have effective middle management and the technical expertise to produce a wide range of goods. The sector encompasses all segments of the supply chain, from the production of raw materials to the manufacture of yarns and fabrics and the processing of these inputs into final goods.

16. China is the world's major leather producing nation, and the largest manufacturer of shoes, leather garments and bags. The industry numbers approximately 16 000 enterprises (excluding village

enterprises, co-operatives, and businesses with annual sales less than US$125 000) with a work force of over two million people. Of these enterprises approximately 2 300 workers are involved in leather production, 7 200 in footwear, 1 700 in leather garments, 1 200 in furs and fur products, 500 in leather suitcases, and about 1 500 in leather handbags.

17. The Chinese footwear industry produced more than 7 billion pairs of footwear in 2003. This accounted for about 56% of world production of about 12.9 billion pairs, followed by India (6%), Brazil (5%), Indonesia (4%) and Italy (3%). More than 2 billion pairs of leather shoes are produced.

18. Chinese textile and clothing manufacturers have the ability to produce a broad range of products—from the simplest of knitted T-shirts and briefs to complex sweaters, blouses and jackets incorporating fashionable designs and requiring intricate needlework. China's leather industry is evolving from low cost, quantity-focused production to include more high quality goods and greater variety.

19. It appears that the strategy for the 2006 to 2010 period will focus on innovation, independent (domestic) brand development, product upgrading (quality and fashion), research & development and social/environmental aspects. Large textile companies are to be encouraged to establish research centres, to increase independent patent products and exclusive technologies. Although China's textile exports are competitive in terms of pricing, they are mostly exported under designated brands and lack independent branding. Simple quantitative growth should not be the major objective for China's textile exports.

20. The termination of the WTO Agreement on Textiles and Clothing on 1 January 2005 was a historic event that has had and will in future

have a dramatic impact on the international trade in textiles and clothing and the location of production. Few analysts expected the extent to and pace at which Chinese exports to the major markets would increase. China's exports to the US increased from 6.1% of total US clothing imports in 2001 to 27.9% during the first eight months of 2005. The termination of the ATC is likely to have major negative implications for most developing countries. Actions subsequently taken by the EU and the US to limit imports of certain categories of clothing from China – in volume and growth rate – can be seen as only a temporary respite for these countries. In an analysis Sub-Saharan countries were given the second highest risk rating.

8.2 Defensive position

21. In consideration of the foregoing the Chinese TCFL exporters have the ability to completely usurp the local market as it is happening in certain segments of the market already. A recent investigation by the Ministry of Commerce showed that 86.9 percent of the 84 categories of textile goods in China are oversupplied.

22. China's textiles and clothing industries benefit from traditional competitiveness factors such as cheap but skilled labour; availability of raw materials; low cost of other inputs; relief from import duties on equipment; full VAT refund (export drawback); past subsidies and restructuring; technological upgrading; economies of scale; and an undervalued currency.

23. However, this does not fully explain China's international competitiveness. China's low cost producers are deeply embedded within sophisticated and highly internationalised marketing, management, design and distribution networks of locally rooted Hong Kong, Taiwanese and South Korean 'triangle manufacturers'. These businessmen have experience of doing business with the

most demanding of industrial markets, and have the capability to manage diversified production networks to deliver a wide range of quality products to its buyers in a timely way. These institutional factors have allowed the Chinese industry to out-compete other production bases which may share similar 'traditional' factors of competitiveness.

24. The South African TCFL sectors produce 4.9% of the value added by the manufacturing industry. Wearing apparel is the largest sub-group with 46% of TCFL- generated value added Textiles is 37.2%; Leather and Leather goods 8.6%; and Footwear 8.5%. In 2005 the TCFL-sectors employed 15.1% of manufacturing labour. The Clothing industry employed 59% of that. The Textiles sector employed 28%; footwear 8% and leather and leather goods 5%. The TCFL sector is thus important in the socio economic fabric of the country.

25. The local textile industry seems to be able to supply around 78% to 79% of local demand with the rest coming from imports. Exports are 5% of total demand. Unfortunately the ratio for exports tended to tick downward and that of imports upwards in the past three years of relative Rand strength.

26. The clothing sector is under pressure to hold its own in the local market and is losing out in exports. Imports as a percentage of local demand touched 25% in 2005 after having been as low as 12.4% in 2002. Exports dropped in absolute terms in the past two years and are now only 6% of total demand while having been 12% two to three years ago. Imports of footwear satisfied almost half of domestic demand in 2005 and the ratio is ticking up rather rapidly annually. Exports have dwindled to one half percent of total demand.

27. Export of leather and leather products is growing while inroads from imports seem to be absent.

28. The support to the Chinese TCFL industries is extensive and pervasive prompting trading partners to act against Chinese imports into their markets.

