CHAPTER 6

The Evolution of EU Trade Policy towards China: The Case of Textiles and Clothing

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The current legal framework under which trade relations between the EU and China are structured – the Trade and Economic Cooperation Agreement (TECA) dates back to 1985. Since the signing of the TECA, the relationship between the EU and China as trading partners has, however, changed considerably. In more than 20 years China has become the EU’s second trading partner and its most important source of imports, making China, in the words of the European Commission: “the single most important challenge for EU trade policy.” In order to cope with this challenge in the future, both sides have come to realise that revision of the 1985 framework is inevitable, because “tentative trade relations of the 1980s bear little resemblance to the extensive and complex relationship of the 21st century.” Consequently, the EU and China launched negotiations for a PCA in 2007, an agreement which should reflect the full complexity of today’s relations between the two.

In section one, I intend to analyse, from a European viewpoint, the evolution of EU-China trade relations in general and the EU’s trade policy towards China in particular. To this end I will answer the following question: what changes have taken place in the EU’s trade policy towards China between 1978 and 2009, and what has spurred these changes? This question will be answered with detailed reference to important bilateral trade negotiations between Brussels and Beijing in the aforementioned period as well as to key trade policy decisions taken by the EU. This will be done by using an in-depth case study of one of the most politically and economically sensitive sectors within EU-China trade relations: the textiles and clothing sector.

The remainder of this chapter is organised into three additional sections. In section two, I will present some background information on EU-China trade in textiles and clothing products. Section three is devoted to an analysis and comparison of three phases in the evolution of EU textile and clothing trade policy towards China. In the final section, I will use the information provided in section two and three to draw conclusions about the changes in EU trade policy towards China and the circumstances under which these changes took root.

Background Notes on Trade in Textiles and Clothing

No study of the textile and clothing industry is complete without referring to the trade distortions that dominated the sector for so long. In the first part of this section I will, therefore, pay attention to the most important of these distortions – the quota regime. Besides the trade distortions, another important characteristic of the textile and clothing sector is its relatively complex supply chain. In the second part of this section, I will sketch some of the characteristics of the supply chain and indicate what the preferences of the different type of European firms within this chain are, when it comes to the EU’s trade policy vis-à-vis China.

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1 Research funded by the Research Foundation Flanders (FWO).
2 Note that the term EU is used throughout the entire chapter, also when the predecessors of the EU (i.e. the European Coal and Steel Community and later the European Community) are meant.
5 The following methods have been used to gather the data for this case study: a study of secondary literature on the topic in question; a thorough assessment of documents, statistics as well as press releases from governments and interest groups – finally, I have conducted interviews with policy-makers, representatives of interest groups and individual companies in the textile and clothing sector. A list of interviewees is available upon request.
The Quota Regime

The quota regime in the textile and clothing sector was formally established with the signing of the Multi Fibre Arrangement (MFA) in 1973 and its first implementation in 1974. Established as a temporary measure, the arrangements’ declared goal was an orderly opening of restricted markets in the United States (US), Europe and Canada in order to avoid market disruptions and to overcome the severe crisis that had hit their textile and clothing sectors after World War II. Given that the crisis appeared obstinate and competition from low-income countries increased considerably, textile and clothing manufacturers in these advanced industrial economies lobbied policy-makers constantly to keep the protective quotas on cheap imports in place. Their lobbying efforts were successful: the MFA was renegotiated four times (1977, 1981, 1986 and 1991) and every renewal of the MFA amounted to an extension of the number of products and countries subject to quotas. It started with quotas on certain cotton products from a limited number of suppliers and in the end there were quotas on all sorts of textile and clothing products from a wide range of countries. In fact, the MFA came to comprise the bulk of developing country exports of textile and clothing products to the US and the EU.

This is not to say that all developing countries were hurt equally by the MFA-scheme. In the EU context, China – a MFA signatory since 1984 – was subject to quotas, while other important EU textile and clothing suppliers were exempted from quotas. Examples of the latter are Turkey, Romania, Tunisia and Morocco – due to Preferential Trade Agreements (PTAs) – as well as Bangladesh and India – who enjoyed preferential access to the EU market under the General System of Preferences (GSP). It must be noted that China was also a GSP beneficiary, but only for a relatively limited number of products.

Despite the privileged treatment of some countries, the quota arrangements clearly benefited firms in Europe, the US and Canada by giving them protection for a period of time from cheaper imports, mainly from Asia. Consequently, the MFA emerged as a counterargument to the general trend towards a free and multilateral trade system that was set in motion with the signing of the General Agreement on Trade and Tariffs (GATT) in 1947. The MFA, in effect, openly violated the principles of the GATT in two ways: the MFA provided for bilateral quotas instead of tariffs and it fostered discrimination among trading partners, rather than following the Most Favoured Nation (MFN) principle. The latter signifies that quotas on certain imported textile and clothing products could be negotiated bilaterally without the MFA having any consequences for the quotas on imports of that same product from other countries. In spite of this, the MFA was part of the GATT, creating, to say the least, an awkward situation.

