

## China's Trade Relations with US and the EU

### WTO Membership, Free Markets (?), Agricultural Subsidies and Clothing, Textile and Footwear Qoutas

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WTO Membership, Free Markets (?),  
Agricultural Subsidies and Clothing, Textile and  
Footwear Quotas**

**Kate Hannan**

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WTO Membership, Free Markets (?), Agricultural Subsidies and  
Clothing, Textile and Footwear Quotas**

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**ABSTRACT:**

This paper discusses three scenarios concerning China's recent trade negotiations and relations with the United States and the European Union. Chinese commentators and academics are sure that their country 'is firmly on the path of greater integration with the global economy' and that this is 'a path that has provided great benefits for China and for the world in general.'<sup>1</sup>

However, they are also be well aware of the problems associated with entering a global economy where free trade/level playing field market principles have not ended either agricultural subsidies or import quotas on manufactured goods. Indeed, as argued in this paper, measures taken in the name of neo-liberal free market ideals have, ironically, spawned an ever-growing mass of quotas imposed by the EU and the US on the importation of Chinese clothing, footwear and textiles.

**Keywords:** *China, subsidiaries, WTO, USA, EU*

## Introduction

In this paper I will profile three scenarios concerning China's recent trade negotiations and relations with the United States and the European Union. Chinese commentators and academics are sure that their country 'is firmly on the path of greater integration with the global economy' and that this is 'a path that has provided great benefits for China and for the world in general'.<sup>2</sup> However, they are also well aware of the problems associated with entering a global economy where free trade/level playing field market principles have not ended either agricultural subsidies or import quotas on manufactured goods. Indeed, as I argue in this paper, measures taken in the name of neo-liberal free market ideals have, ironically, spawned an ever-growing mass of quotas imposed by the EU and the US on the importation of Chinese clothing, footwear and textiles.

The first issue I discuss concerns the charge made by Washington in 2000/2001 that the Chinese government was subsidising domestic agricultural producers. This was an extremely arrogant move by the US government at a time when the United States (and the European Union) were already facing much criticism over their governments' subsidisation of domestic agricultural producers. It was also a very effective ploy for further delaying China's admission to the World Trade Organisation (WTO).<sup>3</sup>

In the second situation I outline I again focus on the provision of government subsidies for agricultural producers, but this time the tables are turned. It is the US government (and EU governments) that have been accused by the Chinese government of providing subsidies for their farmers. This is an accusation that has long been made by a large number of other developing country governments. Moreover, US and EU administrators and governments are also accused of using their disproportionate influence over global institutions of governance (and particularly in WTO forums) to ensure that they can continue their practice of subsidising their

farmers and so continue what many charge is an unfair, inefficient, irrational, 'trade distorting' system. At the recent Ministerial Meeting of the WTO held in Hong Kong late last year (December 2005) Chinese delegates stressed that the behaviour of the United States and European Commission is unfairly disadvantaging Chinese farmers as it has many other agricultural producers in developing countries. Chinese delegates to the forum also chose to take a leading role in 'actively improving international trade rule to protect vulnerable agriculture'.

The third and last situation I discuss concerns the Chinese government's recent and current negotiations with both the European Commission and the United States government over textile, clothing and footwear quotas currently levied on products exported by China and imported into the EU and the US. It is readily recognised that the textile, clothing and footwear export/import issue effects investment, government revenue and a 'vast number' of jobs in the European Union, the United States and China. An on-going log of disputes and much wrangling over tariffs has been a hallmark of the trading relationship between China and the EU and China and the US since the end of the Multi-Fibre Arrangement in December 2004. The Arrangement had not been renewed on the basis that to do so would have contravened free trade principles. It was an internationally recognised Agreement that had long sponsored a system of quotas that provided developing countries access to developed country markets. Now the global textile, clothing and footwear market is considerably changed. It is much more fluid and while all the parties to current Sino/European Union and Sino/United States trade issues have been keen to announce to their constituents that 'confrontation is not the answer' to the evident tensions in their relationship, confrontation, jockeying for position, a lack of transparency and opportunistic decision-making have all been features of what is now an exhausting and on-going parade of one dispute followed by another. It is a situation that is resulting in an ever longer list of quotas imposed on imports of developing country products (particularly Chinese products) into the EU and the US.<sup>4</sup>

## **Scenario One**

### **The China-US 2000 and 2001 Agricultural Subsidy/ WTO Membership Marathon**

In November 1999 China's leaders successfully concluded a bilateral agreement with the United States. This agreement meant that a significant hurdle to China's already long-delayed membership of the WTO had been cleared. In other words, it seemed that China's WTO membership was imminent. However, China's road to WTO membership was not as clear as it seemed.

In the period following the bi-lateral agreement concluded between Washington and Beijing in November 1999, criticism of the Chinese government was rampant. This criticism was effected by Washington congressmen and administrators. It had moved into high gear and it had moved from criticism of China's human rights record (even as this record was being ever more closely coupled with persistent criticism of China's participation in the international arms trade) to again focus on a lack of proper protection for intellectual property rights. The criticism issuing from Washington was then combined with on-going criticism of the slowness of the Chinese government when it came to the opening of the tertiary, and particularly the service (telecommunications, insurance and banking) sectors of their economy to foreign interests. Finally during 2000/2001, Washington's shopping list of complaint was lengthened still further. At the same time as China's leaders were engaged in negotiating a bi-lateral agreement with the European Union that was to be concluded in May 2000, Washington interests were pressing for further concessions from Beijing and it was at this point that criticism of Chinese government subsidies to domestic agricultural producers became the focus of first their criticism of Chinese government policy and then the basis of their demand for policy change.

