International Trade

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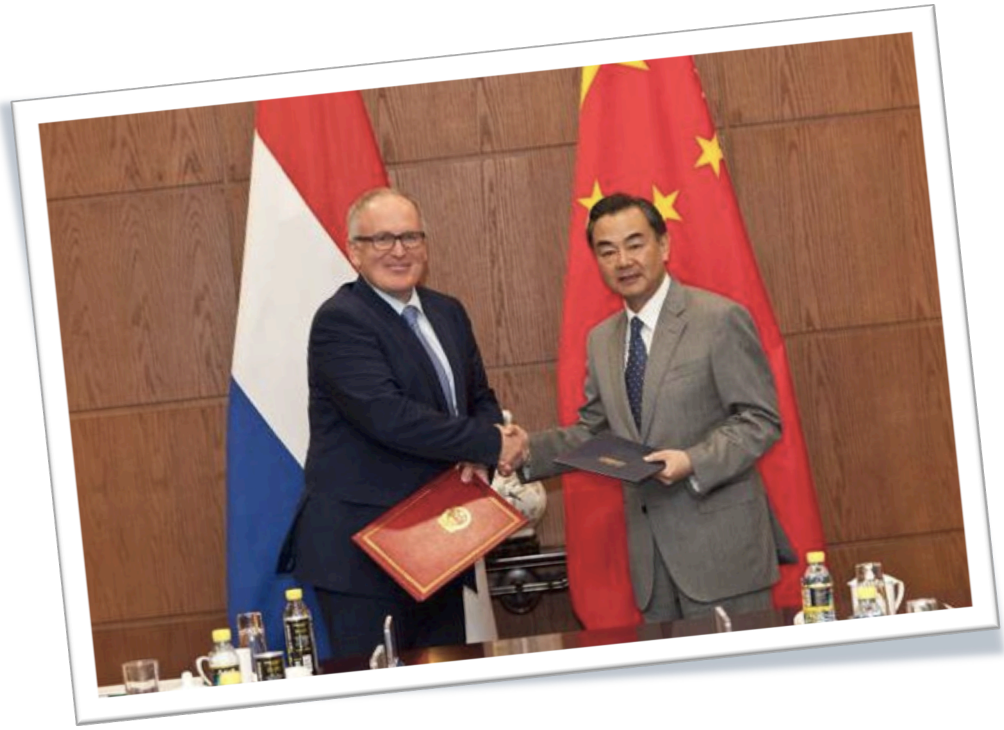

Business between The Netherlands and China

Preface

This report is about the trade history and relationship between China and The Netherlands, and the development over the years of this relationship. It focuses on the fashion or garment producing industry which is changing so rapidly everyday.

As China's economy develops more and more and the economy is shifting from a production industry to a consumer industry, this means for a lot of Dutch companies (and other companies all over the world) that they might have to look into other options. Especially for companies that are located in one of the European Union countries more difficulties in doing business witch China arise, because of the European Unions' many trade regulations in the garment industry.

Table of contents

Introduction

It is an amazing accomplishment for a country in which the economy was failing three decades ago to develop itself into the 2nd largest world economy, leaving Japan behind and at the verge of exceeding the United States. With almost 4000 years of uninterrupted history, China is one of the oldest countries and societies in the world. The fashion industry denominated China as the producer of the world. In Europe, even in the whole world, everyone knows 'made in China' means the product is produced in China.

The first garment production in China was founded in Shenzhen. From Shenzhen, the production moved its way up from the south to the north, along the coast. Nowadays the clothing production is moving to the inland; mainly to Anhui and Jiangxi province. This is due to the relatively higher wages and the shortage of workers in the coastal areas.

When Europe first started to buy their garments in China they found that the quality was quite bad, yet the prices were cheap. Later on the Chinese enterprises developed their knowledge about textile and clothing production, resulting in good quality in combination with cheap prices. Nowadays China is delivering good quality but for higher prices.