After long negotiations, the EU, the US and Canada accepted the expiration of the MFA in 1993. However, this expiration did not mean the end of the quotas. The MFA was replaced by the Agreement on Textiles and Clothing (ATC), which came into force with the establishment of the WTO in 1995 and accepted that all quotas on textiles and clothing, between WTO-members, would disappear in four steps between 1995 and 2005. The ATC was thus a transitional stage between the MFA and the complete integration of trade in textiles and clothing into the multilateral trading regime, which was supposed to give textile and clothing firms in Europe and North-America time to adjust to the new rules of the game.

6 The Multi-Fibre Agreement itself was an extension of two earlier quota arrangements: the Short-term Arrangement (1960-61) and the Long-term Arrangement (1962-73) for cotton textiles.
9 Most Favoured Nation (MFN) is a status which one nation awards to another nation in international trade. In practice it means that the nation receiving MFN status will be granted all trade advantages that any other nation receives as well. All the members of the GATT/WTO accord such MFN-status to each other. There are important exceptions to this rule, such as FTAs and customs unions.
The Supply Chain

A typical textile and clothing supply chain includes a number of separate, but interconnected activities consisting of different types of firms. Below, I will give a short description of the EU supply chain and indicate what the different type of firms’ trade interests are vis-à-vis China. However, I shall start by presenting China’s role in the worldwide production of textile and clothing products.

Prior to the Open-Door Policy, the textile and clothing industry in China was not a priority at all. Consequently, the inward-looking policies of the communist planners led to a gradual erosion of China’s world market share in this sector. It was only after Deng Xiaoping came to power in 1978 and opened the economy, that China’s textile and clothing sector started to grow rapidly. Two crucial comparative advantages in particular made this growth possible. First, China’s huge, and relatively well educated, labour force permitted Chinese textile and clothing companies to specialise in the production of cheap labour-intensive export products. A second advantage was the vertically integrated structure of China’s textile and clothing sector, enabling it to carry out all stages of production domestically without having to import raw materials like most of its competitors. As a result, Chinese companies gradually started to dominate the global textile and clothing market.12

China’s dominance had an impact on all segments of the European textile and clothing industry.13 Let me start with the textile sector. Traditionally, the majority of the textile firms in the EU produced commodities for the European clothing sector. These traditional producers, which compete with Chinese suppliers, have, since China started exporting its textile products en masse to the EU, supported a protectionist trade policy towards China. However, the companies that constitute the textile industry in Europe have increasingly produced a wide variety of end-products, such as household appliances and other industrial fabrics (i.e. for furniture and the car industry) – the so-called technical textiles. This segment of the textile industry is much more research and development intensive than the traditional producers and hence face less competition from China. As a result, these type of producers are not so much interested in shielding their markets from Chinese imports, but mainly defend their interests as exporters. Moreover, given that they are confronted with trade barriers in potential foreign markets (i.e. China), producers of technical textiles lobby for market opening.

Also the clothing sector in the EU is a sector with two faces. The industry of the high-quality fashion market can best be described as modern and highly flexible. The competitive advantage of firms in this segment is not (primarily) related to cost effectiveness, but to the ability to produce clothes that capture or influence tastes of their consumers. Although these types of companies do face some competition from China, their main trade interest towards China is to sell their clothes to the Chinese high and middle classes. The other important market segment within the clothing sector is the mass production of lower-quality and standard products (i.e. men’s white dress shirts, underwear, t-shirts and uniforms). The manufacturing of these items is labour intensive and therefore European companies within this segment face harsh competition from China and are traditionally very pro-protectionism.

The final segment of the supply-chain is the retail sector. When it comes to retailers, consumers can either buy their clothes at local department stores or boutiques or they can go to one of the huge shopping malls at the outskirts of the city. Traditionally, both these type of retailers in Europe were the key clients of EU clothing producers. However, because of changing consumer preferences (better value for money) and the need to cut costs, retailers (especially the big chains) in the EU increasingly turned to imports, mainly from China. Many retailers thus began to compete directly with their former suppliers and their trade preferences in general (and thus towards China in particular), turned very anti-protectionist. Besides focusing particularly on imports, the retail sector also witnessed a dramatic move towards market concentration: ever


larger retail organisations have constantly increased their market share at the expense of smaller companies. This has forced the remaining smaller companies to also turn to cheap imports, which in turn has further increased anti-protection sentiments among retailers.

