

CRISIS IN THE U.S. TEXTILE AND APPAREL INDUSTRY: IS IT CAUSED BY TRADE  
AGREEMENTS AND ASIAN CURRENCY MELTDOWNS?

by

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## CRISIS IN THE U.S. TEXTILE AND APPAREL INDUSTRY: IS IT CAUSED BY TRADE AGREEMENTS AND ASIAN CURRENCY MELTDOWNS?

### Abstract

The U.S. textile and apparel industry complex is facing a crisis that seems to be fueled in large part by the exchange rate devaluation of major Asian exporters of textile products and recent multilateral and regional trade liberalization policies that have provided greater access to the U.S. market. Although many observers credit the NAFTA with recent job losses, the dual effects of U.S. exchange rate and trade policies may be at the heart of much of the crisis that is brewing between textile companies on the one hand and apparel companies on the other. Therefore, we conclude that the current textile and apparel crisis may transcend the policies of NAFTA.

## **Introduction**

The U.S. textile and apparel industry complex is experiencing its worst downturn in over two decades. It is faced with a major crisis that is believed to have been caused by recent global trade liberalization and Asian currency devaluation. Most observers credit policies stemming from global trade liberalization, such as the World Trade Organization (WTO) and the North American Free Trade Agreement (NAFTA), with contributing to rapid job losses, especially in the rural areas of the Southeast region where the industry complex is disproportionately located (see Figure 1). However, since 1995 and especially following the 1997-98 global financial crisis, the currencies of the top textile exporting countries in Asia seem to have collapsed (please see Figure 2), causing a shock wave of low-priced textile products in global markets. The value of textile imports from Asia, which had shown relatively little growth over the previous ten years, grew rapidly by about 36 percent (%) from 1995 through 2001 in tandem with a decrease in Asian currencies (please see Figure 3). Additionally, volatility in the apparels market, fueled by frequent fashion changes, have contributed to exacerbating the economic stress faced by industry participants and rural residents. Therefore, the recent spate of plant closures may seriously impact economic development opportunities that are offered by the industry complex in those rural communities where a majority of plants are located.

## **Industry Background and Importance**

Statistics from the U.S. Department of Commerce and the Bureau of Labor Statistics (1997) list 5,117 textile complex companies and 6,134 plants. The gross sales for the cotton-fiber-textile-apparel complex in 2000 was \$58 billion, having fallen from \$60.3 billion in 1999. Nevertheless, it was still the largest manufacturing employer in the U.S. economy, providing jobs for nearly 1.4 million workers in 1999. Employment in the textile complex in 1999 was made up as follows: 562,000 in textiles, 684,000 in apparels, 41,887 in man-made fibers, 62,579 wool growers, and

31,493 cotton growers. The textile and apparel companies have lost about 425,000 jobs since 1992. As depicted in Figure 1, the complex is the largest manufacturing employer in ten key states; North Carolina, California, Georgia, New York, South Carolina, Texas, Alabama, Pennsylvania, Virginia, and Tennessee. Textile and apparel firms are often the primary employers in rural regions, although the apparel sector is also a major source of employment in metropolitan areas, particularly in the Middle Atlantic states and California.

### **The U.S. Industry Faces Global Competition**

Recently, the U.S. textile complex has experienced (i) overcapacity of production; (ii) global financial crisis; (iii) multilateral and regional trade agreements; (iv) rapid changes in fashion trends and demand; and (v) cheap imports from Asia and NAFTA nations (mainly Mexico). To become more competitive and profitable, U.S. textile manufacturers have focused on achieving greater speed, efficiency, and high quality production by investing heavily in automated technology and more integrated relationships while sacrificing domestic jobs. In 1997, U.S. textiles and apparel exports were worth \$16.9 billion, and represented 31% of the industry's \$53.9 billion in total sales. U.S. exports to NAFTA partners equaled 41% of its global textile exports. In 2000, U.S. textile complex exports to Mexico and Canada was \$9.5 billion which constituted 51% of total exports. However, global overcapacity in production of textiles and ease of substituting import products for apparel manufacturing have intensified market competition in the U.S. In part because of pressure from low-priced Asian imports, prices for U.S. textile products have fallen since 1997. Low-priced Asian imports are believed to have been caused by the currency devaluation of major textile exporters such as Hong Kong, India, Indonesia, Japan, Pakistan, Philippines, South Korea, Sri Lanka, Taiwan, and Thailand (see Figure 2). Figure 3 shows that with the exception of China, a weighted index of all the currencies of major exporters have declined by nearly 40% since 1995. Indeed, the analysis reveals

