WATCH OUT, HERE COMES THE DRAGON OF THE EAST – AGAIN !
THE DEATH KNELL TOLLS FOR AMERICAN MANUFACTURERS

Tens of thousands of jobs will be lost in the **U**nited **S**tates of America (US) and Canada in the coming year or so while, in the People's Republic of China (PRC), hundreds of thousands of jobs will be created because of the violent culling of jobs in North America .

With the creative destruction of most of the garment industry and many segments of the textile industry in the US and Canada , it will be the US consumer and the Canadian consumer who will benefit in the months and years to come.

Garment prices are certain to fall in the US and in Canada , as the PRC steps up its exports of garments and textiles to North America .

And this time, the US Government and the Canadian Government will not be able to complain, at least, not persuasively – because the actions of the PRC will all be in accordance with the General Rules of The **W**orld **T**rade **O**rganisation (WTO).

On December 31, 2004 , The WTO's **A**greement on **T**extiles and **C**lothing (ATC) expired so that, after 40 years, the international textile and clothing industry is subject only to the General Rules of the WTO.

The underlying philosophy of the General Rules of the WTO embodies, inter alia, trade liberalisation, reciprocity, and non-discrimination among its members, of which the PRC is a full member.

Prior to December 31, 2004 , textile and garment exporting countries were subject to a complicated system of import quotas.

The quota system, on the one hand, guaranteed exporting countries that they would be permitted, by law, to export a finite amount of textiles and/or garments to importers of these goods, but, on the other hand, it guaranteed that the importing countries would be able to control the growth of such foreign imports.

In places, such as the Hongkong Special Administrative Region (HKSAR) of the PRC, for the last 4 decades, there has been thriving market in the sales of quotas.

The knock-on effect was that many HKSAR companies stopped manufacturing garments and/or piece-goods in favour of the more lucrative business of selling their quota allocations.

The provisions of the ATC formed the backbone of the quota system insofar as bilateral agreements were concerned.

However, that was yesteryear: The 4 decades of the quota system have ended, as far as WTO members are concerned.

The ATC was designed to protect the clothing and textile industries in various WTO countries; it was an extension of the GATT – The **G**eneral **A**greement on **T**ariffs and **T**rade.

It was considered, at the time of the drafting of the GATT , a method to protect industrial nations from what were considered excessive imports of relatively cheap products from developing countries, such as the PRC, of course, because The Dragon of The East has, for the past 4 decades, been considered among the biggest threat to North American trade in garments and piece-goods.

The positive effects of the imposition of the GATT with regard to North America are questionable because the clothing industry of the North American Continent was unable to compete with similar imports of clothing and textiles from countries, such as India and the PRC, in spite of keeping high-priced workers in their positions of cutting and sewing.

It was the consumer of North America , however, who paid the price at the cash registers in the High Street for the introduction of the GATT .

The protection for the North American worker, engaged in making garments and textiles, is, now, gone.

While the consumer will benefit as more and more cheaper imports of garments and piece-goods flood into the US and Canada, it will, without question, displace many North American workers, today engaged in the garment and textile industry.

This will, in the longer run, be extremely beneficial for the US economy and the Canadian economy, as creative destruction will lead to the birth of new and more efficient industries in the months and years to come.

Most of the North American displaced workers will be rehired in different jobs, leading to bigger and better things to come in the same way as the birth and expansion of **I**nformation **T**echnology (IT) led to the culling of workers in the former, traditional telecommunications industry, but the rehiring of many of these same workers in closely aligned jobs in technologies, associated with communications, telecommunications and IT.

The socialistic political system of Canada, however, may, at first, be more than a little obsequious at the death of the ATC, but there is little that this government can do about the situation because the US border with Canada is long and it is very accessible to Canadian consumers, looking to save some money by purchasing imported clothing from countries, such as the PRC and India in Continental US.

For many years, Canadian consumers have been taking day trips across the Peace Bridge and the Peace Bridge , just 2 of the bridges, which link Canada to the US , in order to purchase shoes, clothes and accessories, and even furniture from the US where prices are as much as 30 percent cheaper than similar items, found in Canadian shops.

The Canadian Government has been powerless to stop these day trips, try as they might.

Many, if not most, US producers of underwear, shirts, jeans, T-shirts, etc, long before the expiry of the ATC, had moved a great deal of their manufacturing facilities out of the US in order to cash in on cheaper labour costs.

Levi Strauss and Company, for instance, had a large factory in the PRC, prior to the Tiananmen Square Massacre of June 4, 1989 , but closed down its factory after the Massacre.

