National Retail Federation
The Voice of Retail Worldwide

Before the U.S.-China Economic and Security Review Commission

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China and the WTO: Assessing and Enforcing Compliance
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I would like to thank the Commission for the opportunity to appear at today's hearing on behalf of the National Retail Federation and American retailers. By way of background, the National Retail Federation is the world's largest retail trade association, with membership that comprises all retail formats and channels of distribution including department, specialty, discount, catalog, Internet and independent stores as well as the industry's key trading partners of retail goods and services. NRF represents an industry with more than 1.5 million U.S. retail establishments, more than 23 million employees - about one in five American workers - and 2003 sales of $3.8 trillion.

1. Effect of Post-Quota Global Competition on the U.S. Textile and Apparel Industries

In order to understand the impact of the elimination of quotas and imports from China on the U.S. textile and apparel industries, it is necessary to put several things into perspective about textile and apparel trade, production, post-quota competition, and the current conditions of the textile and apparel industries.

According to the American Apparel & Footwear Association and other sources, 96 percent of all clothing by volume that is sold in the United States is sewn outside the United States. By value, the import penetration for clothing is still very high at 86 percent due to more expensive labor and inputs, such as fabric.

This extraordinarily high level of import penetration has come about, notwithstanding the fact that textiles and apparel remain the most protected sectors in U.S. manufacturing. Textiles and apparel are shielded behind a tariff wall that, with the exception of footwear, is higher than any other manufactured

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product – around 16 percent for non-preferential trade. These high tariffs continue to cover products from China and every Asian country except Singapore. Textiles and apparel are also subject to the most onerous and restrictive rules of origin under our free trade agreements and preference programs of any manufactured product, a system designed mainly to restrict access of Chinese goods to the U.S. market.

Although the textile and apparel quotas system ended on January 1, 80 percent of all textile and apparel products under quota, remained so until the bitter end. During this time, China was subject to the most stringent quota restrictions of any country – for example, Cambodia, with about 13 million people, had a larger quotas than China on key apparel categories such as cotton bottoms.

The severe quantitative limits placed on Chinese products, combined with the backloading of quota elimination to the very end, created the conditions that virtually guarantee increased in imports from China. In addition, one of the biggest culprits in pushing trade to China is, ironically, the U.S. textile industry. By opposing the preference programs that would help third-world producers compete more effectively, handicapping producers in our free trade agreement partner countries through unworkable rules of origin, pushing for new quotas on countries like Vietnam, and pressuring Customs into harassing textile and apparel imports under the claim that everything is really transshipped from China, they have made it as difficult as possible for their customers – American retailers and apparel manufacturers – to do business in countries that would be alternatives to sourcing in China.

This is an important point, because retailers are loathe to put all their eggs in the Chinese basket as evidenced by the modest growth in retail orders in China – around 12 to 20 percent. Retailers have been actively seeking alternative places to source product in places like India, Pakistan, and Honduras. The reasons are fairly simple – the risks of putting all your orders in China are becoming too high. These risks include the likelihood that U.S. manufacturers will file trade cases targeting Chinese goods. Also, with most imports from China come through the West Coast, particularly LA/Long Beach, the growing port congestion crisis as well as the labor strife in 2002 that resulted in a shutdown of the West Coast ports were wake-up calls for retailers. The port shutdown was followed by the SARS scare in 2003, when retailers were unable to send their sourcing and design staffs to China for over a month. China is also experiencing a serious energy crisis, which is causing blackouts and factory closures. Finally, with the huge influx of foreign direct investment, labor costs are increasing along coastal China. In response, the Chinese Government is trying to push investment inland, which has a backward transportation infrastructure resulting in substantially increased transportation costs and delays in shipments.

Another important element affecting trade and the conditions of competition is fundamental changes in apparel production. It is important to remember that the textile industry is but one element in the overall supply chain for clothing, which includes fiber producers, yarn spinners, fabric manufacturers, apparel manufacturers, importers and retailers, and finally, the consumer.

Under the old cut-and-sew model of apparel production, U.S. fabric and components were purchased and shipped offshore for assembly into garments and re-exported to the United States. Under the current full-package model of apparel production, retailers and importers place orders with their vendors who are responsible for meeting the specifications on fabric, design, price, and just-in-time delivery. While price remains an important factor under this system, speed to market is a more critical factor. Under this system, the most competitive suppliers are those that have integrated production and provide superior customer service. This means meeting customer needs, providing consistently high quality and on-time delivery, assisting the customer in product development from concept to market. Suppliers that are unable, or unwilling to perform according to these customer requirements will lose out to their competition regardless of price or how much new technology they may have.

The U.S. apparel industry has largely succeeded in adjusting to this new environment, by transforming itself from local manufacturers into successful and competitive branding and marketing companies with world-wide operations. During this transformation, commodity apparel production has shifted overseas as apparel manufacturers followed their retail customer. Therefore, apparel manufacturers have benefited from the end of the quota system and the business relationships they have established with partners in China and elsewhere. In addition, for those apparel manufacturers that have remained in the United States the quotas are not an economic rationale for their competitiveness. These manufacturers often occupy key niche, high-end, and specialty apparel categories, that will remain in the United States due to various factors, including military procurement rules and their customers need to have some production nearby to fill production gaps quickly.

Like the apparel industry, the textile industry has seen these changes coming for the past 15 years. Some followed the example of the apparel industry and succeeded in adjusting to the new global environment. Spurred by import competition, successful, entrepreneurial companies, like Milliken & Company, and Wilbur Ross' International Textile Group, are adapting by creating global operations, getting out of the production of low cost, commodity yarns and fabrics for apparel production, and focusing on specialized high-performance yarns and fabrics, and building successful businesses serving the automotive sector and residential and commercial construction. This change 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 and lab technicians, engineers, not low-skilled workers making commodity apparel yarns and fabrics.

These companies are also succeeding in developing export markets, including China, which is now the fastest-growing U.S. export market. American sales of fabric and yarn to Chinese clothing factories have jumped 150 percent from $83 million four years ago to a quarter of a billion dollars last year and China is becoming an important export market for U.S. cotton.

The success of these companies demonstrates that the U.S. textile industry is not on the verge of extinction, but rather is undergoing a fundamental transformation that will make it more competitive in the long run. These companies actually represent the majority of the textile industry, which saw a profit in 2003 of $1.3 billion. This success is not dependent on what happens in the production and trade of commodity apparel products.

Also, the productivity gains these companies have achieved necessarily mean that they are able to produce more output with fewer workers. Like other manufacturing sectors, many studies confirm that improvements in productivity and technology, not trade, have had the most significant impact on employment in the textile sector, which is now a capitol intensive industry.

Nevertheless, it must be recognized that a minority of the textile industry is struggling in the face of global competition in large measure because they have failed for a variety of reasons to adapt to the fundamental changes I have described. Many are privately-owned with limited access to capital, which leaves them comparatively inefficient and behind in the use of new technologies. . Others are heavily leveraged with unsustainable debt loads or find their productivity hampered by U.S. high tariffs that limit them from using a broader selection of competitively-priced foreign yarns. Many lack the flexibility and ability to provide the full range of services their retail and apparel customers demand. It is these factors, not the end of the quota system or competition from China, that are the source of their competitiveness problems.

These points are discussed more fully in a study by economist, Laura Baughman, of the Trade Partnership that looks at the current condition of the U.S. textile and apparel industries. A copy is appended to these comments.

2. Effectiveness of the China Textile Safeguard.

We contend that the China textile safeguard is ineffective if its goal is to protect U.S. manufacturers and jobs. The vast majority of clothing sold in the United States is now imported and most of the world can export to the United States quota free. Therefore, penalizing Chinese producers by imposing a safeguard quota will only result in shifting production to other Asian producers. Even though the safeguard may succeed in limiting imports from China, it will not change the overall level of imports. Nor will it prevent corresponding surges from other countries as production from China is shifted to places like Pakistan and

India. Finally, even with a safeguard quota in place, Chinese manufacturers can still sell their yarn and fabric to another country like Indonesia, which can, in turn, export clothing made from that yarn and fabric to the U.S. without restriction.

