



暨南大学传播与边疆治理研究院

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Hindering Trade, Increasing Costs and Disrupting the Industrial Chain: Impacts of U.S. Xinjiang-Related Sanctions on Global Cotton Industrial Chain

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Executive summary

On July 6, 2018, the Trump administration officially imposed a 25% tariff on some Chinese products worth about \$34 billion that were exported to the United States, with subsequent tariffs increasing on an ever-expanding scale and range. Against the backdrop of Sino-U.S. trade friction, Xinjiang's pillar industry, the cotton industry, was also subject to U.S. sanctions. In September 2020, the U.S. Customs and Border Protection (CBP) ordered a ban on imports of cotton, textiles, garments, and other products produced by specific producers from China's Xinjiang region because the production process involved "forced labor and human rights violations." In January 2021, the U.S. government began banning all cotton products originating from Xinjiang into the United States. At the same time, certain western think tanks have released several reports discrediting Xinjiang's cotton industry with accusations of "forced labor," which in turn were hyped and weaponized by the western media. As a result, western brands such as H&M, Adidas, Nike, and Gap were pressured to release statements declaring their boycotts of Xinjiang cotton.

With high-quality raw materials and comprehensive supply chain network, China's cotton industry has become the central link in global cotton industry. Therefore, the disruption of China's cotton industry is tantamount to disrupting the world's interconnected cotton industrial chain. This research investigates how the U.S. sanctions have affected the human rights situation of cotton growers in Xinjiang and the global cotton industrial chain. Starting from July 2021 in Xinjiang's Aksu region, Kashgar region, and Guangdong Province, this research lasts for more than three months, through an investigation conducted

following the links in the cotton industrial chain: raw material production → cotton yarn processing → weaving, dyeing and fabric production → garment production → terminal sales. A total of more than 70 people were interviewed, including cotton growers owning different sizes of cultivation areas and heads of cotton textile and garment companies, which vary in sizes (large, medium & small) and categories (private & state-owned enterprises, listed & unlisted companies). The interview transcripts totaled more than 40,000 words.

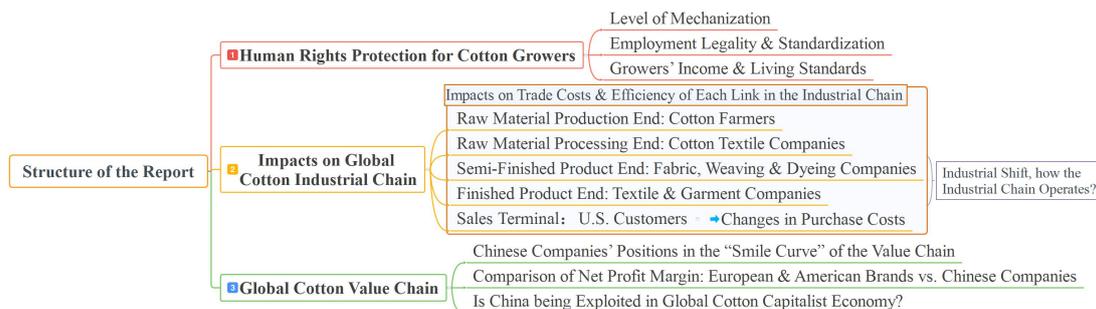


Figure 1. Structure of the Report

This research finds that:

1. Xinjiang's cotton production is heavily mechanized, employment of the cotton industry is standardized, there is no sign of the so-called "forced labor." From sowing, managing to harvest, Xinjiang's cotton production is

expected to be fully mechanized soon. Until now, cotton sowing has been almost 100% mechanized. All works of plant protection, including spraying fertilizers and pesticides, are done by drones, and the mechanized rate of cotton harvesting will exceed 85% in 2021. There is limited demand for manual labor in production links such as cotton-topping and weeding. Meanwhile, both the employment of Han and other ethnic minority workers are standardized, rights and responsibilities of both growers and workers are clearly defined in their employment contracts, dubious allegations of the co-called "forced labor" are simply groundless.

2. With support rendering from multiple parties (government-company-farming cooperative), cotton growers have not felt the impact of sanctions and hope to expand production. While some western brands boycotted Xinjiang cotton and its related products, farming cooperatives for cotton growers provide them with quality production materials, agricultural insurance services, technical production supports, helping them connect with other links in the industry. As a result, Xinjiang witnessed an increase in production capacity in many companies and a boom in the cotton industry. Cotton and textile companies are successively established in Xinjiang. With support rendering from multiple parties, cotton growers' welfare is rarely affected, and instead of worrying about the U.S. sanctions, they hope to expand their production.

3. Xinjiang-related sanctions imposed by the U.S. do not significantly impact the domestic cotton and textile processing link. Overall, cotton raw materials' supplies are protected due to relevant policies, the futures market's trading mechanism, and resilience and risk resistance. Therefore, the sanctions

rarely affect the link between cotton and textile processing.

4. The U.S. Xinjiang–related sanctions compelled some foreign brands to relocate to Southeast Asia. Hence evolutionary upgrade of the cotton industry chain was severely disrupted. Several U.S. brands are forced to cut ties with China, leaving no room for developing healthy ecological competition and spurring evolution with their Chinese counterparts. This is undoubtedly corrosive to the global cotton chain, as it may hinder further upgrades of the global cotton industrial chain.

5. By seizing goods and imposing tariffs, the U.S. sanctions have increased trade costs in each link of the cotton chain, while the U.S. importers end up being the primary bill payers of these additional costs. A study by Harvard University and the University of Chicago found that a 20 percent tariff, for example, would be associated with a 1.5 percent decline in the ex-tariff price and an 18.5 percent increase in the total price paid by the U.S. importer. Simple comparisons of export price indices of affected and unaffected products, however, suggest that affected exporters have dropped their (pre-tariff) prices by about 7 percent in response to retaliatory tariffs that average about 15 percent. The heads of companies we interviewed pointed out that as exporters also seek for profits, those increased costs will be transferred, ending up being paid almost solely by American importers and its people. Rick Helfenbein, chairman of the American Apparel & Footwear Association (AAFA), revealed the essence of the additional tariffs: this new round of U.S. tariff to China will cover all clothing, shoes and home textiles, which is actually an additional tax imposed on American consumers. The U.S. importers and the American people eventually pay the economic costs for the political actions of the U.S. government.

The U.S. government felt so self-congratulatory, enriching itself from the tariffs so readily, robbing the importers of their profits and increasing people's purchasing costs, only leaving the American people in the lurch.

6. Exploitation! Chinese companies are the actual "forced labor" under the Western capitalist globalization. Cotton, which has become a global commodity, can be regarded as a medium through which a global network connecting growers, manufacturers, and consumers has been established. After three centuries of capitalism, the cotton economy has been transformed into a thoroughly capitalist one. Countries such as China and some Southeast Asia countries are the central nodes at the production end. At the same time, Europe and the United States are the central nodes for brand marketing and technology development. The former is ruthlessly exploited by the latter with the insidious tactics of capital operation. European and American brands currently dominate the global value chain. Cotton textile companies in Third World countries such as China are always located at the bottom of the value chain, earning hard-won OEM fees and extremely meager margins from labor-intensive industries. European and American brands, by contrast, are standing at the top of the value chain, its net profit margins could be twice or even N times higher than those made by Chinese OEMs. In the capitalist exploitation system led by the United States, Chinese companies, the ones being exploited, are the actual "forced labor" under the Western capitalist globalization.

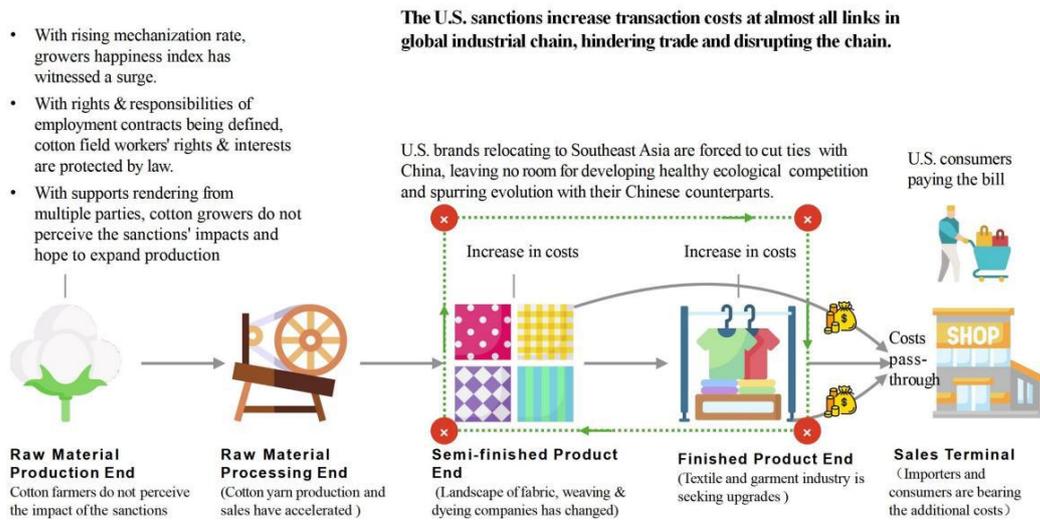


Figure 2. The U.S. sanctions disrupt the world's cotton industrial chain.

