

WTO has created anxiety among footwear and textile producers worldwide who see China becoming the dominant player in the future. Developing countries have traditionally regarded quotas as a means of limiting exports and have only recently begun to see that they can also prevent one country from gaining a single dominant share of the world market. While current statistics suggest that China will dominate many markets, there will be many arguments along the way.

Living with WTO

Many US companies, for instance, are reluctant to commit themselves further with China as they prefer flexibility. Further reasons include geographical proximity of other countries, uncertainties in China, preferential trade agreements and pre-existing business arrangements. The US has also invoked safeguards that were part of China's entry into WTO four times and investigations a further three. So what do these safeguards actually involve as far as the US is concerned?

Safeguards on imports from China are unlikely to help US manufacturing as 96% of the apparel market is now imported and quotas will merely divert some Chinese product to other countries. General quotas in existence for 30 years did not prevent the decline of domestic industries, so quotas against a single country would now make little difference.

Safeguards were aimed at avoiding disruption in the US market directly attributable to Chinese imports and not at concerns over China's economy or to encourage its adherence to WTO obligations. Using safeguards as an enforcement tool without proof of explicit disruption of the US market might well lead the WTO to find that the US is in fact violating its own WTO obligations to China.

While any moves to restrain Chinese imports or encourage its government to impose additional taxes on exports to the US would create extra costs for exporters, they would actually be borne by either US importers or consumers. Either way that represents a transfer of funds from the US to China with no reciprocal increase in jobs.



...but surely China will import more consumer goods?

With a middle class of over 200 million people and growing, China has huge potential and brands such as Nike, Reebok and New Balance are already pushing hard. However, despite China's WTO obligations, obstacles still exist which effectively restrict access.

China is still holding back on regulations giving foreigners distribution rights and current regulations are often vague. As a result, foreign companies are forced into partnerships in order to comply with conflicting regulations that also vary from region to region. More importantly, without proper rules covering distribution rights, outsiders are unable to sell their products in China even if they are made in Chinese factories.

For example, over 98% of footwear sold in the US is imported, so US firms produce a significant percentage in China to serve both their own market and elsewhere in the world. Despite the fact

that China accounts for over half the world's footwear production, US firms currently cannot sell Chinese-made shoes in China without first exporting and then re-importing them.

Counterfeiting is rife, with copies of foreign brands sold across the country. Even if foreign companies are granted full distribution rights, they can be undercut on price by counterfeits. In addition, the latter's poor quality can also harm a brand's reputation. Although China has shifted on Intellectual Property Rights, it has still failed to implement the criminal penalties needed to deter counterfeiting.

...so are there any ways around the problem?

The American Apparel & Footwear Association has called on the US government to look at alternatives which it believes would be more effective than simple quotas in helping US industry.

1. New trade agreements with Central America, such as CAFTA, the US/Central America Free Trade Agreement, would encourage imports from a region with a demonstrable capability and a supply chain that also uses US textiles and yarns, and so provides US jobs.
2. Programmes such as the Tariff Relief Assistance Development Act 2005, which would eliminate tariffs on countries like Bangladesh, Cambodia and Sri Lanka, to promote sourcing from poor developing countries dependent upon textiles and apparel for much of their employment and foreign revenue.
3. Press China on Intellectual Property ➤

WORLD FOOTWEAR

Rights (counterfeiting, etc.), distribution rights and market access to promote greater use of US branded and unbranded products in China while reducing revenue losses to US intellectual property holders.

The AAFA also believes China safeguards should only be invoked where the data shows a precise cause and effect between US market disruption and imports. It cites the EU's view of safeguards being a last resort to be applied only when fully justified. In other words, safeguard policy should not disrupt overall commercial relationships, but be part of a transparent process leading to factually based solutions.

...but what about WTO safeguards?

The complexities of WTO rules on the use of safeguards and of the interaction of multilateral and regional processes of liberalisation have been clearly exposed by the case of Argentina. As a result of the country's unilateral liberalisation and the removal of barriers within the Mercosur trading area, imports quickly increased. Mercosur has no intra-regional safeguard mechanism, so Argentina responded by applying import relief and WTO safeguards against third countries. The WTO Dispute Settlement Body looked into these measures and, as a result, Argentina has been forced to remove most of them. This raises four key points.

1. WTO's ruling has created serious uncertainty as to when a country can use safeguards. Rather than contributing to the balance needed when developing countries implement liberalisation programmes, it has achieved the opposite.
2. It is clearly a mistake to negotiate ambiguous multilateral agreements on the expectation that the WTO will clarify them later on.
3. An overvalued currency increases industry's problems. In Argentina, footwear imports declined more after the currency was devalued compared with any earlier relief measure that had been tried.
4. The policy of economic liberalisation clearly calls for regional agreements to include sufficient mechanisms to ease the transition to long term free trade conditions.