that following the sharp currency declines during the “Asian financial crisis” from 1997 through 1998, Asian currencies stabilized through 2000, and resumed their downward path. At its zenith, U.S. textile imports from major Asian exporters was at \$34.80 billion. In particular, U.S. textile imports from China rose from \$8.81 billion to \$10.24 billion. For apparel firms, the desire for exclusive products, the transient nature of fashion, and timing and seasonality of products have also contributed to increasing market volatility. Yet, U.S. apparel manufacturers seem to have benefitted from the cheaper Asian imports of textiles by the U.S.

Global sourcing strategies by the industry in locating manufacturing plants tend to also influence its competitiveness. Sourcing is explained by the cost of investing in facilities and equipment, production costs, labor costs and availability, quality control, timing, risks (language, culture, political, etc.) and reliability of product supply in the international market. Therefore, the industry complex which posted near-record profits of up to \$2.1 billion in 1998, has seen its profits fall to a dismal -\$0.4 billion in 2000 because of competition.

### **Have Global Trade Policies Contributed to the Crisis?**

Trade in textiles and apparel has been governed by quantitative restrictions based on the Multi-Fiber Arrangement (MFA). However, the WTO ratification of the 1995 Agreement on Textiles and Clothing (ATC) provided a significant change in sectoral liberalization that is anticipated to result in dramatic increase in textile and apparel trade by industrialized countries. The ATC will phase out the MFA restrictions in 2005 and end quantitative restrictions that have historically protected the U.S. market. This should further open up the industry complex to greater global competition.

Regional trade agreements such as the NAFTA have opened a new era in trade for the United States, Mexico, and Canada. To date, trade among the countries is led by industrial and value-added agricultural goods such as textiles and apparel. U.S. yarn and fabric production have become more

automated, while apparel production in Mexico is more labor intensive and can be produced at relatively lower wages. The NAFTA has also imposed a “yarn forward” rule that ensures that Mexican garment firms will use only North American fabrics rather than those from Asian suppliers. Apparel products from Mexico are guaranteed duty-free entry into the U.S. The NAFTA is complemented by the Caribbean Basin Initiative (CBI) that was begun in the 1980's to provide quota-free access to selected Caribbean countries for products that are manufactured with U.S. fabric. Both NAFTA and the CBI provide opportunities for U.S. textile firms to ship their products to Mexico and the Caribbeans where they are manufactured into apparel and are re-exported as to the U.S.

The U.S. has traditionally maintained a positive balance of trade in cotton and textiles with both Mexico and Canada. U.S. exports of textile fibers to Mexico reached \$3.3 billion in 2000, which shows an increase of about seven times the value in 1992 (see Figure 4). Meanwhile, U.S. imports of textiles from Mexico grew by nearly eight times during the same period, reaching \$0.9 billion in 2000. On the other hand, U.S. imports of apparels from Mexico quintupled from nearly \$2 billion in 1992 to about \$10 billion in 2000. U.S. trade with Canada in textiles and apparels have also grown, although the figures pale in comparison to that of Mexico.