Industry and commercial civilizations highly rely on trans-regional resource scheduling. In the era of globalization, it is a world where industrial chains have embraced the pattern of "each having something of the other." Through partnership and collaboration with each other, we can develop business and improve the well-being of people around the world. Yet, through research, we found that the U.S. sanctions have brought more trade costs and burdens to almost all links of the cotton industrial chain, running counter to commerce laws. Meanwhile, the layout of the industrial chain could have been optimized through the market. Still, the U.S. government, an "unruly hawk" that blocks trade, has imposed obstructions to this process and disrupted the logic inherent in the cotton industrial chain.

I . Introduction

1. Research Background

On July 6, 2018, the Trump administration officially imposed a 25% tariff on some Chinese products worth about \$34 billion that were exported to the United States. In the context of the Sino-U.S. trade friction, subsequent tariff increases on an ever-expanding scale and range. Xinjiang cotton and its related textile products are foregrounded among the sanctioned goods. In September 2020, the U.S. Customs and Border Protection (CBP) ordered a ban on imports of cotton and its related products such as textiles, garments, etc. produced by specific producers from China's Xinjiang region because the production process over the allegation of "forced labor and human rights violations." In January 2021, the U.S. government began banning all cotton products originating from Xinjiang into the United States³.

These sanctions are closely related to some baseless reports from Western think tanks and Western media hype. As early as July 2019, "Four Corners" on ABC (Australian Broadcasting Corporation) claimed that Uyghur Muslims in Xinjiang were being rounded up as part of a detention program and forced to work in textile factories in Xinjiang⁴. On March 1, 2020, the Australian Strategic Policy Institute issued a report alleging that suppliers of about 82 well-known consumer brands, including Apple, Nike, and Adidas, were related to the forced labor of Uyghurs and other ethnic minorities in China⁵. Five days later, this issue

³ <https://www.cbp.gov/newsroom/national-media-release/cbp-issues-region-wide-withhold-release-order-products-made-slave>

⁴ <https://www.sbs.com.au/chinese/mandarin/zh-hans/say-no-to-xinjiang-cotton-originated-in-australia-but-why-is-h-m-boycotted>

⁵ <https://www.aspi.org.au/report/uyghurs-sale>

was blown up by ABC⁶. Then, in December 2020, Adrian Zenz, a researcher at an American think tank named Newlines Institute, released a report claiming that labor transfer in Xinjiang "involve coercive mobilization through local work teams, transfers of pickers in tightly supervised groups"⁷. "Several fabricated reports on the alleging forced labor of ethnic minorities, including the one above, have been hyped by western media.

A global non-profit organization named Better Cotton Initiative (BCI) issued a statement saying that it had suspended licensing Xinjiang cotton production because there were increasing reports about and allegations of forced labor in Xinjiang. The organization has offices and staff but has never reported a single forced labor or labor malpractice incident in the past eight years. They no longer operate inside Xinjiang because the Chair of their organization, Marc Lewkowitz, also happens to be the CEO of a massive U.S. cotton brand called Supima. Supima is the marketing organization of a brand of American cotton called Pima, a direct competitor to the type of cotton grown in Xinjiang. So, it can't be seen as a coincidence that the sales of Pima cotton, which were declining, have now rebounded. Meanwhile, another organization looking into cotton production in Xinjiang, the Sustainable Trade Initiative, has never found any violation or evidence of labor abuses.⁸

Why does the United States target Xinjiang cotton?

China is the world's largest consumer and major producer of cotton, with its cotton textile industry occupying a dominant position globally. In 2020, cotton production in Xinjiang accounted for 87.3% of China's total production.

⁶ <https://www.abc.net.au/chinese/2020-03-06/aspi-uyghur-china-forced-labour-report/12023986>

⁷ <https://newlinesinstitute.org/china/coercive-labor-in-xinjiang-labor-transfer-and-the-mobilization-of-ethnic-minorities-to-pick-cotton>

⁸ <https://jerry-grey2002.medium.com/selective-sanctions-help-us-agricultural-inefficiencies-ac9bf7d4f2a8>

Xinjiang's cotton industry dynamics affect the global cotton supply chain, value chain, and industrial chain. In an attempt to squeeze Xinjiang cotton out of the global textile supply chain, Europe and the U.S. suppressed China's cotton textile industry at the raw materials end, which is the foundation and advantages of the industry.

The cotton industry has had a significant positive effect on poverty alleviation and employment creation in Xinjiang in recent years. Xinjiang's cotton industry yields a profit of 70 billion yuan and can provide 1 million jobs. Statistics show that over 65% of cotton farmers' household income is derived from cotton in the significant cotton-producing areas, and the cotton industry has become a pillar industry in Xinjiang⁹. Can sanctions on Xinjiang cotton industry hurt the region's economic development?

2. Research Questions

In the era of globalization, industrial and commercial civilization highly depends on cross-regional resource allocation. Nowadays, the global industrial chain has tightly connected the markets of all countries globally, and the participating countries along the chain have welcomed the pattern of "each having something of the other." what's more, trade in intermediate goods accounts for 70% of total global trade, with the remaining 30% trading in finished goods. With the increasing interdependence of the participators in the industrial chain, once a link or a country is hit by the trade frictions, the others are bound to bear losses. For example, the cotton textile industry has formed a global value chain, and the U.S. sanctions will also damage the well-being of

⁹ <https://baijiahao.baidu.com/s?id=1695278266892970256&wfr=spider&for=pc>

people, especially consumers' interests in various countries in the value chain.

China's cotton industry has become the irreplaceable industrial link in global cotton textile industry by virtue of its quality raw materials, comprehensive supply chain, and established industrial chain. Therefore, the disruption of China's cotton industry is tantamount to disrupting global cotton industry chain. Facing containment and pressure Xinjiang-related sanctions implemented by the United States on the grounds of so-called "forced labor" and "violation of human rights," it is indeed necessary to clarify the situation and to examine the impacts of the U.S. sanctions, which have infringed a wide range of subjects in the industrial chain. Considering the above, our research questions are:

① Does forced labor exist in Xinjiang cotton production process? What are the impacts of the U.S. sanctions on Xinjiang cotton growers in terms of human rights protection?

② What are the impacts of the U.S. sanctions on the global cotton supply chain, industrial chain, and value chain?

③ Who exactly stands to benefit from the U.S. sanctions? Who bears the costs ultimately?

3. Research Objects & Methods

This research is conducted in the light of the cotton industrial chain (raw material production → cotton yarn processing → weaving, dyeing & fabric production → garment production → terminal sales). Since July 2021, field

research has been conducted in Xinjiang's Aksu Prefecture, Kashgar Prefecture, and Guangdong Province for more than three months. The authors visited dozens of cotton growers' households, scores of cotton textile companies, and garment companies.

This research uses in-depth interviews, focus group interviews, and participatory observation. A total of more than 70 people were interviewed, including cotton growers from different regions who own different sizes/types of cultivation area, heads and executives of cotton textile and garment companies, which vary in sizes (large, medium & small) and categories (private & state-owned enterprises, listed & unlisted companies).

In terms of selecting research objects, to ensure the typicality of the research samples, the authors take the annual yield and planting areas in different regions into careful consideration and then select cotton growers from regions of Xinjiang in equal proportion. Similarly, Xinjiang cotton textile and garment companies are chosen as research objects in similar proportion according to published industrial and commercial information.

The research team consists of three members. To ensure the reliability of the research results, all three members cross-check information from different sources and consult a quantity of literature, especially the official data and industry statistics published at home and abroad, to ensure a scientific research result.

II. Findings

1. Raw material production end of the industry chain: cotton farmers do not perceive the sanctions' impacts

a. The mechanization rate rises, so goes the growers' contentment for their lives

From cotton farming, which includes sowing and managing, to cotton picking, Xinjiang's overall raw material production process has gradually been mechanized.

Interviewee 27 (researcher in charge of sower development): "Today, sowers can complete seven tasks in one single operation, including plowing and leveling, laying down drip irrigation pipes, laying down the film, trenching and pressing the film, seeding on the film, covering the film edge with soil, and finally compacting the soil on the film. I can tell that the popularity of sowing machines in Xinjiang has reached 100%."

In 2020, 95% of cotton-picking in northern Xinjiang used machines, and the machine-picking rate in Xinjiang has reached 75%¹⁰. In 2021, the machine-picking rate in Xinjiang will exceed 85%¹¹. Before, the machine-picking rate was relatively low in southern Xinjiang because the cotton planting fields were too fragmented for machine-harvesting. However, the government has made great efforts to integrate cotton fields. At the same time, farming cooperatives have been established throughout Xinjiang to facilitate the land transfer, contributing to the further mechanization of cotton planting.

¹⁰ <https://news.cctv.com/2021/03/26/ARTINU0ejOhPOC6VtWhvrYNQ210326.shtml>

¹¹ https://m.china.com.cn/wm/doc_1_34_2073837.html

A cotton picker can harvest an average of more than 400 mu (1 mu equals 0.067 hectares) of cotton per day, which is equivalent to the sum of the labor of 1,000 cotton pickers. Management links between sowing and harvesting, such as applying pesticides and fertilizers, have been done by drones. Xinjiang's plant protection areas operated by crewless aircraft are more than 20 million mu¹². The previous model of "face to the earth, back to the sky" cotton production using manual labor is gone.

