DEVELOPING MARKETING STRATEGIES TO BUILD STABLE TRADE RELATIONSHIPS UNDER WTO RULES: THE CASE OF THE ENTRY OF CHINA'S TEXTILE INDUSTRY IN THE U.S.

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ABSTRACT
Lower trade barriers achieved through membership in the World Trade Organization (WTO) carries many benefits for exporters. Although the literature is replete with articles that describe processes for developing an export marketing strategy, it has not been able to explain enormous deviations from expected outcomes we observe in practice. One such deviated outcome was how incumbent WTO members reacted to China's textile exports. Building on the case of exports of China's textile industry to the U.S., this research addresses this gap in the literature by proposing a conceptual model in developing an export marketing strategy to build stable trading relationships under the rules of the WTO. Directions for future research are highlighted within the context of the model.

INTRODUCTION
China has become a major trade player in the global marketplace with annual growth of 8% in GNP (Hitt 2005). China spent 15 years working to become the 143rd member of the World Trade Organization (WTO) to help grow its trade. WTO membership brought China new opportunities for increased trade in many industrial sectors. Particular to China's textile and clothing industry export quotas were eliminated and tariffs reduced by January 1, 2005 (Yeung and Mok 2004). However, WTO membership did not guarantee China's free trade in the textile sector. After only seven months of quota-free trade, the textile industries in the European Union (EU) and the U.S. pressed their governments to reinstate textile quotas for China's textile exports. China subsequently engaged in further trade negotiations with the EU and the U.S. to address the potential for Chinese manufacturers to exercise market power through the export of textile products. As a result, the textile market in 2005 turned out to be very unstable and uncertain for both exporters and importers. This outcome is far from the expectations of WTO membership which should have been an opportunity for China to build stable trading relationships with the EU and the U.S. in textile trade.

The experience of the attempts of the firms in China's textile industry to develop an export marketing strategy to build stable trading relationships under WTO rules holds many lessons for all firms located in WTO member countries that are interested in exporting products to other WTO member countries. The purpose of this article is to use the case of China's textile industry to address the challenges and marketing strategies involved in building stable trade relationships under the rules of the WTO.

BACKGROUND

The WTO rules have a direct impact on the global marketing strategies of firms of member nations (Denis 2003). The WTO is constantly expanding its membership and increasing its influence over many trade-related fields. There are now 151 countries in the WTO that account for $11.76 trillion (USD) in merchandise exports (WTO Annual Report 2007).

Over the past two decades China has played an increasingly important role in the global textile market. Exports to the U.S. grew by 22% to $74.9 billion in the first eight months of 2007 (Business Wire 2008). Increased textile exports from China have brought many benefits to U.S. importers, distributors, retailers, and consumers. However, increased textile exports also brought to the forefront many issues such as the disruption of domestic textile production, questions of the commitment to social responsibility exercised by China's textile companies, and potential human rights abuses (United States Government Accountability Office, 2005).

Negotiations between the U.S. and Chinese governments concerning textile quotas can be dated back to the 1980s. China's textile industry started to grow rapidly soon after the implementation of China's Open-door policy (Dornbusch 1997) and become one of the most important sectors of China's economy (Roberts and Balfour, 2003). In an effort to expand export opportunities, China began the process in 1986 of seeking membership in the General Agreement on Tariffs and Trade (GATT), the precursor of the WTO. Membership in GATT allowed China to export more textile products with reduced trading restrictions, which later led China to become a member of the WTO in 2001.

Even though China is a member of the WTO many WTO members agreed that some restrictions should be placed on China's textile exports fearing the unlimited importation of China's textile products into their countries would create local market disruptions. The export restrictions placed on China's textile products meant free trade never materialized in the next four years.

Export quotas on China's textile products were eliminated on January 1, 2005. Exports of China's textile products to the EU and U.S. exploded in the first quarter of 2005. All clothing categories had an approximately 150% increase in the number of units in the first two months of 2005 compared to the first two months of 2004. All categories of textiles that had previous quota restrictions increased almost 500% over the first two months of 2004. The category of cotton knit shirts experienced a phenomenal grow of over 2000%.

The rapid increase of Chinese textile products exported to the EU and U.S. markets early in 2005 represented an issue of survival for the textile manufacturers in those markets. These manufacturers put political pressure on their countries' governments to re-examine China's import/export policy. Seven rounds of talks between the U.S. and China finally resulted in a new agreement for the textile sector that was effective for the years 2006-2008.