29. On 23 March the EU announced the imposition of anti-dumping duties on imports of leather shoes from China and Vietnam because of untoward support to their TCFL industries. The duties will take effect as from 7 April 2006. The initial rate will be 4% but the rate will increase, in the case of China to 19.4%. The EU did not grant market economy status to the 13 footwear companies nominated by China as a sample. According to the EU: “In all cases there was clear evidence of state intervention or non-standard accounting practice. It is clear that these conditions have obtained in China and Vietnam for some time. These conditions included:

- Non-commercial loans or capital grants from the state;
- Restrictions on selling on the Chinese domestic market – for example, production licenses granted only for the manufacture of products for export;
- Non-enforcement of international accounting standards;
- Improper evaluation of assets;
- Non-commercial conditions for land-use: it is not possible to own land in China, but EU investigators found clear evidence of factories being provided with land by the state rent-free;
- All the Chinese and Vietnamese companies were not able to show that “in fact and in law” they are free from unfair state intervention.”

30. The Chinese Government established a $1.5 billion reserve fund in 1998 to reform the TC industries, and added unspecified amounts to this fund in the following years. As part of the plan 1.5 million workers became redundant and 10 million obsolete spindles were

scrapped. In 2000, the State Textile Bureau stated that China committed $2.4 billion in grants to the industry's top 200 firms and $1.7 billion in bank loans to finance technological upgrades. The Government also pledged $1.8 billion in support and $1.2 billion in bank loans to the industry as a whole.

31. It is alleged that Chinese businesses are not being run in a sustainable manner. Their ownership structures are not clear and this allowed management to exploit assets that are not theirs for short-term gain. Private money and 'private businessmen' are able to use political connections to run companies with special support from politicians. It is said that the issue lay at the provincial and municipal levels where a lack of control allowed local politicians to heavily 'subsidize' private companies through: cheap use of national assets; waiving of environmental standards and associated costs; allowing employees to exploit labour; arranging favourable finance through other 'private' funding institutions; waiving various local taxes and assisting to reduce national taxes. This will to some extent explain the difficulties of Western nations to understand the functioning of the Chinese economy and its price competitiveness.

32. In addition Chinese producers enjoy relatively low transportation, water, electricity and land-use costs, both in and outside industrial processing zones. China has encouraged the export processing industries with the waiving of import costs on machinery, technologies and materials, and encouraged exports by offering full VAT rebates (13%) on all T/C products. China's undervalued currency gives it an absolute and relative advantage over developed countries but not necessarily over fellow low-cost producers, many of whom also have undervalued currencies.

33. In comparison to its exports China's imports are relatively low. A positive trade balance of US$ 88.1 billion was recorded by China in

2004. The negative trade balance by South Africa came to US$ 1.3 billion.

34. The export of TCFL products by China amounted to US$112.7 billion in 2004. That was 74.8% higher than in 2000. Exports of textiles were 27.9% of TCFL exports, exports of clothing were 48.6%, leather 9.9 % and footwear 13.5%.

35. Export of textiles in 2004 was 120% higher than in 2000. Fabrics (57.4% of textile exports) and made-up articles (28.8%) dominate. The export of fabrics was 151% more than in 2000. Exports of made –up textiles increased by 117% between 2000 and 2004. Export of household made-ups dominates followed by other made-ups.

36. Clothing is half of all TCFL exports and in 2004 was 70% higher than in 2000 at US$ 54.8 billion. Export of knitted clothing is growing faster than that of other clothing but the latter is still 53% of clothing exports. Export of footwear showed the lowest growth in TCFL exports between 2000 and 2004. It was 54.3% higher at US$ 15.2 billion and 14% of TCFL exports. Exports of uppers with leather are 41% of footwear exports; uppers of rubber and plastic are 36.5% and that with uppers of textiles 12.3%.

37. Export of leather and leather goods in 2004 were 59.6% higher than in 2000 due to growth in the export of leather goods.

38. 50% of China's exports of TCFL –products are marketed in Hong Kong, Japan and the USA. A further approximately 10% goes to EU members. The picture is expected to change with the termination of quotas in the trade in textile as from 2005. South Africa is the destination of about 1% of Chinese exports.

39. South Africa's import of textiles is 41% of TCFL exports; that of clothing 28.6%; leather and products 9.9% and footwear 20.6%.

40. Between 2000 and 2004 the import of TCFL–products by South Africa almost doubled from US$ 1033 million in 2000 to US$ 1968 million in 2004. Imports of clothing were three times that of 2000.The upsurge in imports occurred in 2003 and 2004, the two years in which the Rand appreciated from its artificially low level in 2002.Imports of household made-ups doubled between 2000 and 2004. Imports of footwear surged ahead in 2003 and 2004 when the Rand became stronger.