The closure of this factory, according to a public relations official of the company, who spoke to **TARGET** at the time, said that the action was on moral grounds.

With the PRC, now a full member of the WTO, and with the Tiananmen Square Massacre, with its hundreds of dead students, now relegated to the pages of history, no doubt, Levi Strauss and Company will be back in the PRC – if it is not, already – producing its garments in the PRC's Capital City of Beijing, probably using its old factory.

Money, it is said, always talks volumes.

Levi Strauss and Company, as with any and all large producers of garments, has to look at the bottom line in the final analysis, and wage-intensive manufacturing operations are a large incentive to move operations from Continental US to the PRC.

Morals be damned!

<u>It Had To Die</u>

The quota system of the past 40 years was a failure because companies, such as Levi Strauss and Company, could, always, find a way round it, thus defeating the purpose of the quota system: To safeguard domestic jobs in the US and Canada.

The trouble with the quota system was, among other things, that it kept prices high, relative to prices, which could be achieved in countries, such as the PRC and India , and it socked it to the consumer in places, such as North America .

If the quota system had stayed in place for much longer, it is safe to state that high-priced textile and garment producers of North America would have found themselves with an ever-dwindling market for their products, leading to the eventual collapse of their industries.

The PRC, today, has a vertically integrated garment industry: It grows its own cotton – in fact, it is the world's largest producer of cotton –, silk, wool, etc; it has a well-developed dyeing and finishing industry; and, it has a flourishing production base for the manufacture of clothing of every description.

In addition, it has an almost unlimited number of workers at its disposal.

The PRC Government, to its credit, invested in textile machinery in anticipation of the end of the ATC.

According to the statistics, compiled by the International Textile Manufacturers Federation, more than 55 percent of all weaving machines, produced between 1994 and 2003, went to the PRC.

The PRC, today, owns and operates about 23 percent of the world's spinning machines.

India is in a similar position as the PRC, but there are differences between the 2 countries, differences that could be described, at this point in time, as an insurmountable and uncrossable chasm.

However, India is, and will continue to be, another force with which to be reckoned because it has about 27 percent of the world's spinning machines, slightly more than those, already installed and operational in the PRC.

The death knell is, definitely, tolling for the garment and textile industries of North America because they are, now, clearly unable to compete with the likes of the international giants of the clothing and textile industries.

On a level playing field, as the popular idiom goes, North America has been unable to compete with the PRC's textile and garment-making industries for the past 40 years, at least.

Governments cannot, for any appreciable period of time, subsidise faltering and collapsing industries for the sake of the vote at the ballot box, try as they might.

The PRC, today, is the largest supplier of clothing to the US .

It has displaced Mexico in less than 5 years even though one would have thought that, due to the proximity of Mexico to North America , that country should have been able to meet and to beat the prices of its archrival, the PRC.

Between 2002 and 2003, exports of Chinese-produced clothing to the US grew by about 82 percent, according to statistics, compiled by the US Government.

The PRC has managed, in a period of only 2 years, to improve its position in the US in value terms of its exports of clothing to that country, which has the large consumer market in the world: It has gone from 9 percent to about 65 percent.

In the fields of the manufacture of footwear and toys, today, about 90 percent of US imports come from the PRC.

It is noted that the production of toys and footwear follow the classic pattern of requiring, as an absolute necessity, low wage costs, relatively low capital expenditure, and high production volumes.

The PRC has armies of relatively cheap workers and the necessary infrastructure to churn out huge quantities of such goods.

This year, alone, it is expected that the PRC will step up measures to reinforce its dominance in the textile and garment industries – globally.

In 2003, US Government statistics indicate that the PRC had a 20-percent share of the world's garment and textile markets, valued at about $US80 billion.

It is estimated by most economists that the PRC could increase its global tentacles in these areas by another 50 percent of the 2004-year.

No doubt, the US will be a prime target for PRC-produced garments and textiles.

The tailor of the world is quite likely to be the PRC in the months ahead, with India , bringing up the rear.

India , however, has long-embedded problems, with sectarian considerations, being among the most obvious of those problems.

In addition, the country is not as well developed in its industrial base as is the PRC.

The PRC's authoritarian Government is such that it does not brook industrial action for long, especially when the country's coffers are at stake.

Not so in democratic India where general strikes are condoned by law.

Interestingly, the wage costs of India, Bangladesh, Cambodia, Thailand and Vietnam are all lower than the PRC's, but these countries, which could be rivals to the PRC, are not able to compete with The Dragon of the East due to their late start and the lack of the driving force of the PRC Government, with its Special Administrative Regions and Special Economic Zones, etc.

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