Interviewee 10 (large cotton-growing household, Uyghur): "It's convenient now. Drones do the applying of fertilizers and pesticides. You just make a phone call. Mechanized service will come immediately. It's so convenient. I am 51 years old, I planted cotton for 260 mu, and I don't think it is laborious work."

Mechanized operations improve working efficiency and quality, saving money and manual labor.

Interviewee 24 (executive of a machinery & equipment company): "Just one simple example, previously, cotton-picking using manual labor harvests an average of 0.3 mu per day, while three cotton pickers of my company harvest about 200 mu per day, the efficiency of which is equivalent to over 600 times that of manual labor. Previously, the cost of manual cotton picking was two yuan per kilogram. If one mu yields 400-kilogram cotton, one mu costs about 800 yuan. Now using machine-picking, one mu only costs 180 yuan, which is 620 yuan lesser than using manual labor."

Professional farmer cooperatives are becoming an essential intermediary

¹² <https://news.cctv.com/2021/03/26/ARTIvfiv10ZJQyE83FX1TTeD210326.shtml>

connecting cotton farmers and advanced technology, providing cotton farmers with services such as agricultural machinery leasing and training, plant protection, and technical production support. Many of the cooperative's directors are large cotton-growing households who share the same demands for these services. The strength of non-governmental cotton farmers' cooperative organizations continues to grow. As of the end of 2019, Xinjiang has 26,424 professional farmer cooperatives, constituting an average annual increase of over 2,000 from 2010 to 2019¹³. The professional farmer cooperatives have become a "new engine" for increasing farmers' income and wealth.

Interviewee 1 (director of farmer planting cooperative): "Our cooperative was established in April last year. We try our best to provide cotton farmers with quality production materials and good farming techniques to get rich. Our cooperative has two cotton-picking machines. When the cooperative's members finished their cotton-picking, we lent it to others. We also provide our members with services such as mechanical seeding, machine-picking, and drones to apply pesticides."

Interviewee 3 (large cotton-growing household): "Cotton planting used to be hard work. I go to the field early in the morning, go back home to eat at noon, and come back late at night. It's tough work! Now that farming is mechanized, it has greatly reduced labor intensity and costs, and our income also becomes stable."

b. With rights and responsibilities of employment contracts being defined, cotton field workers' rights & interests are protected by law

¹³ http://www.xinhuanet.com/local/2020-07/10/c_1126220405.htm

In 2020 and 2021, China's cotton production and consumption rank first in the world. In 2020, cotton production in Xinjiang reached 5.161 million tons, accounting for 87.3% of China's total production, forming a cotton industrial landscape of "world's cotton depends on China, China's cotton depends on Xinjiang." Xinjiang's cotton production in 2021 is expected to reach around 5.2 million tons¹⁴.

The cotton industry has become a pillar industry in Xinjiang, which has a significant influence on the local economy, its people's livelihood, and the well-being of the cotton growers. Through investigation, this research finds that Xinjiang's cotton production has not been affected by the U.S. sanctions. On the contrary, cotton production in 2021 has risen compared with that of 2020, and cotton growers' income has increased steadily.

¹⁴ <http://www.chinanews.com/cj/2021/10-14/9586404.shtml>

Cotton Planting Cost and Income Valuation Sheet ¹⁵			
Items of Expenditure	costs (yuan/mu)	Items of Expenditure	costs (yuan/mu)
Land Contracting	150	Unmanned Aerial Systems of Pesticide	36
Land Rights Transfer	650	Pesticide	120
Land Leveling	500	Diesel	60
Water & Electricity	190	Mulch Film	60
Seed	50	Mechanized Farming (Ploughing, Weeding & Sowing)	110
Fertilizer	250	Cotton-Picking	160
Profit (yield per mu*selling price)-Cost= Net Profit (800-1200 yuan/mu)			

Table 1. Cotton Planting Cost and Income Valuation Sheet

In 2016, Kuzeti (pseudonym) quit his job as administrative staff of fire prevention and control in a cotton and hemp company, then went home to grow his cotton. He opened up 800 acres of wasteland, following mechanized cotton farming. He uses a machine to do all the work except cotton topping and weeding.

Interviewee 16 (large cotton-growing household, Uyghur): "It's busy in the farming season, but in the slack time, we work at a relaxed pace. I hire handypersons and sign contracts by the labor law. They are fellow villagers in my village. They take the initiative to come to me, asking for a

¹⁵ Data concerning costs and income is provided by cotton growers being interviewed.

job here. We agree that the payment will be 160 yuan/mu. If a person manages 130 mu of land, it would be about 20,000 yuan per quarter, and the working time is from April to September. In their spare time, they also work on their land. Working as a handyman, their lives have improved, and now they all have bought cars."

We learned that handypersons and cotton growers are generally from the same village or town. Commonly, handypersons take the initiative to seek help from the village committee and the local government, making requests for a job. With the government's organization, large cotton-growing households find the labor they need, and handypersons who undertake fewer farm works than others are offered opportunities to make more money.

Interviewee 13 (large cotton-growing household, Han): "Me and people working here get along well with each other. We are like brothers and sisters. One of them is Uyghur. I treat him as my brother and give him a 3,000-4,000-yuan bonus after farming works are done. Sometimes I accompany him to gatherings with classmates and fellow villagers."

Through working for a large cotton-growing household, the livelihood of Kuzeti's household (Pseudonym) has been dramatically improved. He told us that he earned an average net income of 800-1000 yuan per mu in the last two years. In addition, he raises a child who is now a university student in Urumqi. His two other sons are currently attending school, too.

Interviewee 16 (large cotton-growing household, Uyghur): "We have quality cotton in Xinjiang, Yaxshi(Uyghur, meaning "really good")! We are not worrying about selling. Cotton is platinum for farmers. Besides cotton, I would also like to plant fruit trees."

Adili (pseudonym) also lives a better life by planting cotton. In 2013, he had only 50 mu of cotton fields, and now he has about 6,000 mu. Simply by using a machine harvester, the cost was cut by 400,000 yuan. Last year, his income exceeded 3,000,000 yuan. More than 300 large cotton fields in his county are like his.

Interviewee 20 (large cotton-growing household, Uyghur): "We will continue to expand the planting areas of the cotton fields and continue to plant cotton. Now we have tractors, cotton pickers, sowers, and applicators. We have bought all the equipment for cotton-planting. I can also lend my machine to earn money in the future."

Dozens of cotton growers of different ethnic groups we interviewed in Xinjiang told us that they rarely perceive the impacts of the U.S. sanctions. Instead, all they care about is managing their fields and creating a better life with their own hands.

Wang Jiang (pseudonym) is a pioneer who dares to try new things. He is the person in charge of the farming cooperative. In 2017, the cooperative transferred more than 4,000 mu of land. He took the lead in actively implementing machines in all links of cotton planting, from seed selection, sowing to using drones to apply pesticides, which yielded remarkable results. He leads a team of more than 80 cooperative members to manage 3,5000 mu of land and guide them towards shared prosperity.

Interviewee 9 (legal person of farmers' cooperative): "Now I am in charge of a cotton-farming cooperative, though I get tanned and the sun ages my skin, I'm healthier and in good mental state. I enjoy what I'm doing, and I have a sense of achievement to bring people together, having

them listen to what I say. People have different sources of happiness. For us, I think what we are doing is meaningful and would be remembered."

c. With support rendering from multiple parties, cotton growers do not perceive the sanctions' impacts and hope to expand production

Cotton growers can pursue and enjoy a happy life and are hardworking because there is a safety net woven by the government, textile & garment companies, and farmers' cooperatives.

Firstly, the government promotes quality crops by implementing "one leading variety plus a supplementary," which lays a congenital foundation for high cotton yields. Furthermore, the government provides technical support for cotton growers in the cotton-planting link.

Secondly, Chinese companies have demonstrated their sense of social conscience and responsibility. While western brands boycott Xinjiang cotton and its related products, their Chinese counterparts stood firmly on the same side as the people of Xinjiang. Their production capacity has not decreased but increased. There is a boom in the cotton industry, where companies are successively established to undertake cotton raw materials produced by growers in Xinjiang and help them create a better life.

According to the database query platform "Tianyancha", there are currently 26,885 cotton-related companies in Xinjiang. With 4,191 newly established companies in 2020, Xinjiang witnessed a year-on-year increase of 115% in cotton-related companies. In 2021, this trend continues with 4,645 newly established companies (up to October). This demonstrates that the cotton industry in Xinjiang is full of vitality, and the U.S. sanctions have failed to hinder

the internal logic of the market-the development of the industry cannot be restrained by man.

