https://www.wsj.com/articles/xinjiang-law-shows-reachand-limitsof-u-s-economic-power-11656325980

MARKETSHEARD ON THE STREET

Xinjiang Law Shows Reach—and Limits—of U.S. Economic Power

The impact of the new U.S. law, meant to penalize forced labor in China's Xinjiang region, is very different on two key industries

By Nathaniel Taplin Follow
June 27, 2022 6:33 am ET

A new U.S. law meant to penalize forced labor in China's western Xinjiang region is showcasing the still-fearsome reach of American economic power—and its limits.

The Uyghur Forced Labor Prevention Act, which was signed into law in December and came into effect last week, requires U.S. importers to show that items from Xinjiang weren't produced with forced labor—a difficult standard, given that many Western auditing companies have stopped investigating forced labor claims there and that the government routinely restricts outsiders' access to sites. Western researchers say that Xinjiang authorities have imprisoned hundreds of thousands of Uyghurs, a Turkic Muslim minority, and that many have been subjected to forced labor among other abuses. Beijing denies all such claims.

The law is already having a marked impact on one of Xinjiang's key industries—cotton—

and has the potential to seriously damage China's textiles industry, the world's largest. But the lack of impact on another key Xinjiang product—polysilicon, used to make solar panels—showcases the law's limits. Companies in both sectors have been implicated in the use of forced labor, according to the U.S. government.

China produces around a quarter of the world's cotton, and about 90% of that in Xinjiang. That cotton has, for much of the past decade, been some of the world's priciest. Since early 2022, though, an interesting pattern has emerged: Despite a buoyant global market for cotton, Chinese cotton futures now, for the first time since at least 2016, trade well below futures in New York.

This isn't merely about sentiment. Sales of Xinjiang cotton have fallen off a cliff. Year-to-date sales of ginned Xinjiang cotton through mid-June 2022 have fallen 41% from the same period of 2021 according to data from the China National Cotton Information Center. Xinjiang commercial cotton inventories at the end of May were 3.3 million metric tons, 1.2 million more than at the same point last year.

Sanctions and the import ban have been effective because the U.S., and the West writ large, are the key buyers of China's clothing exports. And while China is a large cotton producer, it doesn't have a near-monopoly. From September 2021 to April 2022, the U.S. was China's largest clothing customer: It bought a full 22% of China's $106 billion of clothing exports, according to the CNCIC. Adding in the U.K., Germany and Australia gets you to around a third. Chinese textile factories wishing to serve Western clients have little choice but to avoid Xinjiang cotton entirely. Another side effect has been to dramatically boost the price of Chinese polyester.

The situation in polysilicon—the energy-intensive building block for solar panels—is completely different. Chinese companies, many located in Xinjiang because of cheap and abundant coal, wind and solar power, have come to dominate the industry. China itself is by far the world's largest market for solar panels. The U.S.'s own relatively modest solar ambitions over the past decade means that its power to force change is modest too. By 2020, nearly 80% of the world's polysilicon production was in China, but on average less than 2% of China's yearly photovoltaic exports went to the U.S., according to an October report from BNP Paribas.

Meanwhile, Chinese polysilicon prices are pushing new highs: The average cost of high-grade polysilicon hit an 11-year high of 273.1 yuan, equivalent to $40.83, per kilogram on Wednesday, according to respected Chinese financial media outlet Caixin. The U.S. is now so desperate to secure solar panels that the Biden administration in June granted a two-year exemption from any possible tariffs levied on panels from four Southeast Asian nations—despite a continuing Commerce Department investigation into allegations that shipments from those countries were being used to circumvent tariffs on Chinese panels.

The U.S. loves cheap consumer goods but has long been a skeptical outlier in the developed world on clean energy. As Washington now takes a strong stance on forced labor in Xinjiang, it is already reshaping textile supply chains. It is also showing how limited American influence is on industries that it has neglected.

Write to Nathaniel Taplin at nathaniel.taplin@wsj.com

Appeared in the June 28, 2022, print edition as 'Xinjiang Law Shows Limits of U.S. Power'.