The textile industry apparently agrees with that the safeguard mechanism is ineffective. For example, they refiled a petition against brassieres, claiming market disruption and injury in 2004 when the product was under a textile safeguard quota. If their claim is correct, it is evident that the quota provided them no real benefit.

3. Appropriate Uses for the China Textile Safeguard.

The trade remedies laws are designed to protect U.S. production and U.S. jobs, a principle that must also apply to the China textile safeguard. Therefore, the textile safeguard should not be used against products, such as brassieres or fully-fashioned sweaters, that are not made in the United States. Nor should the textile safeguard be used mainly to protect production in certain favored foreign countries. Finally, the textile safeguard should not be applied against categories of clothing when U.S. apparel producers oppose the petition, as was the situation, for example, in the brassieres case.

4. The Legal Suit Regarding Administration of the China Textile Safeguard

The Commission has asked for NRF's views on the law suit filed in December, challenging the Committee for the Implementation of Textile Agreements' administration of the China Textile Safeguard, specifically with respect to cased filed that have alleged threat of market disruption.

First, I want to state that the National Retail Federation is not a party to that suit, but we are clearly interested observers. I will, therefore, defer to my colleague, Julie Hughes, who represents USA-ITA, the plaintiff in that case, to provide a more complete analysis, and NRF associates itself with her views.

I would, however, like to provide the Commission some general thoughts about this case. For three decades, the textile quota system was administered by CITA, an interagency government entity run out of the Department of Commerce. Because it fell under the President's foreign affairs exception, CITA operated largely as a star chamber in setting and administering quotas. It acted by fiat, it lacked any transparency or accountability in its decision making, and its decisions were final and not subject to any sort of appeal or review.

That system of decision making has remained largely intact as CITA was tasked with administering the China Textile Safeguard mechanism – a quasi judicial administrative mechanism that is arguably fundamentally different than CITA's previous role. What has angered importers and retailers is the fact that CITA has operated in a clearly arbitrary and capricious manner with impunity.

For months, CITA had told retailers and importers that the language in its procedures and the terms of China's WTO accession, precluded it from accepting cases based on threat of market disruption. Then, it did a complete about face and announced at a press conference that it would accept such cases. Then CITA told retailers and importers it would publish new guidelines for administering threat-based cases in the Federal Register and would provide an opportunity for public comment. That never happened.

This situation underscores our view that it is simply unacceptable, in a democratic system, for a government entity to operate in a completely arbitrary and capricious manner without any of the most basic requirements and protections assuring fundamental fairness to interested parties. The only way to correct this situation is ensure that CITA's deliberations and decisions are subject to the Administrative Procedures Act, which will ensure that its actions follow the basic tenets of American administrative law.

5. The Impact of the Chinese Government's Export Tax on Textiles and Apparel on U.S.-China Trade

American retailers expect that the Chinese Government's recent decision to impose an excise tax on its textile and apparel exports will have little impact on trade flows, sourcing decisions, or prices. The tax applies to six apparel categories covering 148 tariff lines, including coats, skirts, knit and non-knit shirts, pajamas, and underwear, and is assessed at a rate of 2.4-3.6 cents by unit rather than by value. Thus, while the tax rate is low, it is designed to make it relatively harder and more expensive to export low value as opposed to higher value goods. Accordingly, the tax will have a marginally greater impact on retailers that import low-end garments, like a $1 T-shirt, rather than on retailers who import higher value garments, like a $25 fully-fashioned sweater.

The U.S. textile industry has made it very clear that they want to pressure the Chinese Government into creating some mechanism of this sort to restrain its textile and apparel exports to the U.S. market. However, they have criticized the excise tax as too modest to have any real impact. Since the cost of any restraint mechanism, including this excise tax, will ultimately be passed on and borne by American consumers, the textile industry's objective and the Chinese Government's action raise a more fundamental question for policy makers. Why would we want the Chinese government to impose a tax on U.S. consumers? Although the excise tax is currently low, with the taxation mechanism now in place, there is nothing to prevent the Chinese Government from increasing the rate at any time. It should be recalled that, thanks to the quota system, American consumers paid over a billion dollars a year in quota costs that went right into the coffers of the Chinese Government.

6. Byrd Amendment

On the subject of burdens on the U.S. taxpayer, the Commission heard earlier today from Members of Congress defending the Continued Dumping and Subsidy Offset Act, also known as the "Byrd Amendment." I would like to take the opportunity to give this commission another viewpoint.

The Byrd Amendment requires the U.S. Government to distribute antidumping and countervailing duties it collects to domestic manufacturers that are petitioners and petition supporters in these cases. Those monies had previously been deposited into the Treasury general revenue fund.

The Byrd Amendment has been on the books for over four years now after it was slipped into an agriculture appropriations conference report the night before it went to a vote, without the benefit of committee hearings or debate of any sort. It is troubling that the passage of the Byrd Amendment was achieved through a flagrant abuse of the legislative process by a Member of Congress who is otherwise a staunch defender of the integrity of that process.

What is really disturbing about the Byrd Amendment, however, is that it is illegal corporate welfare of the worst sort that favors some American companies at the expense of other American companies with no real objective or constraints. As a result of the Byrd Amendment, the government is now forced to subsidize the filing of antidumping and countervailing duty cases by doling out hundreds of millions of dollars to a handful of companies merely for checking a box on a questionnaire from the Commerce Department. Companies that choose not to support a petition are placed at an obvious competitive disadvantage. Moreover, the money dispensed under the Byrd Amendment is no longer available for any other purpose – supporting our troops in Iraq or assisting our ports to pay for security costs to protect our country from terrorist threats.

7. Conclusion

Although Congress has defined this commission's mandate, I would challenge you to ask some bigger questions than just examining job losses attributed to competition from China. Commission members need to look at the record so far in answering the question whether trade protectionism is an effective or even wise policy to address our trade issues with China. I would argue that protectionism has been a manifest failure in protecting jobs and production, even in the most highly-protected sectors such as textiles, and it makes no sense to continue a failed policy, which has come at a huge cost to the American economy, taxpayers and consumers. The Commission should also examine the benefits from expanded trade relations with China for the U.S. economy, U.S. industries, the jobs and the quality of those jobs they support. Twenty years ago, many were wringing their hands over perceived challenge from Japan. While Japanese economy has been in the doldrums for the past 15

years, the United States has continued to surge ahead. We clearly have challenges, but I think we need to have much greater faith in the strength and dynamism of the American economy, the ability, creativeness, and entrepreneurship of our people, and our ability to adapt in the face of adversity.

A Current Assessment of the Health of the U.S. Textile and Apparel Industries: On Life Support or a Case of the Sniffles?

by Laura M. Baughman*

I. Introduction

The American textile and apparel industries face a major change in their business environment that will begin on January 1, 2005. That is the date on which quotas – restrictions on the quantities of products that may be imported into the United States – must end for textile and apparel products. These quotas, which by 1995 affected over a 1,000 individual textile or apparel products from more than 50 countries, have existed for decades, with a primary goal of limiting import competition and thereby preserving U.S. textile and apparel jobs.[1]

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 stipulates that WTO Members, like the United States, must gradually eliminate their quotas over a 10-year period (1995-2005).[2]

The looming deadline has intensified textile industry advocates' demands that Washington "do something" to help them withstand an anticipated tsunami 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.

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* Laura Baughman is President of The Trade Partnership, a Washington, DC-based trade and economic consulting firm. She has been analyzing U.S. textile and apparel trade policies and trends for more than 20 years. She holds degrees in economics from Georgetown and Columbia Universities.

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

2 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 appropriate direction for future U.S. textile and apparel trade policy depends on the facts regarding the current health of the industries and the root causes of any aches and pains. Is the health of the industries such that they need assistance, or should the marketplace determine the shape of the industries going forward? If assistance is in order, what will do the industries the most good? Should policy makers continue to limit imports in some way, or would other policy tools be more helpful?