**EU Textile and Clothing Trade Policy Towards China: Three Phases, Three Faces**

In this section, I will analyse in detail three different phases in the evolution of EU textile and clothing trade policy towards China. For each phase I provide first some key facts and figures, such as trade flows. After that I will indicate what the trade policy interests of the most important actors were during that particular phase. Finally, I will analyse, for each phase, several important trade policy decisions taken by the EU.

**1978-1994: Protectionism and Nothing but Protectionism**

The deep crises that had hit the European textile and clothing sector in the 1970s seemed to level out at the beginning of the 1980s, partly as a result of the adoption of ever tougher trade restrictions. Yet, despite this relatively positive news, import competition was still very intense and imports were on the rise in both textile and clothing. Especially from the end of the 1980s onwards there was a considerable and increasing trade deficit in the sector.14

This deficit was mainly due to the clothing industry. The clothing sector had faced a trade deficit ever since the start of the crisis in the 1970s and this continued during the 1980s, with a sharp increase from approximately 1986 onward. In 1986 alone, the deficit of the EU10 doubled and continued to grow between 1986 and 1995.15 The deficit with China especially showed an impressive growth rate during these years. The share of China’s imports, as the percentage of total clothing imports to the EU, rose from 7.3% in 1988 to 12.4% in 1995 (see Table 1). This made China the most important clothing supply country for Europe in 1995.

In the textile industry the situation for European producers was much more positive. The textile sector quickly regained its strength after the crisis and the trade surplus grew substantially in the course of the 1980s. As a result of the increasingly capital intensive and specialised nature of the textile production, the textile sector continued to run a trade surplus with most of its trading partners into the 1990s.16 China was one of the important exceptions to this rule. Although China’s growth figures in textiles trade were much less impressive than for clothing, the EU’s trade deficit in textiles with China still more than doubled between 1988 and 1995 (see Table 2 for import figures).

Because of this growing (import) competition, parts of the textile and clothing industry in the EU started to make significant restructuring and modernisation efforts during this period. They did this, for example, through the adoption of new technologies and moving towards the production of more research and development intensive products.17 The restructuring process also involved the outsourcing of more labour-intensive operations (mainly clothing production) to countries like Poland, Romania, Tunisia and Morocco. A large number of these type of operations involved “the export of EU fabric, cuttings or semi-finished garments to low-wage countries, which make them into finished garments for re-import into the EU.”18 This relocation was not surprising given the large wage gap between the aforementioned countries and EU member states. Although wage rates in most Asian countries (i.e. Vietnam, China) were even much lower,19 EU manufacturers preferred neighbouring countries given their geographical proximity and higher quality standards. By outsourcing to its neighbours, EU-based companies expected to be able to respond faster to

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15 Stengg, op. cit.
16 Underhill, op. cit., p. 207.
18 Stengg, op. cit., p. 4.
19 In 1993, in Germany hourly wage costs were nearly US$ 18, while in Poland (US$ 2,77), Morocco (US$ 1,36) and Romania (US$ 1,04) wages were much lower. Even lower wages were paid in Vietnam (US$ 0,22) and China (US$0,40). Figures based on Giuli, loc. cit.
changing market demands, and to maintain more control over the management and quality of the
outsourced operation.20

The restructuring and modernisation process had two important implications for the textile and
clothing sector in the EU. First, the outsourcing of lower value-added and labour-intensive
production processes caused a general decline in production in the European textile and
(especially) clothing sector from 1988 onwards. Second, Europe saw a further decline in
employment because of the outsourcing. In just 15 years (1980-1995) the EU lost as much as 47% of
the workforce in textiles and 40% in the clothing sector.21

Table 1. Most Important EU Clothing Suppliers, Selected Years (Import Values in Million
US$)

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<td>China</td>
<td>991</td>
<td>4,633</td>
<td>7,460</td>
<td>14,255</td>
<td>20,903</td>
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<td>9,934</td>
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<td>Bangladesh</td>
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<td>1,265</td>
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<td>4,624</td>
<td>4,402</td>
<td>5,786</td>
<td>5,992</td>
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<tr>
<td>India</td>
<td>526</td>
<td>2,078</td>
<td>1,977</td>
<td>3,077</td>
<td>4,025</td>
<td>4,759</td>
<td>5,214</td>
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<td>Romania</td>
<td>347</td>
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<td>4,774</td>
<td>4,487</td>
<td>4,397</td>
<td>3,729</td>
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<tr>
<td>Tunisia</td>
<td>570</td>
<td>2,262</td>
<td>2,590</td>
<td>3,235</td>
<td>3,065</td>
<td>3,094</td>
<td>3,517</td>
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<tr>
<td>Morocco</td>
<td>588</td>
<td>2,134</td>
<td>2,372</td>
<td>3,017</td>
<td>2,818</td>
<td>2,970</td>
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<td>1,658</td>
<td>1,483</td>
<td>1,752</td>
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</table>

Source: figures for 1988 are in million $ and are based on Stengg W., op. cit., p., 55; all other figures are in
million US$ and are calculations by the author based on Eurostat data. Rankings according to 2007 imports.

