

The U.S. Textile and Apparel Industries: The "Wizard" Behind the Curtain Revealed

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June 2005

Executive Summary

Pull the curtain aside and the "Wizard" is revealed to be three separate and very different industries in transition. These industries are not in the dire straits that the Wizard would have policy makers and the public believe. Two of the three are doing quite well, actually, and the third could do better if it refocused its energies from fighting off apparel imports from China and towards, instead, directing resources into R&D to come up with new manufacturing technologies, new products, and new international outlook on its business.

This paper articulates the following key facts about the industries:

- The "textile industry" is comprised of very different sub-sectors, most of which are insulated from import competition. Almost half of the industry produces carpeting, home furnishings and industrial yarns and fabrics, and its sales have been increasing steadily for years.
- Textile industry representatives complain that apparel imports are putting them out of business, but less than 15 percent of total textile industry sales are destined for production of apparel; 85 percent of industry sales are unaffected by trends in the U.S. apparel market.
- To adjust to changing market conditions, the textile industry is undergoing needed restructuring, rationalization, and reduction in capacity -- which means plant closings and layoffs -- to improve productivity, efficiency and profitability. Spurred by import competition, successful companies are adapting by getting out of the production of low cost, commodity yarns and fabrics and into specialized high-performance yarns and fabrics.
- In response to international market dynamics, including American consumers who demand low prices above all else, the American apparel sector has already "gone international." It relies heavily on international sourcing, including co-production with foreign manufacturers who benefit from U.S. preference programs. However, most of these preference programs include rules of origin that limit their usefulness to U.S. apparel producers. Moreover, the unpredictable nature of U.S. trade policy increases costs, costs that must be reduced elsewhere in the production process to meet consumer demand for lower prices.

- These are not dying industries. Their promise is evidenced by the fact that the industries are attracting new investment from such investors as Warren Buffet, Wilbur Ross and Koch Industries who don't invest in industries that can't make them money. Fueling their interest are strong industry profitability results.
- Like other manufacturing sectors, textile industry employment is a poor indicator of the overall health of the textile or apparel sectors, and most job losses result from improvements in productivity and retirement of a workforce with an average age of 43 years in 2003. Union officials claiming to speak for U.S. apparel workers in fact represent just 8 percent of total U.S. apparel workforce.
- Developing new cutting-edge products requires a more highly-skilled, and highly-trained workforce than currently exists – the jobs of the future in the textile industry are marketers, designers, chemists, lab technicians, and engineers.
- U.S. imports of yarns, fabrics, and made-ups (e.g., home furnishings) are small relative to domestic production and increasing at a slow rate. Even though quotas on imports have largely been eliminated as of January 2005, very high tariffs continue to restrict imports from all foreign suppliers, even those that were not subject to quotas prior to 2005.
- While China is an important source of imported home furnishings and apparel, it has so far represented a much smaller share of the U.S. market for these products than textile industry lobbyists would have policy makers believe. In 2004, imports from China accounted for less than 2 percent of the U.S. yarn and fabric market, 11 percent of the U.S. apparel market, and 10.5 percent of the U.S. "made ups" market.

Policy makers can make positive contributions to assisting the three industries in becoming more internationally competitive should they feel compelled to interfere in the textile and apparel industry markets. These contributions include saying "no" in some instances, and saying "yes" in others.

- Policy makers should say "no" to lobbyist demands for increased textile or apparel import protection and restrictive rules of origin in preference programs and free trade agreements.
- Policy makers should say "yes" to efforts to provide the industries with better access to low-cost capital, increase funding for R&D (both corporate and government R&D initiatives), encourage skill development appropriate to the textile workforce of the future, and eventually eliminate U.S. tariffs applied to imports of textile and apparel products.

The U.S. Textile and Apparel Industries: The” Wizard” Behind the Curtain Revealed

I. Introduction

Bras and underwear are back in the news, and trade policy affecting them has even found its way into episodes of “The West Wing.” And not just underwear, but apparel of all shapes and types and sizes. U.S. textile producers and their apparel union allies are pounding the halls of Congress and the Administration in search, yet again, restraints on imports of a wide range of apparel products imported from China.

The media has embraced their arguments, and with the media, rank and file consumers are caught up in the hysteria. They readily believe that imports from China are “unfair”, are “surging” to the decided disadvantage of American workers, and if something is not done about it *now*, the very fabric (literally) of the American economy will unravel. Broad assertions are made, amazing linkages are drawn. Very few facts are evident in this debate, which is actually not much of a debate at all, as the side that disagrees with the textile sector is rarely given much ink.

The purpose of this paper is to insist that the facts be injected into the debate. I intend to pull aside the curtain hiding the Wizard, and reveal him for what he is: not even half the story. The analysis relies on published U.S. government and industry data (e.g., from company financial reports) as well as trade press accounts of company efforts to adjust to marketplace dynamics. The paper lays out in some detail what has been happening to shipments, plant closings, employment, profitability and imports for textiles and for apparel. I explore the complaints of industry representatives relative to the trends indicated by industry data and press accounts to give the data context. It is time that policy makers and the media pay attention to the full picture and place certain pieces of data selectively offered by those seeking new protection into their proper perspective.

II. We’re Not In Kansas Anymore!

A bit of background is helpful to understanding the current state of play in the international and American textile and apparel sectors. The American textile and apparel industries faced a major change in their business environment on January 1, 2005. On that date, quotas – restrictions on the quantities of products that may be imported into the United States – ended for textile and apparel products imported from about 50 countries.¹ These quotas, which by 1995

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affected over a 1,000 individual textile or apparel products, have existed for decades, with a primary goal of limiting import competition and thereby preserving U.S. textile and apparel jobs.²

But in 1995, the United States and its World Trade Organization (WTO) trading partners implemented the Agreement on Textiles and Clothing (ATC), which replaced the longstanding and ever-expanding Multifiber Arrangement (MFA). The ATC stipulated that WTO Members, like the United States, must gradually eliminate their quotas over a 10-year period (1995-2005).³

The arrival of the deadline intensified textile industry advocates' demands that Washington "do something" to help them withstand an anticipated "flood" of imports, particularly from China. But pleas for increased protection are met with equally vociferous objections from many apparel producers as well as U.S. importers, retailers, and consumer organizations. They argue that consumers (be they apparel producers who consume yarns and fabric or American families who purchase clothing) pay a huge cost for quotas that raise prices but have been ineffective in preserving U.S. textile or apparel employment. They suggest that industry and union demands for resisting the end of protection for this sector – and even for increasing it – should be rejected by U.S. policy makers.

III. The Wizard "Exposed"

When one speaks of the "textile and apparel industry," in fact one is speaking of three very different industries: the Wizard is in fact three entities with three distinct "personalities." The first entity – industry -- produces yarns and fabrics; the second, made-up textile products except apparel; the third, apparel.

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¹ It must be noted that very high U.S. tariffs – taxes on imports from all countries, including Europe and Canada – were not eliminated in 2005 and continue to significantly restrict imports of textile and apparel products into the United States.

² A concise and recent history of textile and apparel import protection can be found in Dan Ikenon, "Threadbare Excuses, The Textile Industry's Campaign to Preserve Import Restraints," Cato Institute Trade Policy Analysis, No. 25, October 15, 2003, pp. 3-7.

³ The United States backloaded most of its apparel quota liberalization until January 1, 2005, and now the "cliff" from which the textile and apparel industries must jump to a quota-free trading environment looms large – as predicted more than 10 years ago. In other words, rather than a gradual phase-out of the quota system over the 10 years beginning 1995, the U.S. industries must face an abrupt, and potentially much more disruptive, end in 2005. See Laura M. Baughman, Rolf Mirus, Morris E. Morkre and Dean Spinanger, "Of Tyre Cords, Ties and Tents: Window-Dressing in the ATC?," *The World Economy*, Vol. 20, No. 4, July 1997.

The U.S. Census Bureau classifies these industries in three separate North American Industry Classification System (NAICS) codes.⁴

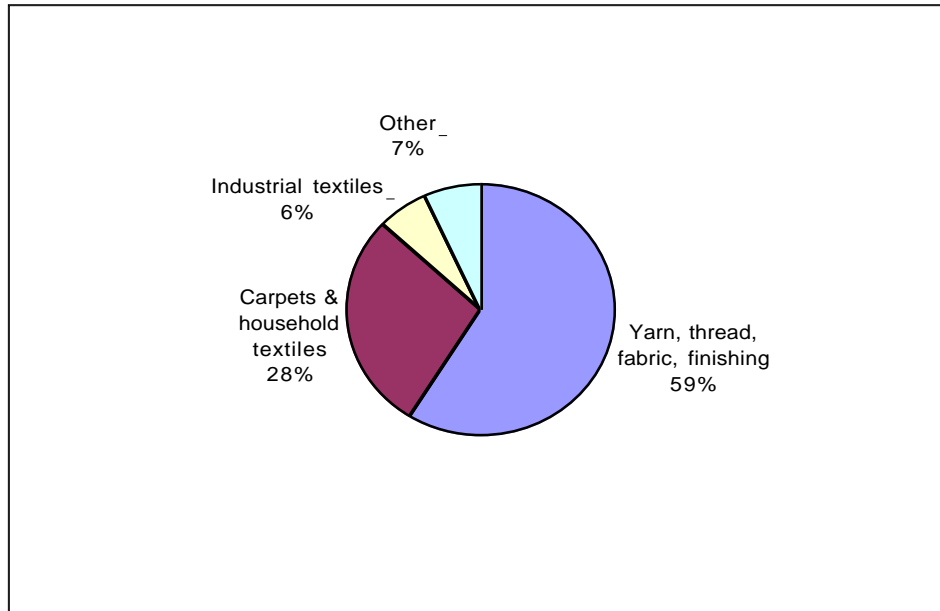
“Textile Mills” (NAICS 313) Census category consists of just under 3,400 firms that take basic fiber (cotton, manmade fibers, wool, to name the major ones) and transform it into yarn, thread or fabric, or finish and coat the yarn, thread or fabric. According to the *2002 Economic Census*, half of the total value of 2002 shipments for this sector represents fabric production; another 23 percent yarns and thread, and the remaining 27 percent, fabric finishing and coating. Textile Mills account for 52 percent of *total* textile industry shipments in 2004. ***But contrary to popular perception, just 28 percent of the volume of fibers shipped is used to make apparel, and 72 percent went to make floor coverings, industrial and home textiles.***⁵ ***This suggests that apparel producers represents just 15 percent of total textile industry sales in 2004.*** In other words, the health of the companies making yarns and fabrics is more closely tied to what is happening in the U.S. Textile Product Mills sector and even the motor vehicle sector than it is to the apparel sector.