To answer these questions, this paper first provides a description of recent trends in the industries in order to understand the degree to which they are healthy, sick, or on life support. 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. Based on the diagnoses, the paper offers prescriptions for policy action – or inaction. Beating the medical analogy still further, the overriding framework for ascertaining whether action is called for, or not, is "do no harm."

II. A Current Description of the Patient

When one speaks of the "textile and apparel industry," in fact one is speaking of three very different industries. The first produces yarns and fabrics; the second, made-up textile products except apparel; the third, apparel. The U.S. Census Bureau classifies these industries in three North American Industry Classification System (NAICS) codes.[3]

"Textile Mills" (NAICS 313) consists of firms that take basic fiber (cotton, manmade fibers, wool, to name the major ones) and transform it into yarns, thread or fabrics, or finish and coat the yarns, thread or fabrics. More than three quarters of the total value of shipments for this sector comes from making fabric. But contrary to popular perception, textile producers sell only 28 percent of the yarns and fabrics produced by this sector to apparel manufacturers; they sell 72 percent of their output to home furnishings and industrial manufacturers.[4] In other words, the health of the companies making yarns and fabrics is more closely tied to what is happening in the U.S.

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[3] 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 engage 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.

[4] CITE TO ORGANON

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 firms that manufacture carpeting, bed linens, curtains, towels, as well as textile bags, rope, cordage, twine, canvas, and tire cord and tire fabric. Thirty-eight percent of the sector's 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. This matters importantly to the discussion later in this paper on the impact of apparel imports on the U.S. textile industry, and appropriate policy responses to maintaining or improving the competitiveness of the industry, broadly defined.

"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 knit. Domestic apparel manufacturing is spread across a wide array of apparel products. Trousers, pants and jeans represent about 15 percent of total shipments, shirts and blouses, 14 percent. Knit shirts (e.g., t-shirts) account for just 1 percent of total U.S. apparel shipments; infants' wear, less than 1 percent.

The U.S. textile industry (NAICS codes 313 and 314) was composed in 2001 of 10,291 companies (see Table 1). This is actually a surprisingly large number of firms; however, in terms of employment, the largest companies (listed in Table 2) accounted for about 40 percent of total textile industry employment in 2003. It should be noted that carpeting companies top the list of largest textile manufacturers, both in terms of sales and employment. Carpeting production is not impacted by imports. Textile production is concentrated in the South, with Georgia, North and South Carolina accounting for 49.1 percent of total industry employment.

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 15,523 in 2001. Apparel production is concentrated in New York and California, which accounted for 36.9 percent of total industry employment. The companies listed in Table 3, the largest U.S. apparel producers, are quite international in their operations. The net sales reported include large amounts of imported apparel.

Table 1
Textile and Apparel Industry Firms, 1998-2001

	1998	1999	2000	2001
Textile total	10,548	10,520	10,143	10,291
Textile mills (313)	*3,851*	*3,767*	*3,662*	*3,703*
Textile product mills (314)	*6,697*	*6,753*	*6,481*	*6,588*
Apparel (315)	16,391	15,815	15,744	15,523

Source: Small Business Administration

Table 2
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
Mohawk Industries, Inc.	$5,005	33,300	Carpets and rugs, ceramic tile, stone flooring, wood and vinyl flooring
Shaw Industries, Inc.	$4,660	30,000	Carpet, laminate, ceramic tile, hardwood flooring
Milliken & Co., Inc.	$3,400E	14,000E	Fabric for: rugs/carpets, furniture, apparel, automobiles, tennis balls, and specialty textiles; chemicals and petroleum products, colorants
Springs Industries	$2,500E	17,000E	Bath rugs, bedspreads, pillows, sheets, shower curtains, towels, fabric, hardware, infant apparel, window blinds
WestPoint Stevens, Inc.	$1,646	13,886	Bed linens and bath towel comforters, blankets, pillows, table covers, window trimmings
W. L. Gore & Associates, Inc	$1,330	6,600	GORE-TEX fabric for clothing, shoes, guitar strings, dental floss, space suits, sutures; insulated wire and cables, filtration products and sealants
Beaulieu of America, LLC (2002)	$1,100E	7,000E	Carpet
Burlington Industries (2002)	$993	7,600	Fabric (including denim) for apparel and interior furnishings

	Net Sales (million)	U.S. Employees	Products Made
Interface, Inc.	$924	5,210	Carpet, office panels, upholstery fabric, adhesives, chemical compounds for flooring
Parkdale Mills	$900E	2,500E	Yarns for home furnishings and apparel
Unifi, Inc.	$849	4,500	Yarns for apparel, industrial, upholstery and automotive fabrics
Avondale Inc.	$591	5,000	Apparel fabrics, yarns
Dan River	$477	5,100	Apparel fabric comforters, drapes, pillowcases, sheets
Guilford Mills	$446	2,600	Automotive textiles, specialty textiles, small amount of apparel fabric
Galey & Lord	$437	3,265	Apparel and home furnishing fabrics

E = estimated by Hoover' (www.hoovers.com).
Sources: Public companies: The Trade Partnership from company filings with the Securities and Exchange Commission; Private companies: Hoover's

Table 3
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, legwear 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 independenet Asian contractors. 95% of products sold in U.S. were imported.
Liz Claiborne, Inc.	$2,834	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.
Jones Apparel Group Inc.	$2,785	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
Levi Strauss	$2,606[1]	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.
Polo Ralph Lauren Corp.	$2,380[2]	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 under the Tommy Hilfiger trademarks. Imports most of its finished goods.
Phillips-Van Heusen Corp.	$1,430[3]	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.
Russell Corp.	$1,086E	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.
Columbia Sportswear Co.	$500E	1,119	Designs, sources outerwear, sportswear, footwear, related accessories, and equipment from (largely) Far East manufacturers (98%); the rest from U.S. manufacturers.

1 Sales in North and Latin America: it was not possible to obtain or estimate U.S. sales alone.
2 Sales of apparel, home furnishings, accessories and fragrances. It was not possible to obtain or estimate U.S. apparel sales.
3 Sales of apparel and footwear. IT was not possible to obtain or estimate U.S. sales of apparel only.
Source: The Trade Partnership from company SEC filings.

III. The Symptoms

Textile industry representatives and apparel unions complain of several symptoms: declining shipments, large numbers of bankruptcies and plant closings, declining employment. They attribute the cause of most if not all of these symptoms to imports, particularly from China, and the medication they seek is some form of import restraint. What is really going on?

Shipments

Both textile and apparel industry shipments have grown and declined over the last 10 years. Textile industry shipments increased steadily to 1997, then declined back to their 1992 level 10 years later. Apparel industry shipments increased as well until 1997, and have declined since. Textile industry representatives suggest that the Asian currency crisis in 1997 resulted in a huge and sustained influx of apparel imports into the United States, which caused the declines on both textile and apparel shipments.[5]

Table 4
Textile and Apparel Industry Shipments
(millions)

	Textiles (NAICS 313, 314)	Apparel (NAICS 315)
1992	$77,686	$61,535
1993	80,998	63,210
1994	85,840	64,894
1995	87,861	65,214
1996	88,311	64,237
1997	89,759	68,018
1998	88,553	64,932
1999	86,995	62,305
2000	85,766	60,339
2001	77,652	54,598
2002	77,402	53,621
2003	75,022	52,970

Source: Bureau of Census

[5] American Textile Manufacturers Institute, "Crisis In U.S. Textiles," August 2001. It is not clear that shifts in currency relationships have the impact ATMI believes they do. Most U.S. apparel importers order foreign goods in dollars. Others try to minimize the impact of currency fluctuations by trading currency futures or even (but rarely) shifting operations geographically. Scott Malone, "Dollar's Slide Pinches Margins Abroad," *WWD*, June 10, 2003.

Bankruptcies and Plant Closings

According to the National Council of Textile Organizations, illegal trade practices of China 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 Industries, more than once. Many of these firms were forced into bankruptcy because of debt burdens that became too heavy to bear.[6] As noted above in Table 1, the data for the number of textile companies (as opposed to plants) show net declines from 1998 to 2000, but an increase in 2001. Within the category, companies making home furnishings and industrial textiles experienced more up and down movement. For apparel, the data show a steady decline in the number of apparel companies over the 1998-2001 period.