20 Stengg, loc. cit.
21 International Labour Organization, Labour Practices in the Footwear, Leather, Textiles and Clothing
Table 2. Most Important EU Textile Suppliers, Selected Years (Import Values in Million US$)

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<td>1,539</td>
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<td>517</td>
<td>470</td>
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<td>621</td>
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</tbody>
</table>

Source: figures for 1988 are in million $ and are based on Stengg W., op. cit., p., 55; all other figures are in million US$ and are calculations by the author based on Eurostat data. Rankings according to 2007 imports.

Trade Preferences towards China within the EU

Given the above mentioned developments, the following trade interests towards China can be identified. Import-competing producers (i.e. the traditional clothing and textile firms) were hit hard by the growing Chinese imports and obviously had a lot to gain from restrictions on Chinese imports. These producers, with their historically intimate relationship with the political elite in Europe, have a long tradition of well-established national and European lobby organisations (i.e. Euratex, Eurocotton) and hence have formed a very powerful and well-disciplined lobby machinery, which they used constantly to lobby at both the national and the EU-level.

On the anti-protection side, some big retailers were of course against restrictions on their Chinese textile and clothing imports. However, since many small retailers were at this stage still buying much of their clothing from European producers, the trade interests of retailers were rather diffuse at this point. As a result, they were by far not as well organised as the traditional textile and clothing producers. They had a few national lobby organisations, but in Brussels they were not yet represented properly, which, in turn, made it difficult to set up an effective lobby that could provide adequate opposition. In effect, this was made all the more interesting, as other potential allies (i.e. exporters and companies with outsourced production) were not really interested in lifting Chinese quotas either. Since outsourcing to China had not fully started yet, import-users were not hurt by protectionist measures against China. Moreover, most European exporters did not see China as a very interesting market at this stage and hence did not push for bilateral talks on mutual trade liberalisation.

What is more, traditional textile and clothing production was still important for the national economies of many EU member states (i.e. France, Italy, Spain, Portugal and Greece). Although it is true that the contribution of the sector to the economies of developed countries relatively declined over the years, it was still a major industry in many EU countries. Consequently, many governments in the EU were still eager to help their domestic industries. In short, the coalition pushing for tough restrictions on Chinese imports to the EU was much stronger than the forces in favour of free trade. I will now turn to a discussion of the most important bilateral negotiations on textile and clothing issues between the EU and China in this period, in order to see whether the pro-protection coalition was indeed able to shape EU trade policy towards China.

EU Policy Towards China

Trade in textiles and clothing was without any doubt the most sensitive area in EU-China economic relations in the late 1970s and the 1980s and hence a major source of disagreement between both parties. After all, the sector was China’s most important source of exports to the EU and an important source of foreign currency earnings. The EU, on the other hand, pressured by member states and producers, was eager to protect its textile and clothing industry. As a result of

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22 Based on interviews by the author.
this tension, textile and clothing trade was not touched upon in the 1978 Trade Agreement, but both parties agreed to negotiate a special agreement on trade in textiles and clothing products. Unsurprisingly, these negotiations were very difficult, but a 4-year agreement was eventually signed in 1979. The aim of the agreement was clear: restrict Chinese textile and clothing inflows into the EU as much as possible.

The agreement limited China’s exports to some extent, but the deal was more generous than the standard MFA-type agreement and it enabled China to double its exports in the first few years. Therefore, producers in the EU lobbied heavily for further trade restrictions on Chinese imports. The lobbying was successful. For one, after long-lasting negotiations, and partly due to the political pressure applied by the EU, China became a MFA-signatory in 1984. As a result, China’s bargaining position vis-à-vis the EU in the negotiations on the renewal of the Textile Agreement was weakened since the agreement now had to be brought in line with the stricter MFA-rules.

A second consequence of the lobbying efforts was that, in its mandate concerning the negotiations on the new Textile Agreement, the Council of Ministers left the Commission little room for manoeuvre. The mandate set down stringent limits on imports from China, especially for sensitive textile and clothing products. What followed were tough negotiations. Eventually an agreement was signed in March 1984 which renewed the Textile Agreement for 5 more years. Although the agreement did increase the amount of quotas for some products, a new Protocol to the agreement was added at the same time, which included all the restrictive demands the Council of Ministers had put forward in its aforementioned mandate. The net result was a further increase of restrictions on Chinese textile and clothing imports.