While the China-United States November 1999 bi-lateral agreement had included the Chinese government's undertaking that it would not subsidise agricultural exports, during 2000/2001, it became clear that the demand that the Chinese government not provide subsidies for any agricultural producers would now be an added 'price' that China would be forced to pay for WTO membership. In other words, it was now not only a matter of the Chinese government not subsidising agricultural exports to the United States. It was a case of Chinese domestic agricultural subsidies across the board becoming a new Washington focus (a fad even). These subsidies became the focus of a demand for policy change by the Chinese government that was very effective in further delaying China's membership of the WTO.<sup>5</sup>

At first glance and from the point of view of promoting Washington's agenda, the agricultural subsidy issue seems to be particularly ill-advised, or, as a number commentator noted at the time, 'openly arrogant'. Chinese policy-makers immediately noted both the United States' and the European Union's provision and persistent protection of a significant level of government subsidies for agricultural producers and this meant that Chinese policy-makers and commentators were easily and very reasonably able to portray the agricultural subsidy issue as yet another 'unreasonable obstacle' to China's WTO membership. They charged that it had been an unfair approach used by 'certain developed countries headed by the United States'. They depicted 'the price' of China's entry as having been 'continually upped' and they added that it was the Sino-United States negotiations, together with those undertaken with the European Union, that had proved to be by far the most difficult to conclude in a satisfactory manner. In the end, a second bi-lateral agreement had to be surreptitiously concluded between Beijing and Washington.<sup>6</sup>

Unlike the fuss made when the earlier November 1999 United States/China bi-lateral agreement was signed in Beijing's Communist Party headquarters in Zhongnanhai, these second Sino-United States nuptials were quietly agreed to. They



took place in early June 2001. There were ‘no public handshakes, no press conference, no confident expressions that this was a comprehensive agreement...’ when the second agreement was concluded. However, the under-lying extortionist and bullying character of this second agreement could not be so easily hidden. Moreover, we can now see that the agricultural subsidy issue may well have resulted in a situation where United States interests had finally gone too far. In 2000 and early 2001 Chinese leaders and WTO negotiators were describing the agricultural subsidy issue as ‘one speed hump too many’ on their country’s road to WTO membership. And, it is this view that seems to me to best explain the apparent about-face, or shift in direction that took place among the China’s leaders and policy-makers at that time. They began to insist that their central concern was with the conditions of the acceptance of their country’s membership to the WTO. Their central concern was not with the timing of their country’s membership of the Organisation.<sup>7</sup>

At the 2000/2001 height of the agricultural subsidy issue Chinese policy-makers and commentators were repeatedly pointing out that their leaders and negotiators were exasperated. They had shown good faith by ‘earnestly abiding’ by the rules stipulated in the bi-lateral WTO agreements already agreed. They stressed that these rules included the Sino-United States Agreement on Agricultural Cooperation and they constantly reiterated their point that they had adhered to their stated programme for lowering domestic tariffs prior to admission to the WTO. They also added the argument that their government’s subsidisation of agricultural production had been well below that allowed for a developing country and they insisted that *China is a developing country*.<sup>8</sup> China’s leaders argued that their government effected an ‘only two percent’ subsidisation of its agricultural producers (a figure that is much less than the ten percent level allowed for a developing nation and a figure that is even considerably less than the five percent allowed for developed nations). They then further underlined the low level of the subsidisation of Chinese farming households by claiming that if the taxation drawn from their agricultural sector is taken into account, the rate of subsidisation was minus.<sup>9</sup>

Faced with Washington's on-going criticisms and demands during the period between the signing of the first November 1999 bi-lateral agreement with Washington and the June 2001 signing of the second agreement, China's leaders and WTO negotiators proved to be particularly obstinate in their insistence that their country must join the WTO as a developing country. They argued that as a developing country China must be permitted to offer subsidies equal to ten percent of annual output to agricultural producers. Chinese leaders and negotiators were publicly advising against moving from this line in the sand. They were also very vocal in resisting what they considered to be any premature further opening of their country's market for financial and telecommunication services and they were particularly vocal when it came to resisting any premature concessions in relation to imported agricultural products. Their arguments stood as a bulwark against pressure from both Washington and EU based administrators for China to accept *a developed country's ceiling* of five percent of output as a limit for subsidies extended to domestic agricultural producers. China's leaders maintained that in spite of the concerted and on-going pressure they faced from United States interests they would remain true to their principle of only joining the WTO if they were permitted to join as *a developing country*. To do otherwise, they argued, would be to 'trade off principle for the price of our early WTO accession'. They noted that it would court unnecessary financial vulnerability, and, above all else, they claimed, it would be disloyal to China's 900 million farmers.<sup>10</sup>

It is clear that the pressure exerted by Washington on Beijing concerning agricultural subsidies (and the attendant question of whether China would join the WTO as a developing or as a developed country) was successfully used by interests in Washington to extend the already long delay in China's membership and it certainly added to the frustration, resentment and exasperation of China's leaders and planners. However, contrary to the view that most would form when first looking at the situation outlined above (Washington's attitude has since been aptly described by the then vice-president of the World Bank - Joseph Stiglitz- as a 'dragged out' bargaining process based on the 'unreasonable insistence that China was really a developed country'<sup>11</sup>), it was to provide China's leaders with a political windfall. By arguing it

would be disloyal to agree to less than a developing country's limit on agricultural subsidies, China's leaders had been able to present themselves as the champions of 'their' farmers' interests. This was an important opportunity. It was politically convenient for China's leaders to be seen as championing the cause of their country's farmers. It was expected that China's agricultural producers would be forced to bear a high and disproportionate level of the 'readjustment costs' of China's accession to the WTO. And, there was more to the story. There were at least two further issues relevant to this argument with the first drawing attention to an unexpected twist in the circumstances surrounding the issue. While Chinese leaders' defence of their country's agricultural producers was politically useful, from an economic point of view it was hollow. The Chinese government 'could not offer a subsidy as high as 8 per cent to its farmers, let alone the 10 per cent requested'.<sup>12</sup> In other words, the Chinese government would not be able to afford to support farmers to the extent that WTO member countries allowed when a member is categorised as a developing country. And, there was yet another aspect to the situation and more political mileage to be made on the Chinese side of the delayed WTO entry situation.