Several issues dominated the negotiations to impose new textile quotas. China asked for a two year effective period, while the U.S. wanted a three year period if safeguards were put into place. China agreed to have safeguards placed on about 13 textile categories, whereas the U.S. believed about 30

categories needed quota protection. In addition, the two countries disagreed on what should be used as the base number to determine the annualized grow in imports. Eventually, the U.S. and China reached an agreement (China, US sign textile trade agreement, 2005) that:

1. The duration of the agreement was January 1, 2006-December 31, 2008.
2. A total of 21 types of clothing and textile products are placed under the import restrictions.
3. A progressive increase in imports of major textile and apparel products from China – by 10-15% in 2006, 12.5-16% in 2007, and 15-17% in 2008.
4. Imports from the previous year would be used as the base number to calculate the growth rate.

By these terms, both countries compromised in their original positions. China was able to extend the duration of the restrictions from 2007 to 2008 while the U.S. was able to increase the growth rate and the base number.

Since the new agreement went into effect the U.S. media has reported stories describing how China's textile products are threatening the survival of the U.S. market (Chinese textiles: When GSP has gone with quotas, 2004; US industry renews push for restraining textile imports from China, 2004). The Chinese media reciprocated by reporting complaints from Chinese textile companies about the uncertainty and difficulty of doing business with their trading partners (Deng, 2005), how their shipments were stuck at different ports (Lu 2005a,b; Xiao and Bao, 2005), and their fear of the future of exporting to the U.S. (Yu and Xiao, 2005). Meanwhile, constant changes in China's policies and regulations regarding increasing export duties (Higher tax introduced on exports, 2005), and warnings on what to export (Hu yu qi ye zhan ting dui Mei chu kou 6 zhong she xian fang zhi pin, 2005; Lu 2005a,b) have added to the uncertainty of the export market for China's textiles.

Although many businesses in the U.S. may be aware of the reinstitution of quotas, few managers know what kind of reactions and responses the China's textile industry has had to these quotas and what the future holds for building long-term trading relationships. The answers to these questions contribute to our understanding of how to develop an export marketing strategy to build stable trade relationships under the WTO rules.

MARKETING STRATEGIES TO BUILD STABLE TRADING RELATIONSHIPS

The concept of relationship marketing has been applied in many business activities in the global marketplace including customer co-creation (Prahalad and Ramaswamy 2000) and co-production (Bendupadi and Leone 2003), and supply chain management (Wathne and Heide 2004). Particularly, Lado et al. (2004) proposed a paradigm of global trade based on Ross and Robertson's (2007) notion of compound relationships. Viewing exporting as a natural development of business relationship, this paradigm suggests that trading involves a comprehensive network of business interactions, and multiple stakeholders play parts in shaping the outcome of a business transaction. Therefore successful trading activities demand effective management of all stakeholders. Indeed, the expansion of the textile industry in South Africa in 2000 illustrates how compound interactions among various parties may obscure unusual outcomes (Roberts and Thoburn 2003). Since the South African trade rules were liberalized in 2000, the increase in textile exports that resulted was from competition between importers and not the change in policy (Roberts and Thoburn 2003). As such, effectively managing and developing favorable long-term relationships among all stakeholders in global trading is strategically imperative in today's highly competitive global business environment.

Relationship based business interactions has been widely celebrated (Dwyer et al.1987; Morgan and Hunt 1994) as an imperative cornerstone to long term and sustainable success in global marketplace. A close and enduring relationship is an important strategic asset (Dwyer et al. 1987; Johnson 1999; Varadarajan and Cunningham 1995) and a valuable source of competitive advantage (Dyer and Singh