In a previous quantitative study to determine the impacts of NAFTA on U.S.-Mexican trade in textiles and apparel, Amponsah and Qin (2000) determined that the factors that influence U.S. textile exports to Mexico and apparel imports from Mexico include the U.S.-Mexican exchange rates, U.S. foreign direct investment (FDI) in Mexico, and the reduced tariff rates that Mexico levies on U.S. exports as a result of NAFTA. A follow up study to validate U.S. textiles and apparel managers' perceptions about international market issues, especially on NAFTA, is reported in Amponsah (2001).

### **The Textile and Apparel Industry Crisis Seems to Transcend NAFTA**

From the industry's perspective, NAFTA's impacts on industry profits and trade prospects

seem to be mixed. In fact, 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. The 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. But 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. Downsizing seems to have grown since the inception of the NAFTA, although most managers interviewed in our NAFTA study feel that it has been the general industry trend since the late 1980s.

Joseph Schumpeter has characterized the manner in which a capitalist economic system evolves in a Darwinian fashion causing the weak and less creative to be destroyed while the strong and creative rise in stature as “creative destruction.” 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. However, through the 1980s, it appears that a number of top textile executives profited handsomely at the expense of the financial health of many textile enterprises. Moreover, when faced with mounting foreign competition, managers of textiles industries could not reinvent themselves and, therefore, have become casualties of the recent crisis. For example, a giant textile and apparel manufacturer such as Burlington Industries of Greensboro, North Carolina, at its peak in the late 20<sup>th</sup>-century, the world’s largest textile maker, with 80,000 employees and 149 plants, declared bankruptcy in 2001.

Additionally, as the industry crisis deepened, there seems to have emerged a much divided industry complex. Of major concern to managers of textile companies is the relatively weaker foreign currencies of Asian competitors, since they tend to reduce the price of imported products to the U.S.

In August 2001, the American Textile Manufacturers Institute (ATMI) released a comprehensive report, "Crisis in U.S. Textiles." The report takes the position that Asian currency devaluations and current U.S. strong dollar policies have contributed to creating a crisis in the U.S. textile complex. During the first half of 2001, the crisis facing the textile industry intensified when 100 textile plants were closed and 60,000 textile workers lost their jobs. Among other things, the report calls on the U.S. government to: (i) institute emergency actions to curb import surges, (ii) open closed export markets in Asia, (iii) show a commitment not to reduce textile and apparel tariffs in the next WTO trade round, and (vi) provide loan guarantees and expanding tax loss carry back to ten years. But many of these policies, if instituted would run counter to the current spirit of trade liberalization.