The “Textile Product Mills” (NAICS 314) Census category consists of twice as many firms as manufacture yarns and fabric -- almost 7,000 firms producing carpeting, bed linens, curtains, towels, as well as textile bags, rope, cordage, twine, canvas, and tire cord and tire fabric. The *Economic Census* reports that 42 percent of the sector’s 2002 shipments come from the manufacture of carpets and rugs; 26 percent from curtains, drapes, and household furnishings. The remainder is industrial products. As noted above, the sector is the largest consumer of U.S.-produced yarn and fabric products. ***The health of companies in the Textile Product Mills sector depends on trends in the U.S. construction (commercial as well as residential) and motor vehicle sectors, for example.***

⁴ Tracking data for the textile and apparel industries over a long time series can be difficult. The U.S. Government has been phasing in the change in the way it reports data for the two industries, from the Standard Industrial Classification (SIC) system to the North American Industrial Classification System (NAICS). Under the SIC system, “textiles” was classified in SIC category 22, which included some apparel production (e.g., apparel made in knitting mills, such as hosiery). Under the NAICS system, that apparel production has been transferred to the formal “apparel” category. In addition, under the SIC system, workers employed by a textile company who were primarily engaged in warehousing tasks, or transportation, for example, are no longer counted as textile or apparel industry workers but now as warehousing sector or transportation sector employees under NAICS. All would be well if NAICS data extended back historically for a longer period than it does. Not only is the time series relatively short, but it is inconsistent from one sector indicator (shipments, employment, profitability, etc.) to another. In this paper we report the longest time series of NAICS data available for each indicator of sector health discussed, except for productivity data, which are not available in NAICS categories yet.

⁵ “U.S. Fibers End Use Summary, 1994 to 2003,” *Fiber Organon*, <http://www.fibersource.com>.

Distribution of Total Textile Industry Shipments, 2002
(Share of Total)



Source: U.S. Census Bureau, *2002 Economic Census*

Textile production is concentrated in the South, with Georgia, North and South Carolina accounting for 49 percent of total industry employment. **The industry is composed of a large number of privately owned companies, a traditional feature of this sector (compared to the apparel industry). Privately owned companies have fewer options for raising capital than publicly owned companies.**

“Apparel Manufacturing” (NAICS 315) not surprisingly consists of firms making knit or woven apparel. Two different manufacturing processes characterize the U.S. industry: firms that cut and sew purchased fabric into a finished garment, and firms that manufacture apparel from fabric they make or knit to shape. Domestic apparel manufacturing is spread across a wide array of apparel products. According to the *2002 Economic Census*, trousers, pants and jeans represent about 13 percent of total 2002 shipments, shirts and blouses, 16 percent. Knit shirts (e.g., t-shirts) account for just 1.6 percent of total U.S. apparel shipments in 2002; infants’ wear, less than 1 percent.

The U.S. apparel industry (NAICS code 315) differs in many ways from its textile suppliers. For starters, it is more diffuse, with a company count totaling almost 13,000 in 2001. **The apparel companies that account for most of U.S. production are largely publicly owned companies.** Apparel production is concentrated in New York and California, which accounted for 36.9 percent of total industry employment. The companies listed below, the largest U.S. apparel producers, are quite international in their operations. The net sales reported include large amounts of imported apparel.

Leading U.S. Textile Firms, 2003
(NAICS 313, 314)

	Net Sales (million)	U.S. Employees	Products Made
Invista (2002)	\$6,300	18,000	Fibers, polymers, resins, flooring made in U.S., South America, Europe, Canada, Asia. A privately held company; details not available.
Mohawk Industries, Inc.	\$5,005	30,200E	Carpets and rugs, ceramic tile, stone flooring, wood and vinyl flooring; plants in U.S. and Mexico. Carpet and rug operations are vertically integrated from the extrusion of resin and plastics into fiber, its conversion into yarn and the manufacture of finished rugs and carpets. Mohawk believes that it is one of the largest U.S. producers of woven carpet and that it has several machines and processes that no other manufacturer has, thereby allowing it to meet specifications that its competitors cannot duplicate.
Shaw Industries, Inc.	\$4,660	30,000	Carpet, laminate, ceramic tile, hardwood flooring; plants in the U.S.; a subsidiary of Berkshire Hathaway. During 2003 Shaw made approximately 97% of its requirements for carpet yarn in its own yarn processing facilities.
Milliken & Co., Inc.	\$3,400E	14,000E	Fabric for: rugs/carpets, furniture, apparel, automobiles, tennis balls, and specialty textiles; chemicals and petroleum products, colorants. Privately-held company, few details available.
Springs Industries	\$2,500E	17,000E	Bath rugs, bedspreads, pillows, sheets, shower curtains, towels, fabric, hardware, infant apparel, window blinds manufactured in the U.S., Canada and Mexico. A privately owned company, details not available.
WestPoint Stevens, Inc.	\$1,646	13,886	Bed linens and bath towel comforters, blankets, pillows, table covers, window trimmings produced in the U.S. and abroad. Beginning in 2000, increased focus was placed on global sourcing to drive business growth and improve profitability. In 2003, WestPoint imported both component

	Net Sales (million)	U.S. Employees	Products Made
			and finished products from 23 countries and has established strong relationships in several key export countries including China, India, Pakistan and Turkey.
W. L. Gore & Associates, Inc	\$1,350	6,000*	GORE-TEX fabric for high-performance clothing, shoes, guitar strings, dental floss, space suits, sutures; insulated wire and cables, filtration products and sealants; plants in U.S., Japan, China, Germany and Scotland. A privately held company; details not available.
Beaulieu of America, LLC (2002)	\$1,100E	7,000E	Broadloom carpet made in the U.S., Canada and Australia. A privately-held company; details not available.
Burlington Industries (2002)	\$993	6,500E	Fabric (including denim) for apparel and interior furnishings made in U.S. and worldwide (see text discussion of International Textile Group).
Interface, Inc.	\$924	5,210*	Carpet, office panels, upholstery fabric, adhesives, chemical compounds for modular carpet and a leading manufacturer and marketer of other products like broadloom carpet, panel fabrics and upholstery fabrics; a manufacturers of contract upholstery fabrics sold to office furniture manufacturers and contract jobbers in the U.S. and the UK; moving into residential carpeting market. Manufactures carpet in the U.S., the Netherlands, UK, Canada, Australia and Thailand. "Having foreign manufacturing operations enables us to supply our customers with carpet from the location offering the most advantageous delivery times, duties and tariffs, exchange rates, and freight expense, and enhances our ability to develop a strong local presence in foreign markets." Fabric manufacturing facilities are located in the U.S. and UK.
Parkdale Mills	\$900E	2,500E	Yarns for home furnishings and apparel. A privately held company; details not available

	Net Sales (million)	U.S. Employees	Products Made
Unifi, Inc.	\$849	3,600	Producer and processor of textured polyester and nylon yarn for apparel, home furnishings, automotive fabrics, upholstery, and leg wear. Production in the United States and UK, Brazil, Colombia. Unifi uses trade preference programs extensively.
Avondale Inc.	\$591	5,000	Cotton apparel fabrics (in particular, denim), cotton and cotton-blend yarn for apparel and home furnishings, and greige and specialty fabrics for recreational, industrial and military products. Products are made in U.S. plants, SEC 10K notes that NAFTA, AGOA, CBI, and ATPA have had a positive impact on Avondale (see section below on "Imports" for details).
Dan River	\$477	5,100*	Apparel fabric, comforters, drapes, pillowcases, sheets made in U.S., Mexico; supplement internally produced product offerings with yarns, finished and unfinished fabrics, components of products, and finished products purchased from various foreign and domestic sources. Dan River believes NAFTA and CBI/CBTPA have been beneficial.
Guilford Mills	\$446	2,600*	Automotive textiles, specialty textiles, small amount of apparel fabric made in plants in U.S., U.K.
Galey & Lord	\$437	3,265	Fabric for apparel (especially denim) and home furnishings made in the U.S., Canada, Mexico and Tunisia. Galey & Lord believes it has benefited from NAFTA and CBI.

E = estimated by Hoover' (www.hoovers.com).

* Employment worldwide; it was not possible to estimate U.S. employment alone.

Sources: Public companies: The Trade Partnership from company 10K filings with the Securities and Exchange Commission; Private companies: Hoover's, company web sites.

Leading U.S. Apparel Firms, 2003
(NAICS 315)

	Net Apparel Sales (million)	U.S. Employees	Products Manufactured or Sourced from Others
Sara Lee Corp.	\$6,399	50,000E	Intimate apparel, knit products, leg wear made in 10 U.S. states, Argentina, Brazil, Canada, Costa Rica, Dominican Republic, El Salvador, Europe
VF Corporation	\$5,207	17,700	Jeans, sportswear, intimate apparel, children's wear, outdoor apparel and equipment, occupational apparel, made in VF-owned facilities in the U.S., Mexico, Caribbean, or sourced from independent Asian contractors. 95% of products sold in U.S. were imported.
Liz Claiborne, Inc.	\$3,703	6,800E	Designs and markets branded women's, men's and children's apparel, accessories, jewelry, cosmetics products. Does not own manufacturing facilities. Sources product from U.S. and international suppliers, including China, Hong Kong, Taiwan, Turkey, the Dominican Republic, Sri Lanka, Indonesia, Philippines.
Levi Strauss	\$4,091	4,360	Branded jeanswear, casual wear and dress pants for men, women and children. Owns manufacturing facilities in Europe, South Africa, Turkey, Australia, Japan, Indonesia and Philippines. Also sources apparel from global network of international suppliers.
Jones Apparel Group Inc.	\$3,507	9,600E	Women's, men's and children's sportswear, suits, dresses, jeans, footwear and accessories made in the U.S. and Mexico (24%), China; also sources from Central America using "807", Hong Kong, Taiwan, Philippines, Thailand, Indonesia, Korea
Polo Ralph Lauren Corp.	\$2,380 ¹	11,000	Men's and women's apparel, home furnishings. Owns no production facilities; sources about 5% of product from U.S. manufacturers, 95% abroad.