41. China strengthened its position as main supplier to the South African TCFL market from 24% of total South African imports in 2000 to 46% in 2004. India remains in second position with 6% (7% in 2000). Zimbabwe and Zambia increased their market share.

42. Because of China's extremely strong showing in South African imports of TCFL products it can be asked why China would need more encouragement in the form of bi-lateral concessions on TCFL products.

43. Imports of textiles were 18.9% of TCFL imports from China in 2004. That of clothing was 44.2%, footwear 30.8% and leather and goods 6.4%. Among South Africa's textiles imports that of made-up textiles exhibits a high Chinese content. The Chinese content in clothing imports approached 75% in 2004. For imports of footwear with uppers of rubber or plastic it was at a high 91.3% in 2004 and in excess of 60% with regard to the remainder of the footwear headings. The Chinese are thus ably winning market share in all spheres of the TCFL sectors.

44. China runs a positive trade balance with South Africa that in 2004 amounted US$ 925 million. Trade is in China's favour in all categories except for tanned and prepared leather and wool and cotton fibres.

45. A comparison of export values under certain TC chapters according to China's export data and South African import data for 2003 and 2004 shows Chinese export values that are on average 63% and 41% higher than the South African import values. The only logical explanation appears to be under invoicing by South African importers. This means that the extent of Chinese penetration of the RSA market has actually been understated.

46. The contents of tables 6.2.9 make it clear that China has extensive revealed comparative advantages at the 4HS level. The list of 4HS headings can be taken as a defensive list in trade negotiations with China. Concessions should not be granted for these products.

47. In view of

- China's overwhelming competitiveness in the trade in TCFL products in terms of both traditional factors of competitiveness and the involvement of sophisticated and highly internationalised marketing, management, design and distribution networks of locally rooted 'triangle manufacturers'
- the sheer size of the industries compared to the South African industries
- irrational or 'blind' investment that has lead to a situation of overproduction
- support by the Chinese Government to these sectors
- the undervaluation of the Yuan, and
- the extent of the penetration that China has already achieved in the South African market

South Africa should not grant any concessions in respect of TCFL products to China under a trade agreement. Although South Africa's tariffs on TFCL products may not be a sufficient deterrent to imports from China, customs duties do help and also contribute to confidence amongst investors and fiscal receipts.

8.3 Offensive Position

48. With 1.3 billion people, China is the world's most populous country and a massive market. Retail sales in 2005 were estimated to have reached 6.7 trillion Yuan ($831 billion). China's retail sales are estimated to have risen 12.9 percent in 2005. The focus of Chinese textiles and apparel producers in the coming decade will be the growing domestic market. In 2005 retail sales of clothing, home textiles and industrial textiles increased 9.2 percent, 10 percent and 13 percent, respectively. However, a survey on 600 categories of consumer goods found that garments and textiles are expected to be highly oversupplied in 2006.

49. China's production of leather products has become the largest in the world. The China Leather Industry Association (CLIA) believes that in the next 5 to 10 years, imports of raw hide and skins and finished leather will continue to increase. Opportunities for South Africa in the export of ostrich leather may exist.

50. The Chinese Government is promoting domestic consumption as a basis of future economic growth. There has been a major expansion in formal retail trade and major international retailers are establishing in China. The Government is stimulating the development of formal retailing. The State Council introduced three 'golden week' holidays every year in a bid to spur domestic demand, stimulate consumption and restructure the economy.

51. China has gone a long way in reducing tariffs and NTBs. This has opened up the Chinese market substantially, particularly since its accession to the WTO. Important concerns remain like lack of transparency in administration of customs regulations. The non-respect for trademarks and designs remains one of the main concerns for the foreign exporting companies, the Chinese importers and the foreign investors in China. This impacts negatively on the business of foreign companies and explains the

reluctance of SMEs to export to China. There is a double negative impact, namely (1) in the Chinese market and (2) in the existing export markets.

52. The competitiveness of the Chinese TCFL industries is enhanced immeasurably by state intervention (See defensive position). A strongly undervalued Yuan is a further and important complication for those inclined to export to China.

53. China's applied rates on yarns are low at 5/6%, on fabrics they vary form 10 to 18%, on household textiles from 14 to 16% and on clothing the rate goes up to 25% (on some knits) with 16% and 17.5% the most common rates. South Africa's rates are generally higher 10%/0 for fibres, 17.5% for yarns, 22% for fabrics, 30% for household textiles and 40% on clothing.

54. The Chinese applied rates for leather fluctuate from 5 to 14%. For leather goods the most common rates are 10% and 20%, and for footwear 24%. The SA rates are generally 10% for leather, 30/15% for leather goods and 30% for footwear.