The following period (1988-1995) was very similar to the previous time-period. With decreasing production, job losses and a mounting trade deficit, European producers sought further protection against Chinese imports and lobbied intensively for a renewal (and toughening) of the agreement. Backed by a majority of the EU member states, a new 4-year agreement was indeed negotiated by the Commission in 1988 which again introduced restrictions on Chinese products which had not been covered by quotas before. In 1992, again another agreement – in the form of an exchange of letters – was negotiated between Brussels and Beijing. This new agreement, which amended the 1988-agreement and took account of the EU’s enlargement process, was applicable to the end of 1995 and was as restrictive as its predecessors.

1995-2001: Small Steps towards Liberalisation

On 1 January 1995, the Agreement on Textiles and Clothing (ATC) came into force and it was expected that quotas would gradually be eliminated and that it would ensure a smooth transition to the full integration of the industry into GATT/WTO rules. Yet, the effects of the first two stages (1995-2001) of the ATC on trade to and from the EU were modest at best. On the one hand, the ATC offered all kind of loopholes enabling EU countries to step aside from extensive quota elimination. Moreover, hardly any country in the top ten of the EU’s most important textile and clothing suppliers was subject to the ATC during this period. Some countries were, as mentioned earlier, already exempted from quotas due to the PTAs or the GSP-scheme, whereas China was not yet a WTO-member and hence the EU was not forced to lift the quotas on Chinese products.

Nonetheless, the textile and clothing sector in the EU saw its trade deficit increase sharply. This was due to a combination of almost a doubling of the trade deficit in the clothing sector between 1995 and 2001 and to the fact that the trade surplus in the textile industry grew much too slowly to compensate for this loss. In clothing, part of the trade deficit could be “blamed” on the

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27 Ibid.
PTAs and preferential treatment of least developed countries. More importantly, imports from China kept on rising, despite the quota scheme. The logic behind this is as follows: there were still numerous Chinese products not subject to quotas, while, at the same time, almost all quotas put in place were filled completely. As a result, the total value of Chinese clothing imports into the EU rose by 61% in the 1995-2001 period (Table 1).

The EU’s trade deficit, specifically on clothing products was also caused by the fact that its high-end exports did not grow as fast as European exporters had hoped. Ironically enough, this was, according to the exporters, partly caused by the restrictive trading regimes of a series of (potential) trading partners. One of the most interesting of these potential, but relatively closed export-markets, was China. China had a fast growing high and middle-class, which was increasingly interested in European fashion, but because of Chinese import-restrictions, European exporters could not benefit from this increasing demand.

Also in the textile segment of the market, European companies complained that their exports were subject to an increasing number of restrictions in many markets. Partly as a result of this, the trade surplus in the textile sector grew much more slowly than in the period between 1988 and 1995. However, a more important reason for this declining growth seems to be the increase in imports from countries like Turkey, India, Pakistan, South Korea and most notably, China. The EU’s deficit with China was the fastest growing and China climbed to the second place of Europe’s most important suppliers in 2001 (see Table 2).

The aforementioned developments prompted the EU textile and clothing industry to rethink their corporate strategies again. Accordingly, the sector became subject to some far-reaching transformations. First of all, companies in the EU tried to improve their competitiveness by further reducing or ceasing mass production and concentrating instead on a wider variety of more value-added products and niche-markets. Secondly, relocation and outsourcing of the low value-added segments of (especially) the clothing sector intensified. In contrast to the previous time-period, this replacement of production now took place mainly towards low-cost producing countries in Asia, especially China. The final transformation consisted of a move towards further market concentration. As a result of an unprecedented growth in acquisitions and mergers in the textile and clothing industry, a small number of large enterprises, especially in the retail sector, accounted for an increasingly large percentage of total turnover during this period.

**Trade Preferences towards China within the EU**

Prompted by these transformations, trade preferences among European textile and clothing firms changed gradually. Although the traditional production firms were still lobbying to prevent their markets from being flooded by Chinese products, their pro-protection coalition was weakened during the 1995-2001 period. After all, many traditional clothing and, to a lesser extent, textile firms had started to outsource (parts of) their production to China. Consequently, for many firms the quotas on Chinese imports became a burden rather than a blessing because of renewed imports from China were now an important part of their production process.

In addition, firms which had moved towards the production of more high-end products became exporters. And exporters, as shown above, became very interested in exporting to China and hence started to lobby for Chinese market openings. At the same time, retailers and importers became better organised – they started to establish their own umbrella organisations on the EU level (i.e. FTA, Eurocommerce) – and, by doing so, increased their political clout. In other words, rather than having just a one-sided focus on the threats of China’s economic rise, the opportunities became more visible in the political arena.