	Net Apparel Sales (million)	U.S. Employees	Products Manufactured or Sourced from Others
Kellwood	\$2,347	not avail.	Women's and men's sportswear, intimate apparel, infant apparel and tents, sleeping bags, backpacks and related recreation products. Product is sourced from contract manufacturers, primarily in Asia, and from company-owned facilities in Asia.
Tommy Hilfiger Corp.	\$1,876	5,400	Designs, sources and markets men's and women's sportswear, jeanswear and children's wear. Imports most of its finished goods.
Phillips-Van Heusen Corp.	\$1,582 ²	9,000	Designs, sources and markets dress shirts, sportswear, footwear. Makes 7% of dress shirts in its own U.S. production facilities; the rest from approximately 225 different foreign manufacturers.
Warnaco	\$1,264	not avail.	Designs and markets intimate apparel, sportswear and swimwear sourced from producers in the U.S., Canada, Mexico, and around the world.
Fruit of the Loom/ Garan	\$1,459	not avail	Produces underwear, T-shirts, fleecewear largely in its own spinning, knitting, cloth finishing, cutting, sewing and packaging facilities in the U.S. and Ireland (spinning and most fabric operations); sewing and finishing operations done in Central America and Caribbean, Morocco. Owned by Berkshire Hathaway.
Russell Corp.	\$1,186	12,500E	Designs, sources and markets sports apparel and sports equipment (e.g. balls); weaves, knits, dyes, finishes and cuts fabric in its own U.S. facilities for apparel made in overseas factories (99% of apparel sold is imported).
Oxford Industries, Inc.	\$1,117	3,088	Produces and markets branded and private label apparel for men, women and children. Manufactures 11% of products in company-owned foreign facilities, sources 86% from offshore joint ventures and third party producers; 3% comes from U.S. manufacturers.

	Net Apparel Sales (million)	U.S. Employees	Products Manufactured or Sourced from Others
Columbia Sportswear Co.	\$799	1,119	Designs, sources outerwear, sportswear, footwear, accessories, and equipment from Far East manufacturers (98%); the rest from U.S. manufacturers.

1 Sales of apparel, home furnishings, accessories and fragrances. It was not possible to obtain or estimate apparel sales.

2 Sales of apparel and footwear. It was not possible to obtain or estimate sales of apparel only.

Source: The Trade Partnership from company SEC filings and other public sources.

IV. The Claims Addressed

Textile industry representatives and apparel unions complain that imports, particularly imports from China, are the cause of long-running declines in shipments and employment, and large numbers of bankruptcies and plant closings.

Behind the “Shipments Curtain”

Well, it isn't as bleak as they make it seem. While recent trends in textile mill shipments (NAICS 313) show declines, trends in textile *product* mill shipments (NAICS 314) are decidedly up. Again, this is the segment of textile manufacturing that produces residential, commercial and industrial (e.g., motor vehicle) carpeting, and home textiles (sheets, towels).⁶ These producers account for almost half (48 percent in 2004) of total “textile industry” shipments. In short, nearly half the “textile industry” is seeing steady increases in U.S. sales (*see chart on next page*).

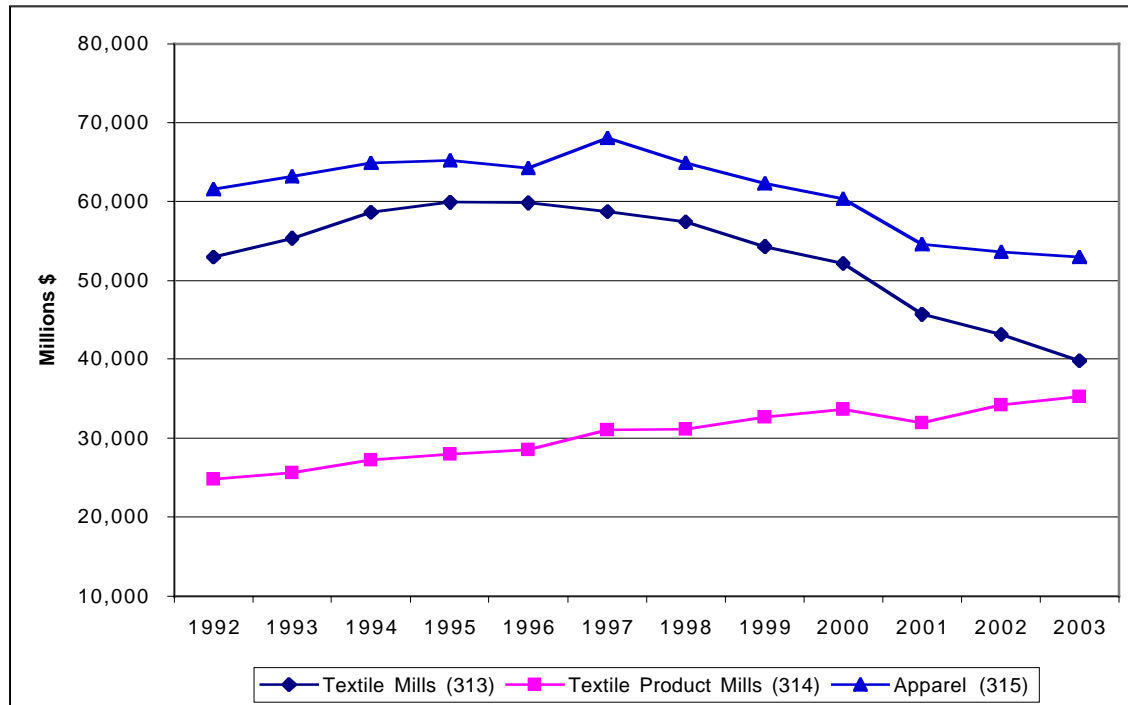
But what about producers of yarn and fabric for apparel whose sales have been declining (since 1997)? Apparel manufacturers and retailers who are the customers for that yarn and fabric frequently complain that U.S. yarn and fabric producers are more interested in selling products the producers already make, in the colors they make them and the size runs that are best for them, rather than the fabrics, colors and size runs sought by their customers. This insistence that customers buy what the U.S. producers already make forces many buyers offshore where foreign textile producers are more than willing to supply exactly the yarns and fabric sought by the customers. This mindset of the U.S. yarn and fabric producers has been a longstanding complaint of their customers, and likely one of the causes of declining shipments for that segment

Textile shipments are decidedly “up” for those manufacturers that sell to consumers furnishing their new or renovated homes with household textile products, those supplying commercial and residential construction customers and those outfitting motor vehicle producers with carpeting.

⁶ Mohawk, for example, noted that the broadloom carpet industry has two primary markets – residential (with about 75 percent of the market) and commercial (the remaining 25 percent). Business in the more significant residential market depends on U.S. population growth, which requires new and renovated housing and commercial space; increasing average house size, and growth in housing starts and housing resales. An estimated 50 percent of industry shipments are made in response to replacement demand, which usually involves exact yardage, or “cut order,” shipments that typically provide higher profit margins than sales of carpet sold in full rolls. Because the replacement business generally involves higher quality carpet cut to order by the manufacturer, rather than the dealer, this business tends to be more profitable for manufacturers than the new construction business.

of the industry. It is something the producers can easily rectify without the need for U.S. government trade action.

Textile and Apparel Industry Shipments, 1992-2003



Source: Bureau of Census

Shipments of U.S.-made apparel are also down, but here again there is a good reason. A highly competitive retail environment has forced all apparel companies to squeeze as much “fat” out of their operations as possible.⁷ As U.S. costs of production exceed those abroad for many apparel items, many of the largest U.S. apparel companies have over the last five to 10 years re-formed their operations from high-cost and uncompetitive domestic producers of apparel to more competitive international producers or sourcers of apparel. The largest and most successful U.S. apparel producers have transformed themselves into branding and marketing companies, licensing out production of brands to foreign producers, or participating in co-production operations with manufacturers in the Caribbean Basin or in Mexico. The thrust of their U.S. operations is now focused

⁷ These pressures come from a variety of sources. Consumers are allocating less of their total discretionary spending to apparel, apparel prices have been falling steadily for years, department stores are feeling the pressure from mass retailers and passing on demands for lower-cost apparel to their suppliers, mass retailers insist on lower-cost apparel, and increasing numbers of vertically-integrated specialty stores with proprietary brands are claiming increasing shares of consumers’ retail dollars. It should be noted that Wal-Mart is the largest single customer of most of the largest apparel firms.

on design and the management of production operations spread around the world making licensed apparel brands. The health of these major apparel companies, including their remaining U.S. employment base (now largely classified in NAICS codes for warehousing and distribution, rather than apparel), is now inextricably intertwined with international sourcing. In short, foreign sourcing of apparel maintains American jobs in design, wholesaling and distribution that would otherwise be lost completely if the firms were uncompetitive and went out of business.

Behind the “Employment Curtain”

Whenever textile industry and apparel union lobbyists plead for government assistance, be it research grants or import protection, their favorite rationalization is dramatic declines in industry employment.⁸ Indeed, employment in both industries has been in decline, *for decades*. The U.S. Department of Labor notes that textile industry employment has been declining since its peak in June 1948 (1.3 million jobs), and apparel employment has been declining since its peak in April 1973.⁹ Textile industry employment has declined at an average annual rate of 1.1 percent since its peak in 1948. Apparel industry employment increased at an average annual rate of 1.4 percent from 1958 to 1973, and has been declining at an average annual rate of 3.1 percent ever since. By 2004, according to the Bureau of Labor Statistics, total textile employment stood at 416,200 (compared to 701,100 in 1990), and apparel employment at 284,800 (compared to 929,100 in 1990). ***Apparel unions represent just 8.4 percent of the apparel workforce in 2002;¹⁰ notably, according to information on its website, only 10 percent UNITE HERE!’s***

⁸ See, for example, American Manufacturing Trade Action Coalition, “Labor Union UNITE Joins Textile/Fiber Coalition,” Press Release, September 3, 2003, www.amtacdc.org/media/030903.asp, downloaded November 3, 2003; American Manufacturing Trade Action Coalition, “Textile and Apparel Industry Loses 13,000 Jobs in April – U.S. Trade Policy Responsible for Much of Loss,” Press Release, May 2, 2003, www.amtacdc.org/media/030502.asp, downloaded November 3, 2003.

