NC STATE College of Textiles
JTATM Journal of Textile and Apparel, Technology and Management

Volume 9, Issue 2, Spring2015

A Forecast of Global Textile and Apparel Market Shifts In Importing and Exporting - *Is this the Final Death Rattle of Domestic Apparel and Textile Manufacturing Industries?*

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ABSTRACT

This paper examines the main trends in the US apparel and textile manufacturing industry over 20 years. Using data gathered from; International Monetary Fund (IMF) and World Trade Organization (WTO), U.S. Census, U.S. Trade, U.S. Bureau of Labor, and Office of the United States Trade Representatives. This research suggests that the demise of the apparel and textile manufacturing industry is imminent and the recent uptick if not focused properly will be the end and not be recoverable. This research shows two projections for the future of apparel and textile manufacturing in advanced economies. That being, due to the expansion of global trade agreements and policies the global textile and apparel manufacturing industries have become economically reliant upon each other for their own domestic industries survival. Recessions and economic slowing within regions and countries now have become interconnecting with the affects being felt simultaneously resulting in economic recovery taking many years, not just 1 or 2 as seen previously. The strength of the U.S. dollar must be weakened to help offset the spiraling trade deficit, so that domestic manufacturing has time to stabilize.

Keywords: Textile and Apparel Trade, Employment Projects, Trade Deficit

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INTRODUCTION AND BACKGROUND

Free trade is an ideology aimed at raising the living and working conditions of the developing nations.

Global trade encompasses the importing and exporting of goods and services between nations around the world, and for the United States, it is critical for economic growth and stability.

Industrialization of Nations- Before the Industrial Revolution, which took place in the mid-18th to early 19th century, agriculture (farming for food, as well as cotton and wool) was the main source of revenue turning an agrarian society into an industrial one. This started in Great Britain, and spread to Western Europe and North America. As a country becomes industrialized, the country or region in question will undergo a transformation of social and economic

change. At the time textiles was the dominant industry. Through the harnessing of new forms of energy, this enabled and accelerated the creation of new tools, trades, and trading relationships. As a country becomes developed it transitions from exploitation of labor forces and use of child labor to formations of workers unions helping to empower workers to bargain for improved working conditions and better pay. Democratic ideals promote voters rights for men and women. Karl Marx had stated that the industrialization of nations created two new social classes, those that owned the industry known as the bourgeois and the working class who labored in it (Hinshaw, J. H., & Stearns, P. N. 2014).

Historical the United States has a history of imposing trade restrictions in efforts to protect domestic manufacturing or to raise revenues. This methodology of imposing restriction on imports by applying revenue-raising tariffs to keep cheap imports out of the country was employed to pay off war debts incurred from the Revolutionary War, and to protect new American manufacturing that was in its relative infancy.

The introduction of the personal income tax came about in 1913 and the need for the revenue raising tariffs were no longer needed but still kept in place. After the stock market crash in 1930, U.S. Congress tried to help domestic manufacturers by implementing the Smoot-Hawley Tariff. This subsequently backfired resulting in US exports being barred by 60 other trade partner nations; this antitrade tariff is credited with exporting the US depression worldwide and possibly providing the perfect economic environment leading to World War II (Shoemack, H. R., & Rath, P. M. 2010)

Chronology of textile and apparel trade policy and related issues

President Franklin Roosevelt in 1935 appointed a special cabinet committee to examine the textile and apparel import problem and subsequently imposed restrictions on Japanese imports. During 1940 to 1952, America's focus was on World War II, Korea, and issues associated with the apparel and textile trade went relatively unnoticed. In 1947, the General Agreement of Tariffs and Trade (GATT) was established with the primary goal of promoting free trade and reducing trade barriers. In 1957, a voluntary and temporary (5 years) bilateral agreement was made to control Japanese imports of cotton products. In 1961 the Short Term Cotton Arrangement (STA) was negotiated, it was also the first multilateral arrangement; in 1962 the Long Term Cotton Arrangement (LTA) was concluded but then reenacted in 1967 and 1972. A rapid growth was seen in the import of wool and manufactured fibers. American consumption of imports grew to 6% and the apparel trade deficit was at $477 million (Glock, R. E., & Kunz, G. I. 1995).