55. Imports of TCFL products by China in 2004 were 39% higher than in 2000. Textile imports were 78.8% of the total, clothing 5.8%, leather 13.5% and footwear 1.9%. It is obvious that intermediates feature strongly in imports while that of final products i.e. clothing, footwear and even made-up textiles are small.

56. Imports of textiles in 2004 exceeded that of 2000 by 40%. Amongst textiles the import of fibres increased from 13.9% in 2000 to 27.2% in 2004 because of a surge in imports of cotton that started in 2003. Imports of clothing were 26.4% higher because of an increase of 67.6% in imports of knitted clothing. Imports of 'other clothing' (of woven fabrics) remained flat between 2000 and 2004.

57. Imported leather increased by 40%. Imported footwear increased by 48%. Parts of footwear are two thirds of footwear imports. However, the growth in imports came from an increase in imports of uppers of leather from a very low base.

58. Chinese imports of TCFL products are strongly Asia bound. The incidence of intermediates in imports possibly explains the imports from Japan and Korea. Imports from South Africa were 0.07% of Chinese imports in 2000 and 0.1% in 2004.

59. South African export of textiles increased from 47% of TCFL exports in 2000 to 50.9% in 2004. This came about by consistent increases in the export of yarns, fabrics and made-up textiles. Export of clothing also became more important rising from 25.7% of TCFL exports in 2000 to 32.5% in 2004. Export of leather declined in importance to 14.4% in 2004 and that of footwear to 2.1%. However, the picture changed since 2003 when the Rand strengthened with a weakening in exports and stronger import growth.

60. One quarter of South Africa's exports go to the USA, a further 14% to the UK and 8% to Italy. Asian countries are not prominent destinations of South African TCFL exports. China received 3% of South Africa's exports in 2004 up from 2% in 2000. Exports are mainly wool fibres, fibres of man-made staples, man-made filament yarn and raw leather.

61. Based on the comparative advantages analysis, Table 7.4 (China comparative disadvantages) is an indicative list of potential opportunities for export to China by the world. However, Table 7.7 (4HS headings where South Africa has comparative advantages in TCFL trade with China) would be a more appropriate list for South African export opportunities to China.

62. Of current South African exports of TCFL products to China, wool fibre contributes 61% and synthetic filament yarn of HS54.02, about 15%. Concessions on these products probably present South Africa's best opportunity for increased TCFL products to China. China imports substantial quantities of synthetic filament yarn, namely US$1.4 billion in 2004, and this is a major export product of South Africa. The TCFL industries should however also consider the rest of the very limited number of 10 items shown in Table7.7. synthetic filament yarn of HS54.02

63. South Africa's limited range of products with comparative advantages is found mostly in primary and intermediate products. However, as long as

- the Yuan remains severely undervalued
- state support to the Chinese TCFL industries continues and China retains its advantages in being classically competitive in terms of labour costs, skills, raw materials and logistics
- the Chinese market is oversupplied by 89% of textile product categories
- NTBs remain a deterrent to imports,

South African manufacturers in the textiles, clothing and footwear industries seem to have little scope for broadening exports to the Chinese market. Wool fibre and synthetic filament yarn remain the best possibilities for increasing exports but the rest of the items in Table 7.7 should also be considered for possible concessions by China.

Overall conclusion and recommendation

64. In the forthcoming trade negotiations, South Africa should not grant tariff concessions in the TCFL sector to China. The proposed position is to exclude textiles, clothing and footwear totally from any concessions. However, if China is prepared to make concessions in

these sectors without expecting concessions from South Africa, a few products can possibly be identified in consultation with the domestic industries for a South African list of export interest. Consultations should be based firstly on the list in Table 7.7 but the list in Table 7.4 should also be scrutinized.

65. In view of the current problems experienced by the TCFL industries in respect of imports from China, it is not expected that China will insist on concessions in these sectors.

66. A solution should be found for the apparent huge under invoicing of imports from China as this is a further factor that compounds the problems being experienced by the domestic industries.

ANNEX

Special Summary of China- EU T/C Agreement

Background to EU/China textile agreement:

The Textiles/Clothing sector is an important part of European manufacturing industry with a turnover in 2002 of over €200 billion produced in roughly 177,000 enterprises employing more than 2 million people - a figure which increases to 2.7 million after EU enlargement in May 2004. Textiles and clothing account for around 4% of total manufacturing value added and 7% of manufacturing employment in the EU-15.

Between January and March 2005, with the termination of the WTO Agreement on Textiles and Clothing (ATC), which phased out the Multi- Fibre Arrangement (MFA) quota system, T/C imports from China surged into the EU. Under the T/C categories included in the final EU- China agreement, increases in volume of 625% were registered into the EU-15 with price falls of 36% for jerseys and pullovers. Chinese exports of women's shirts and blouses to the same markets more than tripled in volume (+244%) with price falls of 41%. Exports of brassieres too rose steeply by 493%, as their prices fell by 36%.

