Crisis in the U.S. Textile and Apparel Industry: Is It Caused by the Trade Agreements and Asian Currency Meltdowns?

by

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Introduction

The U.S. textile and apparel industry complex experiencing its worst downturn in over two decades.

Crisis is believed to have been caused by recent global trade liberalization and Asian currency devaluation.

Rapid job losses in rural areas of the Southeast region where the industry complex is disproportionately located (See Figure 1).
Following the 1997-98 global financial crisis, the currencies of the top textile exporting countries in Asia seem to have collapsed (See Figure 2).

Caused a shock wave of low-priced textile products in global markets.

The value of textile imports from Asia grew rapidly by about 36 percent (%) from 1995 through 2001 in tandem with a decrease in Asian currencies (See Figure 3).

Recent plant closures may seriously impact economic development in rural locations.
Figure 3. Textile Imports and Weighted Index of the Currencies of Top Asian Textile Exporting Countries
Issues (cont’d)

- Apparent increased competitiveness pressures on U.S. textile and apparel industry complex (Amponsah and Qin 2000)
- Consolidation of U.S. textile and apparel industries (by concentrating more on producing and exporting high quality products)
- Global Trade policies and Asian financial melt down contributed to recent crisis facing industry (Amponsah and Ofori-Boadu, forthcoming)
- Diversification of more labor-intensive apparel production to Mexico and apparel imports from Mexico include:
  - U.S. – Mexico relative exchange rates
  - U.S. FDI flows to Mexico
  - Tariff rates levied by Mexico on U.S. exports

(explained by relative costs of capital, differential wages and incomes)
Structure on U.S. Textile Complex

- Provides jobs for more than 1.5 million workers
  (8% of domestic industrial workforce)
- The industry complex is the largest manufacturing employer in North Carolina, Pennsylvania, Alabama, Virginia, Tennessee, and California (Figure 1)
- Textile and apparel firms are often primary employers in rural areas. Major metropolitan areas include middle Atlantic States and California
- Major segments of textile complex:
  - Processing of natural fibers into manufactured fibers
  - Conversion of fibers into intermediate textile mill products, (Yarns, fabric)
  - Manufacture of end-use-products, mainly apparel
- Emerging trade agreements have caused U.S. manufacturers to focus on achieving greater speed, efficiency, and high quality products
Factors Affecting Competitiveness

Focus on non-price factors of competition (Abbott & Bredhal, 1994)
- Firm’s strategy (sourcing); Industry structure; Quality of products

Piercy (1982) includes products and services

The forces of globalization caused:
- Overcapacity of production; global financial crises; emerging trade agreements; changing price of cotton; cheap imports from Mexico

U.S. industry responded by:
- Increased automation to achieve greater productivity

Resulted in:
- Domestic Plant closures; domestic job losses; greater investment by larger firms in Mexico
Evolution of Recent Trade Policies

- Multi-Fiber Arrangement (MFA)
- Agreement on Textiles and Clothing (ATC)
  - Ratified by WTO in 1995
  - The ATC will phase out MFA in 2005
- NAFTA
  - Trade and Investment Opportunities
  - Tariff elimination, non-tariff barriers reduction
  - Provision on how to conduct business in the region
  - Yarn forward Rule of Origin
- CBI
  - Provide quota-free access to selected countries for products manufactured with U.S. fabric
Figure 4. U.S. Textile and Apparel Trade with Mexico

- Textile Exports
- Textile Imports
- Apparel Exports
- Apparel Imports


Million $
Concluding Comments

The textile and apparel industry crisis seems to transcend NAFTA.

According to managers of industry surveyed, NAFTA seems to have provided opportunities for major U.S. companies and retailers to engage in direct investment, sourcing and off-shore contracting with Mexico, with relative loss to distant suppliers in Asia.

NAFTA has also created additional opportunities for U.S. textile manufacturers to take advantage of U.S. advanced technology in producing yarns and fabric in manufacturing apparels at relatively lower labor cost in Mexico that are shipped back to the U.S. market in faster response times.
Concluding Comments . . .

- Plants in the U.S. that are unable to automate have been forced to close, whereas those that have employed greater technology have downsized by laying off workers.

- Obviously, the recent crisis facing the textile industry complex has been fueled by the Asian currency devaluation and access to the U.S. textiles market.

- As the industry crisis deepened, there seems to have emerged a much divided industry complex.