The second 'political mileage' issue related to China's leaders' 'successful' defence of their country's status as a developing country. It began from the premise that China's interests were best served by constantly re-enforcing and promoting China's developing nation credentials. There are numerous examples where retaining developing country status during WTO membership negotiations, and later during post-WTO membership arbitration, over issues including the imposition of quotas and tariffs on goods that China seeks to export has proved to be useful. Moreover, China's leaders' clearly stated ambition to position their country as a developing country whose trading volume and political weight is sufficient to act as a counter-weight to Washington's practice of tilting WTO regulations and standards in the United States' and other Western countries' favour (together with their refusal to back down over the issue of categorising China as a developing country) could be used to prove that they were leaders of a nation whose interests must be seriously considered. They were leaders of a developing country and they had presented their country's interests in a

manner that countered, or at least checked, the interests of the all-powerful United States.<sup>13</sup>

With their country's WTO membership safely accepted, Chinese leaders and commentators were obviously very keen to advertise the point that 'after arduous struggle, developed countries such as the United States and the European Union had to agree "to resolve in flexible and pragmatic fashion the question of China's status as a developing country" '. The agreed agricultural subsidy level to be provided by the Chinese government was 8.5% with the added reaffirmation that the 1999 Sino-US bilateral agreement not to subsidise agricultural products for export would stand. China's leaders boasted that 'we compelled our opponents in the negotiations to satisfy our most fundamental demands'. Given that United States' sources had previously argued that because China was one of the world's largest agricultural producers, domestic agricultural subsidies should not exceed 5%, there was enough room for Beijing to claim victory over Washington.<sup>14</sup>

## **Scenario Two**

### **EU and US Subsidies Continue to Harm Farmers in Developing Countries**

At the December 2005 Hong Kong meeting of the WTO's Sixth Ministerial Conference developing country delegates were keen to stress the harm done by developed country (particularly US and EU) subsidies. They again focussed on calling for the removal of agricultural subsidies provided by the governments of developed nations. At the same time Chinese government delegates promoted meetings that included 'the G-20, the G-33, the ACP (African, Caribbean and Pacific countries), the LDC's (least developed countries), the African and the Small Economies Group'. And, the Chinese press celebrated a situation they described as 'more than 100 developing economies joining hands to press their rich counterparts to do away with export subsidies'. The Chinese hosts of the Hong Kong Ministerial Meeting of the

WTO were taking their self-appointed role as mentor for delegates from developing countries very seriously. It is a role that they believed they were well-qualified to fill (i) because their government had 'won' its 2000/2001 agricultural subsidies fight with Washington and (ii) because they could point out that in the four years since their country's 2001 accession to the WTO, China's overall agricultural tariff has been cut from 54% to 15.3% and is expected to drop slightly further this year - 2006 (this was in contrast to the world's average agricultural tariff that stands at an estimated 62%).<sup>15</sup> Chinese sources were also keen to add that their country is the only developing nation among the five permanent members of the United Nations' Security Council. This latter position is seen as evidence of China's importance as a dependable ('faithful') player on the world stage. However, even Chinese delegates to the WTO who are becoming ever more seasoned in their role of promoting the interests of developing nations, found it very difficult to bring the United States and the European Union nations to heel. Compromise is the best they could have expected and this was only offered grudgingly. It was a situation that has led to a good deal of cynicism among developing country representatives and among a wide range of scholarly and public commentators. Previous arguments pointing out that 'WTO decisions are taken in a way favouring the interests of the few over the many' were re-enforced and further comment was made, including the point that 'the rich economies cannot expect us to do more unless they are prepared to do more in relation to their agricultural subsidies, otherwise, instead of calling it [the Doha Round] a development round, we'll call it an underdevelopment round'. It is comment such as this that must surely further undermine the claim of institutions of global governance such as the WTO that they are forums in which all can be heard and in which the interests of all are represented and fairly negotiated.<sup>16</sup>

The WTO Doha Round that began in Qatar in 2001 has been judged by many to have failed and this view has, in turn, nurtured on-going and increasing criticism of the Organisation. The immediate assessment was that the Doha Work Programme considered and debated at the WTO's meeting in Qatar (the same meeting where China's application for membership was finally successful) 'was not the result of any

serious negotiation among the members of the WTO'. The Qatar Ministerial Meeting is now judged by many 'to have failed as developing and developed countries split over agricultural issues'. The forum, like the Doha Round generally, has been increasingly recognised as having significantly exacerbated the imbalance in the WTO system. It has been widely portrayed as a meeting where 'give-and-take' was absent. It is said that the developed countries who dominate WTO decision-making had 'just put up their proposals and ask[ed] the developing countries to accept them'. This meant that the next WTO Ministerial Meeting held in Cancun in 2003 was unusually important. However, as has since been recognised 'the US and the EU did not want to make progress with the 'round' [the Doha Round] sufficiently badly' at this meeting. It has been pointed out that they did not want 'to face down their powerful farm lobbies at a time of slow domestic economic growth and generally uncertain political prospects'. (The 2004 US election was looming and the EU was on the brink of accommodating a raft of new member states). And, while the opposition of the developing G-20 group of countries to US/EU policy on agricultural subsidies was hailed as 'a significant new development' and evidence of 'the global balance of forces', the unity of the developing countries was not tested to 'the bitter end' and there were significant 'flaws in the tactics of all parties'. Against the background of both the Qatar and Cancun Ministerial Meetings it is not surprising that as the Hong Kong meeting of the Doha Round got underway it was argued that if this forum was to be recorded as a success then 'a new global trade deal' *must* be reached. It was widely agreed among developing country delegates that the Doha Round would only be successful if 'developed nations [finally] bowed to demands to lower agricultural subsidies'. It was also said that 'success' in Hong Kong may well amount to no more than (and no less than) action aimed at 'salvaging the organization' in the face a very real and present danger of its marginalisation.<sup>17</sup>