Increase of Cotton-Related Companies in Xinjiang from 2012 to October, 2021

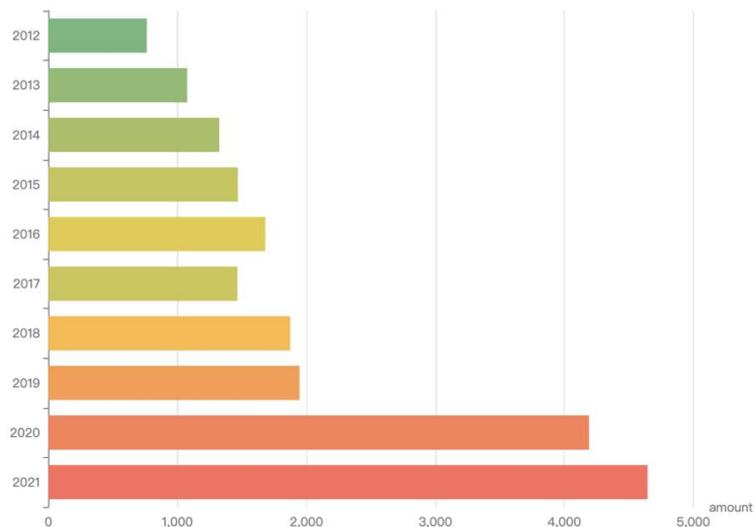


Figure 3. Increase of Cotton-Related Companies in Xinjiang from 2012 to October 2021

Source: Tianyancha

Interviewee 34 (person in charge of the company): "If there were no companies to invest in here, the people of Xinjiang would have no jobs to earn income, and their standards of living would decline. Western countries are unwilling to see that Xinjiang is prosperous and developed, but our government would not leave Xinjiang behind. The government and companies like us that are willing to shoulder social responsibilities hope that residents in Xinjiang can live a comfortable life. We believe that

everyone has the right to pursue happiness and a better life. The businesses we are doing contribute to protecting the human rights of the local people. We can provide them with favorable conditions to create a better life."

Farming cooperatives provide cotton growers with quality production materials, agricultural insurance services, and technical production supports, helping them connect with other links in the industry.

Cotton growers' welfare is rarely affected. Their human rights, such as property rights, dignity, etc., are fully protected. Instead of worrying about the U.S. sanctions, they hope to expand their production.



Figure 4. Interactive Relationship between Government-companies-farming Cooperative & Cotton Growers

Interviewee 15 (large cotton-growing household): "I began to sign the land contract to grow cotton in 2019. In the past two years, I have gradually expanded the planting area. Now I own more than 2,000 mu of cotton fields. In the beginning, I did have considered the risks. What if the

cotton can't be sold out? Fortunately, I have bought insurance. If anything goes wrong, I can get compensation.

Moreover, I can get loans from institutions designated by the government to buy seeds, agricultural materials, and machines, and the interests are not high. In this respect, I don't seem to have any risk. And in recent years, there is nothing to worry about at all in terms of selling. When the cotton is ripe in September, the cotton ginning factory will come straight to the field to buy the produce. I sell cotton to whoever offers the highest price. They will leave me money and bring the cotton back. I don't have to worry about anything else."

Interviewee 4 (large cotton-growing households): "I planted upland cotton this year. We will see how the annual yield and cotton quality are in the harvest season. Farmers here all know that the United States has sanctioned Xinjiang cotton. They were a little worried initially, but they felt relieved later since the cotton sells well and their production has remained unaffected in the past two years. Last year, I expanded the cotton production scale through the land right transfer of several hundreds of mu of land."

2. Raw material processing end of the industry chain: acceleration of cotton yarn production and marketing

As the global value chain feels the full impact of COVID-19, the United States adopted a bilateral decoupling strategy and a regional dismantling strategy to

reconstruct the global value chain to maintain its global hegemony¹⁶. By sanctioning Xinjiang cotton to crackdown on China's cotton textile industry chain, the United States aims to realize its "decoupling" strategy and regain control of the global value chain.

However, this research found that although the Xinjiang-related sanctions imposed by the United States had affected the cotton textile link, its impact is negligible. Overall, owing to relevant policies and the futures trading system as well as solid resilience and risk resistance of the domestic market, supplies of cotton raw materials are protected, the link of cotton textile is rarely affected by the sanctions, indicating that the ulterior motives of the United States had failed.

a. With "double insurance" of relevant policies & futures trading system, cotton raw materials are of full supply

October is the cotton harvest season in Xinjiang. According to the Information Office of the People's Government of Xinjiang Uyghur Autonomous Region, the cotton planting area in Xinjiang will be 37.18 million mu in 2021, and the yield will reach 5.2006 million tons¹⁷. Compared with 2020, the cotton planting area and cotton yield in Xinjiang remains relatively stable. The proportion of Xinjiang's cotton yield in the national yield increases year by year (see Figure 5), demonstrating that cotton growers are not affected by the U.S. cotton sanctions and have confidence in the downstream market. This research found that such confidence is the result of China's cotton planting policies and the trading mechanism of the futures market.

¹⁶ 李括.新冠疫情下美国霸权护持与全球价值链重构——基于权力与相互依赖视角的分析[J].国际关系研究,2021(01):22-39.

¹⁷ <https://www.xinjiang.gov.cn/xinjiang/tjgb/202110/c7cf2a81f04940a0966638b8ad2e4501.shtml>

Cotton Yield in Xinjiang and its Proportion in the National Yield, 2014 – 2020

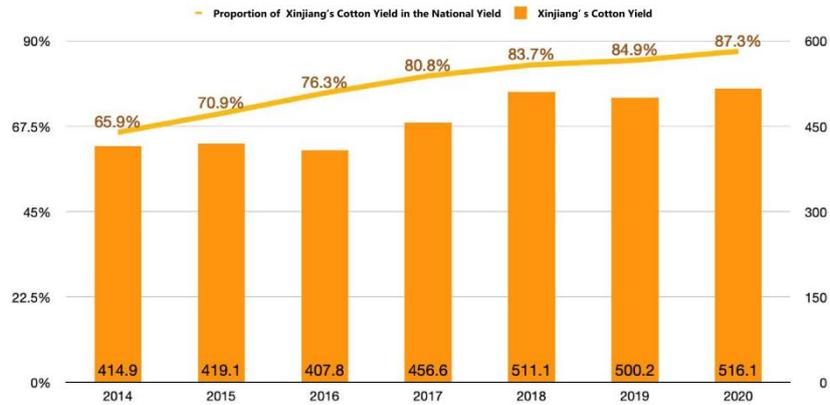


Figure 5. Cotton Yield in Xinjiang and its Proportion in the National Yield, 2014 - 2020

Source: The National Bureau of Statistics

Most of the cotton farmers we interviewed said they were worried about the U.S. Xinjiang-related cotton sanctions in the early stage. Still, the relative stability of the market dispelled their concerns. In addition, many cotton farmers said they are willing to continue expanding the cotton-growing scale through land rights transfer.

The farming cooperatives in Xinjiang's cotton-producing areas provide cotton farmers with farming training and machinery leasing, which helps to improve the quality of the cotton. The "double improvement" of yield and quality also influences the downstream of the cotton textile industry chain, attracting more mainland cotton textile companies to build factories in Xinjiang. Today, Xinjiang is a thriving land for the cotton textile industry. As a result, the number of new companies in Xinjiang has increased significantly.

Interviewee 37 (person in charge of the company): "The current

production capacity of our factory is 60,000-70,000 ingots, and 150 tons of cotton thread products per month, which constitutes a medium-size production capacity among companies in Xinjiang. Because of Xinjiang cotton's high quality, we can produce medium and high-end products. Southeast Asia and India also attempt to develop their cotton textile industry, but their products are not of good quality. So, we have definite advantages."

Interviewee 43 (person in charge of the company): "The cotton fields in Xinjiang are so large that it is convenient for unified management, from selecting cotton seeds, farming, fertilization, cotton-picking to processing. Moreover, farming cooperatives or related institutes which provide farmers with large equipment also offer them training programs from time to time. Therefore, Xinjiang's cotton growers produce quality cotton, which we are delighted to see. Take our company as an example, the raw material we purchase now is cotton picked by large machines, which is purer and contains fewer fibers such as hair and rags. Therefore, the quality of the cotton thread and yarn we produce naturally goes up."

Since the United States sanctioned Xinjiang cotton, cotton farmers gained confidence based on their observation and empirical judgment of the cotton market. In contrast, cotton textile companies gain confidence from the trading mechanism of the futures market. Although experienced practitioners in the cotton industry show a deep understanding of the cotton market, they know that market fluctuations are the normality.

Interviewee 43 (person in charge of a company): "As a result of the Sino-US trade friction, we cotton thread and yarn companies are more

worried about the supply of raw materials and the relationship of supply and demand. However, now that cotton purchase is market-oriented, it is subject to two factors, namely commodity spot price and futures price. Still, the prices of cotton are ultimately affected by supply and demand. Nowadays, the global industrial chain is interconnected. For example, we use Xinjiang cotton and imported cotton from the United States, Australia, and India. If the purchase price of American cotton were affected by the weather, cotton price in the Chinese market would be affected too. Therefore, fluctuating prices in the cotton market are to be expected. Everyone (people in the industry) knows that this is the norm. Sino-US trade friction is only one of the influencing factors."