Job Losses

Whenever textile and apparel industry lobbyists plead for government assistance, be it research grants or import protection, their favorite rationalization is dramatic declines in industry employment.[7] Indeed, employment in both industries has been in decline, for decades. The U.S. Department of Labor has noted that textile industry 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.[8] 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 2003, according to the

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[6] Rick Rothacker, "Despair in Mill Town, Textile firms Struggle to Find Loans to Survive; Once They Were Courted; Now Money Comes with Strings, High Interest," *Charlotte Observer*, June 30, 2002.

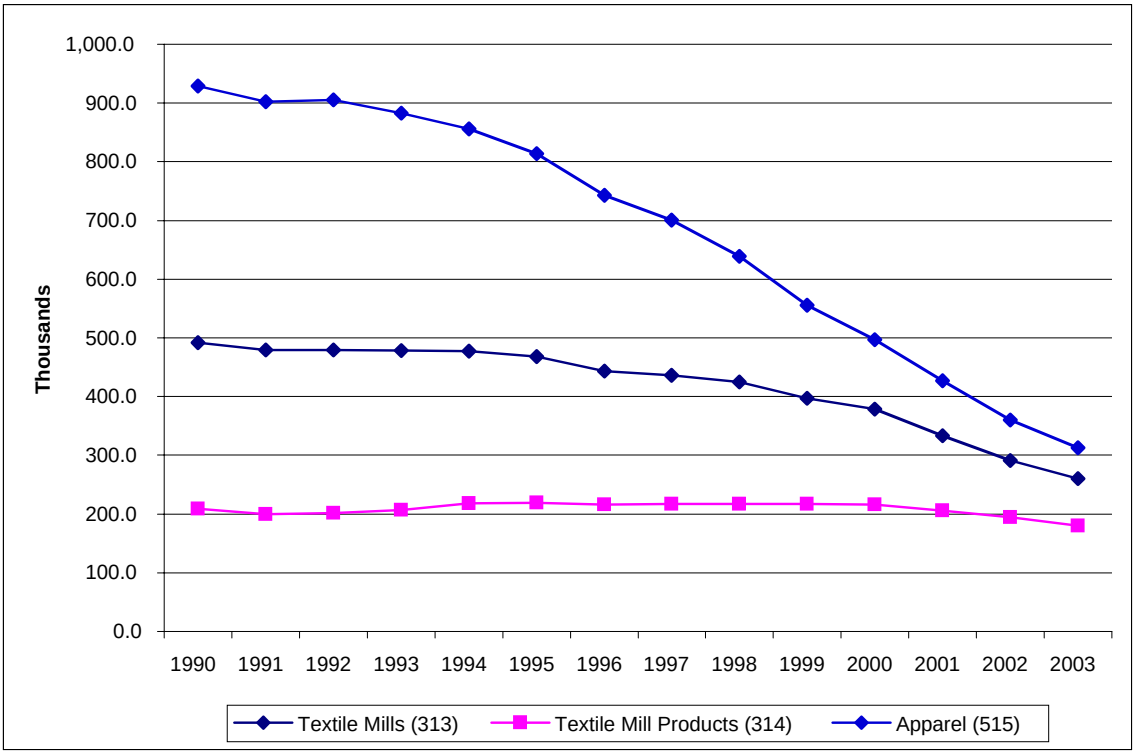
[7] See, for example, American Manufacturing Trade Action Coalition, "Labor Union UNITE Joins Textile/Fiber Coalition," Press Release, September 3, 2003, www.amtacdc.org/media/030903.asp, downloaded November 3, 2003; American Manufacturing Trade Action Coalition, "Textile and Apparel Industry Loses 13,000 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.

[8] Lauren A. Murray, "Unraveling Employment Trends in Textiles and Apparel, *Monthly Labor Review*, August 1995, pp. 62-63.

Bureau of Labor Statistics, total textile employment stood at 440,100 (compared to 701,100 in 1990), and apparel employment at 312,700 (compared to 929,100 in 1990).

Textile and Apparel Employment, 1990-2003



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

IV. Diagnosis

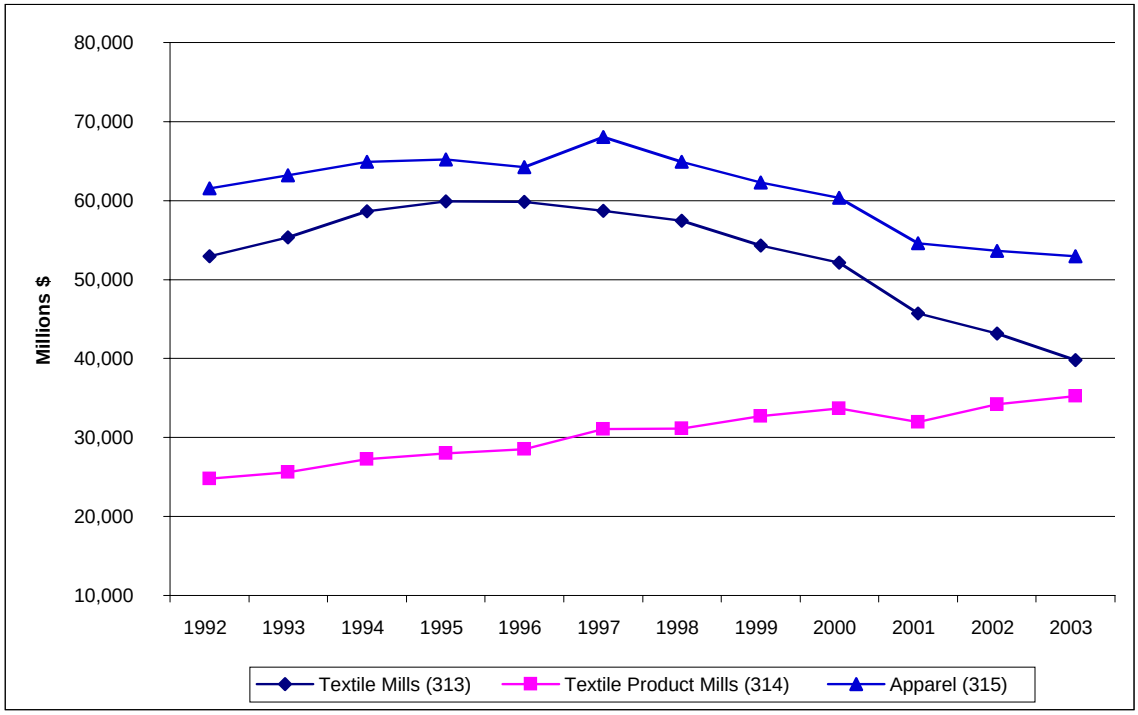
Before accepting the patients' claim that the presence of high volumes of imports in the U.S. textile mill, textile product and apparel markets have caused the various ills besetting the industries, it is useful to dig deeper into the data.

Shipments

While recent trends in apparel and textile mill shipments show declines, trends in textile product mill shipments are decidedly up. Again, this is the segment of textile manufacturing that produces residential and industrial carpeting, and home textiles (sheets, towels). Textile manufacturers that sell products to consumers furnishing their new or renovated homes with household textile products have seen steady increases in shipments. Those supplying commercial

and residential construction customers as well as motor vehicle producers with carpeting are also experiencing steadily increasing business.

Textile and Apparel Industry Shipments, 1992-2003



Source: Bureau of the Census.

But what about producers of yarn and fabric for apparel? Apparel manufacturers and retailers who are the customers for that yarn and fabric have complained that producers are more interested in selling them products they 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 the apparel producers and retailers. This insistence that customers buy what the U.S. producers already make, not the yarn or fabric the customers' designers have specified for apparel lines, 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. fabric producers has been a longstanding complaint of their customers, and likely one of the causes of declining shipments for that segment of the industry.

Shipments of U.S.-made apparel are also down. A highly competitive retail environment has forced all apparel companies to squeeze as much "fat" out of their operations as possible.[9] As U.S.