Import data for the 10 categories covered by the MOU (Jan-March 2005):

Product category	Actual imports Jan -Mar 2005 (based on import data)	Percentage increase compared to Jan-Mar 2004
2 - cotton fabrics	14.048	60%
4 - T-shirts	150.665	164%
5 – pullovers	65.020	534%
6 – men's trousers	104.195	413%
7 – blouses	21.927	186%

20 – bed linen	4.058	164%
26 - dresses	5.834	139%
31 – brassieres	44.229	63%
39 – table + kitchen linen	2.859	61%
115 - flax or ramie yarn	1.098	51%

China, trying to appease the growing tide of protectionist rhetoric from US, EU and other developed country textile and apparel producers, agreed to voluntarily restrict exports of T/C products (see above: 9.3.3 Export Tariffs: A summary of China's voluntary export tariff regime in 2005). The aim of the voluntary restrictions was to reduce the volumes of Chinese clothing exports to such an extent that they would not immediately flood foreign markets once the MFA quota system was lifted, and hence avoid the Catch-22 scenario of foreign markets re-applying import restrictions under the Article 241 of the Protocol of Accession of China to WTO. In the end, the voluntary export restrictions did not prevent the flooding of foreign T/C markets. Not surprisingly, by February 2005, when the terrifying import figures started appearing and EU and US buyers switched from domestic producers to Chinese importers, this voluntary export control system was widely criticized as ineffective.

The European Commission, lobbied by the European Apparel and Textile Organisation (EURATEX) sought safeguard action under the agreement on accession of China to the WTO. The special textile safeguard clause permits a WTO member to take safeguard action to limit the growth of Chinese exports in cases where market disruption threatens to impede the orderly development of trade. The minimum annual increase of each quota should be 7.5%.

In its position paper of April 2005, Euratex claimed the growth in imports from the mainland as the main cause of job-loss and company closure in the EU textile and clothing industries since the lifting of quotas on 1 Jan 2005. Euratex claimed that the voluntary export restrictions taken by China to avoid exactly such a confrontation had totally failed. In consequence, high-ranking

government ministers and officials - especially from France and the EU's southern regions - all but coerced the EC into taking unilateral safeguard action.

Then on 10 June 2005, Peter Mandelson and Bo Xilai agreed to an arrangement that would manage the growth of Chinese textile imports to the EU until the end of 2008. This MOU was implemented by Commission Regulation 1084/2005 and became effective on 12 July 2005. On this date, the quotas for 2005 agreed under the MOU became effective and because of the massive Chinese imports earlier in the year, many quota were already filled and some even already overdrawn. The result was the start of a blockade of Chinese T/C products in EU port warehouses that quickly spread as other product category quota limits were reached.

Altogether 88 million pieces of clothing lay embargoed in EU warehouses. For example, under the 10 June MOU, China was permitted to export 69 million sweaters to the EU between 11 June 2005 and 31 December 2005. But the Commission said it had stopped issuing import licences after 12 July because it had already issued the full quota in one day. The blockade grew as Chinese exports continued to be shipped, despite having a quota license on the EU side.

Then, on 13 September, EU member states passed an agreement published as Regulation 1478/2005 giving legal force to the EU- China accord reached on 5 September 2005 between trade Commissioner Mandelson and Chinese Minister Bo Xilai.

The Technical side of Regulation 1478/2005:

Regulation 1478/2005 lays out, in its Annex I, the table of applicable quotas for 2005, 2006 and 2007 in respect of the ten categories that are subject to quantitative limits. The following table summarises the quotas imposed on textile categories in 2005 as well as those that will apply in 2006.

	Unit	Base for 2005 import levels	Agreed growth rate 2005	Imports 2005 (from 11 June)	Imports 2005 (total)	Agreed growth rate 2006	Imports 2006 (total)	Agreed growth rate 2007	Imports 2007 (total)
5 – pullovers	1000 units	4.04-03.05	8%	68,974	181,549	10%	199,704	10%	219,674
6 – men's trousers	1000 units	4.04-03.05	8%	104,045	316,43	10%	348,072	10%	382,88
7 – blouses	1000 units	4.04-03.05	8%	24,761	73,176	10%	80,493	10%	88,543
4 - T-shirts	1000 units	3.04-02.05	10%	150,985	491,095	10%	540,204	10%	594,225
26 – dresses	1000 units	4.04-03.05	10%	7,959	24,547	10%	27,001	10%	29,701
31 – brassieres	1000 units	4.04-03.05	10%	96,086	205,174	10%	225,692	10%	248,261
115 - flax yarn	tons	3.04-02.05	10%	1,911	4,309	10%	4,74	10%	5,214
2 - cotton fabrics	tons	4.04-03.05	12.50%	26,217	55,065	12.50%	61,948	12.50%	69,692
20 – bed linen	tons	4.04-03.05	12.50%	6,451	14,04	12.50%	15,795	12.50%	17,77
39 –table + kitchen linen	tons	4.04-03.05	12.50%	5,521	10,977	12.50%	12,349	12.50%	13,892

The increase in quota levels for 2006, in comparison with the levels during 2005 will be between 8 – 12.5 %.