Interviewee 43 (person in charge of a company): "In fact, even without the U.S. cotton ban, the cotton market is fluctuating, and there are various risks. The U.S. sanctions have certainly caused fluctuation, but the impact is little. The reason is that when companies trade cotton, they usually trade in the futures market, and the prices are fixed in advance, so as my profit margins. This helps to control uncertainties and risks to a great extent. Another approach that most companies adopt is to purchase until they need it. So just two months after the U.S. ban was issued, it did impact the market to some degree, but then there seems to be no difference later. Our production and our businesses have been stable."

Through interviews, this research found that most people working in the industry had a deep understanding of policies relevant to the agricultural and cotton textile industry, and they naturally associate their production and management with the policies and analyze them in detail. A person in charge told

us that, in fact, potential market fluctuations and risks always exist. However, as long as the policies are stable, there is nothing to worry about.

b. Cotton yarn market demand is strong. The impacts of the U.S. sanctions are limited

Against the backdrop of the grim global economy, a meeting held by the CPC Politburo in July 2020 pointed out that it is necessary to accelerate the paradigm shift towards a new development with the domestic circulation as the main body, while the domestic and international dual circulations are promoting each other. This national economic strategy emphasizes that companies should actively tap the strong potential of the domestic market. In terms of the cotton trade, China is the world's largest importer of cotton and the largest exporter of textile garments. Therefore, it can be said that both the domestic and global market has a strong demand for cotton textile products produced and processed in China.

The U.S. sanctions have limited impacts on China's cotton and textile industry. A person in charge of a cotton textile and yarn company puts it bluntly, "Our production is in full swing. Not a single order is lost."

We found that the most influential factor on cotton textile companies last year was the COVID-19 pandemic. Since its outbreak in 2019, global trade in all sectors and industries has been ravaged.

Interviewee 50 (person in charge of a company): "Now, since the central government proposes that domestic demand be expanded, domestic sales have hardly been affected. When the West imposed sanctions, our businesses were in full swing. To be honest, the U.S. sanctions do not affect me. Because what we have received are long-term

orders which last for several months. Since the sanctions were imposed in March and April last year, we have been producing, and we haven't lost a single order."

Interviewee 38 (company executive): "In fact, for companies in the material processing end like us, Sino-US friction has little impact. For example, at the beginning of 2020, my factory was closed for a while, but it was mainly because of the pandemic. We suspended our operation, adopting epidemic prevention measures at the government's request, but there was not a single order being canceled. Moreover, after the resumption of work and production, confidence was quickly restored, the market began to prosper again. I remember that during the Spring Festival in 2021, an influx of orders exceeded our production capacity limit, and the market was so hot."

As the country engaged in the battle against the pandemic in 2020, most companies in various industries were shut down. Thus, their operation and production hit a bottleneck, the influence of which was quantified. In turn, this constitutes a "significant decline" presented in the form of statistics from various sources, followed by speculations and doubts, such as the argument that "China's cotton industry was seriously affected by the U.S. sanctions." However, as the epidemic was curbed in China, the market recovered rapidly, the cotton textile companies we interviewed received a surge of orders. The advantages of the domestic market are gradually revealed compared with industries in other countries that were greatly affected by the pandemic.

Broken Line Chart of Year-on-year Changes in China's Cotton Yarn Production and Sales from November, 2019 to September, 2021

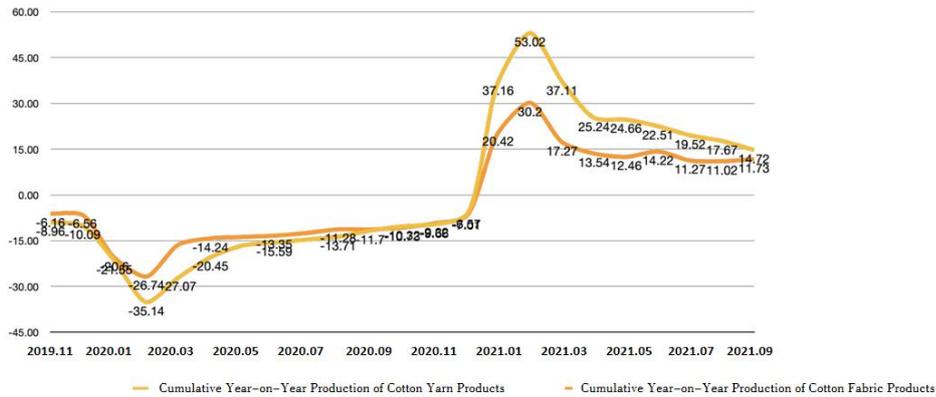


Figure 6: Broken Line Chart of Year-on-year Changes in China's Cotton Yarn Production and Sales from November 2019 to September 2021

Source: China Cotton Textile Industry Association

As can be seen from the year-on-year changes of China's cotton yarn production and sales (see Figure 6), under the influence of the COVID-19 pandemic, cotton textile industry production in 2020 follows a V-shaped curve recovery. Although the annual cotton yarn production and sales declined in 2020, on a micro basis, the downward trend narrowed month by month, showing a prominent outlook for recovery. The domestic market's resilience and potential have also been demonstrated. Most importantly, it convincingly demonstrates that "the U.S. sanction is a heavy blow to Xinjiang cotton" is self-defeating.

3. Semi-finished product end of the industry chain: fabric, weaving & dyeing companies

Weaving, dyeing, and fabric accessories seem to be three segments, but they can all be done by one company in general. Its primary business process is cotton purchasing → , weaving → , dyeing → cloth making. In terms of its business form

in the entire cotton textile industry chain, the output of such companies is still semi-finished products, and their downstream companies are ready-made garment factories.

In terms of the cotton industrial chain, mainland China has formed its mature industrial clusters of weaving, dyeing, and fabrics, an advantage over other countries, including Southeast Asia. However, under the U.S. sanctions, some companies are forced to transfer their product segments, which is disruptive to the global industrial chain. Therefore, sanctions that have been imposed hinders the running and development of the global industrial chain.

a. American brands are forced to relocate, and the global industry chain is damaged

Some European and American brands relocated to Southeast Asia after the U.S. imposed the relevant sanctions. However, in the view of industry insiders, this is only the transfer of low-end processing links. At the same time, the central position of the supply chain, network construction, and consumer market of European and American brands remain in China. However, the transfer does not look suitable for European and American brands.

Interviewee 57: "After the sanctions, some textile orders were transferred to Vietnam, a country with a relatively large population and quite several companies. They ran it for a month only to find that it didn't work. They can produce fabrics, can make garments, but their inventories of buttons, zippers, and threads highly rely on imports, either from China or from somewhere else, hence a good chain of supporting industries is in

absence there, and those companies can't finish a final product on their own."

Interviewee 58: "We Chinese people are so hardworking that it may take us two days to do 500 pieces while it may take foreigners two months. With nothing to sell, U.S. store owners cannot make money; with not enough products to sell, the owners will increase the prices to keep the store in business, and the people must pay more money. This is the chain reaction."

For companies transferring their production capacity, the relocation of low-end production has narrowed their development path. In contrast, the inherent incentive to upgrade and evolve for the global cotton chain has also been undermined.

Interviewee 57: "Those companies chose relocation not for the better development of the industrial chain or the business, but only for their survival. Industries enjoying a demographic dividend will take great risks if they relocate elsewhere. This is even riskier for industries that fail to reach a high technical precision, as their output will only be the low and medium value-added products standing at the bottom of the pyramid. The so-called relocation is not equivalent to a strong technological upgrade. The road will only get narrower as the company heads downgrade. This is a big problem."

According to these interviewees, to some extent, the relocation of this low-end production is suitable for China's development since it helps to reduce the "burdens" of industrial upgrading. Chinese companies are driven to improve their efficiency, effectiveness, and craftsmanship to compete with Southeast Asia

and other countries. However, some U.S. brands are compelled to cut ties with China and relocate to Southeast Asia. In this region, they soon found an absence of a good chain of supporting industries and the difficulties to complete the whole production process independently. The sanctions aimed to suppress China while allow the development the relevant industries in Southeast Asian, leaving no room for those brands to develop healthy ecological competition and spur evolution with their Chinese counterparts. This disrupted to the global cotton chain, as it may cause a shortage of momentum in the global cotton industry.

b. Through globalization and industrial chain extension, Chinese companies seek to resolve risks

Chinese companies have seized the opportunities in the U.S. sanctions crisis, prompting them to further develop themselves by extending the industrial chain, rolling out the industry layout globally, and enhancing their capabilities.

It has become the consensus for the industry insiders that when a company has its strong comprehensive capabilities to mobilize global production resources, orders are impossible to be cut in large quantities. In addition, some companies specializing in the production and processing of semi-finished products in China are no longer satisfied with their traditional business but chose to extend the industrial chain. Many weaving and dyeing companies, for instance, have extended their industrial chain into garments to make more profits. On the one hand, it increases the added value of these companies. On the other hand, capital is also guaranteed, as fabric factories with the ability to make garments can cooperate with domestic brands. Therefore, these companies have

evolved from a marginal position in the original triple trade relationship as "brand↔ garment↔ fabric" to a reciprocal player negotiating directly with the brands. Considering the great potential of the domestic market and consumption power in China, many companies initially producing semi-finished products are girding up their loins for a try.