There were a range of issues related to the Doha Work Programme as it was constituted in Qatar in 2001, in Cancun in 2003 and again in Hong Kong in 2005 that emphasise the dominance of developed nations and their influence over WTO agendas and decision-making. For example, at the meeting in Qatar the developed

countries (that according to the WTO's own figures were at that time estimated to be providing \$US360 billion per year in domestic support for agricultural production) were promoting policy aimed at reducing protection and support for agriculture in developing countries. Indeed, Washington's 2000/2001 charges that the Chinese government was not sufficiently wedded to free trade because it was providing subsidies for its domestic agricultural producers fits into this scenario. At the beginning of the Doha Round in Qatar the developed countries promoted the Work Programme's specified aim of negotiating a 'substantial improvement in market access, reduction of export subsidies and substantial reduction in domestic support'. However, it soon became apparent that the 'substantial improvement in market access' was intended by Washington and Brussels to only apply to developing countries. In a slightly softer but still similar vein, the demand made by US/EU delegates at the Cancun meeting was that developing countries must reduce the subsidies they provide to their farmers if Washington and Brussels were to be persuaded to agree to a programme for reducing the subsidies provided to their agricultural producers.<sup>18</sup> However, by the time of the Hong Kong WTO meeting the tune of delegates from the developed countries had changed somewhat, but their dominant tone persisted. They now argued that they would not consider effecting a significant reduction in the subsidies their governments afforded their agricultural producers 'unless poor countries open their markets for industrial goods [rather than poor countries reducing their agricultural subsidies]' and when the European Union's Trade Commissioner (Peter Mandelson) was subsequently accused of being reluctant 'to offer deep enough cuts in [EU] farm subsidies' he replied that 'we are going to stick to our position'. (He is reported as having previously stated that 'the developing economies' demand that EU set a date for cutting agricultural subsidies was unrealistic' and that 'if the European Union was to make concessions in cutting the subsidies, they [the developing countries] must also make some equivalent concessions'). He then reiterated his position that the 'concessions' to be made by the developing countries must be made in the area of reduced tariffs on the industrial goods they import. And disappointingly from many delegates' perspective, direct negotiations with WTO delegates from the United States were not any more favourable. For example, delegates from West African cotton-growing countries were

asking that the United States (the world's second largest cotton exporter) remove government support for domestic cotton growers. The same request had been made at the Doha Round in Cancun. (It has also been reported that in the period since China joined the WTO some 720,000 Chinese cotton farmers have been displaced from cotton farming as a result of US government subsidies). Nevertheless, Washington's delegates were 'refusing to give concrete promises'. Then, reflecting the call made by the meeting of delegates from developing countries who are members of groups such as G-20 and G-33 and who had called on 'developed countries to completely eliminate exports support measures by 2010 and cut trade-distorting domestic support', those promoting the Draft Declaration from the WTO Hong Kong meeting suggested a target date of 2010 to end all export subsidies. However, reaching a consensus on this issue was proving to be very difficult and time was running out.<sup>19</sup>

China's leaders, delegates and Hong Kong administrators clearly wanted success for 'their' WTO meeting. They therefore found that they were not only supporting other developing country delegates in their bid to press the United States and European Union to substantially amend their subsidy regimes, but 'working together to push for "concrete outcomes" at this 'international regime's top decision-making body's meeting'. One 'concrete outcome' was the agreement among WTO members 'to grant duty-free and quota-free market access to some 50 least-developed countries (LCDs) in the world' and there was a last minute report of 'some progress' in non-agricultural market access'. However, even as late as a day prior to the end of the week-long Hong Kong Ministerial Conference, it looked as though it would be very difficult to report sufficient 'positive progress' to dampen criticism of the Doha Round and of the functioning of the WTO. Then, there was some last minute success that allowed the announcement that the 149 WTO members has agreed on the dateline for elimination of all agricultural subsidies and 'developed nations had agreed to reduce agricultural subsidies in the near term in return for the opening up of markets by developing countries to manufactured goods'. In addition it was announced that the target had been set for ending the Doha Round of talks and reaching a comprehensive agreement by the end of 2006. The Chinese hosts were then



able to assure themselves and others that they had played ‘a powerful and constructive role’ in the negotiations that had taken place in the previous week. While for his part, the WTO Director General Pascal Lamy was reported to have stated that ‘the time is past where the WTO was run by the most powerful nations in the world. They can no longer do whatever they want. Developing countries have managed to create a balance of power’. (Against the back-drop of the hard fought negotiations of the Hong Kong Ministerial Meeting and the meeting’s final pale and shaky proposal that developed countries only need to honour an April 30th 2006 deadline to agree on cutting subsidies to their agricultural producers - which they have not done<sup>\*</sup>, it is difficult to think that this statement was intended to be anything other than an ironic comment. However, I am sure it was not.) The US Trade Representative Robert Zoellick simply called the agreement ‘a crucial step for world trade’.<sup>20</sup>

### **A Third Scenario: There is More to China’s ‘Free Market’ Battles with the USA and the EU than Agricultural Subsidies**

In the situations I have charted in this paper to date the issue of agricultural subsidies has taken centre stage. It is now time for a change. In order to avoid giving the impression that China/United States and European Union relations revolve only around agricultural issues I will take the opportunity to briefly outline another significant theatre of trade conflict. Recently, in February this year (2006), the EU Trade Commissioner Peter Mandelson announced that from April/06 the EU will levee import duties of up to 19.4 percent on Chinese and 16.8 percent on Vietnamese leather goods. The concession afforded China and Vietnam is that these duties will be phased in over a six month period. The penalty imposed is based on what is said to be ‘compelling evidence’ that in both countries ‘there is serious intervention on an industrial scale’ in the footwear sector. The charge is that dumping into the EU market is occurring. The Chinese and Vietnamese governments are both said to have underwritten the cost of land-use through ‘inappropriate’ land valuations and to have offered tax breaks to footwear exporters. (There was also an interesting side-issue that came into play at this point. In order ‘to protect EU families’ children’s shoes would

be exempt from the new duty).<sup>21</sup>

From the Chinese government's point of view an extraordinary amount of time, effort and expertise is being caught up in an endless round of negotiations with both Brussels and Washington over the import of textiles, clothing and footwear manufactured in their country. In a manner that parallels the need to engage with Washington in 2000/2001 over the accusation of providing subsidies to their country's farmers, China's leaders and policy makers find they must engage with both Washington and Brussels over issues related to the importation of low cost, labour intensive manufactured products.