These changing preferences can also be seen among EU member states. Traditional textile and clothing producing countries such as Portugal, France and Italy fully supported trade restrictions.

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34 Interviews conducted by the author.
35 Interviews conducted by the author.
37 Section based on interviews conducted by the author.
on Chinese imports, but an anti-protection coalition started to take form. In the Netherlands, the UK, Germany and Scandinavia, the textile and clothing sector had almost disappeared or had specialised in niche markets. At the same time, retailers gained political and economic strength in these countries. This “Northern coalition” became increasingly wary of quotas on Chinese imports. I will now analyse several trade policy measures taken by the EU towards China between 1995 and 2001, and see whether they reflect the changing interests and preferences within the EU.

**EU Policy towards China**

In 1995 the EU and China signed a new textile and clothing agreement, in which the quotas on Chinese products were adjusted to take account of EU enlargement. In unison, a provision was made for the inclusion of several products that had not been covered by quotas before (i.e. silk, linen and ramie products), which came to be known as the Silk Agreement. At first sight, it appears as if this was just a continuation of the earlier protectionist agreements, but a closer look at the Silk Agreement, and the negotiations preceding it, reveals some interesting changes that took place in the EU’s trade policy towards China.

One year before the Silk Agreement was signed the EU had unilaterally set a quota of 17,000 tonnes for Chinese silk, linen and ramie goods. This decision spurred heavy protest by the Chinese as well as by European importers (both retailers and import-users). The latter argued that “[…] the quotas are hurting consumers and financially damaging firms that had already contracted to import Chinese products but were suddenly cut from supplies.” At first, Brussels took the following stand: given that China was not a GATT/WTO member they had every right to fix unilateral limits on Chinese exports. However, importers kept on protesting and certain European exporters started to complain about restrictions on their exports to China. Prompted by this pressure, the EU agreed to start bilateral negotiations with Beijing. What followed were 10 months of meticulous negotiations, which eventually led to the signing of the Silk Agreement. Under this agreement, the EU, unexpectedly, agreed to more than double the quota for China’s silk, linen and ramie exports, while China lifted restrictions on certain items of interest to European exporters.

Around the same time as the Silk Agreement was signed, the EU announced the implementation of its new GSP scheme. However, this time the decision taken by the EU was less beneficial for those in favour of lifting restrictions on Chinese imports. The new GSP scheme was, more so than its forerunner, oriented mainly towards the least developed countries (LDCs) and towards minimising the adverse effects on traditional and declining industries in the EU, such as the textile and clothing industry. The new scheme, which was partly the result of serious lobbying by European textile and clothing producers, had severe implications for textile and clothing imports from China.

One policy adjustments in particular had a restrictive effect on products entering the EU from China: the introduction of the so-called “graduation mechanism.” This meant that the preferential tariffs were to be gradually abolished for countries whose GSP exports on a particular product exceeded 25% of the total GSP exports to the EU of that product. China, who used to benefit from preferential treatment, was one of the few countries hurt by this “graduation mechanism.” In fact, some Chinese textile and clothing products lost their tariff preference over night because they already exceeded the 25% margin when the new rules became effective in 1996. Many other Chinese textile and clothing products came to “graduate” in 1998 and hence preferential margins were abolished on these products too. The inflow of Chinese textile and clothing products was clearly discouraged accordingly. It must be noted, however, that the new GSP scheme also,

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40 Islam, loc. cit.
42 Ibid.
indirectly, facilitated some European exports. That is to say, those Chinese manufacturers who used component parts manufactured in the EU, could continually be granted the GSP.44

By the end of 2001, China has become a WTO member. During the 15-year negotiation process leading to Chinese accession, trade in textile and clothing products had played a prominent role, especially in the bilateral negotiations between the EU and China. This prominence became particularly apparent in the talks on “mutual market opening.” The deal that was finally struck on market opening had two important dimensions and was a clear compromise between all parties involved (i.e. all European and Chinese firms).45 First, China promised to abolish non-tariff barriers and to reduce tariffs on manufacturing exports (including textile and clothing products) from third countries. Secondly, the EU (and the US) agreed to abolish all quotas on textile and clothing imports from China. Accordingly, China, and in turn the European importers, could benefit from the ATC quota removals as of January 2002. The latter agreement was, however, qualified by a special Textile Specific Safeguard Clause (TSSC), which can be summarised by the following: until 2013 countries can apply safeguards on any Chinese products causing “material injury” (i.e. that creates or threatens to create market disruption) to domestic producers.46 The safeguard clause was a concession to the European firms competing with Chinese imports. In fact, its has been suggested that without these special terms for the textile and clothing sector, the European Council might have refused to agree to China’s WTO accession.47