4. The finished product end of the industry chain: textile and garment industry seeking upgrades

U.S. sanctions have increased trade costs at almost every link of the cotton chain, with the U.S. importers and consumers eventually bearing the additional costs. The U.S. importers and their people ultimately pay the economical prices for the political actions of the U.S. government.

a. Order structure is adjusted both at home and abroad to deal with the impacts of the U.S. sanctions

Due to the U.S. sanctions, the foreign trade orders of Xinjiang's textile and garment industry have been reduced. However, by adjusting the order structure, several company owners interviewed said they have found the great potential of the domestic market and embedded their business in "the internal circulation of the dual circulation." Meanwhile, thanks to China's strong network of supply chains and its advantages of industrial chain, the international textile and garment consumer market can hardly be separated from China's production capacity, with some companies witnessing a surging number of orders.

Interviewee 48 (a company owner): "I just don't want to be subjected to American customers, so we just stopped making deals with them while

transferring a great volume of business to Asia and the domestic market. I currently have three factories, and by the end of this year, I will try to reach the full scale of 3,000 people, counting the three companies together."

b. The White House felt self-congratulatory imposing 25% tariff on Chinese imports, only leaving the American people in the lurch

On July 6, 2018, the Trump administration officially imposed a 25% tariff on the first list of Chinese goods worth around \$34 billion, marking the official implementation of Trump's tariff policy against China. Subsequently, products on the list have since risen to a total worth of more than \$500 billion. It severely impacted cell phones, garments, toys, and other consumer products. These are all "punitive tariffs" to the textile and apparel industry.

Cotton Yield in Xinjiang and its Proportion in the National Yield, 2014 – 2020

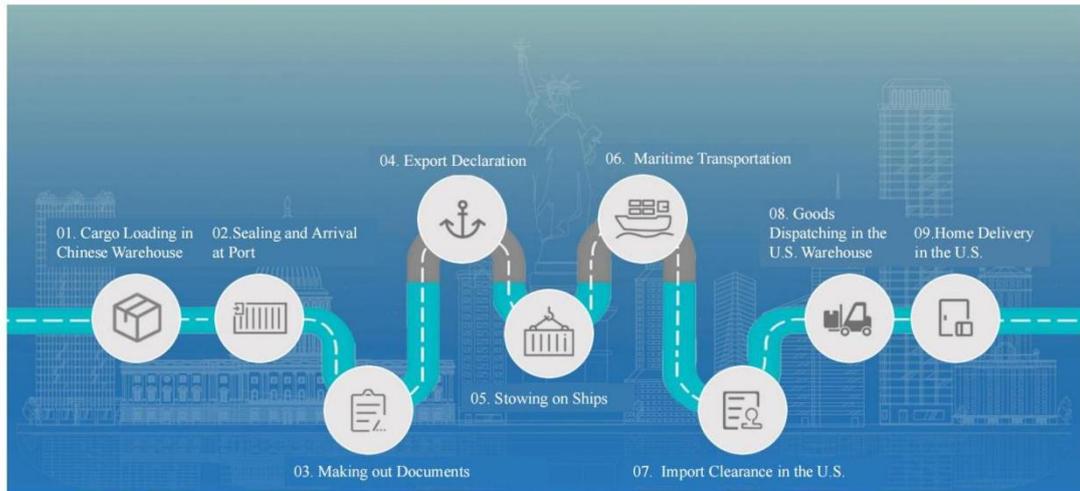


Figure 7. Process of Exporting Chinese Goods to the U.S.

Image Credit: Online Sources

Trump has claimed several times that the Chinese side pays off the new tariffs on Chinese goods. However, the results of multiple studies have smacked Trump right in the face, one of which is concluded by a paper co-authored by researchers at Harvard University, the University of Chicago, and the Federal Reserve Bank of Boston¹⁸, who found that almost all those tariffs have been passed on to U.S. import prices, that is to say, are paid off by the U.S. companies. The study found that, for example, a 20 percent tariff would be associated with a 1.5 percent decline in the ex-tariff price and an 18.5 percent increase in the total price paid by the U.S. importer. Simple comparisons of export price indices of affected and unaffected products, however, suggest that affected exporters have dropped their (pre-tariff) prices by about 7 percent in response to retaliatory

¹⁸ Cavallo A, Gopinath G, Neiman B, et al. Tariff Pass-through at the Border and at the Store: Evidence from US Trade Policy[J]. American Economic Review: Insights, 2021, 3(1): 19-34.

tariffs that average about 15 percent.

The U.S. consumer market is hard to cut off the tie with China's cotton and garment industry, and the U.S. cannot be separated from Chinese manufacturing. China is now the world's largest garment manufacturer and consumer market, with domestic garment sales reaching \$430 billion annually. There are approximately 45.6 billion garments manufactured in 2018¹⁹. In addition to meeting domestic demand, China also provides apparel to the rest of the world. Notably, the pandemic in the past two years has highlighted China's textile and apparel industry advantages. As a result, China has witnessed a massive return of foreign trade orders from the Southeast Asian textile and garment industry.

Interviewee 48 (a company owner): "China's status in the global cotton textile industry is certainly dominant, and China's position in the world's garment industry will never be shaken no matter what kind of sanctions to be imposed."

The United States has to import clothing from China. The 25% tariff imposed will end up being paid off almost entirely by American importers and their people. Rick Helfenbein, chairman of the American Apparel & Footwear Association (AAFA), revealed the essence of the additional tariffs: The new round of U.S. tariffs to China will cover all clothing, shoes, and home textiles, which is a tariff increased on American consumers²⁰.

Interviewee 61 (a company owner): "We companies do not have such high profits to afford it (25% tariff), which at first is borne by the companies in the industrial chain, and then finally transferred to the consumer, (as) the prices of clothes are increasing. Currently, the

¹⁹ http://www.xinhuanet.com/2019-09/24/c_1125033600.htm

²⁰ http://www.gov.cn/xinwen/2019-08/03/content_5418310.htm

consumer prices in the U.S. have increased exponentially."

Interviewee 60 (a company owner): "The U.S. tried to keep importers from buying Chinese goods by raising tariffs, but the problem is that now only China can make the goods, importers don't have other options. After imports, the dealer needs to declare the goods, and the tax payment comes. Dealers can't give up their profits to transfer the additional tariff directly to the cost, that is, let the people bear the tariff. Therefore, consumers are the final bill payers."

"The U.S. government also needs money, and it is the 25% tariff allows them The U.S. government also needs money, so it issued the 25% tariff to seize money from citizens. The sanctions are labeled as "the move to constraint China," but China's people and companies certainly don't wanna pay it off, so it is the Americans who become the bill payer."

The White House felt self-congratulatory by imposing a 25% tariff on Chinese imports, leaving the Americans in the lurch.

c. With the U.S. side's arbitrary seizure and destruction of Xinjiang cotton products, the global industry chain has been severely disrupted

In addition to the tariff penalty, the U.S. government even began to use genetic detection technology to detect whether textile garments exported from China have used Xinjiang cotton. Commercial companies have also sensed the opportunity, as Grant Cochrane, CEO of a scientific traceability company Oritain, said they are working with many brands to prevent the usage of Xinjiang cotton further. Nate Herman, Senior Vice President of the American Apparel & Footwear Association (AAFA), pointed out that U.S. brand owners are working to remove

Xinjiang cotton from their supply chains. He has heard of over a dozen shipments intercepted by U.S. Customs and Border Protection since the ban was enacted in January 2021. The number of seized shipments is "expected to increase."²¹

Interviewee 58 (a company sales director): The United States has harshly suppressed Xinjiang cotton. Cotton has genes. The U.S. Customs will randomly pick some samples for genetic testing. Those clothes containing Xinjiang cotton will be seized or destroyed. For example, a boss is running a great business in Jiangsu province. He exported three containers of goods to the U.S. Still. His products were detected to contain Xinjiang cotton. Three cabinets of clothes were destroyed over there, not even returned to him. The boss then announced that he would never take foreign orders and only do domestic business.

On the one hand, the U.S. government brutally seized and destroyed goods containing Xinjiang cotton, while on the other hand, well-known U.S. e-commerce platforms began to take down Chinese cotton products. For example, early in March this year, a netizen revealed that Amazon is asking Chinese exporters to prove that their cotton products do not contain Xinjiang cotton. But unfortunately, some sellers failed to give the corresponding certificates. As a result, their cotton products for sale on Amazon were threatened to be taken down. In fact, from the raw material end to the e-commerce sales end, the processes and segments are so complex, it is difficult for e-commerce sellers to provide the certificate.

The U.S. government and the e-commerce giant's seizure and take-down against Chinese cotton-made goods are so crude and sweeping, and it has hit the

²¹ https://www.washingtonpost.com/world/asia_pacific/china-cotton-sanctions-xinjiang-ughurs/2021/02/21/a8a4b128-70ee-11eb-93be-c10813e358a2_story.html

cotton global industrial chain so severely. Under such a circumstance, Chinese textile and garment companies have improved their strength, globalized the supply chain, and accelerated innovation.

5. The exploited Chinese companies: "fictitious justice" of the U.S. sanctions

Nowadays, the global industrial chain has tightly connected the markets of all countries globally. The participating countries along the chain have embraced the pattern of "each having something of the other." Trade-in intermediate goods account for 70% of total global trade, with 30% trading in finished goods. With the increasing interdependence of the participators in the industrial chain, once a link or a country is hit by the trade frictions, the others are bound to bear losses.

