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Role of China in Global Trade Governance-- Developing Countries and Sustainable Development

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On Oct.29-30, 2007, a very interesting and enlightening forum was held in Geneva, Switzerland to bring China into limelight for the future role China will be able to play in a new international trade setting. The forum, named as High Level Dialogue on the Role of China in Global Trade Governance: Developing Countries and Sustainable Development, is organized by International Center for Trade and Sustainable Development (ICTSD).

Ricardo Melendez-Ortiz, Chief Executive, ICTSD, expressed his welcome to all the participants to the ICTSD Dialogue in his opening address to the audience, saying " Against a fast evolving backdrop of global challenges from security, climate, to economy and environment, trade governance has a crucial role to play. This dialogue is aimed at providing space for multi-stakeholder interaction to open a window for better understanding of China in global trade governance and sustainable development challenges and opportunities."

At the turn of China's sixth year anniversary of its WTO membership, the objectives of the meeting are threefold:

First, to review the evolution of the global trade landscape, current trends in organization of production and south-south trade in the past two decades and examine China's growth and trade performance vis-à-vis challenges and opportunities posed by sustainable development.

Secondly, during this meeting, perceptions about such impacts from outside of China will meet those of top policy researchers and practitioners from within China, which will contribute to better informed strategic thinking and policymaking in both China and its trade partners.

Thirdly, by publicly involving most relevant audiences in Geneva, home to the World Trade Organization - backbone of the multilateral trading system-, this high level dialogue will help think of China's supportive role in crafting global trading governance for a common sustainable development future.

Geneva Lake Foggy, the Sun still Shinning

Amid a windy and foggy morning, we took a stroll along the lakeside road to head for World Meteorological Organization (WMO) conference hall where the Dialogue is held. The venue is chosen by intention, for the climate change as a consequence of "green house" effect has aroused serious concern and consideration on a global basis. There is no doubting that much of the toxic emissions comes from the world manufacturing industry, and China's role seems more significant with climatic and environmental issues as it is often referred to as "the world manufacturing center". Having "China's role" in trade governance and sustainable development as leitmotif of the conference in WMO, a special place that reminds people of climate concerns, is a known-to-all intention that can hardly be camouflaged.

Mr. Xu Qinghua, Director General of International Cooperation Department of State Environment Protection Administration(SEPA), points out in his speech that, apart from opportunities, the economic globalization brings about new challenges to the developing countries by increasing salient global environmental issues such as climate change,

ozone layer depletion, acid rain, desertification, and biodiversity loss etc.

China's rapid economic growth is amazing, a report by IMF reads the rate of contribution to the global economic increases, China overtakes US for the first time in this direction, its contribution to the global economy accounts for a quarter, the rapid increase of trade volume between China and other developing countries is equally amazing: 10 fold growth between China and Africa over the last 10 years, ASEAN is China's No.5 trade partner.

In fact, China pays a lot for its economic achievements. A lot of "made-in-China" products are exported at low price with pollution left at home. Export of many resource and energy products means a direct or indirect export of resources, energy and environmental capacity, the export-driven processing brings adverse environmental impacts to raw material supplying countries.

According to Mr. Hu Tao, Chairman of Academic Committee, Policy Research Centre of State Environment Protection Administration, China's GHGs emission ranks No.3 in total after US and EU. EIA on international trade of China under T & E leading group of SEPA conducts a qualitative study on environmental effects of trade volume, structure and efficiency concludes that China has trade surplus in terms of money, but deficit in terms of environment.

Is China an environmental threat to western country and the world? Or is China subsidizing western country consumers by additional incremental emissions at the cost of its decreased environmental quality? The latest research report made by British New Economy foundation in its China dependence says "without consumers, there are no producers. We irresponsibly take China as our 'environmental laundry', and brings tremendous damage to our planet."

The answer never seems concise and right to the point, but China's policy responses are positive in the right direction. Exporting tariff for resource and environmental purposes (for example, iron and steel products, chopsticks), exporting quota or licenses (coke, textile), limitation of exporting for bad environmental performance firms (back name list of firms, green name list of firms) are all in force, demonstrating Chinese determination and responsibility reconcile between environment protection and economic growth, or "harmonize the development of both" in the official language.