The American Apparel Manufacturers Association (AAMA) with the additional help of some other textile organizations in 1968 approached congress for legislative protection from import competition. By 1971 the first bilateral agreements with Japan, Hong Kong, Korea, and Taiwan was negotiated to limit imports. At the time, these countries were the principle suppliers of apparel. By 1973, the Multi-Fiber Arrangement was approved and encompassed import quotas previously negotiated by bilateral trade agreements. India and the Philippines became apparel suppliers in 1973. By 1974, the apparel trade deficit is $1.8 billion that is almost quadruple what it was 12 years previously. In 1978, the M-FA is renewed but by 1979, the apparel trade deficit is now $4.2 billion and increase of $2.4 billion in only 5 years. Apparel import consumption is now at 25% and the People's Republic of China became a major supplier; 1981 Multi-Fiber Arrangement (M-FA) is renewed. During the 80's the dollar increased in value; import grows for silk, ramie and linen, these items are not covered by the M-FA agreement. In 1983, the Caribbean Basin Economic Recovery Act also known as Caribbean Basin Initiative (CBI) became

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enacted. During 1984 to 1985, textile and apparel industries called for an increase in trade restraints; retailers were unsupportive. In 1986 in support of the lobby made by the textile and apparel industries a new bill called the Jenkins Bill (H.F. 1562) was proposed and passed by both houses but vetoed by President Ronald Reagan, instead a tougher M-FA agreement was renewed. Another bill was developed and again vetoed by President Reagan; instead, the US initiated the Omnibus Trade and Competitiveness Bill. In the same year a Harmonized Tariff Schedule of the United States (HTS), this replaced the tariff schedules of the United States (TSUS). By the end of 1988, the U.S. and Canada formed a Free Trade Agreement (FTA), this eliminates duties on most products traded between the two countries. By 1989, the American Apparel Manufacturers Associated joined forces with the retail community and abandoned their protectionist efforts related to imports of apparel leaving the textile materials producers unsupported. In 1992 President George W. Bush signed North American Free Trade Agreement (NAFTA) by 1994 NAFTA was enacted and involved U.S., Canada, and Mexico. This same year the World Trade Organization (WTO) was formed. By 1995, NAFTA and WTO replaced the GATT. The agreement on Textiles and Clothing (ATC) replaced M-FA arrangement resulting in the phase out of quotas based on the bilateral agreements by 2005. The pressures of cheap apparel imports on domestically manufactured apparel resulted in a reduction of product quality due to cost cutting measures. In 1997 additional countries in Central and South America, under the Clinton administration were added to NAFTA. In 2000 the Caribbean Basin Trade Partnership Act (CBTPA) and the African Growth and Opportunity Act were approved, additionally a bilateral agreement was made with Vietnam. In 2001 under the Bush, administration the Free Trade Area of the Americas (FTAA) was initiated with an implementation date of December 2005; this agreement included 34 democracies. By 2001 U.S. Customs Services created a Textile and Enforcement Operations Division, a special unit designed to process the imports of foreign made shipments and prevent contraband. In this same year, the WTO concluded that the United States had fulfilled its obligations set forth by WTO on Textile and Clothing; this included two phases of quota elimination. Bilateral agreements were also signed with Cambodia and a free trade agreement that eliminates tariff and non-tariff barriers with Jordan were implemented. A total of 25 countries were involved in transshipment and quota violations identified by the Committee for Implementation of Textile Agreements (CITA). The European Union stated using the euro currency. In 2002, the International Trade Commission issued a harmonized tariff schedule of the United States, which included tariff rates for U.S. imports by product and by country. The American Apparel and Footwear Association created an award to promote Corporate Social Responsibility. Post 911, a Customs Trade Partnership Against Terrorism (C-TPAT), which involved Customs and importing, firms (Glock, R. E., & Kunz, G. I. 1995).

