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Op-Ed: The Global Apparel Supply Chain Must Adapt to a New World

By Ed Jernigan

One key reason that the U.S.-China trade dispute has progressed slowly is the fact that each side views the dispute as much more than a debate over imports.

The Chinese have attempted to deal with the Trump administration much as it has with other U.S. administrations, in which it tells them what they want to hear, promises to change, then signs celebratory large scale agreements that mean little and continues on as it has been. By the time the issue is back on the front burner for the U.S., China has had two to three years to accomplish its goals. The failure of the U.S. to actually enforce anything of note has been viewed by the Chinese as weakness. China has fully understood that the U.S. business hunger for the Chinese market gave them significant latitude to maintain the upper hand in negotiations.

Putting all of the political issues aside, the Chinese tariff on U.S. cotton has taken effect and it appears to be a direct violation of the WTO agreement, or at least the spirit of the agreement.

Unlike many other agriculture products, cotton is already a restricted import commodity. At the time the WTO agreement was negotiated, cotton was considered a state secret in China. As it entered the WTO, China produced near 20 million bales from an estimated 200 million small plot holders, making cotton a very sensitive commodity.

China argued that as a developing nation it needed the right to protect these farmers. Thus, since the WTO accession China has placed limits on imports, taxed imports at various degrees and maintained a firm grip on trade. The only protection for the U.S. and the global cotton trade was a small 894,000 tons of annual import quota that would be allowed in at a 1 percent duty. This was shared by all suppliers and then further divided between the state owned companies and the private trade. Even this quota, however, was not allowed to be free from government control. Since the agreement went into place, the Chinese government allocated the quota.

Their ability to maintain this control and to limit annual imports was in direct contrast to the expectations under which the WTO was negotiated, which limited duties and left no limit on the import volume of textiles or apparel after the accession period. The Chinese won and played to the West's weak points, as well as playing to companies' desire for access to the Chinese market and its cheap labor. The general feeling was that China would soon totally open up cotton trade and move to a free market. That simply did not happen.

Today, China is far from the poor developing nation it was in 2000—now it's the world's second largest economy. This development, however, comes with responsibility in deeds and not just words. Corporate responsibility comes with the pursuit of a profit.

What makes the Chinese move so unsettling is that the U.S. textile and apparel industry paid a very high price for China's WTO entry with millions of jobs lost, communities destroyed, families broken apart and well-established businesses forced to close or quickly move offshore. Arguments have been made that apparel operations always go to the cheapest market, and that would have happened regardless of WTO. Yes, there would have been some migration but it would have occurred over a longer period and would not have been so disruptive, resulting in the wholesale destruction of a major industry.

The Chinese textile and apparel industry entered 2018 dominating the world, and remaining the largest destination for new textile machinery in 2017. As China joined the WTO in 2001, it was the U.S. that first rapidly lowered tariffs for its textile and apparel imports. It was also the U.S. that lost an entire industry as those imports exploded under the cheaper supply chain.

In 2000, the U.S. imported $6.5 billion worth of textiles and apparel from China, and in 2015 it peaked at a record 43.21 billion. In 2000, China had 9 percent market share, and by 2015 it had grown to 38.6%. U.S. cotton consumption peaked in 1997/98 at 11.390 million bales and has fallen to 3.1 million bales in 2010/11. The U.S. cotton industry lost more than 8 million bales from a reliable domestic customer that paid a premium.

The sheer risk of a 25 percent or more duty on Chinese imports has exposed a key risk to the global textile and apparel chain: the over dependence on a single country's supply chain.

If a duty is applied to imports, then one of the most dramatic impacts will be on cheap polyester apparel. China has flooded the world with cheap polyester fabric and apparel following the 2008/10 fixed asset investment in new production capacity. That expansion ended in 2017 as the environmental cleanup began to take hold and forced noncompliant plants to close. This event further seals the fate of cheap polyester, and now begins the cleanup.

Any settlement of the issue would also now require more than a return to the status quo, it should mean a discussion for the duty free import of cotton.

Ed Jernigan is the CEO of Jernigan Global. Jernigan Global offers Global Supply Chain Management for Cotton Textile & Apparel. JG Manages the complete supply chain from field to closet providing a link between the cotton producer and brand/retailer. Our "source verified cotton" is very unique in that each product under the "Field to Closet" process can be traced back to the farm it came from.

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