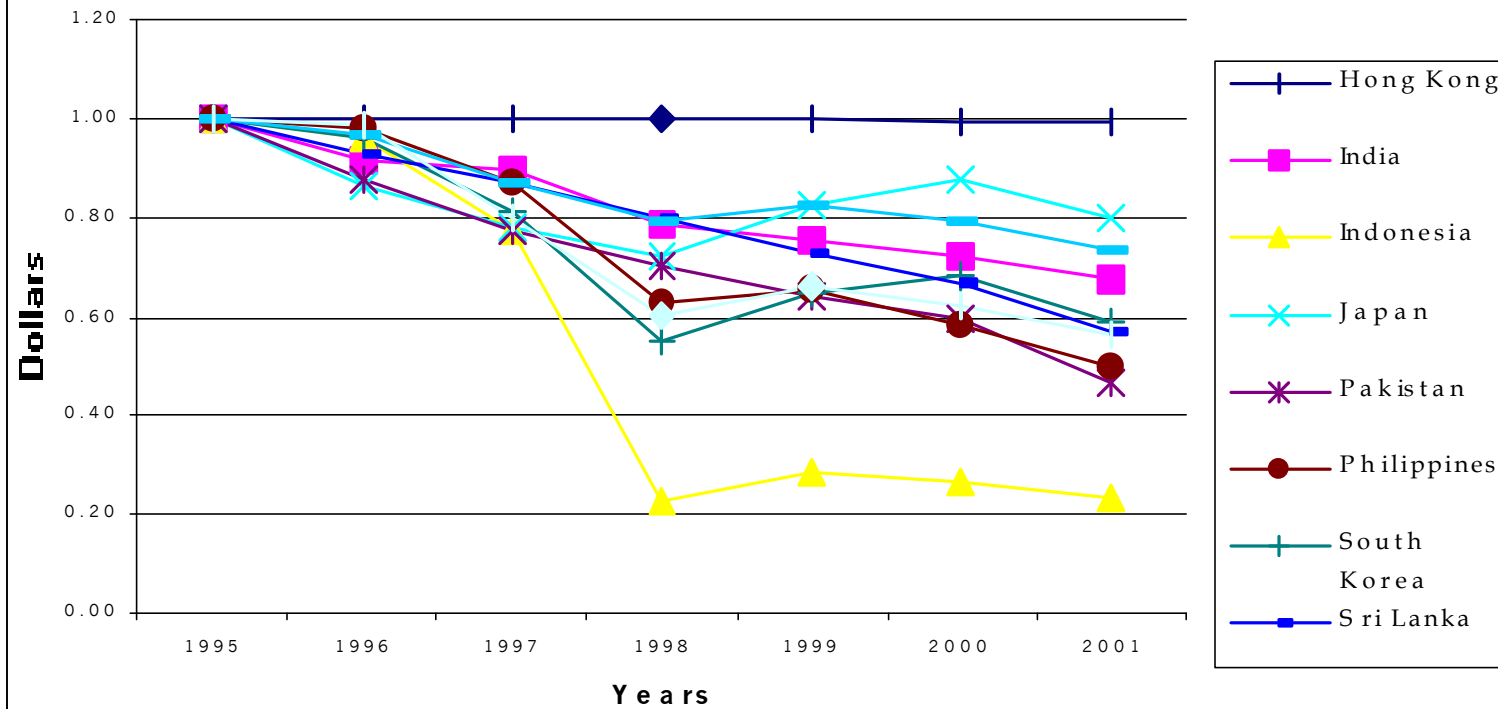
In any case, the listed recommendations do not sit well with the American Apparel and Footwear Association (AAFA). They counter that such protectionist policies would not work, will hurt U.S. clothing makers and will subject consumers to higher prices. Yet, at the end of July 2001, Governor Mike Easley of North Carolina and his counterparts in South Carolina, Georgia and Alabama wrote a letter to President Bush to "use every tool at your disposal to combat this (textile) crisis." They have since been joined by 31 mostly Southern congressmen. The AAFA and three related trade groups have since written their own letter to President Bush, criticizing the textile companies' position. Therefore, in this textile complex crisis it is not clear who will be the ultimate winners and losers.

### **Concluding Comments**

Therefore, the textile complex problems seem to transcend the NAFTA. Rather, it appears that recent global financial meltdowns that have caused depreciation in the currencies of major textile exporters from East Asia relative to the dollar, may have caused price of imported products to be cheaper on the U.S. market relative to textiles produced in the U.S. In tandem is the recent

liberalization of trade policies (from tariff reductions), stemming from multilateral trade agreements. Therefore, it appears that the industry complex will be continue to be confronted with major problems, especially following the expiration of the MFA in 2005.