Nowadays, the global trade pattern has formed a "North America-Europe-Asia" tri-polar regional order, with the United States, Germany, and China being its center²². Under such a situation, sanctions against China's cotton industry exports have directly affected the interests of various trading partners.

According to Hicks Theorem, *consistent technological improvement at home benefits all countries (or at least does not hurt)*²³. In the case of U.S.-China trade, cotton textiles are an export product in which China has a comparative advantage, which would enhance the welfare of the American people. Since the cotton textile industry has formed a global value chain, U.S. sanctions against China are also detrimental to the well-being of people in other countries along

²² 鞠建东,彭婉,余心玓.“三足鼎立”的新全球化双层治理体系[J].世界经济与政治,2020(09):123-154+159-160.

²³ Ju, J., & Yang, X. (2009). Hicks theorem: Effects of technological improvement in the Ricardian model. *International Review of Economics & Finance*,18(2), 239-247.

the value chain. As mentioned earlier, U.S. importers and consumers bear most of the additional tariffs. The same logic applies to European countries, which have witnessed increased tariffs.

The Global Trade Pattern in 2017

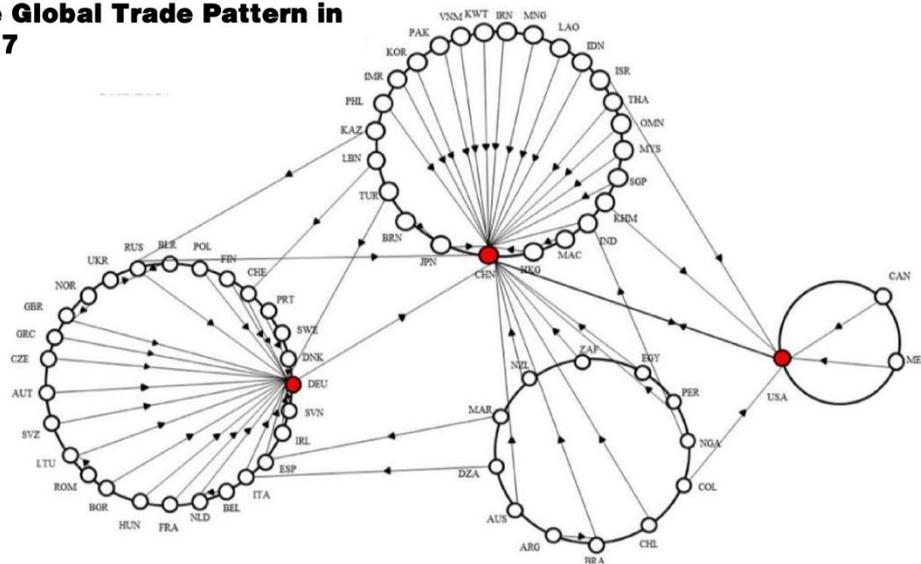


Figure 8. The Global Trade Pattern of 2017

Source: *A Dual Architecture with a Tri-polar Regional Order for Global Governance in the New Globalization Era*

Cotton, which has become a global commodity, can be regarded as a medium through which a global network connecting growers, manufacturers, and consumers has been established. Having gone through more than three centuries, the cotton economy has become a thoroughly capitalist economy, revealing the process of the global expansion of capital. It can be said that the cotton economy is a history of capitalist globalization. One of the results of this process is that the vast majority of the global population got involved in the capitalist economic order, either turned into the beneficiaries, participants, advocates, or the victims, critics, and opponents—all countries in the world, whether willingly or

unwillingly, have been affected by the capitalist economy²⁴.

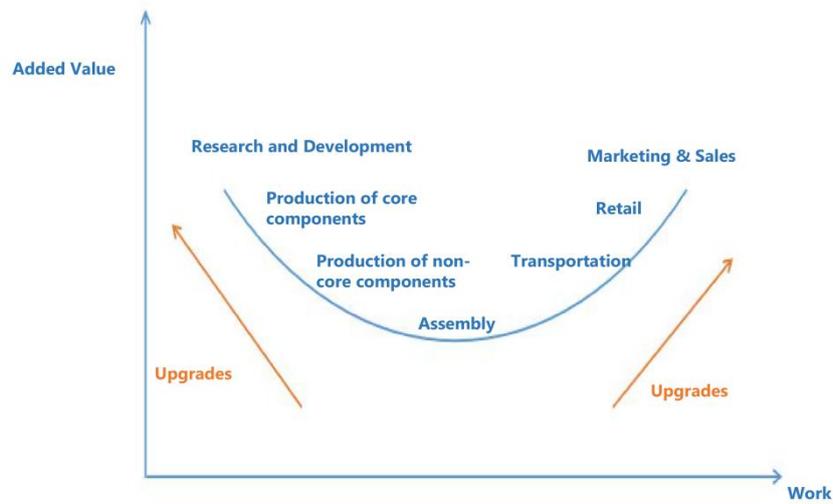
As capitalists are always looking for cheaper labor, better infrastructure, and larger markets, they have been combining and reorganizing the world's workers and consumers, lands, and raw materials in increasingly new manners²⁵. The same goes for the cotton industry. Under the cotton capitalism economy, countries such as China and Southeast Asia are the central nodes at the production end. At the same time, Europe and the United States are the primary nodes for brand marketing and technology development. The former is ruthlessly and unfairly exploited by the latter with the insidious tactics of capital operation. The labor fruits (cotton growers, workers, etc.) are distributed unequally. For example, cotton growers in Benin (a western African country) earn \$1 a day or even less, workers in Bangladesh sew clothes in hazardous conditions but for nominal wages. At the same time, consumers in the United States and Europe can buy these clothes at will and at low prices²⁶.

China is not an exception to this. China's textile and apparel industries are more located at the bottom of the value chain "smile curve" (See Figure 9). In contrast, Europe and the United States are standing at the top of the industrial chain, grabbing huge profits with high added value at both ends of the chain. Especially in the section of R&D and sales, they have become the biggest beneficiaries in the industrial chain. The U.S. sanctions against the Xinjiang cotton industry are a typical example of "the beneficiary crying as a victim," a scheming lie of "fictitious justice," through which the slickness of the U.S. government is plain to see.

²⁴ (美)斯文·贝克特《棉花帝国一部资本主义全球史》

²⁵ David Harvey, *The Geopolitics of Capitalism* (New York: Macmillan, 1985)

²⁶ (美)斯文·贝克特《棉花帝国一部资本主义全球史》



(This image is compiled by the author, referencing Stan shih's Smile Curve.)

Figure 9. Upgrades of Global Value Chain

Interviewee 34 (a company owner): "I have little bargaining power now, my major business is ODM labeling, and my earnings are mainly from the processing fee. Processing fee in the garment industry is based on labor cost, so we do not have high profits. The average (profit) of our garment production and processing industry in Xinjiang is around 3-5 points."

Interviewee 61 (a company owner): "First of all, your products must be attractive both in price and quality. This is the basic threshold. For example, if you want to take orders from Wal-Mart, you must have your profit margin minimized (otherwise). You can't get the orders because in the rule of bidding, which provides the lowest price, who gets the order."

Companies like Uniqlo, MUJI, Nike, Adidas, their requirements to the qualification and price of (OEM) companies are even more demanding. These brands will calculate all our costs and then provide us with a profit margin of 10%, which is precisely what we can earn from them. If some

(brands) only offer 5% or even no profit, we have no choice but to take their orders, because our factories have been tied up with them, we can't turn to somewhere else for such a large volume of orders. Our business may shut down for rejecting their demands.

A person in charge of a Xinjiang company provided the research team with the industry's production cost (as shown in Figure 10). The textile and garment industry is all labor-intensive companies, which are highly dependent on raw materials and labor, accounting for about 70% and 10% of the total cost, respectively. After deducting the relevant production costs, the final profit margin is only around 5%. Thus, the profit margin of the textile and garment industry is relatively low.

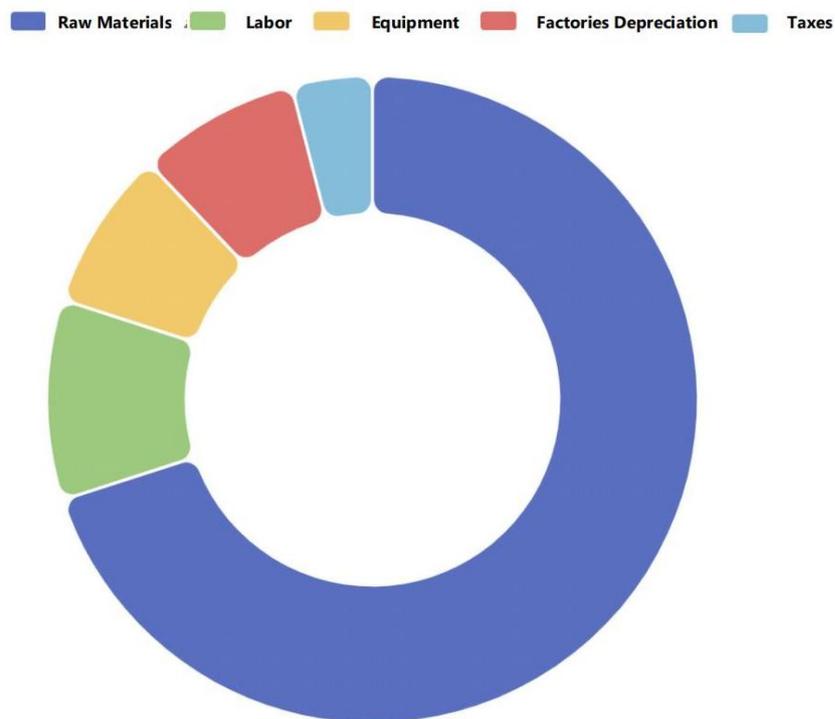


Figure 10. Composition of the Cost of Textile and Garment Industry

By contrast, brands standing at the tip of the smile curve are making handsome profits. Take the example of a well-known clothing brand produced in China and sold in Europe. Its premium is nearly ten times the cost of production²⁷.