[9] 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

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 sources of apparel. The largest and most successful U.S. producers have transformed themselves into branding and marketing companies, licensing out production of brands to foreign producers. The thrust of their U.S. operations is now focused on design and the management of production operations spread around the world making licensed apparel brands. The health of their companies, including their remaining U.S. employment base (now largely classified in NAICS codes for warehousing and distribution), is now inextricably intertwined with international sourcing.

Bankruptcies

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, shifts – albeit painful for many -- that are creating stronger industries. Few of the companies that have entered bankruptcy have gone completely out of business. Many 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).[10] 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 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

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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 apparel firms listed in Table 3.

[10] It is worth noting that Ross had to bid against Warren Buffett for Burlington. 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.

finishing operation; and Nano-Tex, LLC, a company that develops and markets a family of nanotechnolgy-based textile treatment.

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."[11] 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…"[12] 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.'"[13]

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."[14] U.S. firms

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[11] 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.

[12] Jim Phillips, "Parkdale Positions for Growth, Textile Industries.com, April 2001, www.TextileIndustries.com/News.htm?CD=099&ID=455, downloaded November 20, 2003.

[13] Scott Malone, "Consolidation Sweeps Textiles," *WWD*, July 27, 2004.

[14] Vicki M. Young, "A Busy Half of Buying and Selling," *DNR*, August 23, 2004.

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.

Thus, 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. Just as older trees in a forest eventually die clearing the way for new growth to flourish, so too with U.S. textile companies. 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.[15]

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:

> 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.* [16]

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[15] 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.

[16] 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.

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 2003 (see Table 5). 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?

Table 5
Recent Profitability in the Textile and Apparel Industries, 2001-2003
(millions and percent)

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

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. Growing pains, if you will, not a sickness in need of hospitalization. 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. Going forward, warn textile industry specialists, the 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."[17]

[17] "As Textile Jobs Bolt Overseas, Creative North Carolina Firms Survive," *Atlanta Journal and Constitution*, September 21, 2003.

Similarly, successful apparel manufacturers have embraced co-production operations in trade preference partner countries and manufacture piece goods for those operations.[18] 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 necessitates 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.[19]

Employment

A sizable body of research has demonstrated that improvements in productivity are the primary causes of job losses, at least in the textile industry. This research also suggests that imports likely have played a bigger role in job losses in the apparel 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.[20] Using another methodology, Cline also concluded that productivity mattered more than imports as a factor in both textile and apparel sector job losses.[21]

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[18] 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.

[19] Scott Malone, "U.S. Makers Fading Away," *WWD*, June 10, 2003.

[20] 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."

[21] 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 See, for example, Phillips-Van Heusen Corporation, *Annual Report*

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.[22]

If one tends to be suspicious of economic studies, plain data also support the conclusion that productivity is an important, and likely the most important, cause of job losses. The increase in shipments despite the decline in employment suggests that output per worker has been improving, at least until 1997. Data for multifactor productivity[23] in the textile industry from 1958-2001 (the most recent year available) indicates that, except for 1974, textile sector productivity has been steadily increasing over the last four decades at impressively strong rates. The experience of the apparel industry was also positive: multifactor productivity has been increasing at a somewhat slower rate than for textiles over the same period, with dips in 1969-70 and 1990-92. One should expect that productivity improvements will continue to cause job declines, particularly in the textile sectors but also in the apparel sector.

(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.

[21] Scott Malone, "U.S. Makers Fading Away," *WWD*, June 10, 2003.

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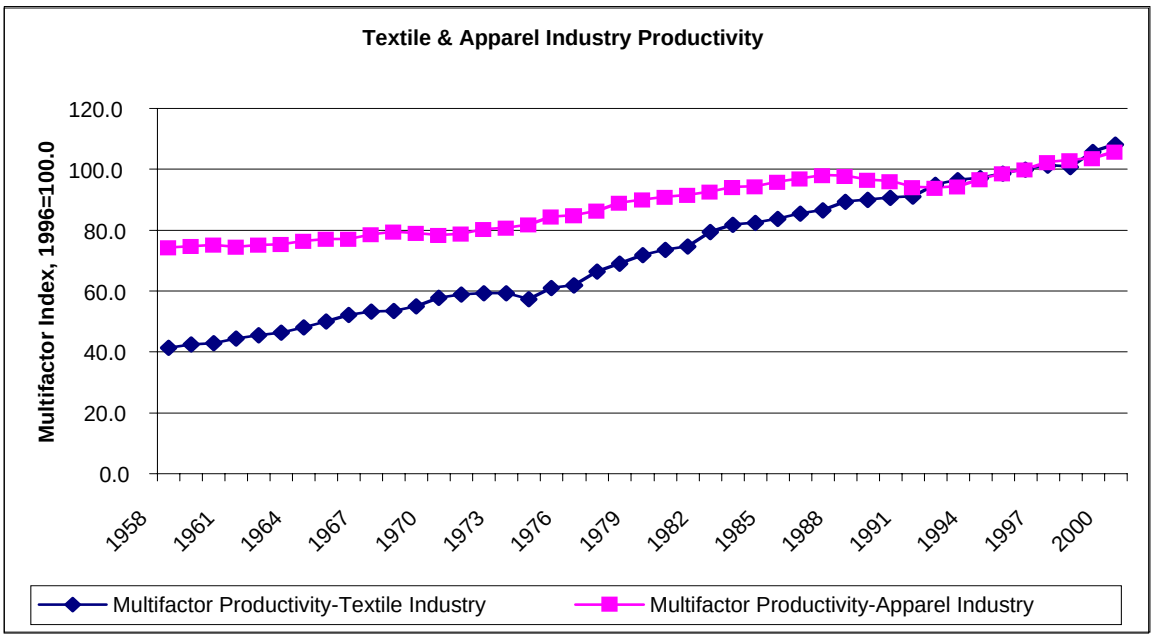
[22] David P. Henderson and Scott Sanford, "A Regional Model of Import-Employment Substitution: The Case of Textiles," *The Review of Regional Studies*, Vol. 21 (1991), pp. 79-90.

[23] Multifactor productivity is designed to measure the joint influences on economic growth of technological change, efficiency improvements, returns to scale, reallocation of resources, and other factors.



Source: Derived from U.S. Department of Labor, Bureau of Labor Statistics. NOTE: these data are for SIC classifications, not NAICS classifications. Data classified by NAICS codes are not available.

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.[24] 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.[25] This suggests that future job losses in the sectors may result simply from demographics, rather than imports or some other cause.

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. Some U.S. universities are responding. Students who see themselves as future marketers or designers, chemists or lab technicians, are signing up for college programs that

[24] 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."

[25] 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.

offer degrees as high as PhDs (in Textile Engineering and Science at Philadelphia University).[26] North Carolina State University cannot turn out enough textile engineers to meet demand from U.S. companies.[27] 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.[28]

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."[29] 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]."[30] 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.[31]

V. The Role of Imports

The patients place a huge amount of blame on imports for their aches and pains. Thus, it is useful to look more closely at import trends and how the industries have been affected by those trends. The trends are quite different for textiles than for apparel, and therefore will be examined separately. In contrast to apparel imports, U.S. imports of yarns, fabrics and made-ups (home furnishings, textile-sided luggage, etc.) are small relative to domestic production and have been increasing at a much slower pace. In addition, because China figures so prominently in recent textile industry complaints, I explore the degree of presence of imports from China in each section.