2002-Present: Quota Elimination and Increasing Complexity

Just as during the first two stages of the ATC, the EU’s overall quota elimination during the third ATC-stage (2002-2005) was limited. Especially the lifting of quotas on the most sensitive products and the products with the most value-added was postponed until the final stage (i.e. 2005). Despite this, calculations made by the European Commission figures showed that “[…] textile and clothing products, removed from quotas in the third stage, has seen a sharp increase of Chinese exports at the expense of other suppliers.”48 To be more precise, China’s market share in EU imports of all categories that were liberalised during the third ATC-stage rose from 13.8% in 2001 to 31.8% in 2003.49 Overall trade figures show (see Tables 1 and 2) that, after its WTO accession, China had overtaken Turkey as the EU’s most important textile supplier, while strengthening its leading position as the EU’s most important supplier of clothing products. At the same time, intra-EU trade dropped to a new low level and exports from the EU to third countries decreased.50 The worst, however, was still to come.

On the 1st January 2005 the quota system came to an end and the EU had to remove all quotas on textile and clothing imports. China’s growth figures during the first few months of 2005 were even more impressive than anybody had imagined beforehand. Almost all product categories experienced a large increase in Chinese imports, as high as 500% for some products. As a result, prices in the EU decreased considerably, up to almost 50% for certain products in just a few months.51 And as Tables 1 and 2 reveal: the rest of 2005, as well as the years after, saw a continuation of these increasing growth figures. By the end of 2007, China had managed to capture 25.5% of market share of EU textile imports and more than 35% in its clothing imports. Regarding EU exports, the overall picture shows a continuation of the negative trend. Although

46 There are several limits to the use of safeguards: Chinese exports are allowed to rise by 7.5% a year – the control can only last for one year, although it can be renewed – and the safeguards must be abolished by the end of 2008.
47 Interviews conducted by the author.
global export volumes were fairly stable during the 2005-2008 period, European textile and, most notably, clothing producers saw a further drop in their intra-EU exports.\textsuperscript{52}

Given the aforementioned developments, the restructuring efforts, as described earlier, continued in the post-ATC years. Thus, the textile and clothing sector in the EU witnessed a further move towards the production of more added-value products and niche markets. Moreover, subcontracting and relocation of production plants, predominantly to China intensified, and market concentration in all segments of the industry increased further as well. As a result, job losses also increased further during this period.\textsuperscript{53}

**Trade Preferences towards China within the EU**

Because the developments during this period resemble those of the previous period (1995-2001), it is not surprising that the trade policy interests within the EU between these two periods are similar. However, the dividing lines between the pro-protection and anti-protection firms hardened considerably. After all, the quota elimination intensified China’s competition for traditional European producers and, simultaneously, increased the opportunities for retailers, importers and exporters in the EU. Consequently, both sides lobbied intensively at the national and the European level in order to make sure that their interests were taken into consideration as much as possible. As a result, the division between the Northern Coalition (i.e. the Netherlands, the UK, Germany, and Scandinavia) and the Southern Coalition (i.e. Spain, Portugal, Italy, Greece, France, as well as new EU-members like Poland and Lithuania) became more apparent than ever. The consequences of all of this, for the EU textile and clothing trade policy towards China, will become clear when I analyse the 2005 “textile wars” in the next section.

**EU Policy towards China**

In the last week of April 2005 most EU member states made available import statistics for the first three months of the year, showing a sharp surge in textile and clothing imports from China. In some categories, import volumes had even risen above the “alert level” as defined by the European Commission.\textsuperscript{54} After the release of these figures, several EU member states (Italy, France and Spain), pressured by European and national interest organisations, asked the Commission to impose emergency measures to protect their textile and clothing manufacturers.\textsuperscript{55}

On 29 April the Commission opened investigations into imports from China in several textile and clothing categories and announced that it would “make a thorough assessment of market impact in the affected product categories […] and if deemed necessary introduce safeguard measures.”\textsuperscript{56} The president of the European Textile and Apparel Organisation (Euratex), on behalf of the industry, as well as some member state officials cautiously welcomed the investigation.\textsuperscript{57} Importers and the Northern EU countries were not amused and called the investigations “highly inappropriate,” “politically motivated” and “caused by the intense pressure exerted by some EU member states in conjunction with European [producers].”\textsuperscript{58}

The anti-safeguard coalition convinced the Commission to at least start negotiations with China, instead of taking any unilateral action. Not much later, on 10 June 2005, the Commission announced that the EU and China had signed a Memorandum of Understanding (MoU) which ensured “a period [2005-2007] of adjustment for EU producers, provide greater predictability for importers and retailers, and preserve the price of market liberalisation and WTO membership for


\textsuperscript{53} Commission of the European Communities, Evolution of Trade in Textile and Clothing, op. cit., p. 23.