First Washington and then the European Union imposed quotas on Chinese manufactured textiles, clothing and footwear. Mindful of agreements made when China joined the WTO, when the Multi-Fibre Arrangement (MFA) ended in December 2004 the Chinese government imposed export tariffs on a large number of textile, clothing, and footwear products that would be imported into both the United States and the European Union.<sup>22</sup> However, in the case of an importing country or area deciding to limit the import volume of Chinese clothing, textiles and footwear, Beijing made it clear it would lift the export tariff that it had imposed. Just six months after the end of the MFA, by June 2005, this had happened. Beijing had lifted the export tariff it had previously imposed while arguing it was moving 'to safeguard textile jobs'. For their part EU administrators were imposing import tariffs and consistently bringing anti-dumping charges into play while maintained they were seeking protection from the substantially increased flow of Chinese imports into their member states in order to avoid significant damage to not only its domestic textile manufacturing industry, but also to textile manufacturers of other developing countries.

The Multi-Fibre Arrangement with its long established apportioning of textile production among developing countries through the use of a system that allocated quotas for developed country, and particularly US and EU, markets had been expected to trigger a number of new arrangements once it had run its course and this has happened. With the end of the MFA drawing ever closer, scholars were keen to comment on the effect that the end of the Arrangement would have on China's labour intensive textile, clothing and footwear sector. Comment such as the following was both well informed and usual. First it was noted that 'in the case of textiles and clothing, restrictive trade arrangements [under the MFA] may not offer any significant expansion for China's exports and employment immediately after China's entry into the WTO [moreover] those who are optimistic about an expansion of these exports assume, rather unrealistically, that the abolition of Multi-Fibre Arrangement will have immediate favourable effects on China's exports'. They then pressed their argument further by recognising that 'under the terms of the transitional product-specific safeguard clause in China's Protocol of Accession to the World Trade Organization, it will be fairly easy for the United States and other countries [including EU countries] to impose restrictions on goods imported from China'.<sup>23</sup> What has happened is that China's exports of clothing and footwear to both the European Union and the United States has risen significantly since the end of the MFA. In one particularly noteworthy case the European Commission reported that 'statistics showed a rise on average of 700 percent in import volumes and a 28 percent drop in prices for six categories of leather and fabric shoes' since the end of the Arrangement and it was not only shoes that were imported into the EU in substantially increased volume. For example, the EU claimed that 'T' shirt imports from China rose 187 percent in the first four months after the end of the MFA [in the first four months of last year - 2005] and imports of flax yarn rose 56% year-on-year.<sup>24</sup> However, at the other end of this equation what has happened is that it has proved to be 'fairly easy' for the EU and the US to impose restrictions on the importation of these goods.

The ease at which both Washington and Brussels can impose restrictions on apparel and footwear manufactured in China has resulted in the Chinese government issuing defensive statements. For example, at the point at which the MFA expired Chinese sources issued a statement titled 'China's Textiles Not a Threat'. This statement warned that people, with their own interests in mind 'point fingers at China' and the result is that 'more [people] are manipulated into believing that China will become a dangerous giant dominating the world market as soon as the [MFA] textile quota is phased out. The theory... [maintains] that jobs and money will flow to China, threatening fair trade as well as the interests of other countries'. This is not the case'. Similar articles pointed to China's intention to effect a 'smooth transition of textile [and clothing and footwear] integration'. For their part, European Union administrators announced that they would establish a special monitoring system for textile and clothing imports because 'textile-producing nations would face market dominance by China as soon as quotas disappeared'. However, in the United States somewhat different approach came quickly to the fore. Just months after the end of the MFA the American Association of Importers of Textiles and Apparel filed a case in the United States Court of International Trade with the intention of blocking the Commerce Department of the US government from 'imposing curbs on China's textiles'. It seems that a month before (in February 2005) the Commerce Department had listened to the concerns of textile makers in the United States and had said 'it would consider separate restrictions on the 1.3-billion-dollar-US-dollar clothing imports from China'. As the Chinese press was quick to point out, in this instance tension had immediately been manifest between United States textile and clothing retailers and manufacturers<sup>25</sup>

To date, there have been quotas imposed on a range of imports from China into both the European Union and the United States and the tension within the United States between retailers such as Wal-Mart that are keen to offer low priced consumer products and local manufacturers has persisted while manufacturer/retailer/consumer tension has also been a key feature of debate within the European Union where top retailers such as France's Carrefour have objected to restrictions placed on Chinese

manufactured textiles, clothing and footwear. However, this type of objection has met with only limited success. Within just the first four months after the end of the MFA the European Commission had threatened to launch investigations into at least ten categories of Chinese textiles and since then there have been on-going moves and threats to impose more and more quotas together with the launching of a steady stream of actions based on charges of dumping by Chinese manufacturers onto the EU and US markets. And, as I have noted, in the United States it was only two months after the end of the MFA that calls went out to quota textile imports from China. There were similar calls to activate a series of measures including accusations of dumping. This was to be done on the basis that unless action was taken there would be the loss of at least 650,000 American manufacturing jobs.<sup>26</sup>

As the trade negotiation ‘game’ played between the Chinese government and European Union administrators and the Chinese and United States governments continues on it is obviously causing difficulty on a number of fronts. We have seen goods piled on wharves because quotas that have been imposed (but not well publicised or clearly calculated) have been exhausted. European retailers and Chinese producers then howled with indignation over what they recognised as mishandling and lack of transparency when it came to issues associated with China’s export of textiles, clothing and footwear into the EU and US domestic markets. This situation was eventually resolved by, it was said, the sincerity displayed by the Chinese and European Union sides in the dispute and their willingness to resolve the issue through negotiation. At the same time as this was happening the United States government was imposing limits on the import of seven categories of clothing manufactured in China and was undertaking what it calls ‘safeguard investigations’ in relation to a further six categories of imported garments. While on the China/EU front the practice of ignoring the need for transparency seems to have persisted. There were ‘no specific figures’ immediately made publicly available after the China/European Union dispute had been settled. While on-going China/United States quota negotiations appear to be reasonably open (complete with Chinese companies ‘rushing to meet their export orders before the United States’ border closes to them’ as a result of quota imposition)