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

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

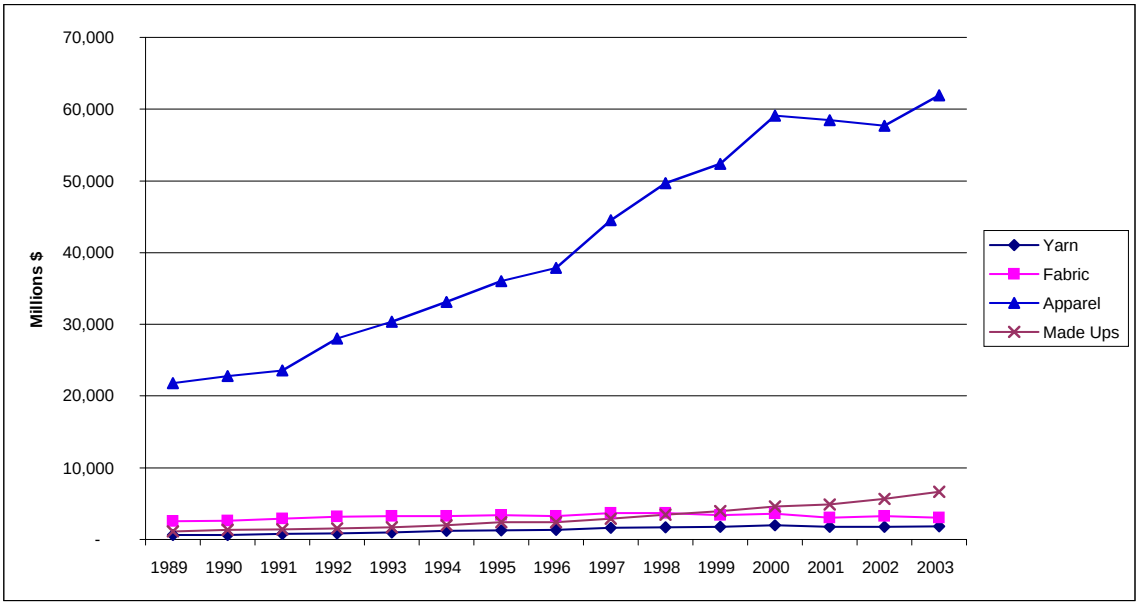
28 Brenda Lloyd, "Jobs Go Unfilled as Textile School Enrollments Decline," *DNR*, January 12, 2000.

29 Ibid.

30 Ibid.

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

U.S. Apparel, Yarn, Fabric and Made-up Imports, 1989-2003



Source: ITC Dataweb

Yarns and Fabrics (NAICS 313)

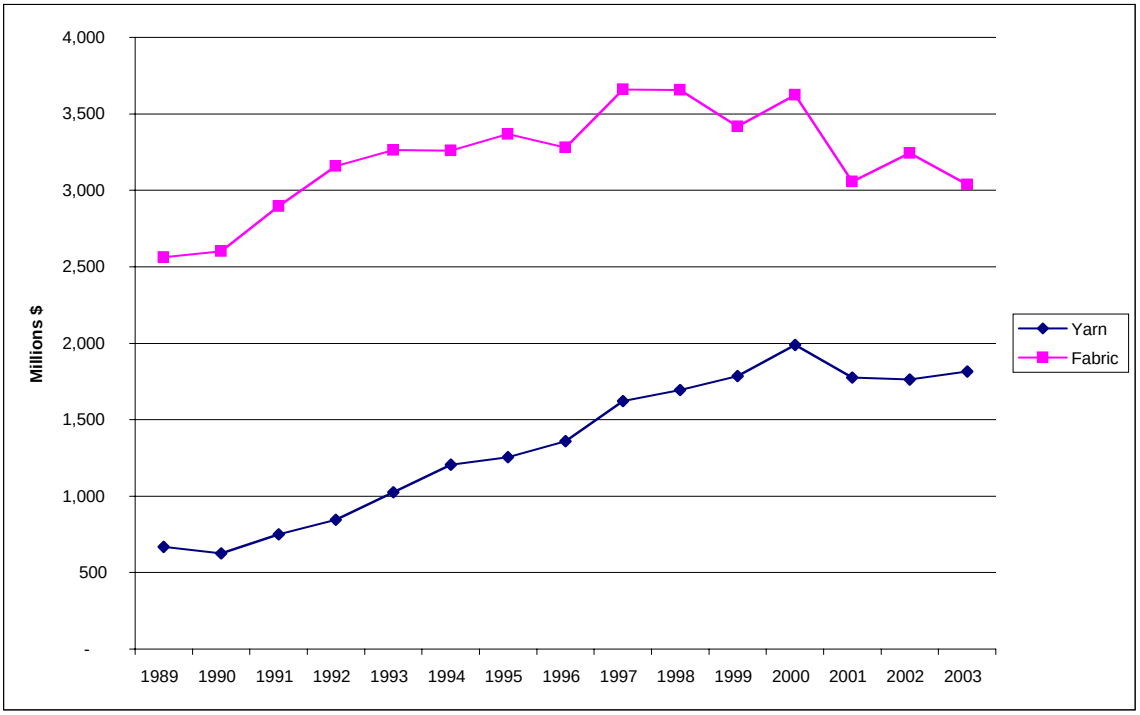
U.S. fabric apparel producers import yarns or fabrics for use in their U.S. manufacturing operations. These imports supplement (declining) domestic shipments of yarns and fabrics. In other words, U.S. fabric and apparel producers are increasing their use of imported yarns and fabrics at the expense of U.S.-produced yarns and fabrics. North American Free Trade Agreement (NAFTA) partners supplied most – 44.8 percent -- of the volume of yarn imported into the United States in 2003. Another 12.5 percent represents high-end yarns from the European Union and Japan. Twenty-eight percent of the volume of U.S. fabric imports in 2003 came from our NAFTA partners – much of it from plants owned by U.S. textile producers who invested there after NAFTA went into effect -- and 16.6 percent from the EU and Japan. Imports from China accounted for 6.4 percent of total U.S. yarn and fabric imports in 2003.

Table 6
Textile Mill Products (NAICS 313): Domestic Shipments, Imports, Market, 1989-2003
(millions and percent)

	Shipments	Imports*	Market	Imports' Share of Market
1992	$52,923	$4,638	$57,561	8.1%
1993	55,375	4,952	60,327	8.2
1994	58,607	5,142	63,749	8.1
1995	59,885	5,271	65,156	8.1
1996	59,796	5,250	65,046	8.1
1997	58,707	5,943	64,650	9.2
1998	57,416	5,992	63,408	9.4
1999	54,306	5,849	60,155	9.7
2000	52,112	6,287	58,399	10.8
2001	45,681	5,396	51,077	10.6
2002	43,170	5,578	48,748	11.4
2003	39,775	5,399	45,174	12.0

* Landed, duty-paid value of imports of yarn and fabric combined
Source: The Trade Partnership from Census data.

U.S. Imports of Yarns and Fabrics, 1989-2003



Source: ITC Dataweb.

Ironically, U.S. quotas and tariffs restrict the degree to which U.S. fabric and apparel producers can use certain foreign yarns and fabrics in their U.S. production. Almost 200 (196) individual quotas applied to fabric and yarn imports from 27 countries in 2003. Eighteen separate yarn and fabric quotas restrict imports from China.

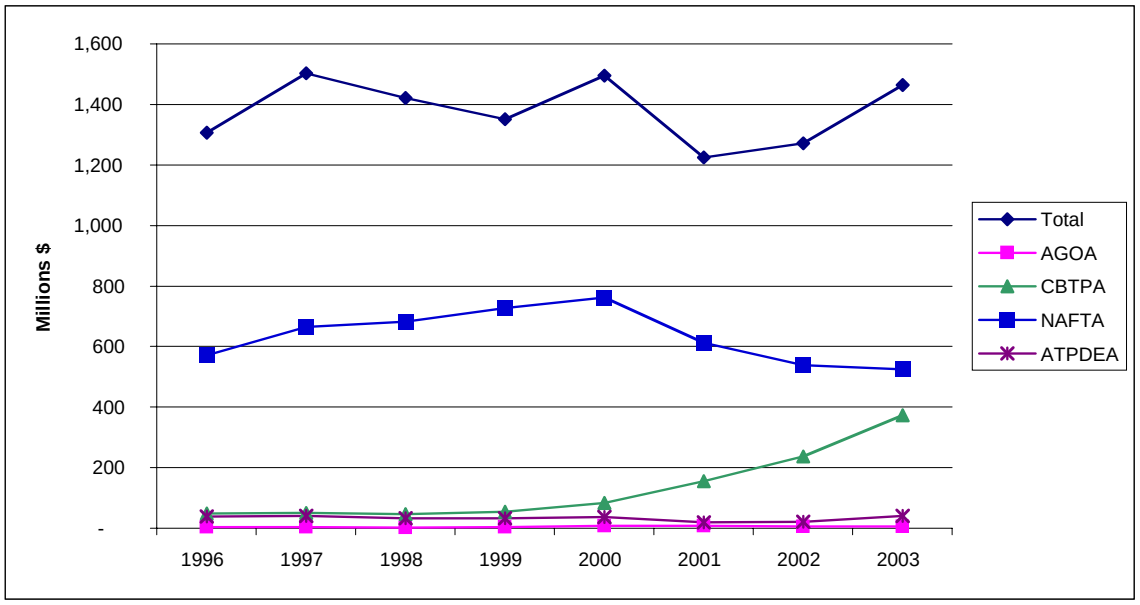
In addition to quotas, yarns and fabrics face relatively high tariffs when imported into the United States. In 2003, the average tariff rate applied to fabric subject to duty (i.e., not duty-free under a preference program or free trade agreement) was 10.4 percent. For yarns, the average tariff rate for products subject to duties was 8.0 percent. These are relatively high tariffs: the comparable average tariff rate for *all* merchandise imports was 4.9 percent in 2003.