U.S. trade representatives credit NAFTA for lower prices for consumers and creating jobs. However, research shows that NAFTA eliminated thousands of U.S. jobs it also impacted structural changes in three member countries, trade surplus in agricultural between the .US. and Mexico declined rapidly and with Canada it turned into a deficit. U.S. producers of corn and cattle benefited and made profit from the changes, as did all three major corn producers in the U.S. In contrast, Canadian Diary Farmers, U.S. farmers growing wheat, barley, fruits, and vegetables and the corn producers in Mexico all suffered catastrophic losses (Scott, 2002). The U.S. Customs Service, Immigration, and Naturalization Service, Transportation Security Administration and other agencies became integrated and emerged to form the Department of Homeland Security this was created by the federal government. In an effort to protect domestic textile producers Textile Apparel and Recognition Act (TARA) was developed

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and supported by the American Textile Manufacturers Institute (ATMI) but opposed by National Retail Federation (NRF), International Mass Retail Association (IMRA), and the U.S. Association of Importers of Textiles and Apparel (USAITA). The Omnibus Trade Bill passed in addition to a policy that allowed the United States president to negotiate trade agreements. Additionally a Trade Adjustment Assistance (TAA) program was developed to provide job retraining and health insurance to those persons who lose their job due to trade. Andean Trade Preferences Act (ATPA), Generalized System of Preferences (GSP), Caribbean Basin Trade Partnership Act (CBTPA) and African Growth and Opportunity Act (AGOA) were renewed, strengthen, modified and expanded respectively. The European Union announced that in 2004 they would be adding 10 new members including Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, and Slovenia. Finally, in 2002 China passed a new Trademark law designed to protect foreign brands (Glock, R. E., & Kunz, G. I. 1995). In 2004 Free Trade Agreement made independently with Australia, Chile, and Singapore came into force By 2006: Separate Free Trade Agreement came into force with Bahrain, Morocco, Oman. In 2007: Dominican Republic–Central America Free Trade Agreement (DR-CAFTA; incl. Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and the Dominican Republic; 2005). In 2011 Panama Trade Promotion Agreement, and Free Trade Agreement with Columbia, and South. There are number of bilateral and multilateral free trade agreements currently being negotiated Free Trade Area of the Americas (FTAA; incl. all countries on the Western Hemisphere) U.S.–Middle East Free Trade Area (US-MEFTA; incl. most countries in the Middle East). Transatlantic Free Trade Area (TAFTA) includes European Union). U.S. and Thailand FTA, New Zealand Free Trade, Ghana FTA, Indonesia FTA, Kenya FTA, Kuwait FTA, Malaysia FTA, Mauritius FTA, Mozambique, Taiwan, United Arab Emirates FTA, Ecuador FTA, and Qatar FTA. U.S. and Southern African Customs Union Free Trade Agreement (US-SAUC includes South Africa, Botswana, Lesotho, Swaziland, and Namibia) and Trans-Pacific Partnership (TPP) (Brunei, Chile, New Zealand , Singapore, United States, Australia, Peru, Vietnam, Malaysia, Mexico, Canada, Japan, Taiwan, Republic of Korea) and Transatlantic Trade and Investment Partnership (T-TIP) with the European Union (Office of the United States Trade Representatives ustr.gov/trade-agreements/free-trade-agreements).

Advanced economies and the United States has sought to protect its domestic textile and apparel industry from developing countries and their cheaper imports for more than 40 years. Multilateral trade agreements allowed quotas on imports and apply limits from more than 70 countries. Particularly for cotton and synthetic yarns and certain garments such as t-shirts and sweaters. This system made it necessary for buyers of textile and apparel products to source from countries based on which quotas for a particular product would be available. This then spread textile and apparel manufacturing to a wider array of countries not just the ones with the cheapest labor. Since the end of the Agreement on Textile and Clothing buyers can now source from any country that is a member of the World Trade Organization, however, each country is still subjected to textile and apparel imports tariffs, which varies from country to country and is governed by bilateral and regional agreements. (Plunket Research, 2014). Even though U.S. Textile and Apparel jobs are disappearing rapidly from 1990 to 2014 a total of 762,500 jobs were lost in the apparel industry and 495,300 in textiles for the same period (See Figure 1). Some industry analysts have been adamant that more consumers are searching for 'Made in America' labels, however with the decreasing number of domestic apparel and textile manufacturing facilities dwindling being able to produce 'Made in America' for all components from fiber to finish product may be extremely difficult.