However, this has not stopped Argentina from applying two sets of import restrictions during 2005. In June, the Central Bank of Argentina began demanding instant payment on many imports including footwear. In July, the government suspended a so-called 'automatic licensing system' to slow down import procedures, which can now take up to a month to be processed compared with 10 days as was previously the case. The authorities have openly stated that the new measures seek to restrict imports of Chinese footwear.

...and now Vietnam has entered the fight

Earlier this year, and despite its support for Vietnam's entry into WTO, the EU accused Vietnam and China of dumping leather shoes on to the European market. This has raised alarm bells in Hanoi, as Europe takes 70% of Vietnam's footwear exports and the country has hurriedly revised a series of regulatory laws in order to join the world body by the end of the year. But some Vietnamese say that new developments within the EU may make this difficult.

The EU set up an investigation into Vietnamese and Chinese shoe imports in July following a petition by the European Confederation of the Footwear Industry (CEC), whose members produce 40% of the leather shoes sold in Europe.

Some Vietnamese believe any lawsuits resulting from this would not affect the country's smooth entry into WTO. Many other observers feel that the bad example that has been set by China may well cause difficulties for Vietnam.

The CEC claims that a sharp increase of cheap shoes (made in Vietnam and China) has hit its members' sales in Europe. In 2002, Vietnam exported 78.1 million pairs of leather shoes to the European market and plans to achieve 139.6 million during 2005. That is a serious dent in Europe's footwear output. Statistics also show that from 2002 to 2004, the average price of Vietnamese shoes sold in Europe fell by



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30% and market share rose sharply from 11% to 15%.

As Vietnam is not yet recognised as a 'market economy' by the EU, the latter suggested Brazil as the surrogate economy for determining whether Vietnamese prices were more competitive or not. Compared with Brazilian shoes of the same quality, its prices are said to be 30% lower. Vietnam responded by saying that it was unreasonable to use Brazil as the benchmark as its labour, materials and ancillary costs were much higher; Indonesia was a fairer comparison as its costs were very similar. So, the fight goes on.

...but dissension exists in Europe

Following the EC's decision to probe imports of footwear from Vietnam and China, the Federation of the European Sporting Goods Industry (FESI) called for the exemption of sports footwear using STAF technology (Special Technology Athletic Footwear). It claimed that its members were producers of such footwear, that little of this type was made by EU manufacturers and, that this, had previously been recognised by the EC in the original 1994 STAF definition.

FESI also claimed that, in any case, STAF pricing was typically higher than that of footwear produced in the EU, so how could it cause injury to the EU

footwear industry, as defined by EU anti-dumping legislation. The EU footwear industry was merely seeking further protection following the end of quotas for footwear from China and this action could send out a confusing message to Vietnam as it tries to join WTO. Furthermore, investment, production and sourcing of raw materials since the late 1980s dictated that this particular type of sports footwear could not be produced in significant quantities in the EU.

...even other Asian countries feel threatened

Pressure from the Pakistan Footwear Manufacturers' Association (PFMA), has led the country's National Tariff Commission (NTC) to look into the possibility of safeguards against its allegation of a surge in imported Chinese footwear. It was pointed out that the domestic industry was being injured through falls in production, market share, capacity utilisation, profits and actual domestic sales.

PFMA members have apparently complained that private individuals have imported millions of pairs of under-invoiced footwear from Guangzhou, with the result that major cities like Karachi, Lahore, Rawalpindi, Islamabad, Peshawar and Quetta, are flooded with these cheap products. Imported footwear is subject to

25% customs duty but they claim that as the price of a \$4.00 shoe is shown as being only \$1.00 on the invoice, this reduces the actual duty paid to an extent that makes imports far cheaper than anything made locally.

...so where will it all end?

Whether we like it or not, and no matter how unpalatable it is to many, WTO is here to stay and the industry must get used to it. However, it is not proving quite as straightforward as many had hoped. Indeed, it has succeeded in raising more trade rows across the world than ever before. The root cause of most of this is fear. With the exceptions of Vietnam, and to a certain extent India, the rest of the world's footwear industry sees a bleak future if China is allowed to totally dominate the world market.

Allowing China into WTO has indeed unleashed the potential of a major trade war between it and the rest of the world. There is no doubt that China is aiming to be the dominant economy in the world and under current WTO policy is likely to become so. The so-called safeguards against dumping appear more divisive than helpful and the wrangling over them looks set to continue for many years. But then again, it provides lucrative work for the lawyers, so at least someone will be happy. 



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