all that was made public in relation to the China/EU negotiations was that there had been a commitment that 'the rate of increase of certain textile exports will be fixed' by the end of 2007. It was then noted that rates of increase will be adjusted in both 2006 and 2007 and that 'a completely free textile trade deal will be in place by 2008'. This agreement was hammered out in mid June 2005. However, two weeks previously the EU had taken a dispute to the WTO. This was a move that would allow the EU to restrict imports of selected Chinese products 'to an annual growth rate of 7.5 percent if Chinese efforts to restrict shipments do not satisfy EU members'. And, satisfying EU members has proved to be difficult. Not surprisingly, European stake-holders were unimpressed when large quantities of textiles and garments were blocked by EU customs. There was not only talk of 'bad practices', but also of product in the process of shipment not accounted for under quota arrangements; of suppliers rushing to put their goods into transit in the expectation that once it landed on European docks they would be cleared; and there was enormous pressure from European retailers and importers who almost all agreed with the trade ministers of the Netherlands, Germany and Sweden who argued that 'the best solution to the crisis was to renounce protective trade measures'.<sup>27</sup> While many aspects of the European wharf issue were well publicised, there are other far less dramatic, but important and far-reaching effects of the present trade wars. For example, one of the most damaging aspects in relation to the Chinese government is that, like the earlier debacle over the question of whether the Chinese government was subsidising the country's farmers and whether or not China is a developed or developing country, time, effort and expertise is drained away from other matters in order to effectively negotiate with both Brussels and Washington and particularly when cases are taken to the World Trade Organisation for arbitration.

## **Conclusion**

The three scenarios I have outlined and discussed above have been given from a Chinese government and Chinese producers' perspective. I have not attempted to 'tell the tale' from the point of view of either the United States, the European

Commission or European Union governments or consumers. However, I have sought to tell this tale against the back-drop of neo-liberal measures to promote free trade and global market integration actively and aggressively promoted by the US and EU governments. The latter is a project that has not persuaded the US or the countries of the EU to give up the subsidies they pay their rural producers and has led to a bewildering, ever-increasing and fluid range of import quotas being imposed on Chinese products imported to their shores.

In the first scenario I present in this paper I have investigated a situation where the Chinese government found it must negotiate with the United States government over the provision of subsidies to its agricultural producers even when (i) a Sino-United States bi-lateral agreement (that included provision for agricultural exports free of subsidies) had been finalised and was expected to clear the way for China's membership of the WTO; (ii) when those in Washington who had expressed an interest in impeding China's passage to WTO membership had little or no proof of the Chinese government providing subsidies to agricultural producers; and (iii) when the United States was already under considerable pressure from members of the WTO (particularly developing country members of the Organisation) to restrict the significant agricultural subsidies it affords American farmers. Chinese government leaders, policy-makers and commentators resented the United States' approach and a significant number within their ranks argued that the agricultural subsidy issue represented 'one hump too many' on their country's road to WTO accession. It was only at the eleventh hour (in June 2001) that a second Sino-US bi-lateral agreement was quietly signed and though the Chinese government still had to agree to a bi-lateral agreement with Mexico, the way was essentially and finally cleared for China's membership of the WTO.<sup>28</sup>

In the second account that I have offered above I have taken up an issue that came to the fore while I was investigating the escalating 'price' the United States government extracted for China's membership of the WTO. While I was investigating

the 2000/2001 delay in China's accession to the Organisation it became clear that not everything that happened was detrimental from the point of view of the China's leaders. They were able to present themselves as protectors of their country's farmers. They had also been put in a position where they could claim they had successfully opposed the power of the United States government and thus had credentials that would make them worthy leaders of developing countries' fight to extract improved trading arrangements from developed nations (particularly the United States and the European Union). And, this was a role that China's WTO delegates were to take very seriously when they and their Hong Kong administrator colleagues hosted the Sixth Ministerial Meeting of the WTO in Hong Kong in December last year (2005). A lot was at stake.

Since the beginning of the Doha Round of the WTO in Qatar in 2001 (the same meeting that finally admitted China as a WTO member) the Organisation had been facing charges of having failed in its advertised role as an impartial institution of global governance. The Qatar meeting of the WTO had been widely recognised as having 'enhanced the imbalance in the WTO system significantly'. It was widely portrayed as a meeting where 'give-and-take' was absent. This was an impression that in many respects was left simmering by the outcome of 2003 Cancun Ministerial Meeting, where even though the group of developing G20 countries had (with the support of countries from the ACP, the Africa Group and the LDCs) managed to block the preferred US/EU stance on agricultural subsidies and there was much subsequent talk of the increased cohesion and power of developing countries in terms of opposing the US and the EU in the WTO's forum, it was widely believed that the meeting had failed to engineer a successful outcome from its labours. There was a general feeling that the Doha Round had stalled, even failed. It was this situation that subsequently led to the view that the Ministerial Meeting hosted by the Chinese government and held in Hong Kong in 2005 must reach 'a new global trade deal' accepted and agreed by all, or at least a majority of member states, including and particularly, the large number of developing countries. Prior to the Hong Kong Ministerial Meeting there had even been talk of the very real danger of the WTO's



marginalisation and loss of global administrative relevance.

In the third and last scenario I have discussed I have set myself the task of taking another (non-agricultural) approach to issues associated with China/United States/European Union trading arrangements. When in the name of free market orthodoxy the Multi-Fibre Arrangement was allowed to expire without being replaced by further agreed and settled arrangements for quotas for the import of textiles, clothing and footwear into the European Union and the United States, trade disputes, manipulation and negotiation escalated between the Chinese government and its two largest trading partners. China's textile, clothing and footwear exports also escalated. They increased substantially and now a new regime of import quotas has been established, but it is a much more fluid regime than the one that existed under the embedded, long-standing and much more predictable processes established under the Multi-Fibre Arrangement. Many countries who have been promoting and hosting textile, clothing and footwear manufacture (often for some considerable time) have seen investors in their industries re-locate to China while, for its part, the Chinese government finds it must deal with the effects of this largely unsolicited, though expected, re-location. The ability to negotiate and facilitate the best possible arrangements for exporters has proved to be an essential part of managing the new post-MFA situation. However, it has not been without cost. The Chinese government has found that it must spend considerable effort, resources, expertise and time in order to address the on-going cavalcade of trade disputes triggered by the substantial increase in their country's export of labour-intensive textile, clothing and footwear manufacture into the domestic markets of the European Union and the United States.