The pollution control targets set up by Chinese government during the 11th Five Year Plan (2006-2010) to arrive at energy intensity drop by 20% , SO2 emission reduction by 10% and COD emission by 10% are a compulsory task, not just a school homework.

ATP Trade Challenges Developed Countries

Robert B. Koopman, Chief Economist of United States International Trade Commission, in his presentation, has an overview of the advanced technology production(ATP) to express the concern that the notion that many developed countries have a comparative advantage in capital intensive production seems to no longer hold, because traditional view of trade based on endowment-based comparative advantage emphasizes that developing countries would export labor intensive goods or raw materials and commodities, and not compete head on with capital intensive manufacturing exports from developed countries.

However while China and other developed countries increasingly export in similar tariff line or product classification, research shows that developing countries tend to export much lower valued products – most likely due to lower quality, rather than just lower production costs. China's rapid economic and export growth has led to both developed and developing countries expressing concerns about their viability in the world market place. But developing countries are also competing with China by exporting similar goods.

Regions' Export Similarity with China

Region	1972	1981	1991	2001
Asia	0.40	0.70	0.91	0.97
Latin America	0.16	0.48	0.70	0.86
OECD	0.09	0.28	0.55	0.75

Notes: Table displays each region's similarity index with China. Asia excludes China.

Let us take a look at US-China advanced technology trade since China's accession to WTO. According to US customs, China ran a \$41 - \$49 billion surplus with U.S. in 2006 based on U.S. Census ATP definition, but not in every sector. China's role of processing trade shows more than 95% of China's ATP exports were processing exports during 1995 – 2006. If we see who export by different types of firms, more than 90% of China's ATP exports to U.S. were produced by foreign invested enterprises (FIE) in China. If we see the role of government policy zones in ATP scenario, about 65% of China's ATP exports to U.S. were from government policy zones.

Chinese surplus of ATP trade with U.S. is concentrated in information and communication technology, while U.S. still enjoys sizeable bilateral surpluses in electronics and aerospace technology. More than 95 percent of the rapidly expanding ATP exports from China to U.S. is processing trade, which is closely related to FDI and largely carried out by foreign firms. Various special economic zones and areas have largely hosted the rapid expansion of Chinese ATP exports to the U.S.

The emergence of China as a major supplier to the U.S. ATP market is closely associated with a combination of three major factors:

Fragmentation of global production

China's comparative advantage in manufacturing

Chinese government preference policies to processing trade and foreign invested enterprises

An analysis of unit value adds important insights. Chinese ATP imports from U.S. were dominated by large-scale, sophisticated, high-valued equipment and devices, while Chinese ATP exports to the United States were still mainly small-scale products or components in the low-end of the ATP value-added chain. Even though China has begun to export a set of ATP products similar to those exported by the U. S. in recent years, there appears to remain a considerable quality and technological gap between Chinese ATP exports and U.S. ATP exports.

Rise of China v.s. Low-Income Neighbors

Syed Ahamed, a Research Fellow, University of Melbourne, Australia, also Fellow, Centre for Policy Dialogue (CPD), Bangladesh also shared views with participants by his presentation entitled "Rise of China and its Economic Implications for the Low-Income Neighbors".

In recent year, the emergence of China as a powerful economy has been phenomenal. The economic prowess of this driver of Asian growth has increasingly defined the global growth prospect. Given the size of its economy, momentum of growth and competitive strength, Chinese economy may be expected to have significant impact on its neighbors, particularly on the low-income countries.

Asia has become a growth pole in the world economy with different regional economies sequentially emerging as the drivers of growth. In this course of development, China plays a significant role in the trade performance of the low-income Asian economies (LIACs), which is of particular importance as a large part of the global foreign aid is being diverted away from Asia to Africa. Given the current growth momentum, contribution of Chinese economy as investors in the region is also expected to be on the rise. In view of the phase out of Multifibre Arrangement (MFA), the issue of attracting FDI is gaining increasing prominence for low-income countries in Asia. Syeed Ahamed also warns that it is important for these countries to identify avenues of cooperation which takes into account the opportunities as well as threats posed by the increased revealed performance of China.