To ameliorate the effects of the blockade, both sides came up with an acceptable compromise by means of "equitable burden sharing" in removing the stockpile of textile products. The EU would allow some of the blockade volume to be covered by exceptional exceeding of some quota levels for 2005. On the Chinese side, they agreed to use some of their 2006 quota to

cover some of the blockaded goods. In addition, it should be noted that, as stated in Regulation 1478/2005, if by 31 December 2005 Chinese exports were lower than the 2005 levels that had been agreed between the EU and mainland China, the remainder of the quota concerned would be carried over to the following year's quota. Most of the quotas were already exceeded by the end of 2005, with the exception of categories 2, 20 and 39. Therefore, the quota levels for these three categories for 2006 might be slightly increased.

Also, a degree of flexibility was built into the agreement. The Chinese could transfer some quota between years and between product categories:

General flexibility provisions
-Advance utilisation: 5%
-Carry-over: 7%
-Transfers between categories 4, 5, 6, 7, 26 and 31: 4%
-Transfers between categories 2, 20, 39 and 115: 4%

OPT:

The Regulation also re-established the mechanism of Outward Processing Traffic (OPT) allowing part-finished clothing to be finished in Mainland China and re-imported into the EU without falling under the quota. Under this system, raw materials for the manufacturing of textile products may be exported from the EU to mainland China for further processing. After the processing of the goods has taken place, they may be imported back into the EU without being subject to any quota or import licensing requirement. The following table contains the amounts of products which can benefit from OPT in 2006 and 2007: (This quota arrangement will also be managed by authorities on the Chinese side)

Category	Unit	2006	2007
GROUP IB	-	-	-
4	1,000 pieces	408	449
5	1,000 pieces	886	975
6	1,000 pieces	3,216	3,538
7	1,000 pieces	860	946

GROUP IIB	-	-	-
26	1,000 pieces	1,550	1,705
31	1,000 pieces	12,341	13,575

Euratex response to Reg. 1487/2005:

The Euratex are very unhappy with these increases in quota limits as they reflect substantial increases from the demands of the Euratex in its April 2005 position paper. Euratex feels that between the June MOU and 5 September, the situation facing EU textile producers did not improve to the point that Mr Mandelson should have offered further concessions to China as was the de facto case. Euratex argues that, the final agreement will not be sufficient to alter the long-term prospects of its members and hence the EU textile industry has been sacrificed of sorts to appease China politically.

Import procedures:

Chinese side:

After the implementation of the 10 June MOU and the passing of Reg. 1487/2005, a new set of restrictions faced Chinese exporters and hence the Chinese policymakers had to replace the existing export procedures (export licenses and export duties) with new quantitative restrictions on exports that met the EU quota volumes. (In fact, only the export restrictions on the above 10 products were lifted. The export tariffs on the a few other T/C products remained until the US deal, and the remaining tariffs were removed on 1 January 2006.) Quotas are now the only restriction applied to the above 10 categories of T/C, and only applicable to the EU. This would serve as a double-gate to check that quotas were not exceeded. The EU plays no direct role in the allocation of quota to different companies. It merely checks that the cumulative quantities passing through EU ports are in line with the quantitative limits.

On 21 September 2005, MOFCOM and the NDRC (National Development and Reform Commission) passed the “Catalogue of Textile Products subject to Provisional Administration” (effective quantitative measures). This lists the 10 EU categories subject to quotas. This Regulation allows for the

establishment of the “Committee on Bid Invitation for Quantitative Limits for Textile Exports to EU”, under MOFCOM.

Normally (in 2006/07/08) quotas will be distributed on a tender/bid basis to Chinese firms. But initially, 30% of 2005 quotas were distributed on the tender basis and 70% was allocated on the basis of previous export volumes to cover goods blockaded at EU ports.

The procedures below were laid out by MOFCOM in the, ‘Working Manual for Application and issuance of the Provisional Textile Export License’ which was promulgated on 28 December 2005 and comes into effect on 1 Jan 2006. (Mofcom Announcement 707/2005)

The quota enabling license is called the *Provisional Textile Export License*. Quotas are allocated nationally on a tender/bid basis. The national quota amounts are allocated by this process on a national basis but the process of bidding is managed by the local Bureaus of MOFCOM. In most cases one province will have one Bureau, but in the more economically active provinces, there may be a few. E.g., in Guangdong Province there is a Guangdong and Shenzhen Bureaus of MOFCOM.