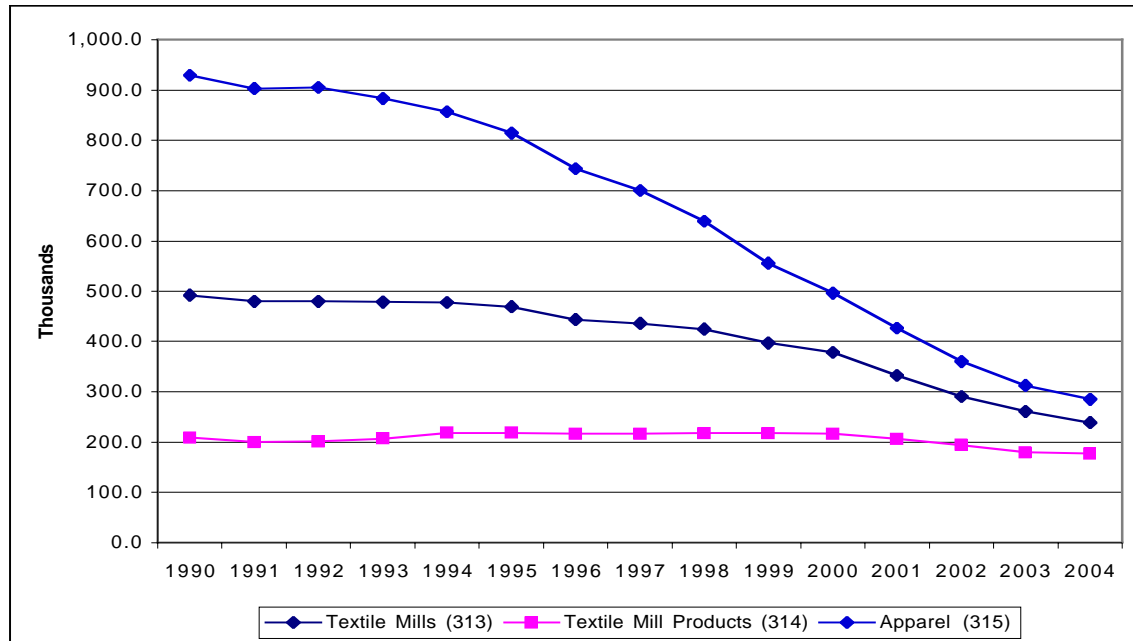
It should also be noted that unions speak for very few textile and apparel workers. In 2002, just 4.8 percent of the textile workforce were members of a union or represented by a union. In that year, 8.4 percent of the apparel workforce were members of a union or represented by a union. U.S. Department of Labor, Bureau of Labor Statistics, unpublished table, “A31. Union affiliation of employed wage and salary workers by class of worker and intermediate industry,” 2002.

⁹ Lauren A. Murray, “Unraveling Employment Trends in Textiles and Apparel,” *Monthly Labor Review*, August 1995, pp. 62-63.

¹⁰ U.S. Department of Labor, Current Population Survey, “Table 2: Union affiliation of employed wage and salary workers by class of worker, Intermediate industry, and sex, Annual averages, 2003.”

membership works in the apparel manufacturing sector.¹¹ In fact, 9 percent of the union's membership works for apparel retailers and distributors, and thus whose employment prospects are positively affected by apparel imports.

Textile and Apparel Employment, 1990-2004



Source: U.S. Department of Labor, Bureau of Labor Statistics

Why? A sizable body of research has demonstrated that improvements in productivity are the primary causes of job losses, at least in the textile industry. For example, McKenzie and Smith concluded that textile productivity improvements accounted for 80-85 percent of the industry's employment losses from 1973-84.¹² Using another methodology, Cline also concluded that productivity mattered more than imports as a factor in both textile and apparel

¹¹ The rest work in such disparate sectors as gaming, distribution/retailing, hotels, laundry services, and hospital and other services.

¹² Richard B. McKenzie and Stephen D. Smith, "Loss of Textile and Apparel Jobs: Is Protectionism Warranted?," *Cato Journal*, 6 (1987), pp. 731-746. McKenzie and Smith used regression analysis to examine the impact on domestic textile and apparel employment of changes in textile and apparel productivity as well as U.S. textile and apparel imports. They concluded that "Contrary to the contentions of protection proponents, textile imports have not in any systematic and predictable manner, or to any statistically significant extent, adversely affected U.S. textile employment between 1960 and 1985. However, apparel imports appear to have had a significant negative impact on employment in both industries."

sector job losses.¹³ Using still another approach, Henderson and Sanford concluded that textile imports only partially displace domestic employment, and that the impact varies by U.S. region.¹⁴

Compounding the industries' employment problems is the growing need for hard-to-find highly-skilled, highly-trained workers to develop and produce the new, cutting edge yarns and fabrics that are needed to keep the industry out of the commodity business and focused on the specialty fabric business.

Demographics may also play a role in explaining job losses. The U.S. textile and apparel workforces are relatively old and heading towards retirement ages. In 2003, the average age of a textile worker was 43 years and the average age of an apparel worker was 41 years.¹⁵ Within 10 years, about 40 percent of the current apparel workforce will likely retire, and about 44 percent of the textile workforce will likely retire.¹⁶ This suggests that future job losses in the sectors may result simply from demographics, rather than imports or some other cause.

Some U.S. universities are responding to the acute need for highly-skilled, highly-trained textile workers.

¹³ William R. Cline, *The Future of World Trade in Textiles and Apparel*, (Washington, DC: Institute for International Economics, 1987). Cline follows a definitional decomposition approach that posits that the percentage change of employment must equal a weighted average of the percentage changes of demand and exports, imports and labor productivity. Applying this approach to textile sector data for different periods from 1962-85, Cline concluded that "the decomposition approach indicates that for textiles in virtually all periods and for apparel at least until the 1970s and even prior to 1982, the adverse effect of imports on employment has been much more limited than that of labor productivity growth (and, in the case of textiles, slow growth in demand). While the import surge of 1982-85 temporarily pushed the negative employment effect of imports in apparel to a magnitude almost equal to that of productivity growth, the pace of this import growth is unlikely to continue."

¹⁴ David P. Henderson and Scott Sanford, "A Regional Model of Import-Employment Substitution: The Case of Textiles," *The Review of Regional Studies*, Vol. 21 (1991), pp. 79-90.

¹⁵ Bureau of Labor Statistics, Bureau of the Census, unpublished data from the Current Population Survey, "Table 16. Employed persons by detailed industry, sex and age, 2003."

¹⁶ According to the Bureau of Labor Statistics, 26.3 percent of total textile workers in 2003 were aged 44-54; 16.1 percent were aged 55-64 and 2.3 percent were aged 65 or older. Moving each of these groups into the subsequent age grouping puts them in the appropriate ages for retirement. Similarly, in 2003, 23.8 percent of total apparel workers were aged 45-54; 12.1 percent were aged 55-64, and 2.6 percent were aged 65 and over.

Students who see themselves as future marketers or designers, chemists or lab technicians, are signing up for college programs that offer degrees as high as PhDs (in Textile Engineering and Science at Philadelphia University).¹⁷ North Carolina State University cannot turn out enough textile engineers to meet demand from U.S. companies.¹⁸ The problem was acute even back in 1999/2000, when the trade press reported that the four top state schools in the textile belt (Clemson, South Carolina; N.C. State University; Georgia Tech; and Auburn, Alabama) did not have enough students to fill the needs of the industry for graduates seeking careers in textiles.¹⁹

One reason schools are having trouble turning out enough graduates is that many potential students are wary of entering the textile or apparel industries. They (and their parents) view the industries as dying when, according to Fred Cook, Chair and professor at Georgia Tech's School of Textile & Fiber Engineering, "the true facts [are] that home furnishing, industrial textiles and carpets are doing fine."²⁰ Said Bob Bowen, Director of Recruitment for Clemson University's School of Textiles, Fiber and Polymer Science, thanks to bad media on the industry, "[p]arents are the ones to dissuade. The kids come in all fired up. My job is to educate the parents and the educators [i.e., high school teachers and counselors]."²¹ For their part, textile and apparel employers are responding with higher pay, more flexible work schedules, and offers to send managerial workers to the company's foreign subsidiaries for an overseas experience. Still others are recruiting legal aliens.²²

Behind the "Bankruptcies and Plant Closings" Curtain

According to the National Council of Textile Organizations, "illegal trade" practices of China (primarily the currency peg and government subsidies) and other Asian governments have caused the closure of more than 300 textile plants in the United States since 1997. It is well known that a large number of "big name" firms have been in bankruptcy proceedings – some, like Burlington

¹⁷ Chris Clark, "Philadelphia University Announces first Doctoral Program," PR Newswire, May 8, 2003.

¹⁸ Eric Heisler, "N.C. State's College of Textiles Had a 96 Percent Placement Rate Last Year," *News & Record (Greensboro, NC)*, Oct. 6, 2002.

¹⁹ Brenda Lloyd, "Jobs Go Unfilled as Textile School Enrollments Decline," *DNR*, January 12, 2000.

²⁰ Ibid.

²¹ Ibid.

²² Scott Malone, "Filling Jobs in a Shrinking Field," *WWD*, January 2, 2001.

Industries, more than once. Newspapers are replete with stories of textile and apparel companies shutting down and laying off hundreds of workers and one might be tempted to conclude from these stories that they are dying U.S. industries.

But in fact these closings are evidence of structural shifts in both the textile and apparel industries that have been under way for several years. These shifts – albeit painful for many -- are creating stronger, more efficient, industries.²³ While some of the companies that have entered bankruptcy have gone completely out of business, a number have consolidated operations (which meant closing plants and laying off workers) to get rid of overcapacity that plagued the industry and eroded profits, and reemerged as new ventures or new companies formed out of the merger of two firms.

The recent birth of International Textile Group is illustrative. The company is the result of the merger of Burlington Industries and Cone Mills in 2004 (both in bankruptcy at the time).²⁴ ITG, formed by investor Wilbur L. Ross, is cutting costs by eliminating redundant operations. Burlington and Cone both produced overlapping product lines and, in slack demand periods, were unable to run their plants at full capacity. Both also had duplicative denim facilities in Mexico. By

All the investment activity seems to suggest that the plight of the industries may not be as dire as the newspaper stories of plant closures would lead one to believe.

rationalizing production, ITG aims to achieve longer production runs which are much more efficient (translation: profitable). ITG operates five businesses: Cone Denim, which makes denim fabric in the United States, Mexico, Turkey, India and, in the near future, Guatemala; Burlington Worldwide, producing apparel fabrics in the United States, Mexico, and a network of international mill partners coordinated out of Hong Kong; Home

Furnishings, which produces interior fabrics in U.S. plants with sourcing offices located around the world; Carlisle Finishing, a domestic commission dyeing, printing and finishing operation; and Nano-Tex, LLC, a company that develops and markets a family of nanotechnology-based textile treatment.

²³ Major turmoil in an industry, with companies going into and out of business, is not necessarily a “bad thing.” Witness similar turbulence in the U.S. airline industry, where imports are clearly not a factor. Competition forces change, some of it painful.

²⁴ It is worth noting that Ross had to bid for Burlington against Warren Buffett, who owns textile producer Shaw Industries and apparel producer Fruit of the Loom. Said James Martin, President of textile producer Dan River, “It’s a great thing when somebody of Warren Buffett’s stature and track record is investing in our industry. Warren Buffet doesn’t invest in things that he doesn’t think are going to make him and Berkshire Hathaway money...” Scott Malone, “Will Buffett Give Mills a Bump?,” *WWD*, February 25, 2003.