To test for the competition faced by China's neighboring economies in the US and EU market, five common product categories were identified which accounted for 74% and 68% share of the total LIAC exports to the US and the EU market respectively. In the same period, these five products accounted for 14% and 16% share of total Chinese exports to the US and EU markets. For all these product categories, in both markets, China remained the most dominant country regarding export which was almost double the amount compared to India and LIAC in 2005.

HS Code	Product Description	Avg. Annual Growth (US) AAG. (EU)			
		LIAC	China	LIAC	China
03	fish & crustaceans, mollusks & other				
	Aquatic invertebrates	27	31	21	45

61, 62	articles of apparel and clothing , knitted		25	25	15 29

63	other made up textile articles		31	59	14 28

64	footwear, gaiter: parts of such articles	116		10	27 40

In spite of rapid export growth in the US and EU markets, the LIAC's export to China also increased at an amazing averaged rate 36% per year. The major contributor was Vietnam's exports, which grow at an averaged of 61% per year while Pakistan's and Mongolia's exports to China also grew by 25% and 49% on a yearly average between 1995 and 2005. But not all the low income countries are getting benefits from the surge of China. But countries facing a decline in export owing to competitiveness of Asian drivers may be compensated from China's growing import. Huge population of China creates domestic-demand-driven markets which offer export opportunities for its neighboring economies, as is in the case of being an important consumer of every, food and industrial products, China is also contributing to the revitalization of South America's growth prospect by benefiting exporters, in particular Argentina, Brazil and Chile.

In short, China's rise provides both opportunities and challenges to its neighboring countries for one reason that the growth of trade and investment capacities of China may lead to Chinese FDI outflow to its neighboring countries, and for another reason that with the huge population still to be migrated from agriculture to industry, China may not relinquish its labor intensive sectors (such as textile) even though it has already moved to electronics and information technology. This is a challenge to LIACs.

Textile Industry, a Strategy Ahead

Mr. Gao Yong, V. President of China National Textile and Apparel Council (CNTAC), together with Mr. Zhao Hong, D. Director of International Trade Office, (also editor-in-chief of this magazine) of CNTAC, attended this High Level Dialogue. Gao, in his presentation, also introduced Chinese strategy for developing textile industry. He addressed to the audience that in 2006, China achieved approx. 30.7 million tons of fiber processing volume, and 20 million employees in the entire textile industry. And 20.25 million tons of chemical fibers and 17.4 million tons of cotton yarn were produced, with exports of textile and clothing to reach 147 billion dollars.

China's rapid growing economy, along with continuous growth of domestic consumption is the most important impetus to the textile growth. According to the latest figure, domestic consumption in the overall sales of textile industry has risen from 67% in 2006 to 75% (May, 2007). From 2001 to 2006, fiber consumption per capita rose from 8 kg to 14 kg, rising by 75%. Consumption on apparel per residents, rural and urban, grew by 124.54%. Apparel retail total chalked up to 137.99% rise, compared with 80.04% in total retail consumption in China.

While being aware of Chinese weakness in certain key areas, Gao emphasized on the urge of intensifying two important drivers: science-technology and brands to add contribution to future growth of textile industry in China. Also brought into serious consideration and implementation are these four factors: quality, IPR, corporate social responsibility, compliance with game rules of domestic and international trade. As environment issue is on the top agenda of this Dialogue, Gao Yong also shared views with audience on how to harmonize textile economic growth with environmental protection.

In fact, China is lashing back relentlessly at those companies that are found in violation of environment laws. The recent water pollution in Taihu Lake, one of the most beautiful inland lake in Jiangsu Province, China's one of the most important textile bases, already drove all the lakeside dyeing and printing textile mills to close, a very drastic enforcement of environment protection to ensure China's textile industry should grow in a sound, rapid and sustainable way.

Post Script: About ICTSD

International Centre for Trade and Sustainable Development (ICTSD) is an independent, non-for-profit international organization committed to make trade policy supportive to sustainable development through dialogue, information, and research. The Bridges series of periodicals in five languages have been serving very well to foster communication and fill significant knowledge gaps for stakeholders in trade and non-trade policymaking communities. It organized over 50 dialogues around the world including China in 2006, which makes a unique contribution to global decision-making in the area of trade and sustainable development.



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