\textsuperscript{56} Commission of the European Communities, Press Release, loc. cit.


\textsuperscript{59} Ibid.

\textsuperscript{60} Ibid.
Although many saw this agreement as a victory for import-competing firms, the fact that only 10 product categories became subject to safeguard measures and that the annual growth levels were higher than the 7.5% limit permitted under the TSSC can be seen as a concession to the Chinese and the European importers.

The Commission needed until the 12 July to get the MoU implemented. In the meantime, European retailers had placed very big orders with Chinese exporters on top of the goods already ordered. This created massive problems because the regulation included a footnote stating: “import authorisation for goods shipped between 11 June and 12 July shall be granted automatically and cannot be denied on the grounds that there are no quantities available within the 2005 quantitative limits. However, the imports of all products shipped from 11 June 2005 will be counted against the 2005 quantitative limits.” Consequently, quotas for the entire year were full within no-time and an additional 77 million items from China were blocked at European borders.

European retailers were, accordingly, confronted with a big supply crisis and started to accuse former trade Commissioner Peter Mandelson of mismanagement and of disregarding their interests. This re-fuelled the debate between those in favour, and those against, undertaking free trade with China. The debate focused on whether or not to enlarge the quotas and, by doing so, releasing the blocked garments. In the end, the EU and China again managed to reach an agreement in which both sides agreed to share the quota burden “by letting half the amount of the blocked garments count towards the 2005 quotas, and the other half towards the 2006 quotas.” With this deal the Commission again had tried, and managed, to satisfy all sides.

When at the end of 2007 the safeguard quotas expired, the EU and China established a joint system in order to monitor EU imports from China. This double-checking surveillance system, which was put in place for one year, covered eight out of the ten previously restricted categories and was meant to maintain bilateral oversight, regarding the trade flows. With the removal of the surveillance system, at the beginning of 2009, the days of restrictive measures against Chinese textile and clothing exports appeared to be over. It is, however, probably just a matter of time before the next conflict on textile and clothing trade between the EU and China erupts. After all, EU companies still have a variety of alternative defence measures at their disposal – most notably anti-dumping investigations – which they are very likely to use in the foreseeable future.

Conclusion

Until the mid-1990s EU textile and clothing trade policy towards China was rather straightforward: producers demanded protection against increasing Chinese imports and because they were backed by a majority in the Council and by the European Commission, ever tougher restrictions were imposed over time. Three reasons lay at the root of these developments. First, the political clout of traditional producers and the continuing importance of the textile and clothing sector persisted in several key EU member states. Second, the fact that no (serious) interest groups representing anti-protection interests were at this time able to organise an effective lobby in opposition; and third, European policy-makers did not see China yet as a fully equal negotiating partner.

In the course of the 1990s, changes started to occur. Spurred by increasing import competition, especially from China, the textile and clothing sector in the EU became subject to several far-reaching transformations. For one, many producers gave up mass production and started to produce more value-added products and/or started to focus on niche markets. Secondly, producers relocated (parts of their) production to low-cost countries, particularly China. Finally, a move to more market concentration, especially among retailers, took place. Consequently, some textile and

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65 Comino, op. cit., p. 833.
clothing producers adhered to a more “free-trade oriented” mind-frame. In addition, retailers started to become better organised on a political level. This further strengthened the anti-protection coalition. At the same time, more member states started to reject the trade restrictions on Chinese textile and clothing imports. These developments were reflected in the EU’s policy towards China, which became much more balanced. Although many of the trade policy measures taken were still aimed at restricting Chinese textile and clothing imports, the EU clearly took the trade preferences of anti-protection interests as well as the Chinese interest, much more seriously than before.

Due to the lifting of the quotas on Chinese textile and clothing products, the post-2002 period saw a very sharp surge in Chinese imports. This led to another harsh confrontation between protectionist interests, backed by the Southern European member states, and exporters and importers, supported by Northern member states. Especially during the 2005 “textile war” between the EU and China these two camps fought a grim political battle. It is hard to say which side has won this battle, because the European Commission performed a relatively good balancing act and managed to construct a compromise that was acceptable for all parties involved. Although it seems fair to say that the days of fully-blown protectionism are definitely over, it would be overstating to claim that the anti-protectionist forces are the glorious winners. Nevertheless, the quota system is history, but there are many other trade defence instruments left, and the textile and clothing producers are well aware of this. Therefore, it is very likely that the 2005 textile wars will be set-in-stone as the last political and legal battle fought over EU-China trade in textile and clothing products.