ITG is not the only example of investor interest in the U.S. textile industry. Indeed, textile industry trade journals increasingly feature upbeat articles about prospects for the textile industry going forward. A typical example, published in January 2003, leads off with: “The U.S. textile industry is alive and well. That’s not to say there still aren’t some serious problems and question marks – or that any big new demand spurt is just around the corner. Rather, the point to keep in mind is this: mills have weathered one of their most wrenching downturns in history – yet textiles still remains a viable, innovative and forward-looking industry, one that’s likely to edge back into the plus column after five years of decline.”²⁵ And another from 2003, “If the American textile industry is in its sunset years; if the pressure of foreign competition is causing many domestic manufacturers to pull down the shades and lock the doors for a final time; if the outlook for the next 10 years is all gloom and doom, then someone forgot to tell Parkdale Inc., the world’s largest supplier of spun yarn...”²⁶ According to the President of the apparel division of Invista, the newly-formed firm arising from the acquisition by Koch Industries of DuPont’s fiber unit, “You don’t go and spend over \$4 billion unless you are committed to the industry.”²⁷

²⁵ Robert S. Reichard, Economics Editor, “Textiles 2003,” *Textile World 2003 Economic Outlook*, January 2003, http://www.textileindustries.com/News_Current.htm?CD=2&ID-2917, downloaded January 14, 2003. A sampling of other positive news can be found in: “Burlington, NC-Based Yarn Company Emerges from Bankruptcy,” *Times-News*, Burlington, NC, April 17, 2003; Tony Mecia, “Morganton, NC to Celebrate Rare Textile Mill Opening,” *The Charlotte Observer*, July 26, 2002; Kevin Harlin, “Schenectady Textile Plant Changing Hands,” *The Times Union* (Albany, NY), May 29, 2002; Hunter Lewis, “Granville Expansion Will Add 75 Jobs; Sandusky Athol Plans a \$6M Project at Butner’s Coated Fabrics Plant,” *The Durham Herald Co.*, June 5, 2002; Joseph Cigna, “Alamance County, NC Hosiery Maker Plans to Double Production,” *Times-News* (Burlington, NC), June 12, 2002; “Western Nonwovens Inc. Announces Major Capital Spending Plan for HiLoft Business Unit,” *Business Wire*, January 3, 2003; “KOSA Upgrading Plant in Shelby; Yarn-Thread Operation Will Get New Technology, Increased Capacity,” *The Charlotte Observer*, October 20, 2002; S. Gray Maycumber and Vicki M. Young, “Buffett Bid a ‘Shot of Adrenaline’ for Textiles,” *Daily News Record* (no date); Scott Malone, “Delta Woodside Plans Modernization At South Carolina Textile Factory,” *Women’s Wear Daily*, July 2, 2002; “Leaders Welcome Factory to Henry; Jobless Rate at 13.8% in County,” *Roanoke Times and World News*, November 14, 2002; High Point, N.C. Textile Producer announces Plans to Stay Open, *Knight Ridder/Tribune Business News*, February 5, 2004; Jim Nesbitt, “Avondale Workers to Return to Jobs,” *The Augusta Chronicle* (Georgia), August 13, 2003; “Ramtex Yarn Mill Return to Full Production,” *News and Record* (Greensboro, NC), October 18, 2003.

²⁶ Jim Phillips, “Parkdale Positions for Growth,” *Textile Industries.com*, April 2001, www.TextileIndustries.com/News.htm?CD=099&ID=455, downloaded November 20, 2003.

²⁷ Scott Malone, “Consolidation Sweeps Textiles,” *WWD*, July 27, 2004.

Investment enthusiasm extends to apparel as well. One report of recent activities begins, “So far, 2004 is turning out to be a blockbuster year for apparel mergers and acquisitions.”²⁸ U.S. firms are buying foreign firms; foreign firms are buying U.S. firms. The article notes that “a good portion” of the acquisition activity reflects U.S. apparel companies buying firms in more specialized niches.

All the investment activity seems to suggest that the plight of the industries may not be as dire as the newspaper stories of plant closures would lead one to believe. A recent report from the National Textile Center concluded:

Indeed, on the industry level, shrinking employment is discouraging, however plant level data tell a different story: [there has been] significant exit *and entry* in the textile industry. Historically, firms that exit an industry are generally the more inefficient firms. Those that remain and the ones that enter, on the other hand, are typically more productive and technologically advanced.²⁹

And the editor of a textile journal recently opined:

Don’t count the U.S. textile industry out. Sectors are changing, investment is changing, and how the industry responds to the marketplace is changing. Suppliers that are willing to partner, willing to assist in change, and willing to move beyond efficiency and productivity will be some of the first to benefit from the new reality of U.S. textiles.³⁰

Levinsohn and Petropoulos agree. They explored the question of whether the industries are “creatively destructing” or “just plain destructing” by looking at 20-25 years of plant-specific data, rather than industry-level data. Plant level data enabled them to explore plant openings (“entry”) and plant shutdowns (“exit”) as discrete events, while industry-wide data (reported in Table 1 above) is “net” data (it subtracts the entries from the exits and reports only the resulting number of plants). They conclude that, on the basis of plant-level data, “creative destruction” best characterizes the dynamics of the industries:

²⁸ Vicki M. Young, “A Busy Half of Buying and Selling,” *DNR*, August 23, 2004.

²⁹ National Textile Center, “Optimal Investment Strategies for Enhanced Productivity in the Textile Industry, Year 11 Continuing Project Proposal, Project No. IO1-P13 (no date). Italics in original.

³⁰ James M. Borneman, Editor in Chief, “US Textiles’ New Reality,” *TextileWorld.com*, May 12, 2005.

Without a doubt, the U.S. textile and apparel industries have faced difficult times over the past quarter century. What is less obvious from the industry-level data [again, see Table 1 above] is the process by which these industries are re-inventing themselves as they adapt to new technologies (in the case of textiles) and new organizational structures (in the case of apparel). ... As we've documented ..., there is substantial entry into the industries, job creation rates are high, and productivity dynamics suggest surviving plants have emerged all the stronger while it has been the less productive plants that have exited. ... [T]hese industries are indeed examples of creative destruction. *Although the industry-level evidence is certainly consistent with labeling the textile and apparel industries as declining industries, the plant-level evidence highlights substantial creation.*³¹

Profitability data help to explain some of this enthusiasm of investors. Net income for the textile industry has turned around from a loss of \$445 million in 2001 to a profit of \$1.3 billion in 2004. Apparel profits, belying all other data suggesting a declining industry, have been strong and increasing, almost three times textile industry profits as a share of sales in 2003. How can a “dying industry” be so profitable?

Recent Profitability in the Textile and Apparel Industries, 2001-2004

(millions and percent)

	2001	2002	2003	2004
Textiles (NAICS 313, 314)				
Net sales, receipts, operating revenue	\$35,708	\$36,362	\$47,046	\$49,888
Net income or loss before taxes	(\$445)	\$675	\$1,250	1,082
Operating profit (loss)/sales	(1.2%)	1.9%	2.7%	2.2%
Apparel & Leather Products (NAICS 315, 316)				
Net sales, receipts, operating revenue	\$71,083	\$71,173	\$85,852	\$85,489
Net income before taxes	\$4,590	\$5,540	\$6,506	7,891
Operating profits/sales	6.5%	7.8%	7.8%	9.2%

Source: U.S. Department of Commerce, U.S. Census Bureau, *Quarterly Financial Report for Manufacturing, Mining and Trade corporations*, various issues. NOTE: Commerce does not report data for apparel alone.

In fact, what we are seeing as a transformation of the textile and apparel industries. Going forward, warn textile industry specialists, the

³¹ Jim Levinsohn and Wendy Petropoulos, “Creative Destruction or Just Plain Destruction? The U.S. Textile and Apparel Industries Since 1972,” *NBER Working Paper 8348*, 2001, p. 24. Emphasis added.

United States will not be a competitive supplier of low-cost commodity yarns and fabrics, and it should move out of production of those products. “The way out is to innovate, to reinvent the processes, to keep coming up with new fibers,” said Roland Stephen, a faculty fellow with the Institute for Emerging Issues at North Carolina State University. “We are heading to the point where there will be a place for entrepreneurial, specialized firms in the U.S. and the place for mass market production is overseas.”³²

Successful textile producers supplying apparel producers tend to be entrepreneurial firms that produce specialized, high-performance yarns and fabrics and avoid the price battles being won by mass-market imports. Similarly, successful apparel manufacturers have embraced co-production operations in trade preference partner countries and manufacture piece goods for those operations.³³ Still other competitive U.S.-based apparel producers manufacture products that mandate short lead times (from production to retail sales floor) – e.g., fashion apparel – or which need to be made in smaller quantities. In short, commodity apparel business has largely shifted abroad; niche and specialty apparel production remains in the United States. The CEO of Oscar de la Renta sums up the view:

We continue to produce the majority of our [U.S.] line domestically, using both imported and domestic fabric. The special and complex nature of the garments produced necessitate the uniquely skilled labor force that we find in New York. Our ability to rapidly respond to customer requests due to the proximity of the contractors is a further bonus. Our mix of domestic and foreign sourcing has not changed over the last 10 years.³⁴

³² “As Textile Jobs Bolt Overseas, Creative North Carolina Firms Survive,” *Atlanta Journal and Constitution*, September 21, 2003.

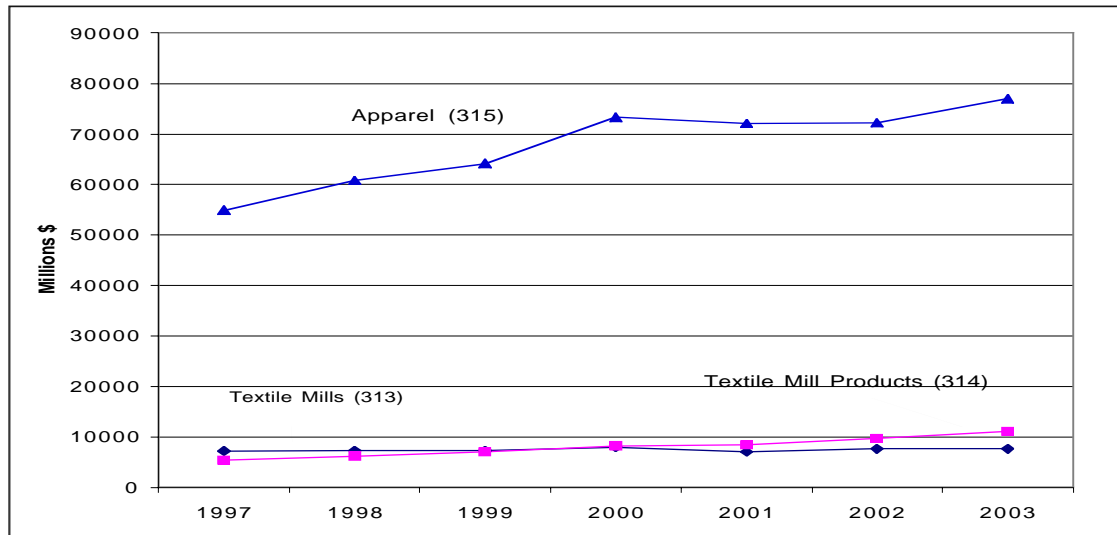
³³ See, for example, Phillips-Van Heusen Corporation, *Annual Report* (10K) for the fiscal year ended February 1, 2004, filed with the Securities and Exchange Commission, Commission File Number 001-07572; Jones Apparel Group, *Annual Report* (10K) for the fiscal year ended December 31, 2003, filed with the Securities and Exchange Commission, Commission File Number 1-10746.