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CONCLUSIONS

The Trade Deficit – Before the 1970 the United States was the world leader in exports. After World War II the Marshall Plan known officially as the European Recovery Program (ERP) was designed to help support the recovery and rebuilding of post World War II European countries; this was an America initiative. This plan help provide the capital needed to rebuild Europe and Japan. Throughout this period the export to import ratio produce a trade surplus, which was about 1% of the GDP. From 1970 onwards the U.S. moved into a trade deficit; the more a country imports the few jobs are available domestically. From 1970 to today the trade deficit only briefly came back into the surplus in 1991. Since 1979 and 1994 2.4 million jobs were lost in U.S. manufacturing. Trade is responsible for about 40% share of increased income equality, the rest is attributed to declining unionization, and inflation induced erosion in the value of the minimum wage. The U.S. trade surplus peak in 1991 (Figure 2) was due to the trade between Europe, however as growth slowed in Europe due to the recession so did their demand for U.S. exports, in contrast the U.S. economy recovered quicker than Europe during this time and countries such as Brazil and San Paulo had a 30% unemployment. Previous trade policy and agreements made from bilateral and multilateral trade agreements have only been benefiting investors, leaving workers, consumers, and environmentalist out of the conversation. Trade agreements should focus on improving standards, enforceable labor rights, and environmental policy standards should be central to all new polices proposed with WTO and should be enforced by WTO through trade sanctions (Scott, 2002).

In modern society, indicators of economic growth can be measured by the GDP and the percentage of economic growth. The International Monetary Fund defines a recession as a decline in annual per-capita real World GDP (purchasing power parity weighted), backed up by a decline or worsening for one or more of the seven other global macroeconomic indicators: Industrial production, trade, capital flows, oil consumption, unemployment rate, per-capita investment, and per-capita consumption'. Under this definition, there have been only four global recessions lasting around a year in 1975, 1982, 1991, and 2009 (see Figure 3). Since 2009 this global recession is the worst seen since World War II, and has involved more countries. The International Monetary Fund had also stated before this global recession that a global annual real GDP growth rate of lower than 3% would also be the equivalent of a global recession. This means that using this definition there has in fact been six global recessions since 1970 lasting longer than previously projected and they are 1974 to 1975, 1980 to 1983, 1990 to 1993, 1998, 2001 to 2002, and 2008 to 2009. However, the longer impacts of the recessions can be seen more clearly in the Nominal GDP in Billions of U.S. Dollars seen in Figure 4, the impact of these global recessions can also be seen to be mirroring economic slowing as seen in the major advanced economies, advanced, economies and emerging and developing economies as seen in Figure 5.

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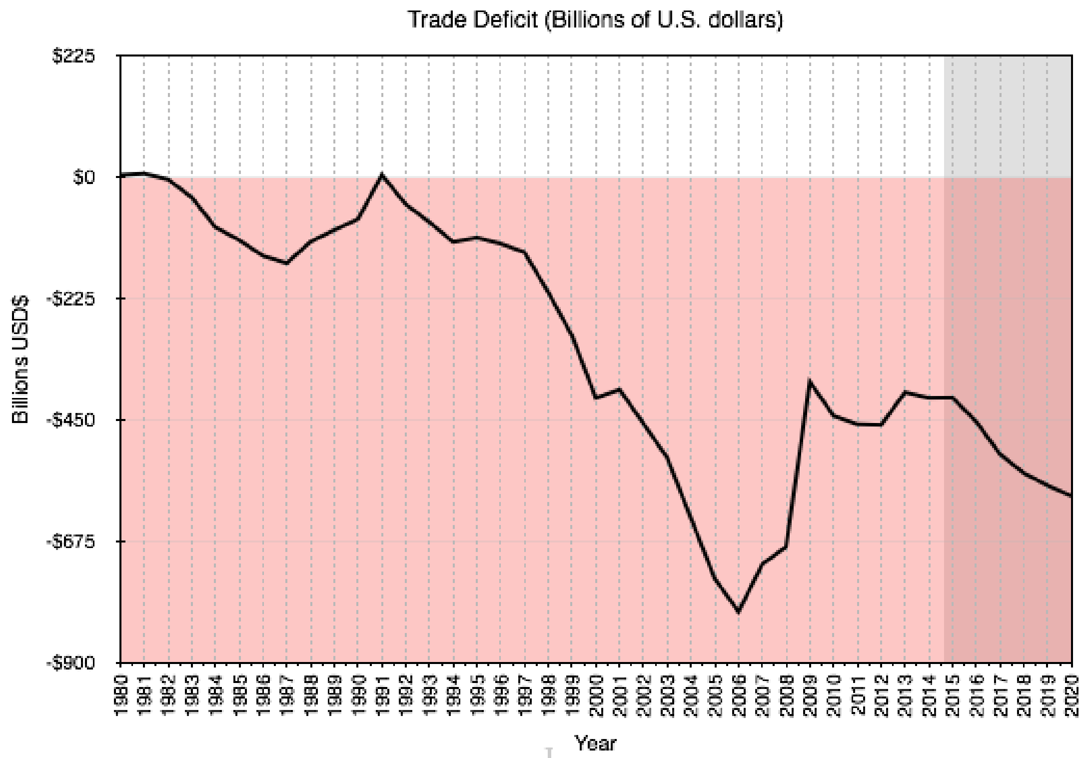