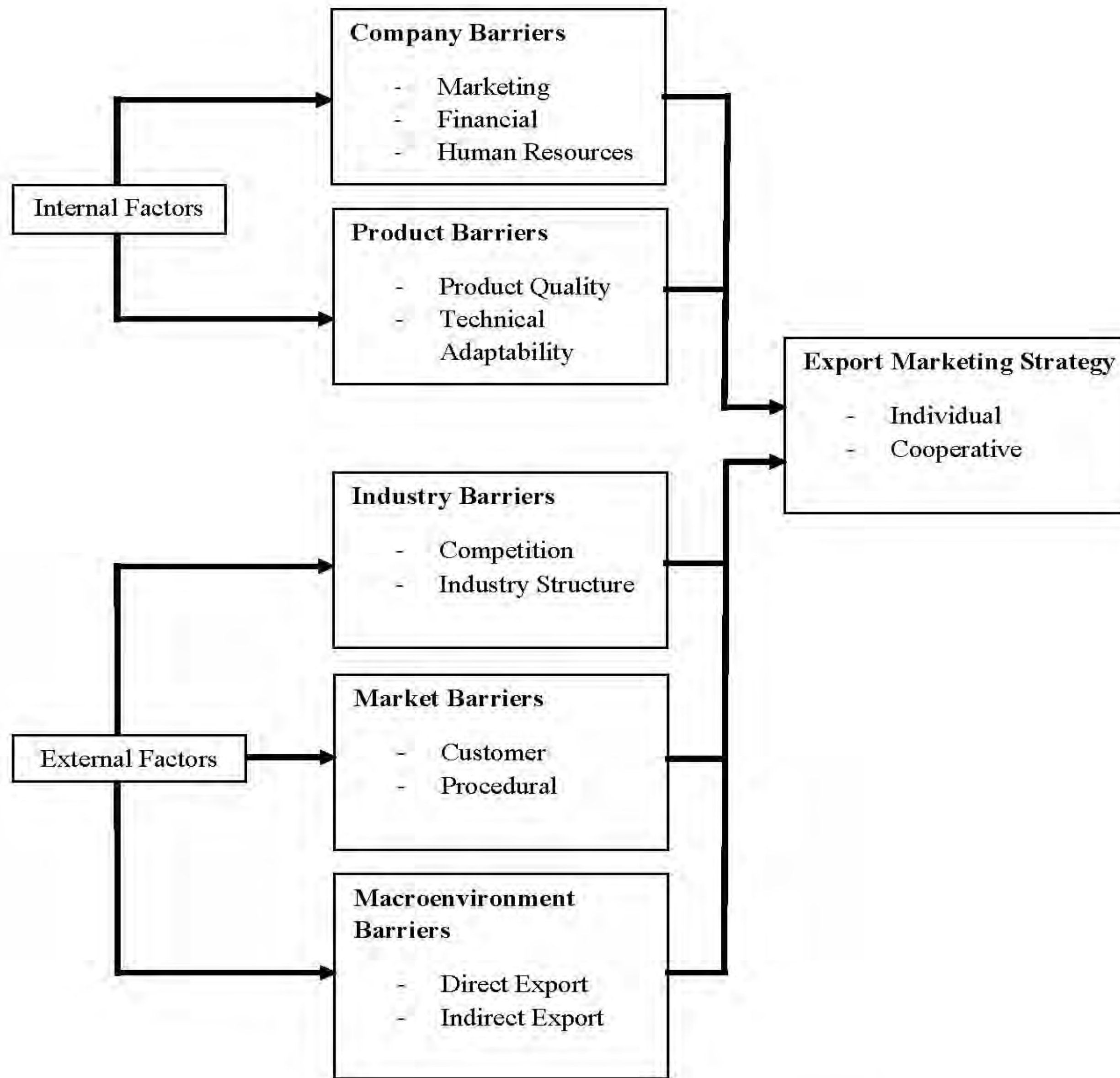
1998; Ulaga and Eggert 2006). Stable relationship between trading partners is often associated with lower transaction cost, customer loyalty and cooperation (Palmatier et al. 2006), and ultimately more profit for both trading partners in the long run (Morgan and Hunt 1994).

The literature contains numerous attempts to investigate how exporters may develop an export marketing strategy and build successful global trading relationships (Lado et al. 2004; Solberg and Durrieu 2008). In the field of global exporting research, recent studies have brought to light a variety of exporting barriers that may impede smooth trading and jeopardize long term trading partner relationships (Leonidou 2004; Rutihinda 2008). For instance, rooted in Douglas and Craig's (1989) three-stage evolution framework of global exporting, Cavusgil and Zou (1994) argued that marketing strategies in exporting must be in alignment with many elements that define its business environment. Their research identified two categories of forces that may drive export marketing strategies, namely internal forces, including company and product characteristics, and external forces, including industry characteristics and market characteristics. The literature suggests that firm performance is a result of both internal and external factors (Lages 2004), where internal forces may have an indirect effect on the performance achieved by an export marketing strategy while external forces tend to have a more direct impact on firm performance. (Cavusgil and Zou 1994; Lado et al. 2004).

