

Sino-American Textile Trade Balance and Trade Friction

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Abstract

In recent years, there has been severe unbalance in Sino-American trade. China has remained trade surplus of large volume to America, especially in textile products trade, so America has a lot of trade friction with China. This article collects information of unbalanced condition in Sino-American Textile trade, analyzes the reasons for this kind of trade friction, and proposes an opinion that China has to modify the policy of developing country by foreign trade to realize trade balance of textile products.

Keywords: Textile trade, Trade balance, Trade friction

1. Introduction

Since the reform and opening to the outside of the world, Chinese foreign trade has developed very well and has become one of the most important momentum for economic growth. And Sino-American trade is the primary part in Chinese foreign trade. China is the biggest developing country and America is the largest developed country in the world. Sino-American trade has developed quickly in recent 30 years,

Which is good for Chinese, American even the global economy. However, in recent years, there has been continuous trade friction between China and America for the unbalanced Sino-American trade, especially for unbalanced textile trade. Sino-American trade deficit is always the hot topic in American congress and federal government. It is always one important topic for parties to win votes in the congress election or presidential election. However, American congress and government always force Chinese government to keep trade balance, which engenders shadow in Sino-American trade relationship. Therefore, it's necessary to research for unbalanced Sino-American textile trade, propose good policies to solve this issue and promote normal development of Sino-American textile trade.

2. Recent Condition of Sino-American Trade Friction

There are a series of issues between America and China: RMB exchange rate, intellectual property rights and textile products.

In 2006, American trade deficit reached 763.6 billion dollars, among which Sino-American trade deficit was 233 billion dollars.

This data aggravates the relationship between American congress and Bush administration. The congress uttered the voice of punishing China.

On Feb. 2nd of 2007, Bush Administration declared to imp lead the export allowance of Chinese government to WTO.

American manufacturing industry and labor organization rebukes that China decreases the currency value of RMB to earn unbalanced trade advantage and result in unemployment of American workers.

In order to give pressure to Chinese government, the councilors of Democratic Party and Republic Party proposed a bill demanding to withdraw the permanent normal trade relationship given to China. 15 councilors such as Nancy Pelosi, Steny H.Hoyer, Charles B.Rangel, Sander Levin,etc. wrote a letter together to President Bush and urged the government to adopt measures to change the situation of increasing trade deficit. The content about China is listed as following: "... We urged Bush Administration to adopt measures to solve these problems. We welcome the activities Bush Administration carried out recently, including imp leading the export allowance of Chinese government to

WTO. However, that's not enough... We demand that Bush Administration cooperate with the Congress...to dismantle trade barriers and counterattack unfair trade. American trade deficit with three trade partners occupies a large part of general trade deficit, among which 233 billion dollars with China, 117 billion dollars with EU and 88 billion dollars with Japan)... First of all, we demand that within 90 days Bush Administration propose a general plan to reduce American trade deficit with three economic partners, including how to dismantle market entry barriers and cancel unfair trade; second, we have to adopt the following measures to correct the unfair trade of American trade partners: to stop Japan and China controlling currency by using American item No. 301 and WTO's multilateral mechanism; to impale China's infringing intellectual property rights to WTO and EU's discrimination trade policy; to strengthen implementing American Trade Relief Law and levy anti-allowance tax upon Chinese products which receive allowance."

National Association of Manufactures (NAM) points out that the trade deficit of manufacturing industry is 526 billion dollars, among which 80% of manufacturing industry trade deficit comes from Asian countries and trade deficit with China accounts for 40%, which indicates the importance of fair trade between America and China. It's important for America to imp lead Chinese export allowance to WTO and it's necessary for America to get result as soon as possible.

American Manufacturing Trade Action Coalition (AMTAC) holds the opinion that American trade policy directly results in the increase of American trade deficit and the lose of over 3 million employment positions of manufacturing industry. American government refuses to take the entry into American market as negotiation chip. Giving green light to Chinese products with export allowance damages American company's profit. According to the opinion of AMTAC, the most popular and most harmful protective allowance is foreign VAT export tax return policy. At present 137 countries implement export VAT export tax return policy. In 2005, influenced by foreign VAT export tax return policy, most American manufacturers suffered great loss for 294 billion dollars, among which loss of 48 billion dollars was relevant with China. If American congress and government don't adopt measures to countervail the partners' trade advantage from the export VAT export tax return policy, America cannot reduce its huge trade deficit.

Generally speaking, Sino-American trade friction is more severe than Sino-European trade friction. EU always negotiates with China, but America implements unilateralism. The demand for domestic political battle makes most Americans not willing to listen to Chinese reasonable explanation but understand Sino-American trade unbalance from their own point of view.

3. Unbalance in Sino-American Textile Trade

(1) Comparing Foreign Trade Data of China with that of America

According to Chinese foreign trade export statistics issued by China Customs, in 2006 Chinese foreign trade volume reached 1760 billion dollars, the export volume was 969.08 billion dollars and the import volume was 791.61 billion dollars. America is Chinese second trade partner, and total Sino-American trade volume has reached 262.68 billion dollars.