MOFCOM published a notice setting out the qualification of bidding enterprises, the procedures for bidding, the upper and lower quantitative bid limits and the minimum bidding price for each category of textile products. Local commerce departments are required to examine the list and report the checking results to the Committee for Bid Invitation of MOFCOM before 16:00 on 30 November 2005. MOFCOM produced preliminary and then final lists of enterprises eligible to participate in the bidding process. It has not been clear exactly how transparent and rational the eligibility/screening process was but, as no foreign companies were involved, there were no formal complaints.

The bidding period for the First Round was from 08:00 of 6 December 2005 - 24:00 of 8 December 2005. The bids were opened on 9 December, though there were some minor technical problems. Though this is not apparently

clear, it seems 30% of the 2006 quota was allocated in this First Round on a public basis.

This quota was allocated online on a trial basis. Apparently this had a few technical hiccups that lead to the final results being belayed by a day, but was largely successful and will be used again in the future.

According to the official policy, there are strict national guidelines and regulatory requirements that need to be applied for the cross-regional transfer of quotas, though intra-regional transfers are allowed. Following the bidding round, an internal 'black' market has opened up with several textile and apparel producers preferring to sell their allocated licences for higher prices than those paid for. There are many websites advertising 'textile quota for sale on the internet' and some market indicators are being developed by private companies to track this private market.

According to figures from Emerging Markets, an industry website, the effective prices of quotas per item are significantly lower than the equivalent 2004 quota prices under the MFA. For example, the effective export quota price on each T-shirt exported to the EU is US$0.53 (US$1.70 in 2004); US$1.86 per pullover (US$3.80 in 2004) and US$ 0.67 (US$0.75 in 2004) per brassieres. Analysts have commented that these quota prices will have a significant impact of the profit margins of an industry which is already fighting low profit margins caused by high levels of competition. Consolidation is already evident. It remains to be seen whether these quota prices will be able to be fully absorbed by producers or whether this will be passed on to European and American consumers.

There is apparently also an electronic system run by the Quota License Affairs Bureau of MOFCOM linked to Customs that will manage the use of this quota at the export gate.

817 Chinese textile enterprises/traders were awarded EU quota.

European side:

The granting of EU import licences is contingent upon presentation of a valid Chinese export licence and verification of availability of quantities and a certificate of origin from the Chinese MOFCOM.

This double-check system is an important part of the 10 June MOU. It agrees with the principle of 'bi-lateral solutions' between the two sides. Both sides would take responsibility for ensuring a sustainable and efficient solution to the problem. It avoids the situation of Chinese products piling up at European ports because the quota system was not adhered to on the Chinese side.

General commentary on EU-China T/C Agreement:

An industry source believes Chinese have taken this allocation process very seriously, both from a policy-maker and from a textile enterprise point of view. He believes the Chinese enterprises consider themselves fortunate to still be exporting after the blockade debacle. The Chinese Government has a lot of pride at stake in making the management of the quotas work from their side. It is essential that the numbers leaving their ports add up to the numbers arriving at EU ports. Their credibility to control and have the rule of law respected in customs procedures is at stake, as it will play a role in leverage in future trade negotiations over other products.

The EU also took this '2005 Textile Crises' very seriously. It was an important step for them to reach an amicable agreement and lay down the precedent for handling of future trade issues with China in other product sectors. Both sides, the EC and the Chinese policy-makers, seem happy with the deal. The general impression is that not all parties are happy with the deal: EURATEX, the Trade Unions in Europe and the smaller Chinese textile companies who are not getting quota have all made vocal their unhappiness.

The EC feel they have, firstly, allowed for a fair growth in Chinese exports (8-12%) and secondly, allowed EU producers enough time (2.5 years) to restructure and face up to the realities of a globalised textile industry. The deal allows importers, exporters and producers and retailers certainty,

predictability and reduces the likelihood of trade distortions such as the build-up at EU ports in mid 2005.

The agreement preserves the strong and constructive wider trading relationship that Europe prizes with China. It preserves the prospect of market opening in China for EU service businesses. It is a strong signal that China takes its international trading responsibilities seriously – and that Europe respects China's right to benefit from trade liberalisation.

The agreement also provides a window for adaptation for producers in developing countries whose textiles exports to the EU were being displaced by a surge in imports from China. This is particularly important for textile industries in the EU's Mediterranean members.