Building on Cavusgil and Zou's (1994) categorization, Tesfom and Lutz (2006) reviewed extant literature in this field and argued that macroenvironment factors, such as government exporting policies, should be treated as a separate category apart from industry and market characteristics. It was further suggested that macroenvironment barriers may reside with both the exporter country and the importer country. According to Tesfom and Lutz's (2006) revised model (see Figure 1), barriers to trade may result from one or more internal or external forces. This may be illustrated by the recent product quality concerns regarding China's export of toothpaste, automobile tires, and toys to the U.S., which may raise significant "Product Barriers" based on safety concerns of Chinese exports.

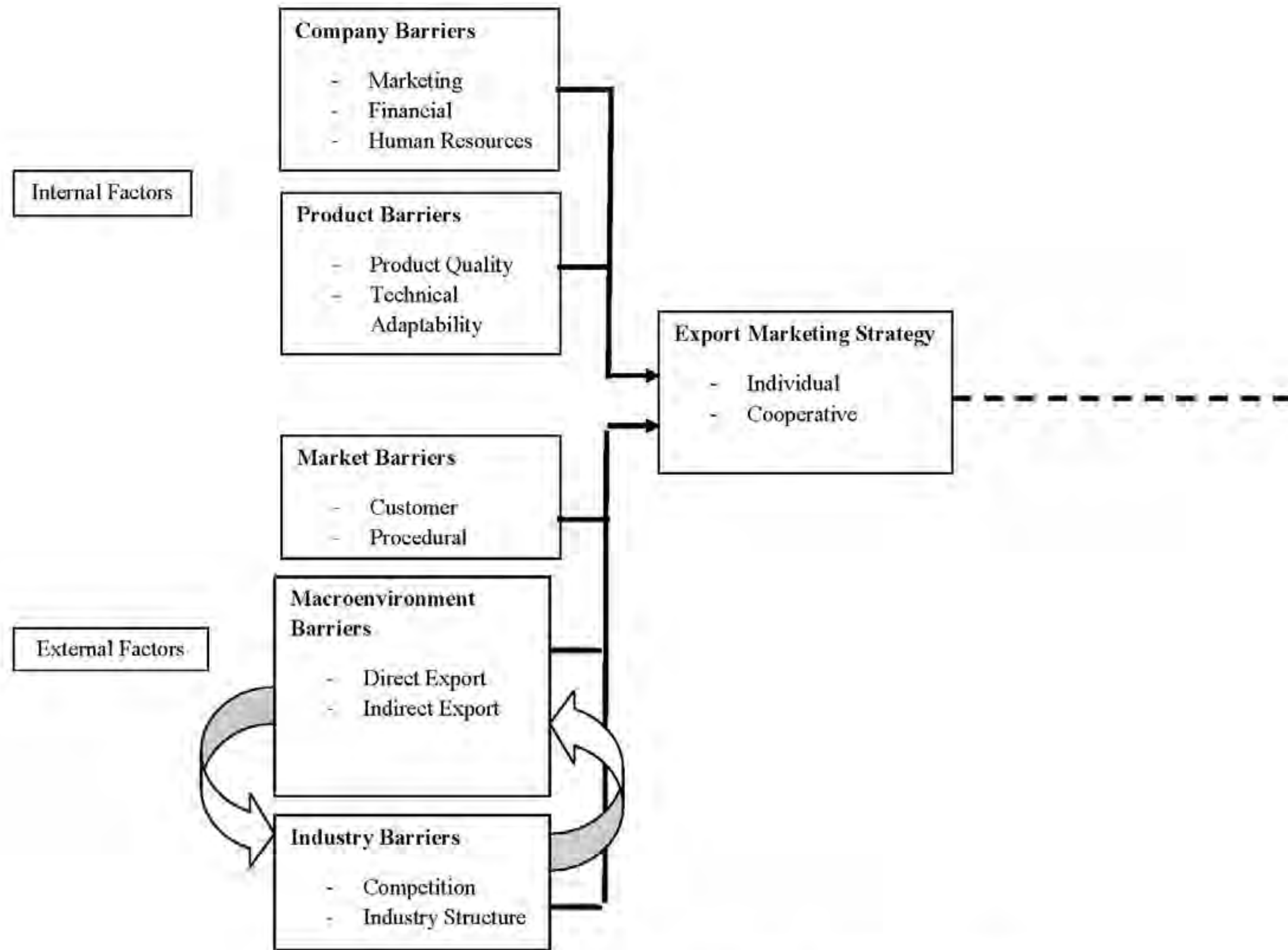
While this framework is very useful in organizing various exporting barriers identified in extant literature, a comprehensive portrayal of how these barriers may work together to shape export strategies has yet to be fully explored. Particularly, this framework fails to consider the dynamic interplay among these factors. Much of the cited research has focused on individual barriers and their impact on exporting strategies as if each barrier operates independently without crossing the road with other barriers. On the contrary, barriers from different categories likely interact with each other. For instance a macroenvironment factor such as government policies is likely to have an impact on industry competitiveness. As these factors interfere with trading, no longer are the mere individual export barriers the sole influences to exporting strategies and partner relationships. Another force, interaction, has been brought to play and must be considered.