Figure 1. U.S. Trade Deficit in Billions UDS$ (Author's own 2015),

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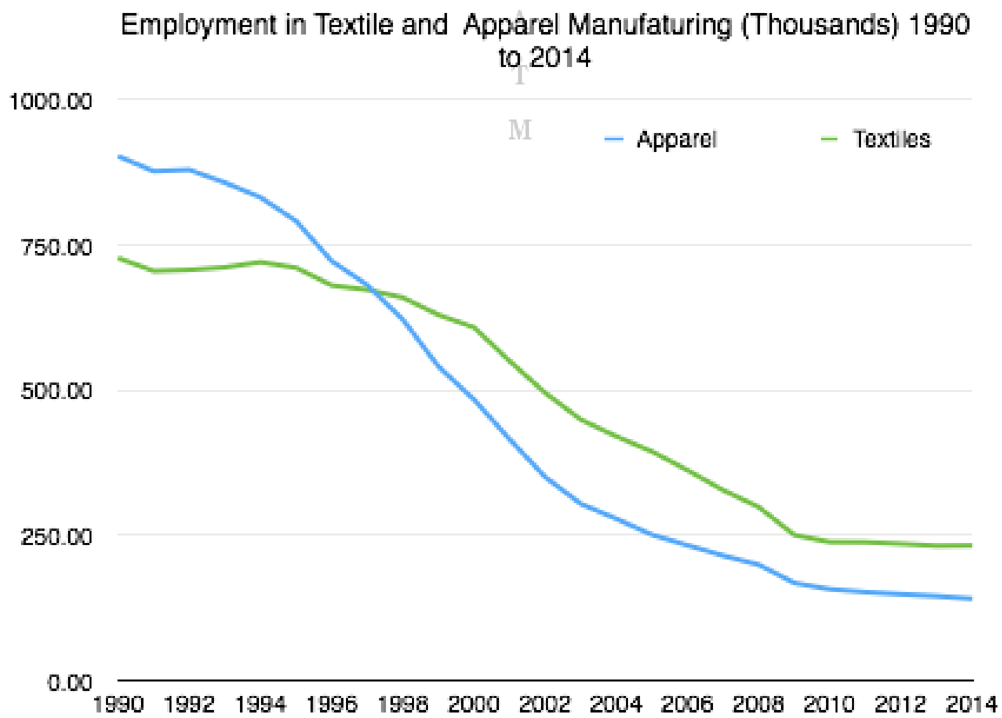

Figure 2. Employment in Textile and Apparel Industries 1990 to 2014 (Author's own, 2015),