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## NOTES

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<sup>1</sup> See *China & World Economy* (published by the Institute of World Economics and Politics, Chinese Academy of Social Sciences), Vol. 13, No. 4, Jul-Aug 2005, p. 16

<sup>2</sup> See *China & World Economy* (published by the Institute of World Economics and Politics, Chinese Academy of Social Sciences), Vol. 13, No. 4, Jul-Aug 2005, p. 16

<sup>3</sup> It is noteworthy that it was only 'after 15 arduous years as a candidate [that] China's application for membership in the World Trade Organization was accepted at the WTO's Doha ministerial meeting in November 2001'. See Deepak Bhattachali, Shantong Li and Will Martin, editors, *China and the WTO*, World Bank and Oxford University Press, 2004, p. 1

<sup>4</sup> See 'Solve Trade Disputes via Dialogue', *China Daily* [in English], 25/02/2006

<sup>5</sup> Chinese commentators were by no means alone in taking this view. For example, Joseph Stiglitz (chief economist and senior vice-president of the World Bank) later noted 'the hypocrisy of those pushing for trade liberalization - and the way they have pushed it..'. He went on to add (as many others have done) that 'the Western countries [particularly the United States] pushed trade liberalization for the products they exported, but at the same time continued to protect those sectors in which competition from developing countries might have threatened [or at least have had the potential to reduce benefit to] their economies...' Joseph Stiglitz, *Globalization And Its Discontents*, Allen Lane and Penguin Press, 2002, p. 60. See also Supachai Panitchpakdi and Mark L. Clifford, *China and the WTO*, John Wiley and Sons, 2002, *op. cit.*, pp. 70-1

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<sup>6</sup> See Holbig and Ash, editors, *China's Accession to the World Trade Organization*, Routledge/Curzon, 2002, pp. 14-15 and p. 36; Panitchpakdi and Clifford, *op. cit.*, pp. 69-73; and 'Renmin Ribao Reviews WTO Process, Pros, Cons of Membership', *Renmin Ribao*, 14/11/2001

<sup>7</sup> 'Renmin Ribao Reviews WTO Process, Pros, Cons of Membership', *op. cit.*, and Panitchpakdi and Clifford, *op. cit.*, pp. 72-3 and 78-9

<sup>8</sup> 'Certain Issues About China's WTO Accession - Long Yongtu Speaks Frankly About the Thorny Issues in China's [WTO] Accession', Hong Kong published *Ta Kung Pao* (Internet version), 23/03/2002

<sup>9</sup> In line with the proposition that government assistance to the agricultural sector should increase, in 2000 government expenditure for agriculture totalled 21.705 billion *yuan*. This was presented as an increase of 50.9 per cent over the previous year. See 'Comparison of Full Text of Xiang Huaicheng's [Minister of Finance] Budget Report', *Xinhua*, 18/03/2001, *FBIS-CHI-2001-0319*. See also 'Certain Issues About China's WTO Accession....', *op. cit.*

<sup>10</sup> See 'Certain Issues About China's WTO Accession....', *op. cit.* and 'China, US Reported Riding a Smooth Path to WTO', *China Daily* (in English), 10/06/2001. European Union countries and member countries of the Cairns group, including Australia, also pressed for a lower ceiling for China's agricultural subsidies: i. e., a ceiling lower than the five percent allowed for developed countries. With respect to Wall Street's unseemly push for fast access to China's financial service markets, Stiglitz was to later argue that this approach was very short sighted (see Stiglitz, *op. cit.*, p. 63) because (as the respected China scholar Nicholas Lardy has noted) from the service providers point of view China has 'the world's largest population and the highest savings rate of any major nation, the potential opportunities to provide banking, insurance, securities, and asset management...'. Nicholas R. Lardy, *Integrating China into the Global Economy*, Brookings Institution Press, 2002, pp. 3 and 4

<sup>11</sup> Stiglitz, *op. cit.*, p. 63

<sup>12</sup> See 'WTO Entry to Promote Free Agricultural Market', *Xinhua*, 15/05/2001, reproduced *China Daily* (in English) 15/05/2001

<sup>13</sup> At this point in the argument China's former leader Deng Xiaoping's views were invoked to re-enforce the argument that no foreign country should expect China 'to swallow the bitter pill of having its national interests harmed'. See 'RMRB [Renmin Ribao] on Deng Xiaoping Diplomatic Thinking, PRC's Foreign Affairs', *Renmin Ribao*, Internet version, 13/07/2000, *FBIS-CHI-200-0713*

<sup>14</sup> Stiglitz has offered a further point of gain for the Chinese side in this agricultural subsidy/developing or developed country debate. He has pointed out that 'in effect, unwittingly, the United States gave China the extra time it had wanted...while the United States insisted that China adjust quickly, as if it were a developed country - and because China had used the prolonged bargaining time well, it was able to accede to those demands.' See Stiglitz, *op. cit.*, p. 63. Stiglitz's argument is reflected in Chinese commentators' recognition that the policies adopted in China during the very long period of WTO qualification and particularly during the latter delays was used to good effect. See 'Renmin Ribao Reviews WTO Process, Pros, Cons of Membership', *Renmin Ribao*, 14/11/2001

<sup>15</sup> See 'Distorted World Trade Harms China's Farmers', *Xinhuanet*, 16/12/2005 and 'China Improves International Trade Rules for Rural Development', *Xinhuanet*, 18/12/2005