³⁴ Scott Malone, “U.S. Makers Fading Away,” *WWD*, June 10, 2003.

V. Are Imports the Wicked Witch of the West?

Textile producers and apparel unions place a huge amount of blame for the changes they face in the U.S. marketplace on imports, particularly imports from China. Thus, it is useful to look more closely at import trends and how the industries have been affected by those trends.

Imports of U.S. Apparel, Yarn/Fabric and Other Textile Products, 1997-2003



Source: The Trade Partnership from ITC Dataweb

Imports of Products Also Made by U.S. Textile Mills (NAICS 313)

Imports that compete with products made by U.S. textile mills are yarns and fabric. In brief:

- U.S. fabric and apparel producers buy these imports.
- Imported yarn and fabric represented less than 20 percent of the U.S. market for yarn and fabric in 2004 (in other words, 80 percent of the U.S. market is supplied by U.S.-made yarns and fabric).
- The biggest foreign sources for yarn and fabric to the U.S. market in 2004 were Canada and Mexico, Europe and Korea (more than half of 2004 imports); China amounts to 9.3 percent of total imports. Imports from China account for 1.8 percent of the U.S. yarn and fabric market (defined as U.S. shipments less exports plus imports).
- The average tariff rate applied to yarns and fabric subject to duty (i.e., not duty-free under a preference program or free trade agreement) was 9.6 percent in 2004, *double* the comparable average 2004 tariff rate for *all* merchandise imports. Tariffs apply

to imports from all countries not subject to a preference program or free trade agreement.

- Until January 2005, quotas restricted U.S. imports of fabric and yarn from 27 countries (not including Canada, Mexico, Europe, or Japan), including China.

Textile Mills (NAICS 313): Domestic Shipments, Exports, Imports, Market, 1997-2004*
(millions and percent)

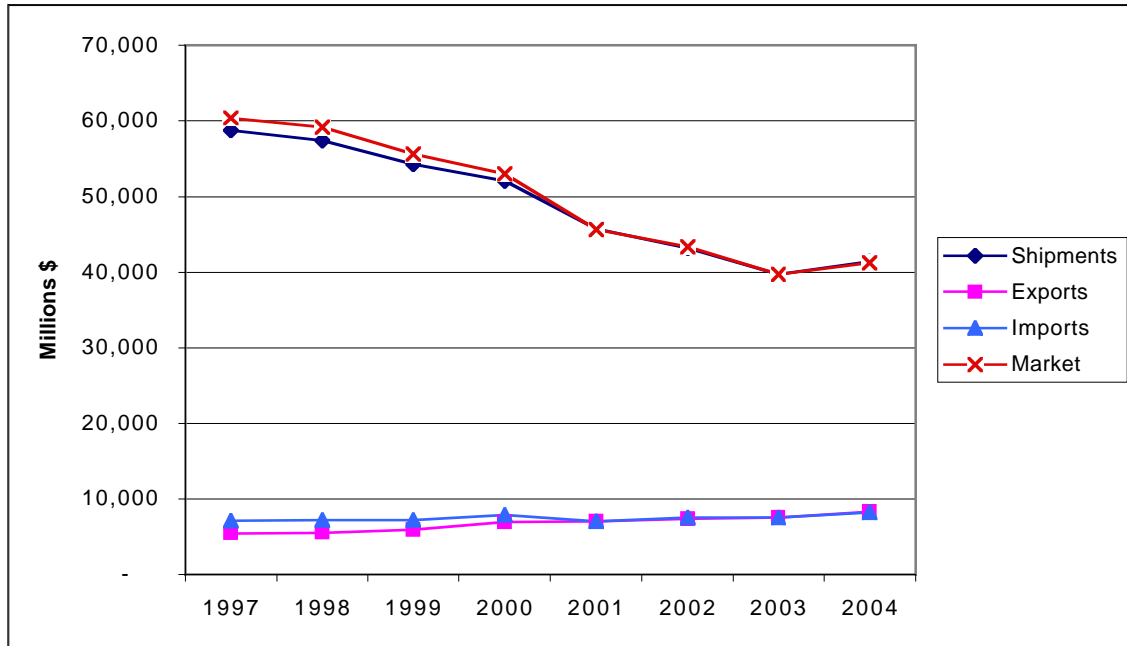
	Shipments	Exports	Imports**	Market	Imports' Share of Market
1997	\$58,707	\$5,487	\$7,175	\$60,444	11.9%
1998	57,416	5,559	7,267	59,242	12.3
1999	54,306	5,934	7,244	55,638	13.0
2000	52,112	7,009	7,893	52,858	14.9
2001	45,681	7,098	7,080	45,699	15.5
2002	43,170	7,397	7,574	43,379	17.5
2003	39,775	7,557	7,570	39,788	19.0
2004	41,415	8,352	8,213	41,276	19.9

* Data on a NAICS basis for exports are not available for years before 1997.

** Landed, duty-paid value of imports

Sources: Shipments: U.S. Census Bureau; Exports and Imports, U.S. International Trade Commission from Census data; Market and Import Share, derived by The Trade Partnership.

U.S. Market for Textile Mills, 1997-2004



Source: The Trade Partnership.

U.S. import preference programs³⁵ and free trade agreements offer a new twist to the trade debate as it affects the textile mill (yarns and fabrics) sector. Preference programs like the African Growth and Opportunity Act (implemented in 2000), the Caribbean Basin Trade Partnership Act (implemented in 2000) and the Andean Trade Promotion and Drug Eradication Act (2002), as well as free trade agreements with Mexico and Canada (1994), Singapore (2004) and Chile (2004) all require the use of U.S. or partner yarns and fabrics, finished in the United States, in order for apparel made from those yarns and fabrics in the foreign country to receive duty-free or quota-free access to the U.S. market. Apparel made from fabric or yarn that was not of U.S. origin accounted for just 0.6 percent of apparel imported from the region.³⁶

In 2002, over three fourths of the apparel imported from Caribbean countries eligible for preference programs was sewn from U.S. fabric.

One would expect that these opportunities would have expanded U.S. exports of yarns and fabrics to manufacture apparel in the preference countries for re-export to the United States. Preference programs have indeed accounted for a growing share of total U.S. yarn and fabric exports, from 59 percent in 1997 to 82 percent in 2004. But overall U.S. yarn and fabric exports have increased by less than the increase to preference regions, so some of that growth in total exports represents a shift of sales from non-preference markets to preference markets, and within preference markets themselves (e.g., from Mexico to the Caribbean) rather than a real expansion of new sales opportunities.

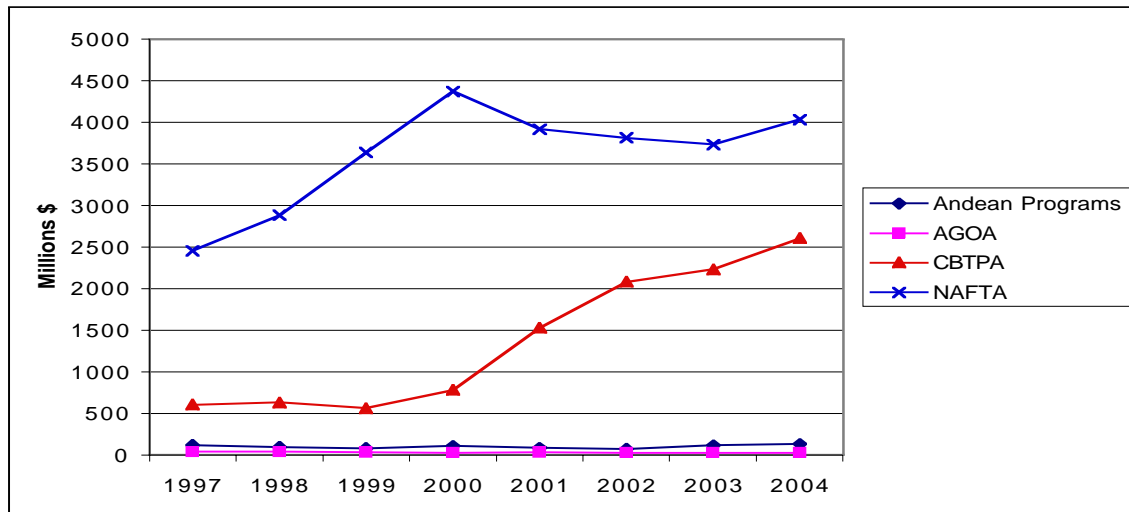
Why has there not been a strong net increase? U.S. companies sourcing apparel and other products from preference partners explain that U.S. yarn and fabric are simply too expensive relative to local yarns and fabrics (if they exist) or even Asian yarns and fabrics to make it worthwhile to use them. Some have said that it is cheaper to import an apparel item into the United States made in the preference region with Asian fabric or yarns, and pay the duty on the apparel item (i.e., forego the duty preference) than it is to use U.S. yarns or fabrics to make the same apparel item in the preference region and import it into the United States duty-free. The experience of AGOA is illustrative: African producers are too far away for it to make economic sense to ship U.S. yarn and fabric to the continent to be made into apparel for export to the United States. As a result, in

³⁵ A preference program is a unilateral grant of a trade benefit to a specified country or group of countries. The United States extends a benefit (such as duty-free treatment to imports from the country) without the country extending to the United States a comparable trade benefit. A free trade agreement, in contrast, is a mutual grant of trade benefits. The partner country gives the U.S. benefits in exchange for benefits the United States extends to the partner country.

³⁶ Ralph Watkins, "Production-Sharing Update: Developments in 2002," *Industry Trade and Technology Review*, November 2003, p. 29.