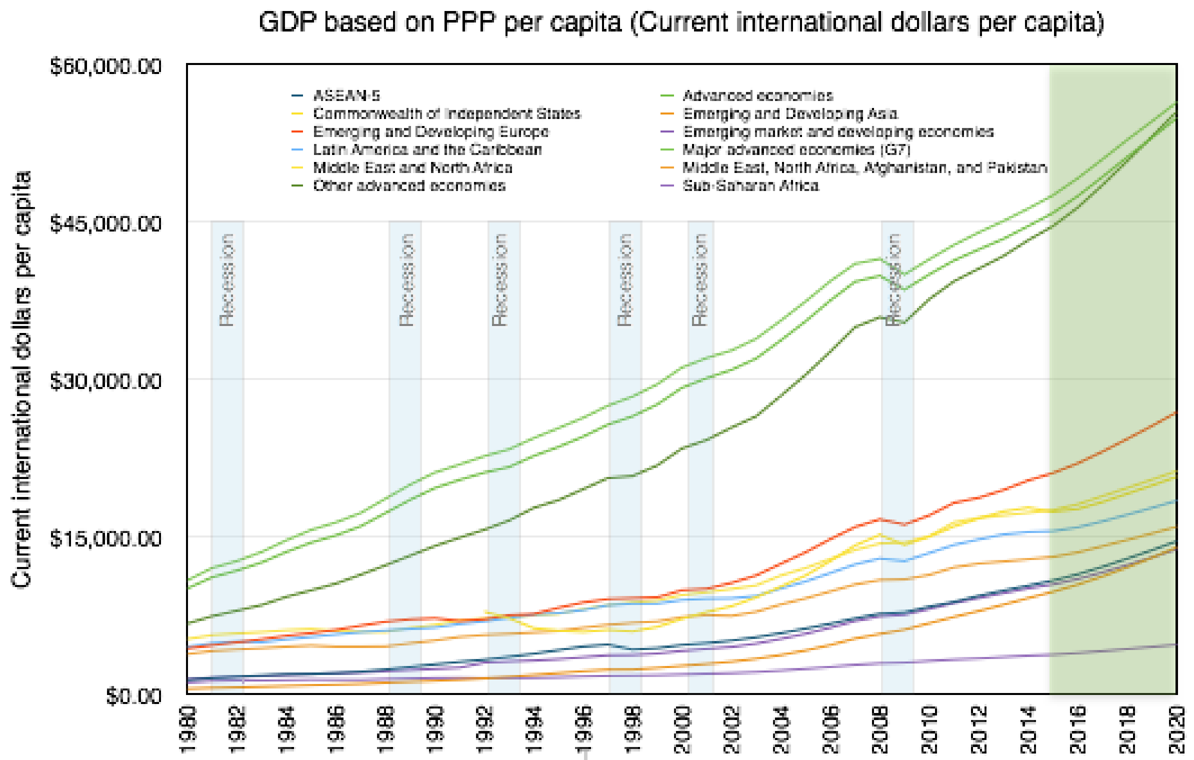

Figure 3. GDP based on PPP per capita USD$ Advanced Economies, Emerging and Developing and trade affiliates (Author's own, 2015),