<sup>16</sup> Fatoumata Jawara and Aileen Kwa, *Behind the Scenes at the WTO*, Zed Books, 2003, p. 5 and pp. 118-9. These authors have found support for their view in Bhagirath Das's work. (See Bhagirath

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Lal Das, *The World Trade Organisation*, Zed Books, 1999. Das is an academic scholar and former Indian ambassador to the GATT). They cite his internet published article titled 'The New WTO Work Programme', 2002, Third World Network April 8th, [www.twinside.org.sg/title/das.doc](http://www.twinside.org.sg/title/das.doc). See also 'Economies Press the Rich to Honour Their Pledge', *China Daily* [in English], 27/12/2005 and 'China Plays Positive Role in International Community', *Xinhuanet*, 23/02/2006

<sup>17</sup> See World Trade Organisation, 'News of the Doha Development Agenda', *WTO Current Negotiations - The Doha Texts, The post-Cancun July 2004 Package*, and 'Negotiations, Implementation and Development: the Doha Agenda', *The Doha Development Agenda* - both available at [http://www.wto.org/english/tratop\\_e/dda\\_e/dda\\_e.htm](http://www.wto.org/english/tratop_e/dda_e/dda_e.htm). See also 'WTO HK Meeting Circulates Draft Declaration', *China Daily* (in English), 17/12/2005; 'Developed Ones Urged to Cut Agricultural Subsidies', *China Daily* (in English), 16/12/2005; Jawara and Kwa, *op. cit.*, pp. 118-9 and 'Minister Urges Assent to Market Status', *China Daily* (in English), 08/06/2004; 'Farm Subsidies Hold Key to Trade Talks', *China Daily* (in English), 13/12/2005; 'Needs of Developing Nations Stressed', *China Daily* (in English), 13/12/2005; and 'Least Developing Countries Crying for Help', *China Daily* (in English), 16/12/2005

<sup>18</sup> For an excellent and more detailed account of the Cancun meeting see Anthony Payne, *The Global Politics of Unequal Development*, Palgrave, 2005, pp. 188-98

<sup>19</sup> It was not the Chinese government but the Hong Kong based Oxfam (non-government agency) group that first reported that the cotton subsidy that the United States government affords its country's farmers has driven 720,000 Chinese cotton farmers out of work. This group also notes that the subsidy 'violates World Trade Organization rules'. See 'Distorted World Trade Harms China's Farmers', *op. cit.* See also 'Developed Ones Urged to Cut Agricultural Subsidies', *op. cit.*; 'WTO HK Meeting Circulates Draft Declaration', 'Progress Already Made in HK WTO: Spokesman', and 'WTO Ministers Urged for Consensus', all available on *Xinhuanet*, 17/12/2005

\* The April 30th deadline has now been breached and when Pascal Lamy was asked if this meant that the WTO was unlikely to be able to reach an agreement on agricultural subsidies and import tariffs on industrial goods with all the concerned parties he indicated that he continued to be confident that the agreement would eventually be reached. It was, he said, an agreement that was merely subject to some difficulties and delays. Australian Broadcasting Corporation commentary 26th April 2006

<sup>20</sup> 'WTO Members Urged to Jointly Help Small Nations', *Xinhua*, 23/02/2006; 'Progress Already Made in HK WTO: Spokesman', *op. cit.*, 17/12/2005; 'WTO Deal on Farm Products Welcomed', *China Daily* [in English], 28/12/2005; 'Ministers Seek Key Trade-offs for Doha Deal', *Xinhua*, 29/01/2006; and 'Lamy Says WTO Members Committed to Realizing Hong Kong Targets', *Xinhua*, 08/02/2006

<sup>21</sup> 'EU Proposes Anti-dumping Duties on Chinese Shoes', *Xinhuanet*, 23/02/06

<sup>22</sup> China imposed tariffs on six categories of textile exports. The tariffs 'mostly range[d] from 0.2 yuan to 0.3 yuan (2.4-3.6 US cents) [for] every piece or set. The tariff was said to be 'a key policy... put into place by the Ministry of Commerce, to address the concerns of trade partners'. See 'Textile Tariff Details Unveiled', *China Daily* [in English], 28/12/2004

<sup>23</sup> A. S. Bhalla and Shufang Qiu, *The Employment Impact of China's WTO Accession*, Routledge/Curzon, 2004, p. 16. See also Nicholas Lardy, *op. cit.*, p. 82

<sup>24</sup> 'China Opposes EU Probe into Shoe Imports', *China Daily* [in English], 25/06/2005, 'EU Safeguard Measures on Textiles Opposed', *China Daily* [in English], 31/05/2005

<sup>25</sup> See 'China's Textiles Not a Threat', and 'China Hopes [for a] Smooth Transition of Textile

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Integration', *People's Daily Online* [in English], 05/03/2005. See also 'EU to Monitor China Textile Imports From 2005' and 'Retailers Seek to Block US Curbs on Chinese Textiles', both published in *People's Daily Online* [in English], 23/03/2005

<sup>26</sup> See 'China-US Trade Ties to Enter an Eventful Period, Expert', *People's Daily Online*, 08/02/2005

<sup>27</sup> 'China, EU Trying to Resolve Textile Crisis', *China Daily* [in English], 24/08/2005. It has been noted that at the time of the wharf crisis that 'T-shirts, sweaters, trousers, blouses and bras are among as much as 400 million euros (\$US488 million) of products that can't enter Europe from China'. It was also recognised that retailers such as Hennes & Mauritz AB faced higher costs because of the quotas and that they were 'joined by the Swedish and Dutch governments in arguing that orders paid for before the limits kicked in are being unfairly obstructed.' See 'Let in China Garments or Face Shortages, EU Tells Members', *China Daily* [in English], 01/09/2005. See also 'Official: US Response to Textile Talks Active', *China Daily* [in English], 26/07/2005

<sup>28</sup> Mexico held out 'until just before final approval of China's accession' to the WTO. With what may well prove to be a serious and well founded concern the Mexican government was worried that its country's labour-intensive manufacturing sector would be unable to compete with China's labour-intensive sector. See Panitchpakdi and Clifford, *op. cit.*, p. 76