Costs & Brand Premiums in Each Segment of a Well-known Clothing Brand (yuan)					
Production in China			Sales in Spain		Brand premium
Raw Material costs	Processing costs	Transportation	Selling Price	Operating Costs	Nearly 1000
35	65	15	1200	Unknown	

Table 2. Costs & Brand Premiums in Each Segment of a Well-known Clothing Brand (yuan)

Interviewee 33 (a company owner): "This is a piece of clothing priced at 1200 yuan, I am not sure of the brand's operating costs (including design and development, sales costs, marketing, etc.), but so far as I know, the visible processing cost of a piece of clothing for this brand in China is 125 yuan, the rest 800 to 900 yuan all goes to the brand's pocket, they are making a ton of money."

From the perspective of those managers in the industry, the current value chain of the global cotton textile and garment industry is still dominated by Europe and the United States. They seized the industry's largest profits. The average net profit margin of brand owners is more than twice that of suppliers (OEMs) (as shown in Figure 11). The graph compares the net profit margins of

²⁷ According to an actual purchase case provided by the person in charge of a company.

listed companies, which are the ones of the highest quality, while there are countless small and medium-sized OEMs in China, which are far less profitable. Worse, as mentioned before, some OEMs run their business for even zero profit since they are already tied up to big brands. Therefore, the net profit margin of the brands could be 2 to N times higher than the Chinese suppliers.

In 2019 the net profit margin for brands was about 10-20%, for suppliers 5-10%, and distributors 1.5-3%

In 2019, the net profit margin for brands was about 10-20%, for suppliers 5-10% and for distributors 1.5-3%.

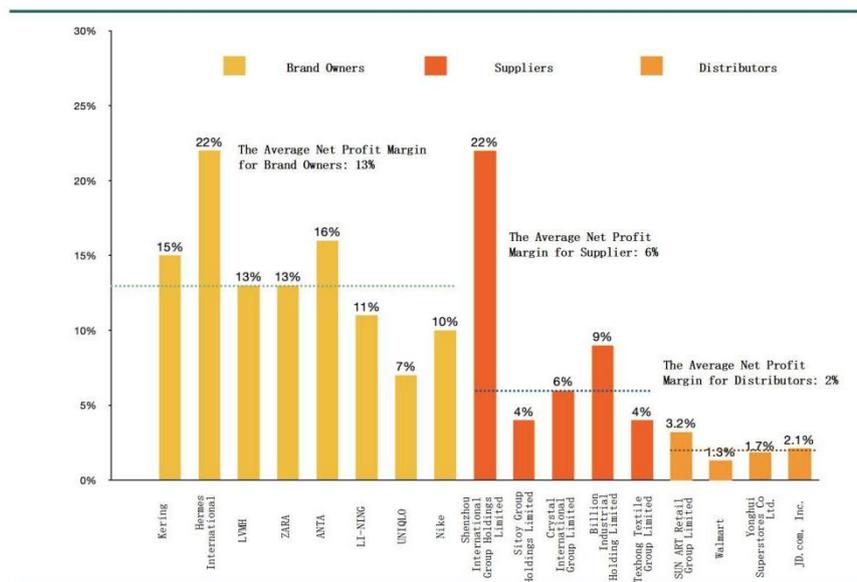


Figure 11. The Average Net Profit Ratio of Companies in Different Segments

Interviewee 34 (a business owner): "Brand owners like Adidas are so profitable, their net profit margin must be more than six times (than the cost). For example, I am the one who buys the raw material. After calculating the processing costs, I will quote the garment (the price of cost) to him, a garment's cost is around 150 yuan or 180 yuan, but the final

price of the product can be over six times the cost. Different brands always have different net profit margins, ranging from 4 to 10 times, it depends."

The upper-end brands always have a larger gross profit margin. The research team visited a company that has several self-owned brands, and its owner is well versed in the premium price of garment brands. In his opinion, the ratio of the selling price to production cost for mid-range brands is 10, while for high-end brands, the balance can be as high as 50.

China is the world's largest apparel producer who manufactures original products for major garment brands worldwide and provides inexpensive but excellent service. Ultimately, Chinese laborers sweat while European and American brands obtain high profits into their pockets with the power of capital.

Interviewee 48 (a business owner): "Frankly speaking, Europe and the United States cannot be separated from China since most of their daily necessities are still produced in China. With years of experience, I have found that the proportion of production in Vietnam and Myanmar is much lower than in our country. We are providing services for the good life of European and American people but with cheap labor. Let's say, if he need to pay two dollars for production in the United States, but one dollar is enough in China. This is exploitation. Meanwhile, these brands come to China only for cheap labor and low cost, no benefit, no business, right?"

III. Conclusions

It took more than three months for the authors to carry out field research in Xinjiang and Guangdong, visiting dozens of companies, and conducting in-depth interviews. Interviewing cotton growers, heads/executives of textile and garment companies, and practitioners in the industry totaling more than 70 people, we aim to gain an in-depth understanding of the impacts of U.S. sanctions on human rights conditions of cotton growers and global cotton industrial chains. Overall, this research has come to the following conclusions:

1. The human rights of Xinjiang cotton farmers are guaranteed. They can provide their descendants with better livelihoods and educational opportunities.

Under the pressure of the U.S. sanctions, some Western textile businesses and retail brands boycotted Xinjiang cotton, withdrawing factories and investments from Xinjiang to squeeze Xinjiang cotton out of the global textile supply chain. Being cotton producers, Xinjiang cotton farmers should have been the first to bear the brunt. Still, their rights and interests are protected due to support from multiple parties, including the Chinese government, farming cooperatives, and Chinese companies with a social conscience. On the production end, the government provides cotton farmers with quality crop varieties; in the management end, farming cooperatives offer a full range of technical services and supports; in the sales end, farming cooperatives provide them with insights and information about the market, helping them connect with other links in the

industry according to the quality and yield. With the support of such practical policies and convenient services, the human rights of Xinjiang's cotton growers are fully protected, and they hardly perceive the impacts of the sanctions.

The authors observed that Xinjiang benefited from the cotton industry, the livelihoods and living conditions of the cotton growers' households have increased significantly, their spirits have been raised. Moreover, they can provide their children with opportunities for education in universities, with promises to receive better education and create colorful life.

2. The U.S. sanctions have disrupted the global industry chain by increasing trade costs at almost all segments.

As far as the cotton chain is concerned, the U.S. sanctions have increased trade costs at almost all links in the chain, hindering normal trade and stirring the rational layout of the chain. In addition, sanctions have set off a series of chain effects. For example, some U.S. brands were forced to cut ties with China and move to Southeast Asia, leaving no room for them to develop healthy ecological competition and spur evolution with their Chinese counterparts. This is undoubtedly corrosive to the global cotton chain, which has had sequential effects on European and U.S. consumers, as they have to pay more for cotton products.

3. U.S. importers and consumers suffer the most, as they have borne most of the punitive tariffs on imported goods.

The cotton supply chain can be subdivided into supply, manufacturing, and distribution. The supply end is less affected by the U.S. sanctions since those

companies on the manufacturing end hedge their risks and reduce costs by accelerating globalization of the supply chain. The sales end suffers the most, in particular, 25% retaliatory tariff imposed on the Chinese imports, is mostly born by the American companies and consumers. In addition, the research team also observed that part of the cotton industry production capacity had been transferred to countries such as Vietnam, which, in the view of people in the industry, is a natural law and is essentially the "spillover" of the Chinese supply chain. China's status as "world factory" is still irreplaceable.

4. Under the Western capitalist globalization, Chinese companies are the ones who have been exploited.

Chinese cotton industry companies are more located at the bottom of the "smile curve" value chain and are earning meager processing fees. In contrast, for those American brands currently dominating the cotton industry value chain, their net profit margin could be twice or even N times higher than that made by Chinese OEMs. Under the globalization system of capitalism led by the United States, the fruits of labor in China's cotton industry have been distributed unequally. In contrast, companies are ruthlessly exploited by Europe and the U.S. with the insidious tactics of capital operation. Nevertheless, the U.S. still imposed a series of sanctions over Xinjiang cotton industry, through which the "fictitious justice" of the U.S. government is plain to see.