U.S. import preference programs[32] 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

[32] 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 to

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,[33] 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. One would expect that these opportunities would have caused a significant expansion in U.S. exports of yarns and fabrics to manufacture apparel in the preference countries for export to the United States. While yarn exports overall have been flat; growth in exports under the CBTPA simply substituted for declines in exports to the NAFTA region. A more curious impact is seen for fabric exports: they generally increased in total until 2000, but have fallen since. As with yarn, fabric exports to the CBTPA region have displaced exports to NAFTA partners.

U.S. Yarn Exports, 1996-2003

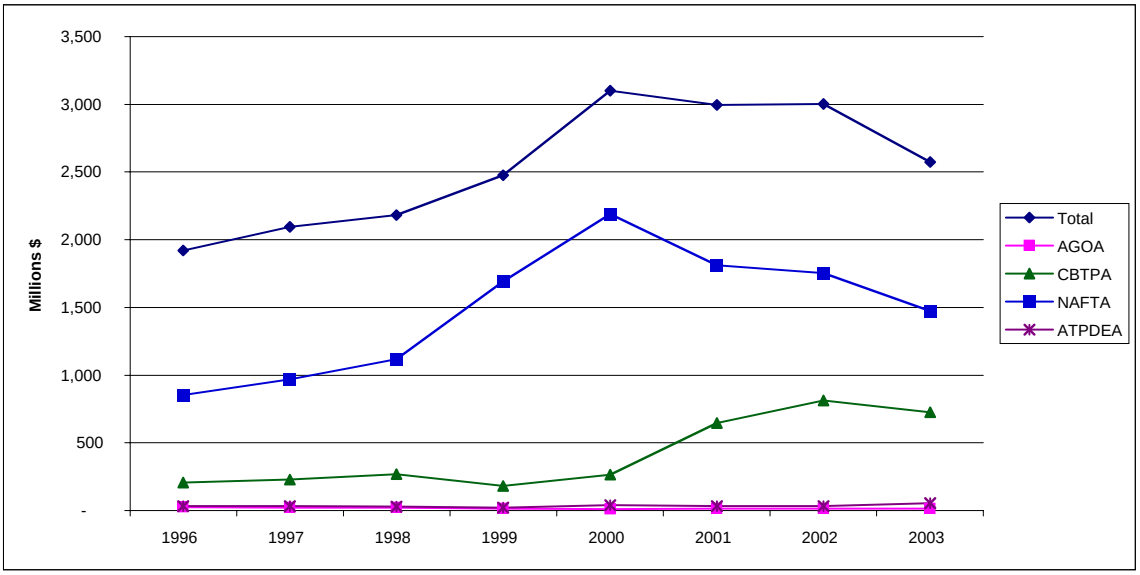


a specified country. The partner country gives the U.S. benefits in exchange for benefits the United States extends to the partner country.

[33] It is noteworthy that, at least from 2000-2001 (the most recent data available), a disaggregation of the data showing a net increase in the total number of textile mills reveals that the increases were coming from textile and fabric *finishing* mills. The increases at these mills more than offset declines in the number of firms making yarn, thread and fabric.

Source: ITC Dataweb.

U.S. Fabric Imports, 1996-2003



Source: ITC Dataweb

The key point is that, while there has been some shifting in patterns among countries, overall U.S. yarn and fabric exports have not increased dramatically as a result of the preference programs and NAFTA (data reflecting the impacts of the U.S.-Chile and U.S.-Singapore FTAs are not yet available for a significant period of time). U.S. companies sourcing apparel and other products from preference partners explain that U.S. yarns and fabrics 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.

What appears to be happening, instead, is that U.S. yarn and fabric producers are relocating production from the United States to, initially Mexico and now from Mexico to the Caribbean Basin. This makes sense: commodity apparel fabrics should be located as close to apparel production bases as possible, saving time as well as transportation expenses and improving the competitiveness not only of yarn and textile suppliers but also of apparel producers.

Textile Mill Products (NAICS 314)

Retailers or a company that sources for retailers typically import made-up products (sheets, towels, textile luggage, e.g.). Imports account for a growing share of the U.S. market. China

supplied the largest share in 2003, at 45.3 percent of the total volume of made-ups imported into the United States. Pakistan, India, Mexico and Turkey along with China together accounted for over 76 percent of the volume of made-ups imported into the United States in 2003.

Table 8
Textile Products (NAICS 314): Domestic Shipments, Imports, Market, 1989-2003
(millions and percent)

	Shipments	Imports*	Market	Imports' Share of Market
1992	$24,763	$1,757	$26,520	6.6%
1993	25,623	1,938	27,561	7.0
1994	27,233	2,276	29,509	7.7
1995	27,976	2,724	30,700	8.9
1996	28,515	2,675	31,190	8.6
1997	31,052	3,200	34,252	9.3
1998	31,137	3,824	34,961	10.9
1999	32,689	4,447	37,136	12.0
2000	33,654	5,124	38,778	13.2
2001	31,971	5,443	37,414	14.5
2002	34,232	6,370	40,602	15.7
2003	35,247	7,534	42,781	17.6

* Landed, duty-paid value of imports.
Source: The Trade Partnership from Census data.

The import share of the market has been increasing despite the fact that made ups are subject to tariffs and quotas. In 2003, tariffs averaged 7.7 percent of the value of imports subject to duties. In addition, the United States restricted made-up imports with 47 individual quotas. The United States imposes quotas on seven made-up products imported from China. Imports from China in 2003 totaled $2.4 billion, representing 5.6 percent of the market.

Apparel (NAICS 315)

Apparel imports have been increasing for many years despite an ever-expanding web of import quotas and some of the highest tariff rates in the U.S. tariff schedule. In 2003, 17 countries accounted for 75.5 percent of total imports. By 2003, imports supplied over half the U.S. apparel

market.[34] The average tariff for apparel products subject to duties in 2003 was 16.2 percent. In addition, as of 2003, the United States had in effect 569 apparel quotas affecting 45 countries. Quotas restricted 34 percent of the total volume of U.S. apparel imports in 2003. The United States imposes quotas on 49 individual apparel products imported from China. 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.