1. The history of trade between China and The Netherlands

The start of the ready-made garments industry in the Netherlands we can find in the time of the Industrial Revolution, beginning of the 19th century. With the introduction of machinery, the production increased and costs became lower. Workshops emerged where clothes were made with machines. The clothes they made were made of a series of existing patterns and not customized for each customer.

During the industrialization of the Netherlands the labour was cheap. Because of the low wages it was possible to produce clothing in the beginning in attics and back rooms and later in workshops and large factories. After 1960 the wages started to increase. The entrepreneurs were forced to close their factories and to relocate their production to countries where the wages were lower.

Around the 80's of the last century, the buyers of Dutch companies started to trade with countries like Korea, Hong Kong, Taiwan and Japan. There must be mentioned that the Hong Kong production mainly took place in Shenzhen (China). Since 1985, Japan became also too expensive. Whereupon countries like Indonesia, India and Thailand became interesting for the clothing production.

In 1997 the free trade economy was introduced in China. Before 1997 trade with China was hard because of the Multi-Fibre Agreement (MFA). The Multi-Fibre Agreement was set up in 1974. This MFA contains quota agreements and restrictions concerning textiles. The quota number of jackets was unlimited. That is why China became specialized in Jackets. This MFA was obviously a disadvantage for the Netherlands to conduct business with China. But nevertheless, the prices were good and they placed orders. Because of the quotas it was not possible to place all the orders. On the 1 of January 2005 the MFA expired.

Nowadays the Netherlands is part of the European Union and most of the trade regulations are made by the European Union. Examples of these trade regulations are; REACHE, BSCI, and Oeko Tex.

2. Changing trade between China and The Netherlands

In the beginning of the 21st century the relation between the two countries started to grow. The advantage of China were the cheap labour and the availability of fabrics, and packaging. The last decennium the Chinese are less interested in the trade with Europe because of still growing European standards. These European standards (for example; Oeko Tex, BSCI, REACHE) mean a lot of costs and involve a lot of extra paper work.

China has been focusing its core business around the labour- intensive industries in which textiles and garment manufacturing play a major part but also electronics, metal and other industries. Looking back in history China has rapidly evolved a lot over the last decades.

China nowadays is a major player in the world economy not only does the Chinese government want to boost their domestic economy but the Chinese have been acquiring foreign companies. China has a money reserve of billions, is part of the World Trade Organisation (WTO) since 2001 and has an active government policy. By acquiring foreign companies Chinese companies are satisfying their need for technology and knowledge that will benefit Chinese industries.

Currently China and the Netherlands are enjoying a stable relationship. Within China there are several Dutch diplomatic posts and also the Netherlands Business support offices. The Chinese authorities have only given a license to operate to the Benelux Chamber of Commerce (BenCham) which is formed by the Belgium and Dutch Chamber of Commerce (Dutchcham). China and the Netherlands have established bilateral trade relations. Due to the long tradition as a trading nation the Netherlands is regarded as the gateway to Europe. This is mainly due to the fact that Rotterdam is the biggest harbour in all of Europe and is used as a port to surrounding countries. The Netherlands can be considered as the distributor between Asia and Europe. Another connection between the countries is that Rotterdam and Shanghai are sister cities and in July 2010 the start of building the European China Centre in Rotterdam began. The worldwide economic recession had an effect in the whole world. Despite this recession the Netherlands (within the European union) has been the second trading partner of China.

3. Rising prices of production

Consumer prices did not rise so far. So the rising of the purchase prices leads to less profit for the brands, but not for the buying associations. Brands react with decrease of the margin and manipulating customer price awareness. Decreasing the margin is a temporary solution but not a definitive solution. Also manipulating the customer price awareness had limits. A more definitive solution must be found. Retailers responds with a decrease of their initial order, to have budget reserved for extra ordering the best selling items during the season.