The lack of consideration for the interdependence of various barriers seems to be problematic and certainly simplistic. The narrow focus on isolated export barriers likely results in research myopia, which poses a severe threat to the rigor of exporting research. Thus, it is our contention that this framework can be further enriched by addressing the dynamic interplay among these barrier factors. Specifically, this research will focus on the interactions between macroenvironment factors and industry competitive factors (see Figure 2). In addition, the current model only considers from the exporter country perspective, while competitors within the industry from the importer country play an important role and must be taken into account in this process.



Tesfom and Lutz (2006)

FIGURE 1



Model for Developing an Export Marketing Strategy
(Based on Tesfom and Lutz 2006)

FIGURE 2

China's membership in the WTO should have ushered in favorable trade conditions and resulted in an export marketing strategy that led to the establishment of stable trading relationships with U.S. textile importers. An increase in textile exports from China would have increased competition and driven down prices in the U.S. textile market. These changes normally would be considered beneficial to the consumers in the U.S. textile market. However, a period of instability for China's textile industry resulted when the U.S. textile industry pressed the U.S. government to negotiate a new agreement that reinstituted import quotas to ease fears of increased competition and a loss of market power thereby altering the structure of the U.S. textile industry. The instability in the U.S. textile market caused significant uncertainty in the export marketing strategies of the firms in China's textile industry with possibly negative repercussions to exporter performance.

Negotiations between the U.S. and Chinese governments mitigated the threats to the U.S. textile industry by reinstituting quotas through 2008. Figure 3 models a process to resolve trade conflicts. Embedding the process in the macroenvironment barriers section of the revised marketing export strategy model (Figure 2) highlights the need for exporters to consider the perspective of the industry in the importer country. Anticipating the response of the affected industry in the importer country could allow exporters fashion an export marketing strategy to prevent the formation of potential trade barriers. In the case of China's textile industry, the reinstatement of quotas allowed for the challenge to competition and the industry structure in the U.S. textile market to dissipate in the short-term and result in the development of export marketing strategies that led to stable trading relationships.

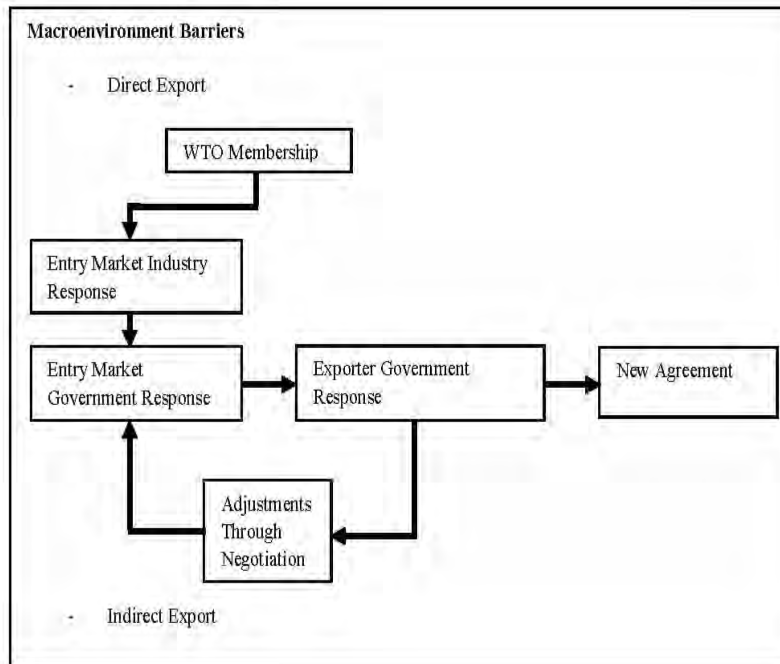
The agreement between China and the U.S. covering textile exports expired at the end of 2008. Therefore, another period of instability resulted in the U.S. textile market. The new model provides additional insight for exporters to consider when revising their export marketing strategies to develop stable trading relationships in the U.S.