Bureau of Census of American Department of Commerce issued American foreign trade statistics, which showed that in 2006 American foreign trade volume was 3600 billion dollars, among which the import volume was 1400 billion dollars and the export volumn was 2200 billion dollars. In 2006, American trade deficit was 763.6 billion dollars, among which the trade deficit with China reached 232.5 billion dollars and increased by 15.3%.

(2) Import and export of Sino-American Textile Products

Among export products publicized by China Customs in 2006, textile yarn, textile products, apparel were 143.99 billion dollars.

According to the statistics issued by the OTEXA of American Department of Commerce, in 2006, American imported textile products all over the world for 52.1 billion square meters which amounted to 93.3 billion dollars, among which America imported textile products for 18.6 billion square meters which amounted to 27.1 billion dollars. The share of Chinese products in American total import amount increased from 33% in 2005 to 35.7% in 2006 and the share of Chinese products in American total import sum increased from 25.1% in 2005 to 29% in 2006.

4. Analysis on Sino-American Textile Products Trade

(1) Generally speaking, Sino-American foreign trade develops well with a growing trend. The development speed of Chinese foreign trade has remained over 20% for 5 years. In 2006, Chinese foreign trade increased 338.78 billion dollars than that of 2005 with the growth rate of 23.8%. In 2006, American exported products for 1400 billion dollars, which ranked No. 1 in the world with the growth rate of 13%. Among American 30 trade partners, the American export amount increased in 29 countries and the export growth rate to China was 32%, the highest one in

30 countries. However, American foreign trade deficit reached the highest point in history, among which American-Sino trade deficit was largest and occupied 30% in American total foreign trade deficit.

To outward seeming, Chinese foreign trade profit comes from American foreign trade loss. However, through analyzing Chinese export, in 2006, Chinese common trade import and export was 749.5 billion dollars, which increased by 26% and occupied 42.6% of the general import and export volume. In the same year, processing trade import and export was 831.88 billion dollars, which increased 20.5% and occupied 47.2%. We can conclude that processing trade still occupies a huge part of Chinese import and export volume. The beneficiaries who get the most profit in processing trade are the foreign traders who own the brands and selling channels. Through the research on modern industrial value chain, the profit of industrial value chain appears as “V”, which is, “smiling curve”. In this curve, one end is research and design, another end is selling, service and the middle part is processing. Some research shows that the industrial profit rate on both ends is from 20% to 25%, but the processing industrial value is only 5%. In the international division of textile industry, a Chinese enterprise is located at the bottom of the “smiling curve” and earns the least processing fee. Therefore, the media and some experts compare Chinese textile industry even other industries to “international labor” in the international industrial chain.

Especially the American multinationals in China enjoy the great profit. Therefore, Chinese export trade surplus should be discounted. Many economic experts say that trade surplus is in China but profit is in America. Sino-American trade surplus is good for America from another side. From the trade structure, processing trade occupies a huge part of the whole foreign trade. Because the two ends of processing trade are in foreign countries, its effect on increasing national treasure and developing economy is limited. According to the international experience, the processing trade by adopting the mode of processing with customers' materials can form increasing value which only occupies 20-30% of the product's general value in the country which engages in processing trade. Therefore, this country can gain very limited profit from processing trade. However, the increasing value in processing trade is foreign trade surplus volume, which has apparent effect on the growth of foreign trade surplus. In the special historical period, processing trade is the source of increasing foreign exchange and good method of solving employment problem. However, since Chinese foreign reserve has become the No. 1 in the world, the environment pollution from processing trade is more severe than before and it's more urgent to adjust trade mode and increase the proportion of common trade.

(2) As for Sino-American textile industry and trade, they occupy small part of foreign trade volume. Chinese textile products occupy 14.9% of the total export volume of that year and only are 8.7% of Sino-American trade.

However, American import textile products occupy 4.2% of the general import volume of that year, but only 1.23% in Sino-American trade. As for America, textile products import is a little problem.

We cannot ignore the Sino-American trade friction just because of the above figures.

For China, the meaning of textile products export is not about money but employment. Americans have said that touching with textile products, Chinese people would jump up. China is the biggest country producing and exporting textile products. The trade surplus from textile products ranks No. 1 among all products. The textile industry is a traditional manufacturing and labor-intensive industry which attracts the most employees. In 2006, the direct employees of the textile industry were 19 million, the indirect employees were close to 100,000,000. The direct employees in American textile industry were only 613,200. Comparing the direct employees of Chinese with American textile industry, Chinese direct employees are 30 times of that of America. Chinese textile industry's actual dependence on foreign countries is 30%, which means that once the textile products export is frustrated, Chinese industrial development and employment will be threatened seriously.