The consequences for China are: Production is moving to the inland, the market is shifting from a production market to a consumer market and that there is a shift from supply chain to value chain. It becomes more and more interesting for the Chinese supplier to produce for their domestic market instead of the European market. Also plays a role that there are fewer regulations for the domestic market then for the European market.

3.1 China's advantage

Nowadays China is an important player in the fashion industry. China has the advantage that it has all the ingredients for the fashion industry in their own backyard. Another advantage of the Chinese is that they know about the 'free market' in the Western countries because there is always an uncle in one of the China towns all over the world. The Chinese with their long history are a proud people and this makes them very reliable. For trading this is a very important feature.

In the table below is shown how big China's share is when it comes to textile and apparel.

Textiles		Apparel	
Country	**Share**	**Country**	**Share**
China	36.7	China	28.7
United States	7.5	Japan	9.2
Italy	6.1	United States	7.9
India	4.2	Italy	7.4
Japan	4.0	Thailand	5.3
Pakistan	2.3	Indonesia	2.5
Germany	2.2	United Kingdom	2.1
Korea, Rep. of	2.2	Brazil	2.0
Brazil	2.1	Bangladesh	1.7
Turkey	2.1	Viet Nam	1.7
United Kingdom	2.1	Mexico	1.6
Mexico	2.0	Turkey	1.6
Bangladesh	1.9	Korea, Rep. of	1.4
Thailand	1.9	Egypt	1.3
France	1.5	Argentina	1.2
Total	**78.8**	**Total**	**75.6**

Country share of world value added in textiles and apparel, 2007 Source: UNIDO Industrial Statistics, World Trade Organisation

4. A changing market situation

But why are the prices rising and the lead times increasing? It is well known that China is the cheapest garment producer of the world. But those times are over; the prices are rising every day. The causes of the rising costs and lead times are: increasing raw material costs and speculating with raw materials, rising wages and shortage of employees, fluctuation of the dollar, increasing lead times, more competition with the domestic market, higher European requirements and rising costs of transport. Despite of this, the trade position of the Chinese supplier is still becoming more and more strong because of the fact that the market is shifting from a buyers market to a suppliers market.

When Europe started to trade with China the demands of the buyer where preponderated. Currently the supplier takes command. Nowadays the supplier has the choice which order he prefers. Besides this, also the domestic market is growing. The Chinese domestic market will take over a part of the European production market. This part for the European market will shift to the countries in Eastern Europe, Turkey and Africa. Because of the fact that the domestic market is growing, some vendors start to produce only for the domestic market. Thus they avoid the entail of enormous paperwork and cost, which are involved while applying the European audits.

5. European Union trade regulations

Due to the fact that the Dutch companies (i.e. companies situated in the European Union) are asking for more and more regulations, Chinese suppliers start to prefer to produce for their own market, because the standards for the Domestic market are much lower, making it much easier and more favorable.

Below is given the descriptions and the aims of the audits of European Union countries:

REACH stands for the **Registration, Evaluation, Authorisation** and Restriction of **Chemical** substances. It is the European Community Regulation on chemicals and their safe use. The law entered into force on 1 June 2007. As mentioned on the website http://ec.europa.eu: " The aim of REACH is to improve the protection of human health and the environment through the better and earlier identification of the intrinsic properties of chemical substances. At the same time, REACH aims to enhance innovation and competitiveness of the EU chemicals industry. The benefits of the REACH system will come gradually, as more and more substances are phased into REACH."

BSCI stands for the **Business Social Compliance Initiative.** As mentioned on the website http://www.bsci-intl.org: "In 2002, the BSCI was established by the Foreign Trade Association (FTA) in order to create consistency and harmonisation for companies wanting to improve their social compliance in the global supply chain. The BSCI aims to establish a common platform for the various European companies Codes of Conducts and monitoring systems, it also lays the groundwork for a common monitoring system for social compliance. The experience and the know-how gained by companies and associations from their monitoring systems were the foundations of the BSCI approach and management instruments. In 2004 the development phase was achieved and the system has since been implemented worldwide."