2002 just 0.2 percent of total apparel imports from AGOA-eligible countries was made with U.S.-cut fabric, and 0.1 percent was made with U.S.-formed fabric.³⁷

U.S. Exports to Selected Preference and FTA Regions, 1997-2004



Source: The Trade Partnership from ITC Dataweb

Textile Mill Products (NAICS 314)

Imports that compete with products made by U.S. textile mill product companies are often referred to as “made ups,” and include sheets, towels, curtains, rugs, textile-sided luggage and other similar household goods. In brief:

- Textile mill product producers (to round out their lines) and U.S. retailers are the primary customers for these imports.
- Imported made ups represented just under 27 percent of the U.S. market for textile mill products in 2004 (in other words, 73 percent of the U.S. market is supplied by U.S.-made goods).
- China is the primary foreign source to the U.S. market for imported made ups (40 percent of total imports in 2004, and 10.5 percent of the U.S. market in that year). Other important sources of textile mill products were India and Pakistan, as well as Canada and Mexico.
- The average tariff rate applied to textile mill products subject to duty (i.e., not duty-free under a preference program or free trade agreement) was 7.6 percent in 2004, compared to the 4.8 percent average 2004 tariff rate for *all* merchandise imports. Tariffs applied

³⁷

Ibid., p. 29.

to imports from all countries not subject to a preference program or free trade agreement.

- Until January 2005, quotas applied to fabric and yarn imports from 24 countries (not including Canada, Mexico, Europe, or Japan), including China.

Textile Mill Products (NAICS 314): Domestic Shipments, Exports, Imports, Market, 1997-2004*
(millions and percent)

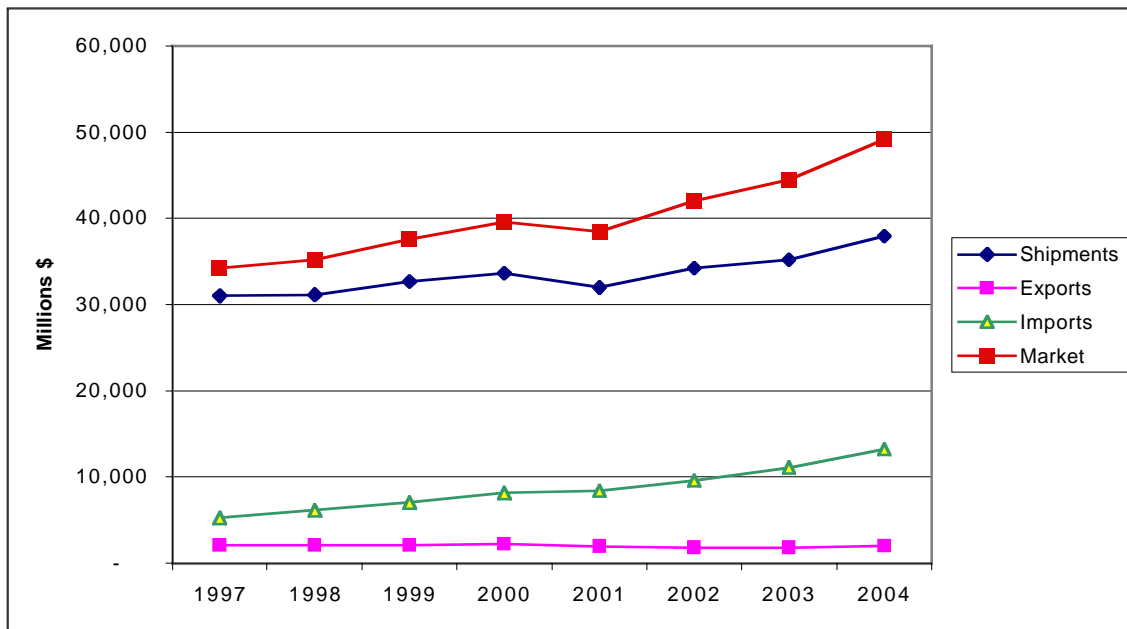
	Shipments	Exports	Imports**	Market	Imports' Share of Market
1997	\$31,052	\$2,124	\$5,295	\$34,233	15.5%
1998	31,137	2,138	6,186	35,185	17.6
1999	32,689	2,118	7,059	37,630	18.8
2000	33,654	2,236	8,190	39,608	20.7
2001	31,971	1,991	8,443	38,423	22.0
2002	34,232	1,875	9,635	41,992	22.9
2003	35,247	1,881	11,100	44,466	25.0
2004	37,979	2,062	13,227	49,144	26.9

* Data on a NAICS basis for exports are not available for years before 1997.

** Landed, duty-paid value of imports, includes U.S. content

Sources: Shipments: U.S. Census Bureau; Exports and Imports, U.S. International Trade Commission from Census data; Market and Import Share, derived by The Trade Partnership.

U.S. Market for Textile Mill Products, 1997-2004



Source: The Trade Partnership

As noted earlier, U.S. carpeting companies dominate domestic shipments of this sector of the textile industry. But carpets and rugs represented just 14.9 percent of the total value of imports in 2004, or 4.0 percent of the market. Household linens, curtains and drapes accounted for 56.7 percent of total imports in 2004, or 15.3 percent of the market.

Apparel (NAICS 315)

The import picture is very different for apparel.

- U.S. apparel producers and retailers are the primary customers of imported apparel.
- Apparel imports represented 61 percent of the U.S. apparel market in 2004.
- China is the largest foreign source for imported apparel (19 percent of total apparel imports in 2004, and 11 percent of the U.S. market in that year). In 2004, another 14 countries accounted for 50 percent of total U.S. apparel imports.
- The average tariff rate applied to apparel subject to duty (i.e., not duty-free under a preference program or free trade agreement) was three times the duty applied to all imported products (14.9 percent in 2004, compared to the 4.8 percent average 2004 tariff rate for *all* merchandise imports). Tariffs applied to imports from all countries not subject to a preference program or free trade agreement.
- Until January 2005, quotas restricted imports from 46 countries, including China, affecting 34 percent of the total volume of U.S. apparel imports.

**Apparel (NAICS 315): Domestic Shipments, Exports,
Imports, Market, 1997-2004***

(millions and percent)

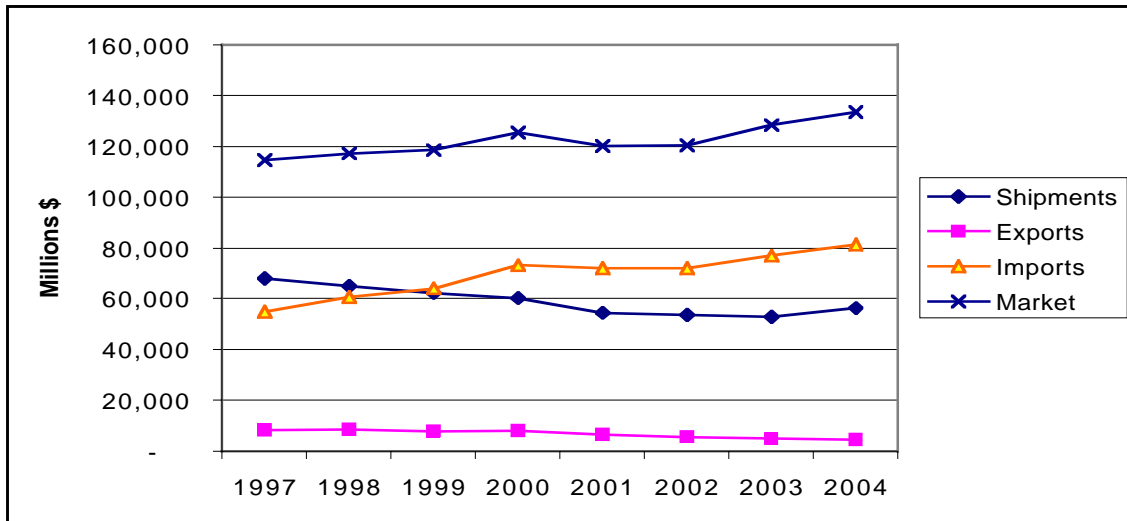
	Shipments	Exports	Imports**	Market	Imports' Share of Market
1997	\$68,018	\$8,274	\$54,880	\$114,624	47.9%
1998	64,932	8,412	60,692	117,212	51.8
1999	62,305	7,876	64,072	118,501	54.1
2000	60,339	8,104	73,277	125,512	58.4
2001	54,598	6,469	72,024	120,153	59.9
2002	53,621	5,462	72,192	120,351	60.0
2003	52,970	4,923	76,951	128,310	60.0
2004	56,282	4,346	81,489	133,425	61.1

* Data on a NAICS basis for exports are not available for years before 1997.

** Landed, duty-paid value of imports, includes U.S. content

Sources: Shipments: U.S. Census Bureau (does not include contractor data as those shipments in also included in other categories within the NAICS category); Exports and Imports, U.S. International Trade Commission from Census data; Market and Import Share, The Trade Partnership.

U.S. Market for Apparel, 1997-2004

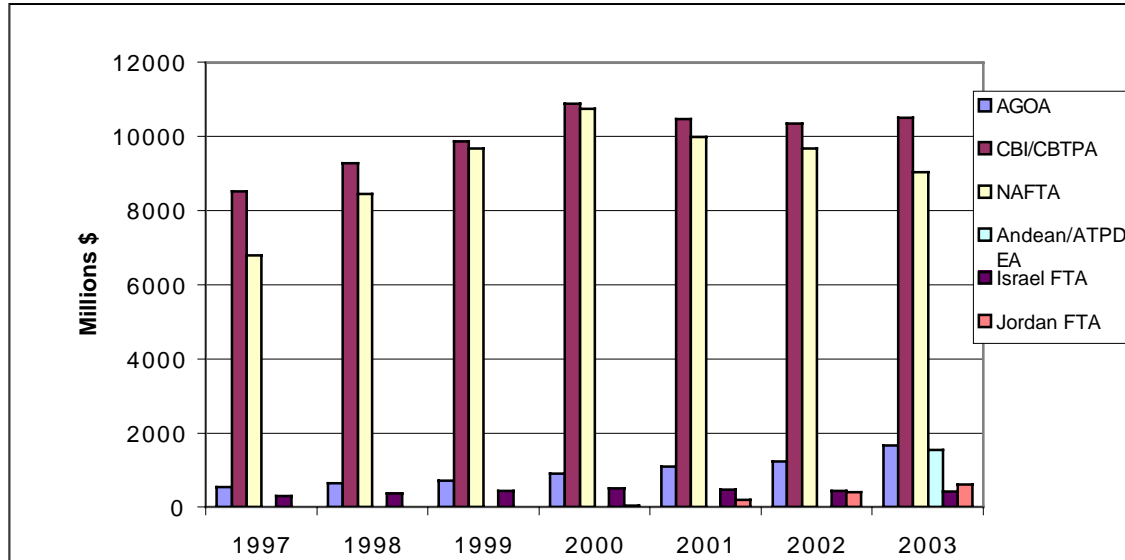


Source: The Trade Partnership.