In 2006, the average income of American textile industry is 12.5 dollars per hour, which is 15 times of the average income of Chinese textile industry, 0.80 dollars per hour. As the labor-intensive products, Chinese textile products' competition precedes that of America. Therefore, it is impossible for America to urge the Chinese government to raise the value of RMB, which is an obvious thing for American economists and policy makers. The import volume of textile products is really small and does not relate with large-scale unemployment. The appreciation of RMB cannot balance Sino-American textile trade. So what's the reason for America to compete with China in textile products?

From the recent trade friction, America entangles with China on textile products for American domestic political pressure. American government wants to force Chinese government to make concessions on RMB's exchange rate with the condition of textile products.

American holds the aim for protecting itself and taking care of its neighboring countries by pressing Chinese textile products. As a matter of fact, taking care of its neighboring countries, America also wants to guarantee its own security. Therefore, America would rather decrease Chinese textile products import volume than reduce the textile

products export volume of Latin America and Central America.

5. The method and effect of China to Balance Trade

Since reform and opening up to the outside of China, promoting export has always been a very important national policy. The Chinese government has adopted a series of priority policies, such as export loan, export allowance, and export drawback of tax, which has exerted great influence. However, these methods are used to decrease price to increase export volume, which distorts the resource allocation of domestic economy, aggravates financial burden of the government and puts Chinese foreign export in a very embarrassing situation. By sacrificing environment and workers' welfare to sell many goods at lower price to the foreigners, China gets much trade friction however.

In order to balance trade and decrease friction, China adopts some methods of making standards. China has always been the biggest import country of American beans and cotton. Only in 2004, China imported American beans for 10,200,000 tons, which occupied 43% of American bean export. In 2003, China exported American cotton for 510,000 tons, which is 4.6 times that of 2002. In 2004, China imported cotton for 1.06 million, which increased more than one time of that in 2003. In 2005, in order to decrease trade surplus, China signed a contract with America to buy 70 Boeing planes for 4 billion dollars. Plus imported American telecommunication products, automobile whole and accessory parts, machinery and electrical equipments, China has purchased American goods for 9.5 billion dollars. China has exceeded Britain to become the fourth export market of America and the country which exports goods to America most quickly. According to the chairman of China Textile Industry Association, Mr. Du Yuzhou, China imports an American plane with the foreign exchange, which is at the cost that China should export 800,000,000 textile products.

In addition, since 2005 China stopped textile products export customs, the rumor that the textile products export drawback rate will be cancelled spread. On Sep. 12, 2006, in the Sino-Euro Industry and Business Summit, Premier Wen Jiabao declared that China implemented import-export balance policy and does not pursue trade surplus deliberately, which paved a way for "decreasing export drawback rate". On Sep.15, 2006, China Finance Ministry, National Development and Reform Commission, Ministry of Commerce, General Administration of Customs, and National Tax Bureau issued a notice to reduce the export drawback rate from 13% to 11%.

According to the statistics of China customs, in February of 2007, Chinese textile products export reached 11.24 billion dollars, which increased 71.3% than that of last year. It has created a new record of export increasing rate for a single month since China's entry into WTO. The increasing rate is higher than that of 2005 and 2006, even than the accumulated increasing rate of every month in 2004. One main reason was for a rumor that Chinese government would reduce textile products drawback rate further. All textile export enterprises exported their products before the first quarter of 2007. The policy limiting export promotes a huge amount of export. The policy makers also have not expected the result like this.

6. Conclusion

China's economy has developed at a high speed in recent years. Its foreign trade volume has increased quickly, which strikes the original profit structure of the world and creates trade friction. Chinese abnormal export increase roots in the change of international industry division and the transfer of domestic economic development stage. Even though the export guiding policies dealing with Asian financial crisis need to be adjusted and are now being adjusted, the foreign trade increase which is promoted by international industry division adjustment and domestic development stage transfer has its own necessary trend and should not be restrained by simple currency regulation. If the imbalance of bilateral trade results from bilateral economic structure and other non-currency elements, the resolution for exchange rate may be useless.

As the country with trade surplus, China faces the trade friction with countries with trade deficit and also worries about the increasing foreign exchange reserve. The effect of foreign trade on improving economy is very obvious. Within the short term, foreign trade can actually promote economic increase, but extremely relying on foreign trade may not develop domestic consumption demand situation. Only depending on international market and foreign investment, economic development is comparatively weak and full of disadvantages. Once international market and economy of other countries change, the domestic economy also will be affected and even encounters economic crisis.

Therefore, the policy of "foreign trade establishing China" should be changed, domestic demand should be focused on, and the welfare of Chinese workers in textile industry should be increased through legal form. The development relying on low-level scope expansion, low-cost competition and resource consumption is hard to last for long. In order to become a textile powerful nation with international competition, Chinese textile industry's urgent task is to upgrade the industrial structure instead of staying in the position of "global low-price processing plant". Giving up some textile foreign trade export orders with low additional value, improving technical innovation of textile

products and apparel and promoting upgrade of domestic textile industry are best solution for the above problems.

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