RSL Stands for **Restricted Substances List.** As mentioned on the website www.apparelandfootwear.org: "The RSL is intended to provide apparel and footwear companies with information related to regulations and laws that restrict or ban certain chemicals and substances in finished home textile, apparel, and footwear products around the world."

Oeko tex standard 100 is a quality mark. As mentioned on the webpage www.oeko-tex.com: **"** The Oeko-Tex® Standard 100 **is** a globally uniform testing and certification system for textile raw materials, intermediate and end products at all stages of production."

It is safe to say that as Chinese production companies become more successful, their choice of supplying to companies will only get bigger and bigger. In this way the European Union trade regulations will become a bigger and more influential factor for the Dutch companies, restricting them in successfully doing business with Chinese suppliers.

Consequences

When costs and lead times are rising most likely the export will shrink. It was predicted that the Chinese export of textile and apparel in 2010 would reach a record. In 2010 the Chinese Chamber of Commerce (CCCT) expected an export growth of 20% with a value of $186 billion. The results were even higher and better then predicted. According to China's General Customs Administration, the export of textile and garments grew in 2010 with 23,59% with a value of $ 206.53 billion in one year. However, the increasing value of growing export does not necessarily mean a higher number of production. One cannot forget that the rises in costs were passed to the export prices and have an effect on the export value. But more important is the fact that nowadays there is not an acceptable alternative for the production in China.

Factors	Countries									
	China	India	Bangladesh	Other Asia - developing	Asia - developed	Turkey	Africa	Eastern Europe (Non-EU)	Eastern Europe (EU)	Western Europe
Speed	3,1	3,3	3,5	2,9	4,0	4,5	3,8	4,0	4,3	4,8
Costs	3,0	3,2	4,0	3,4	2,0	2,3	2,9	2,6	2,1	1,8
Quality	3,8	3,3	3,3	3,1	3,6	4,5	3,0	2,6	4,0	4,4
Scalability	3,3	3,4	3,1	2,8	3,0	4,0	3,0	2,9	3,7	4,3
Support/ Expertise	2,9	2,8	2,7	2,9	4,2	4,2	3,0	2,8	3,8	4,0
Reliability	3,1	2,8	2,9	2,7	4,0	3,8	2,6	2,3	3,5	4,0
Communication	2,7	3,0	3,0	2,8	4,0	3,7	2,2	3,0	3,3	4,0
Flexibility	2,8	2,7	2,5	2,3	3,5	3,6	4,0	3,4	4,0	4,5
Proximity	2,1	2,2	2,0	2,1	2,5	3,7	3,8	4,0	4,5	4,5
Social standards	3,2	2,7	2,5	2,9	4,0	3,7	3,4	3,4	4,0	4,7
Voluntary certifications	3,0	2,4	2,3	3,0	3,0	3,6	2,0	2,4	3,4	4,0
Process& product competencies	3,4	3,5	3,0	3,0	4,0	3,8	2,8	2,5	3,8	4,0

best value
worst value
1= very poor, 5=very good

Sourcing factors per country Source: Global Sourcing Reference 2009

In the table below is the current situation in terms of the garment production n every above mentioned country.

Conclusion

China is the key manufacturer in the production of most goods all around the world and this will not change overnight, but shifts in production have already started. Although companies are looking for other surrounding countries for production it is a fact that these countries do not have the capacity for the amount of production China is exporting. Expanding of productions and sales into China should be done strategically. The value chain including the value added upgrading is a process of keeping production, although the focus by the government has been put on the development of the domestic market.

At this moment no one knows what will happen to China's economy, as China seems to exceed every expectation each time. Due to the rapid developments, we can only speculate the next major change and therefore, China needs to be closely monitored in order to determine what steps to take.

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