TOWARD STABLE TRADING RELATIONSHIPS: THE CASE OF CHINA'S TEXTILE INDUSTRY

China's textile industry went through a tumultuous time in 2005. The uncertainty that surrounded the phase out of quotas made it difficult to develop an export marketing strategy that would yield stable trade partnerships. Most of China's textile industry faced three main challenges: (1) the instability of trading environment mainly caused by the changes of government policies and regulations; (2) the change in the currency exchange rate (Yuan vs. US Dollar); and (3) the increasing price of energy.

After going through all the changes in 2005, most textile companies in China believed the existence of a quota had a very little impact on China's textile production and exporting because they could always develop new marketing strategies to cope with this issue. They believed that the constantly changing environment is more difficult to manage even though the changes are sometimes helpful. Most companies wanted a more stable and predictable business environment to develop a consistent export marketing strategy.

Even though having a quota would not dramatically reduce China's textile exports, the presence of a quota had a psychological impact because uncertain and unpredictable changes make foreign buyers hesitate to place orders and make manufacturers hesitate to accept orders.



Conflict Resolution Process

FIGURE 3

Even though the negotiations between the US and China in 2005 brought instability and uncertainty to the China's textile production and exports, it forced China's textile firms to start adapting their marketing strategies to the realities of global trade (Hudson & Byron, 2005). China's textile industry viewed this as an opportunity. The trade restraints were mainly caused by the dramatic increase of exporting volume to the US. China's textile industry realized that continuing the volume war with the US won't bring long-term profitability and stable trading partnerships (Shu, 2005). Some companies faced a situation where "the more they exported, the more money they lost" (Feng and Zhang, 2005). Therefore, companies switched their focus from quantity to quality (Hudson and Byron, 2005). In order to increase the quality and margin of their products, the words, "made in China" needed to be replaced by "designed in China" (Yu and Xiao, 2005). At the same time, the industry is moving its production facilities to less-developed countries to use their quotas and cheaper labor (Fong, 2005; Lei and Wang, 2005).

DISCUSSION

China's membership in the WTO allowed its textile products to be exported around the world, especially to the EU and U.S. Rapidly increasing textile exports from China led to conflict with the textile industries in the EU and U.S. Tesfom and Lutz's (2006) model for developing an export marketing strategy was found to be limited in explaining China's difficultly in using its WTO membership to eliminate quotas in the U.S. and EU. The current research conceptually extends Tesfom and Lutz's (2006) model of exporting strategies to include the dynamic interplay between industry specific and macro-environment barriers that may work in concert to produce a positive effect on an export marketing strategy (expected that WTO membership would foster free trade between member nations). In the case of China's textile exports, the dynamic interplay led to a 'net' negative effect on China's textile firms' export marketing strategies (the perspective of the competitors in the importer country viewed the elimination of quotas as a threat to their market power). Revising Tesfom and Lutz's (2006) model to include the interdependence between external barriers and the view of the importer country, allows for the development of an export marketing strategy that results in a stable trading partnership.

Marketing barriers and industry and macroenvironment barriers are believed to have some degree of interdependence that may impact trade relationships and exporting strategy outcome. Future research should address interactions of these elements to future extend Tesfom and Lutz's (2006) model of exporting strategies. The case of China's textile industry illustrates that the time it takes before agreements between governments are completed causes great uncertainty in the export market strategy. Firms that develop contingency plans as they develop their export marketing strategy to build stable trading partnerships are better able to adapt to this uncertainty.

When competitors across markets feel threatened by fierce competition from overseas exporters, they may seek additional help in the macro-environment in the form of government regulatory restriction on imports. This interference of government, as a macro-environment element, may interrupt the facilitating function of WTO membership on free trade and even result in adverse impact on trading relationships. The experience of China's textile and clothing industry between 2001 and 2008 illustrates this case.

The macro-environment element of WTO membership is to lift roadblocks in international marketplace and encourage easy exports/imports, and facilitates free trade. A less restricted trading process should foster a stable relationship between trading partners. Competition barrier – exports own inability to meet foreign competitors' price is a barrier for exporters. On the other hand, competitors at the importing country may also find themselves incapable of competing with low prices and large production from an overseas exporter. In some cases, they are forced to improve or suffer vulnerable competition but in other cases importing country competitors may seek protection from the macro-environment to relieve the competitive pressure from overseas exporters.

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