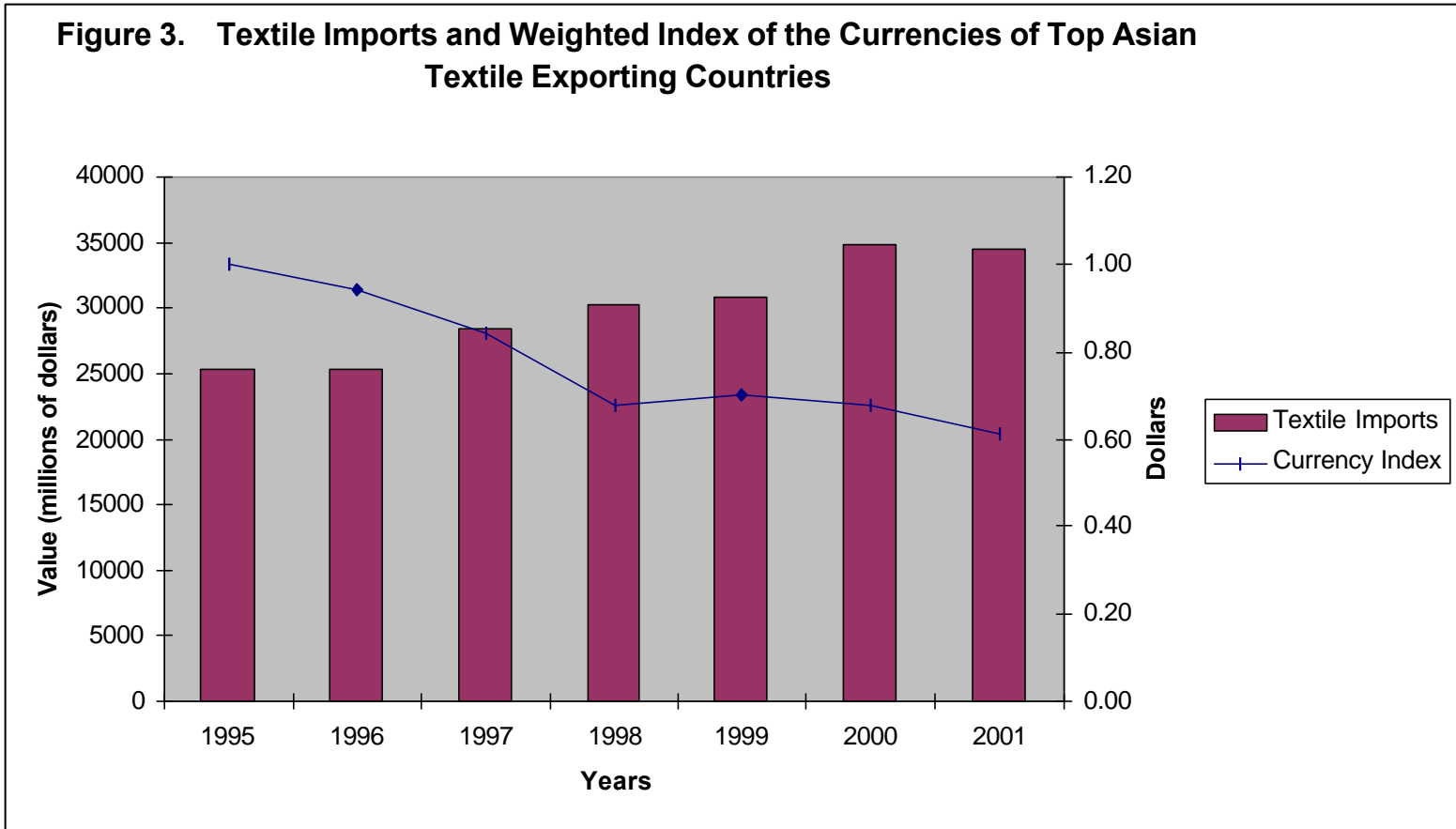
**Figure 2. Currency Devaluation of Top Ten Asian Textile Exporting Countries**



Source: International Marketing Data and Statistics 2002

Note: China is excluded because it uses export tax rebates to devalue its currency and the specific sector rebate values are not available.