Much apparel is imported quota-free under preference programs or free trade agreements – and from Europe and other developed countries that have never been subject to the quota system. Preference programs and free trade agreements have accounted for a fairly steady 30 percent of total U.S. apparel imports between 1997 and 2004. They are a fundamental part of a competitive strategy for many U.S. apparel companies. The programs permit U.S. apparel companies to ship, for example, U.S. fabric to the preference region, where it is cut, embroidered, printed, stonewashed, and assembled into finished apparel for

reexport back to the United States. U.S. apparel firms are able to offer their retail customers lower-cost items with quicker response times than for apparel sourced from Asia.

Preference Program Shares of Total Apparel Imports, 1997-2003



Source: ITC Dataweb

But as noted above, the preference programs and free trade agreements generally require the use of U.S. or regional yarns and fabrics, sometimes cut in the United States, for apparel to benefit from the duty-free or quota-free benefits. Consequently, apparel imports often contain some U.S. content. The U.S. content particularly significant for imports from suppliers in the Caribbean Basin and other countries that are partners with the United States in trade preference programs. It should be noted that there is U.S. content in the yarns, fabrics, apparel and made-up products China produces, some for export back to the United States, including U.S. cotton, man-made fibers, yarns and fabric.

That U.S. apparel firms are benefiting from imports is evident from the fact that apparel manufacturers have abandoned their longstanding alliance with textile manufacturers seeking import protection and are now strongly supporting not only the end of U.S. textile and apparel quotas but also the elimination of U.S. textile and apparel duties.³⁸ Opposition to freer trade in textiles and apparel comes largely from apparel unions.

³⁸ A typical opinion comes from Tom Glaser, managing Director of Global Sourcing at VF Corp.: "VF's view is that open and free markets are a good thing for sourcing as well as selling our products." David Lipke and Ellen Askin, "Four Months and Counting," *DNR*, August 30, 2004. See also "'Big Bang' Will Change the Universe, for Apparel Manufacturers, Retailers and Consumers," press release issued by United States Association of Importers of Textiles and Apparel, American Apparel & Footwear

VI. Responding to the Challenges Ahead

So if imports are not the foe, and even in some cases the friend (in either instance, *not* the Wicked Witch of the West) what should a policy maker do, if anything? On balance I believe that the weight of the evidence suggests that the U.S. textile sector is well on its way to recovery. It will survive. It will look

Public policy can be crafted to facilitate – or at least not hamper – adjustment by encouraging the entry of the more productive, “clever” firms, and letting the less competitive exit the industry.

different from the textile industry of 1990 – more focused on research and development, more international in scope, and much leaner. The apparel sector is also well on its way to competitiveness. Policy makers need to accept that it, too, will be a very different sector than that which existed in the United States 10 or 20 years ago. The apparel sector of the present, and increasingly of the future, will be global in nature. U.S.-owned firms will contract out the production of labor-intensive apparel items to international producers. Some inputs – including design – will come from the United States. But for the most part the actual production of apparel items will shift outside the United States. That said, there will remain in the United States apparel production focused on supplying goods that must be delivered to retailers very quickly (in a matter of weeks, rather than months).

As a technical matter, neither industry requires assistance from U.S. policy makers. However, politics may dictate otherwise. If, as Levinsohn and Petropoulos suggest, the industries are creatively destructing, public policy can be crafted to facilitate – or at least not hamper – “creative destruction.” Rather than ease adjustment by helping firms exit the industry, the aim should be to enhance adjustment by encouraging the entry of these more productive, “clever” firms.³⁹

How? Textile and apparel producers and consumers have already offered some proposals. I summarize the key proposals below and offer some specific ways they could be achieved.

Encourage further rationalization. Wilbur L. Ross, founder of International Textile Group, has suggested that textile producers need to

Association, International Mass Retail Association, and National Retail Federation, January 6, 2004. It quotes Kevin Burke, President and CEO of the AAFA, on “the positive effect further trade liberalization, through tariff cuts or favorable financing and insurance, can have on the competitiveness of these [textile and apparel] U.S. firms. We need to open doors to ensure that U.S. firms can compete globally, instead of shutting ours.”

³⁹ Levinsohn and Petropoulos, *op. cit.*, p. 1.

continue to consolidate (too many factories continue to operate at low percentages of capacity and therefore are unable to be competitive). In short, we've seen a lot of consolidation already, but not enough. Thus, policy should not forestall further mergers, shutdowns, or closures. Ross also suggests that owners of the surviving mills must commit the additional capital needed to maximize efficiency of larger-scale operations. As capital is hard to come by in the textile industry, policy makers might consider promoting bank-lending programs with low interest loans for capital investment for textile companies. In addition, they could shorten the depreciation schedule for textile producers, establish a capital investment rebate program, or extend the net-operating loss program. They could also authorize use of Overseas Private Investment Corporation (OPIC) insurance and guarantees and Exim Bank loans for export-related and foreign-investment related activities of U.S. companies.⁴⁰

Encourage further research and development. Clearly, new products are the future of both industries. As noted, healthy and competitive U.S. textile producers will be those developing new, proprietary yarns and fabrics, and U.S. apparel producers who use those products to make stain-resistant, water repellent, even odor-resistant apparel will have an edge over "run of the mill" imported pants and shirts. Policy makers could increase funding of already-existing federal R&D programs aimed at developing new textile products.

Encourage skill development appropriate to the textile labor force of the future. As the National Association of Manufacturers has pointed out, this is a fundamental need of manufacturing as a whole, not just of textiles or apparel.⁴¹

⁴⁰ One textile executive asked, on behalf of the National Council of Textile Organizations, for this at a House hearing to consider special textile and apparel legislation for Haiti. "With regard to the textile and apparel sector, we urge Congress to consider legislation that ensures the financial and operational services from U.S. export credit and financing agencies are available to U.S. textile and apparel companies that choose to do business in Haiti. Traditionally, the Overseas Private Investment Corporation (OPIC), the Export Import (ExIm) Bank, and the Trade Development Agency (TDA) have avoided sensitive industries, including U.S. textile and apparel firms and their suppliers. As a result, our industry has had difficulty seeking U.S. government financing of our exports and overseas activities that utilize U.S. inputs. Since Congress has already authorized preferential access for garment imports from Haiti utilizing U.S. inputs through the CBTPA, Congress could further assist Haiti in fully realizing the benefits of this program by supporting U.S. export and investment financing for the U.S. inputs that go into those imports." Statement of Stephen Felker, President, Chairman, and Chief Executive Officer, Avondale Mills, Inc., Monroe, Georgia, on behalf of National Council of Textile Organizations, Testimony Before the Subcommittee on Trade of the House Committee on Ways and Means, September 22, 2004

⁴¹ National Association of Manufacturers, The Manufacturing Institute and Deloitte & Touche, "Keeping America Competitive: How a Talent Shortage Threatens American Manufacturing," May 29, 2003.

Policy makers should ensure that U.S. schools train students with sufficient math and science skills to enable them to succeed in today's manufacturing industries, including textiles. In addition, students need to fully understand that they enter a global marketplace and they will need not only skills but also an outlook on business that will prepare them to embrace, not run from, that marketplace.

At the same time, policy makers should not forget those who lose their jobs as a result of industry downsizing. They should not attempt to prevent that downsizing, but they could do more to help affected workers transition to new jobs. For example, policy makers could modify the Trade Adjustment Assistance programs to allow for benefits to be paid to displaced textile and apparel workers without requiring that they link the loss of their jobs to increased imports or production shifts abroad. In addition, the periods of time those benefits are extended could be lengthened.

Say “no” to demands for new import barriers, and encourage the end of existing import barriers. Import protection is not the policy option that will promote positive change in these industries, because import competition is motivating what positive change is occurring. When weighing various pleas for action, bear in mind three key facts detailed in this paper: first, apparel imports impact at most 17 percent of the total textile industry (based on shipments)⁴² – or, said differently, 83 percent of textile industry shipments is unaffected by what is happening in the apparel markets -- meaning that textile industry claims that increased apparel imports threaten to put it out of business are grossly exaggerated. Second, apparel unions represent just 8 percent of the apparel workforce, so they can hardly claim to “speak for” the industry's workers. Third, most apparel producers (but not the unions) prefer the elimination of quotas and tariffs, including those affecting imports from China. The data suggest that more benefit from trade liberalization than from trade protection. Import protection may be an appropriate, but temporary, policy for an industry that is destructing, but not for an industry that is *creatively* destructing.

Develop rules of origin for trade agreements and preference programs that provide meaningful alternatives to sourcing from China. The irony of the textile industry's insistence that rules of origin of these agreements require the use of U.S. (or usually scarce regional) inputs is that the resulting agreements provide little incentive to apparel importers to shift sourcing to the trade agreement partners, and away from China. Moreover, the rules are short-sighted as they preclude U.S. textile companies with international production operations from exporting their yarns and fabrics made in, for example, Thailand or even China to trade agreement partners like Australia or Singapore.

⁴² As noted above, 31.9 percent of textile mill shipments are apparel fabric, which arguably would be negatively impacted by apparel imports. But the textile mill shipment segment is just one of two textile industry segments. Looking at shipments for the industry as a whole, that 31.9 percent works out to a total effect of 16.9 percent.

Clearly, in light of the data and other information detailed in this paper, the “China problem” is a gnat, not the vulture these industry representatives would have policy makers believe it to be.

Trade associations representing American apparel producers, importers and retailers, have already suggested many of these proposals. The reaction from trade associations representing the textile industry is less than enthusiastic. Cass Johnson, then the President of the now-defunct American Textile Manufacturers Institute, said that the proposals failed to address the industry’s “biggest problem,” surging Chinese imports. Clearly, in light of the data and other information detailed in this paper, the “China problem” is a gnat, not the vulture these industry representatives would have policy makers believe it to be. As noted, China currently accounts for 12 percent of total U.S. apparel imports, or 7 percent of the U.S. apparel market. Even if that gnat grows considerably, its importance to promoting the health of the textile – and apparel – industries has been blown wholly out of proportion. Policy makers would do well to place all claims in their proper perspective, devise policy responses that will do the industries

some good, and avoid those that will “do harm” to others and the broader economy.