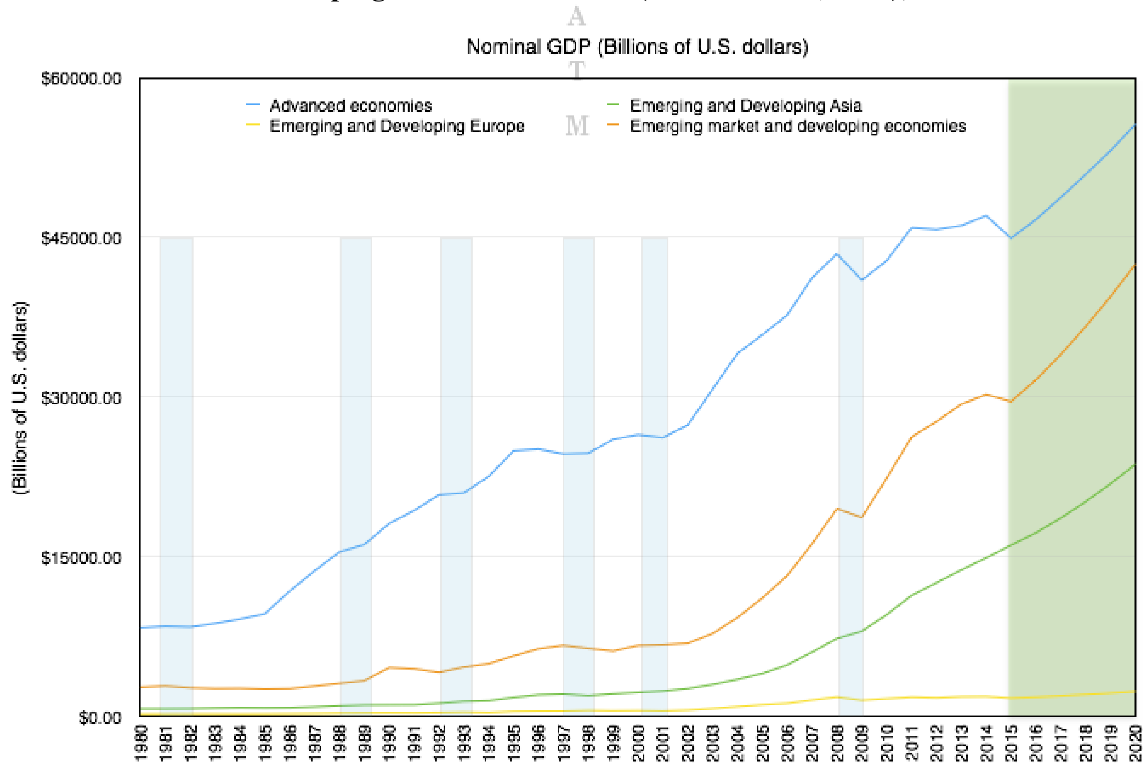

Figure 4. Nominal GDP in Billions of USD$ Advanced and Emerging Economies (Author's own, 2015),

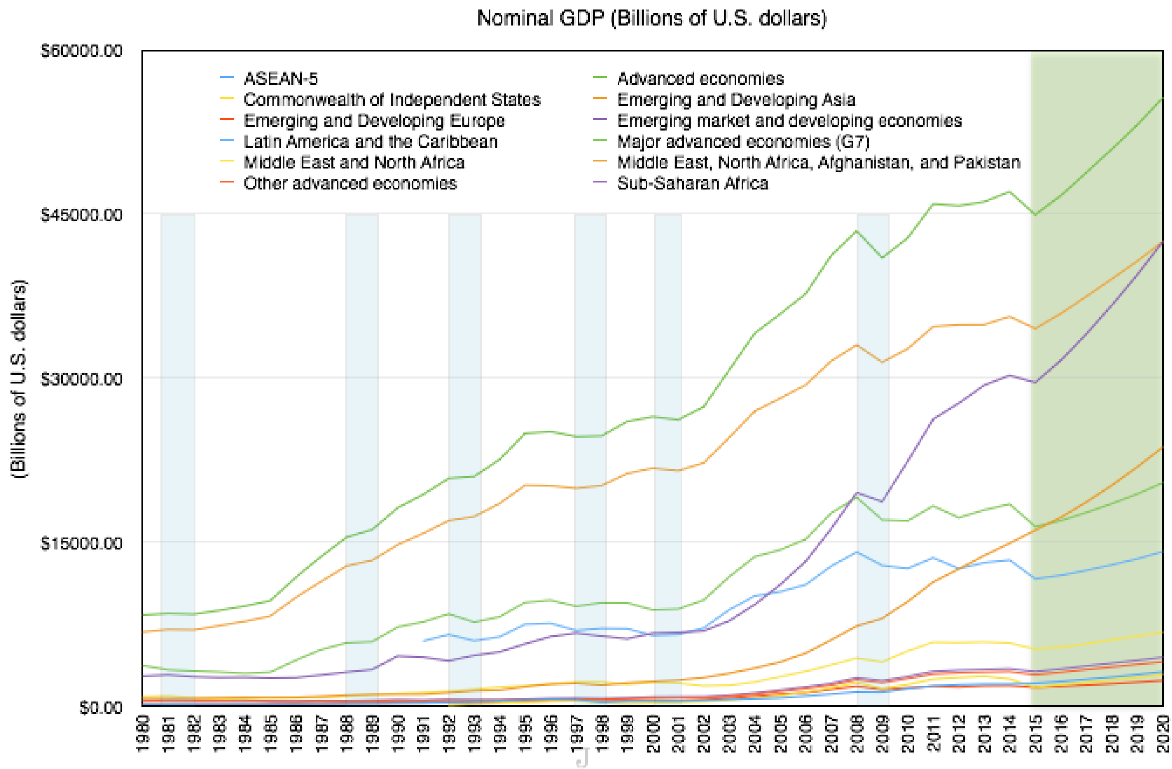

Figure 5. Nominal GDP USD$ in Billions for Advanced Economies, Emerging and Developing and trade affiliates (Authors own, 2015),

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