**Figure 3. Textile Imports and Weighted Index of the Currencies of Top Asian Textile Exporting Countries**

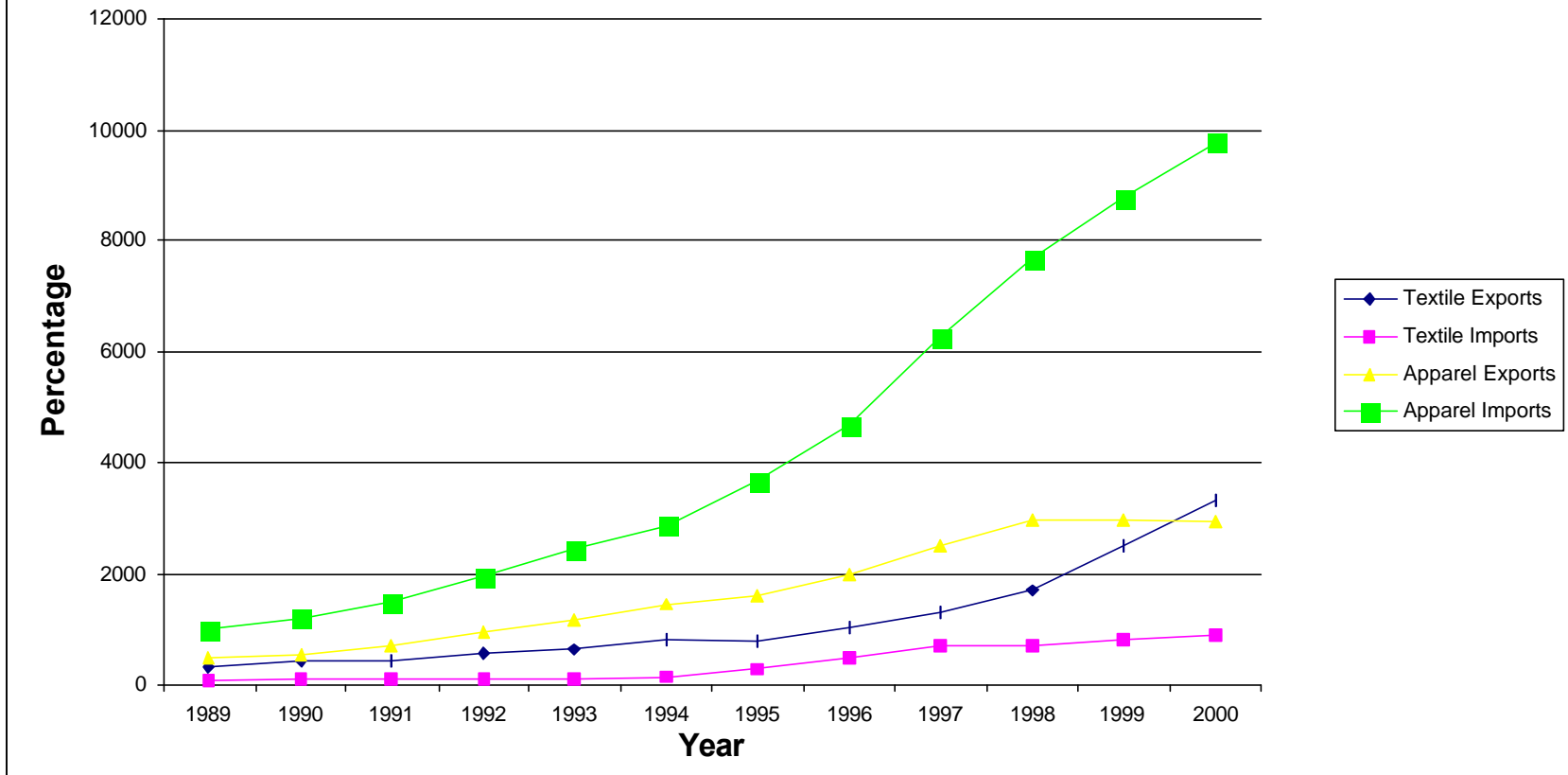


Source:

On-line Trade Database of USITC and the International Marketing Data and Statistics 2002

Note: Currency Index excludes China, because China uses export tax rebates to devalue its currency and the specific sector rebate values are not available.

### Figure 4. U.S. Textile and Apparel Trade with Mexico



Source: On-Line Database of the U.S. International Trade Commission: ITC Trade Dataweb, Washington, DC, 2001.  
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