Two important issues remain:

After the end of 2007 (the US agreement end a year later), the EU has promised to 'exercise restraint' in the use of safeguard measures in the future. This would have to have been placed in pretty serious light for the Chinese to accept it. It is a major concession that the Chinese would have been looking for. Some would argue, that, as it is highly unlikely that the EU would go back on this promise, this spells the end for the EU textile industry. Of course, they have 2.5 years to decide what to do, but many question whether any amount of 'restructuring' would help. Export subsidies are illegal under the WTO and the EU is highly unlikely to go this route.

The other issue is one of what other future options are open to EU Textile producers to protect themselves? Safeguard measures and AD actions are two entirely different measures. The option of anti-dumping actions is always available to EU producers, such as is currently being used in AD actions against Chinese shoe imports. But an AD action is a legally-based, unilateral decision. It is not a bilateral issue that will require high-level political 'negotiations'. It's a case-by case legal issue when Chinese companies are dumping products at below the prices (even below market prices of raw materials) in the domestic market.

Special Summary of China- US T/C Agreement

After the fall of the Multi-Fibre Agreement, US T/C manufacturers started calling for safeguard measures to control the flood of Chinese T/C imports. In mid-2005, certain textile products were embargoed in US ports.

After 7 heated rounds of negotiations, the United States and China signed a three-year agreement on the textile trade, imposing quotas on Chinese textile exports to the US. This agreement follows similar lines to the agreement signed in September 2005 between the EU and China.

A total of 21 types of clothing and textiles have been placed under the import restrictions. The agreement provides for a progressive increase in imports of major textiles and apparel products. These quota increases will be: 10 to 15 percent in 2006, 12.5 to 16 percent in 2007, and 15 to 17 percent in 2008. 2004 import data would be used as the base year to calculate quantitative limits.

These quota increases are more generous to the Chinese industry than under the EU Agreement. A Chinese official called the deal "not satisfactory" but "acceptable". Both sides had made compromises: China had agreed to limit the quotas to the above levels. This was seen as a huge concession as growth levels of these products had been in triple figures between 2004 and 2005. The US had agreed to extended the deal application period to the end of 2008 (the EU deal only runs till the end of 2007) as was preferred by China. This allows a longer period of certainty and gives both sides a breather before more flare-ups which many analysts say are inevitable when the current agreements come to and end. The US has also promised not to impose limits on T/C products not included in the current deal. As with the EU deal, the Chinese negotiators valued this promise as a significant concession. As part of the agreement, the US officials agreed to release 10 categories of embargoed goods ‘for free’, for a 5 day window period. It would not be necessary that these volumes be covered by 2006 quota.

Procedures o the Chinese side:

(See the Chinese side import procedures applicable to the EU Agreement above.)

The procedures for allocating textile export licenses and export quota are exactly the same bid/tender system as was used to distribute the EU textile quota for 2006: Companies were asked to submit proof of their eligibly to export and those eligible enterprises were put on a national list. On 8 December 2005, by online bid, 30% of the export quota for 2006 was allocated. 28 296 qualified textile enterprises/traders in China joined the bidding for export quotas on 21 categories of textiles US.

The bidding was apparently especially heated as there had been a half-year blockade of many textile products in US ports and companies desperately needed to get hold of quotas to cover these quantities. Initial quota prices were much higher than the minimum levels set by policy-makers and even higher than market expectations as competition for quota was fierce.

Issues on the US side:

Very importantly, the latest figures of fill-rates on textile quotas show that the textile crises may not be over just yet. (These fill rates are calculated on actual textile products arriving at US ports, not on quota allocated on the Chinese side, and not according to Chinese figures of actual exports) Whereas fill rates for European quotas have been slow, huge volumes of most categories have already been arriving in the US.

Emerging Textiles, predicts that quota limits could be reached by mid 2006. This has been affected largely by the need to cover volumes of 2005 exports embargoed in the US. The agreement does have some flexibility built in; Chinese exports may use 3% of 2007 quota in 2006. However this will not be enough to allow for volumes in especially 3 sensitive categories: 338/339 (Cotton Knit Shirts), 347/348 (Cotton Trousers) and 352/652 (Cotton/MMF Underwear). Assuming China is not able to efficiently control exports on its

side, 2006 could again see embargoes as unauthorised, or ‘incompetently authorised’ products arrive at US ports.

A recent announcement by US customs points to this likelihood. On 22 February 2006, US Customs announced that it had seized more than US$14 million worth of Chinese textile products since October 2005. In February alone, US customs seized US$4 million worth of textiles.

US officials say these products were shipped in illegally to dodge quota restrictions. In a move that hurts legitimate Chinese exporters, the US government says it will now count these blocked shipments as part of the quota of embargoed textile products for 2006. There have been no official statements that negotiators from the 2 sides are working on the issue, but if sharply contrasting figures from Chinese export officials and US import officials do materialize, China could come under strong criticism for being unable to keep up its side of the agreement. Analysts predict that 2006 will be as interesting as 2005 and that the textile story is not yet settled.