Table 9
Apparel (NAICS 315): Domestic Shipments, Imports, Market, 1989-2003
(millions and percent)

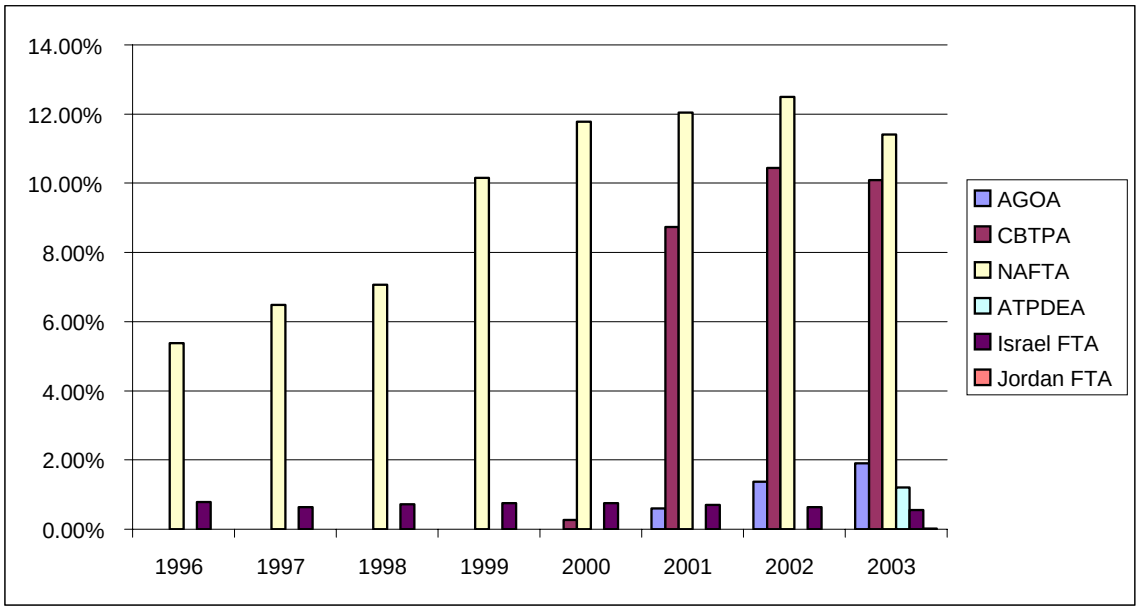
	Shipments	Imports*	Market	Imports' Share of Market
1992	$61,535	$34,214	$95,749	35.7%
1993	63,210	36,630	99,840	36.7
1994	64,894	39,831	104,725	38.0
1995	65,214	42,816	108,030	39.6
1996	64,237	44,599	108,836	41.0
1997	68,018	52,056	120,074	43.4
1998	64,932	57,835	122,767	47.1
1999	62,305	61,012	123,317	49.5
2000	60,339	69,008	129,347	53.4
2001	54,598	67,646	122,244	55.3
2002	53,621	67,036	120,657	55.6
2003	52,970	71,834	124,804	57.6

* Landed, duty-paid value of imports; includes U.S. content.
Source: The Trade Partnership from Census data.

One reason for the expansion of imports has been growing interest in using preference programs and free trade agreements to take advantage of duty-free and quota-free access to the U.S. market. Because apparel quotas are tight for key products and tariffs are much higher than for other textile products, these programs offer advantages of U.S. importers. More than one quarter of the value of all apparel imported into the United States in 2003 benefited from a preference program or free trade agreement, compared to just 5 percent in 1996. Imports from China totaled $8.6 billion, or 6.9 percent of the U.S. apparel market in 2003.

[34] When textile industry representatives talk about foreign supply of the U.S. apparel "market," their definition of "market" is imports only. They do not include the value of domestic shipments. Thus, their estimates of the import share of "the market" is considerably overstated.

Preference Program Shares of Total Apparel Imports, 1996-2003



Source: ITC Dataweb

But as noted above, the preference programs and free trade agreements 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. In 2002, that content represented 3 percent of the value (including cost, insurance and freight) of apparel imports as a whole. It ranged as high as 8.4 percent (for swimwear). The U.S. content is much higher 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. In 2003, the United States exported to China $737 million in cotton (exports in the first half of 2004 were 329 percent higher than the first half of 2003); $130 million in manmade fibers; $56 million in yarn; and $27 million in fabric. These inputs together represent just over 8 percent of the total value of textile and apparel products imported from China in 2003.

Table 10
U.S. Content of Selected Apparel Imports, 2002
(Millions and percent)

	Imports*	Value of U.S. Content	Share of Total
Sweaters	$3,165.2	$5.3	0.2%
Tops (except sweaters)	23,438.1	780.8	3.3
Bottoms	16,502.5	682.7	4.2
Coats & jackets	5,433.1	79.4	1.5
Suits	991.0	4.7	0.5
Swimwear	668.9	55.9	8.4
Dresses	1,829.8	40.0	2.2
Skirts	1,566.8	28.4	1.8
Playsuits	22.5	0.4	1.8
Coveralls, etc.	457.9	23.9	5.2
Robes and dressing gowns	633.5	11.6	1.8
Pajamas and other nightwear	1,662.3	21.7	1.3
Underwear	3,171.4	85.2	2.7
Foundation garments	1,796.2	55.0	3.1
Infants' apparel	2,102.1	10.9	0.5
Total	63,441.3	1,885.9	3.0

* CIF value.
Source: U.S. Census Bureau, Apparel: 2002, Summary, Current Industrial Report, August 2003.

That U.S. apparel firms are benefiting from trade preference program is evident from two important pieces of information. First, the growth in the net number of apparel firms from 2000-2001 took place among cut and sew apparel manufacturers. Second, 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.[35] Opposition to freer trade in textiles and apparel comes largely from apparel unions, which represent just 8.4 percent of the apparel workforce in 2002.

[35] A typical opinion of the firms listed in Table 2 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 Association, International Mass Retail Association, and National Retail Federation, January 6, 2004. It quotes Kevin Burke, President and CEO of the AAFA, on "the

VI. Prescription for Responding to the Challenges Ahead

In summary:

- Firms are exiting *and* entering the U.S. textile industry. Investment interest in the sector remains strong. Producers are downsizing and refocusing their output away from commodity products (exception: carpeting) for which price competition is highest and toward specialty products, especially in apparel fabrics. Profits are back and on the rise.

- Firms are also exiting and entering the U.S. apparel sector, but overall the transition is to an international production platform for commodity products, and domestic production for inputs to that international production as well as specialty, niche/fashion apparel. Investment activity in the sector is strong. Profitability is very strong.

- Although the value of textile shipments overall has been declining since 1997, the total obscures the steady increases in shipments of textile mill products producers (carpets, sheets, towels, etc.). Both the textile mill sector (yarns and fabrics) and the textile mill products sector largely depend for their economic health on activity in the home furnishings, residential and commercial construction, and motor vehicle industries, *not* the apparel industry.

- Textile employment has been steadily declining, largely because of productivity improvements. Apparel sector jobs have been more vulnerable to import competition. That said, the average age of the textile and apparel workforces is relatively high, with many workers approaching retirement. New apparel workers are coming increasingly from immigrant labor pools. Textile jobs in the United States are increasingly high-skilled, and workers with the requisite skills are hard to find.

- Textile and apparel imports have been increasing and the import share of the market has been increasing. Import protection has long been higher than the average for manufacturing and it has not succeeded in forestalling employment losses in the sector. Preference programs are of interest to both textile producers (as export markets) and apparel producers (as sources of inputs as well as finished apparel). In most instances, apparel imported into the United States contains some level of U.S. content.

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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."

Thus, the widespread impression that the U.S. textile and apparel industries are vanishing is both true and untrue. It is true that employment in both sectors is declining and that firms are closing. But it is also true that consolidation and changes in production platforms are taking place and that, as a result, both industries are much more competitive than the headlines would have you believe. Indeed, a close look at what is happening in the industries leads one to the conclusion that many – but not all – firms stand ready to compete with imports when the textile and apparel quotas end on January 1, 2005.

So 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 different than 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 move 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.[36]

How? Some proposals have already been offered by textile and apparel producers and consumers. 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 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

[36] Levinsohn and Petropoulos, *op. cit.*, p. 1.

depreciation schedule for textile producers, establish a capital investment rebate program, or extend the net-operating loss program.

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 repellant, 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.[37] 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 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 program 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.

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 it. When weighing various pleas for action, bear in mind three key facts detailed in this paper: first, apparel imports impact at most 15 percent of the textile industry (based on shipments),[38] 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

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

[38] As noted above, 28 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 28 percent works out to a total effect of 14.8 percent.

from trade liberalization than from trade protection. Import protection is an appropriate 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.

Many of these proposals have already been suggested by trade associations representing American apparel producers, importers and retailers. 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.