

THE FUTURE OF WORLD TRADE IN TEXTILES AND

APPAREL

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World Trade in Textiles and Apparel

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Trade policy is a focal point of international economic attention in 1987 and for the foreseeable future, with new legislation under consideration in the United States Congress and the launching of the Uruguay Round of multilateral negotiations in the GATT. In an effort to contribute significantly to the debate, the Institute is simultaneously releasing studies on four major trade policy issues: agriculture, auction quotas (and the broader issue of implementing quantitative import controls), the politics of anti-protection, and textiles and apparel.

Trade policy toward textile and apparel products is replete with paradoxes. The sector comprises almost one-tenth of the volume of world commerce in manufactured products, yet it also faces the most elaborate network of internationally agreed trade restrictions. From an American perspective, textile and apparel imports have doubled over the past five years (in volume terms) even though controls on those imports have tightened steadily and substantially. Textiles represent one of the most contentious trade issues both internationally, particularly between industrial and developing countries, and domestically within the United States—with President Reagan vetoing quota legislation passed by the Congress in 1985, and with such legislation now pending once more. This study attempts to analyze both the domestic and international dimensions of the textile problem, and to make proposals for resolving one of the most difficult issues facing the world trading system.

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C. FRED BERGSTEN
Director
July 1987

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Introduction and Summary

Textiles and apparel have received more comprehensive and persistent protection than any other industrial sector, even though the original rationale for their special protection more than two decades ago was to provide temporary relief so that the industries could adjust and become sufficiently competitive to face international competition on their own. Today, industry and labor groups are pressing for still tighter protection, and, in an environment of massive US trade deficits, there is a greater chance than at any other time in the postwar period that Congress will enact restrictive import quotas. The consequences could include the collapse of the international Multi-Fiber Arrangement (MFA) governing trade in textiles and apparel, and perhaps of the new Uruguay Round of multilateral trade negotiations as well.

There are three policy options for textile and apparel trade: to increase the severity of protection immediately and decisively; to drift more slowly toward tighter protection under endless renewals of the MFA; or to reverse this process and set a firm timetable for gradual liberalization of the sectors. This study finds that from the standpoint of the nation as a whole, by far the best policy choice would be gradual liberalization.

The central policy questions may be stated simply: should the American public pay \$20 billion or more annually in additional consumption costs in order to preserve approximately 200,000 more jobs in the specific sectors of textiles and apparel (but probably none economy-wide) than otherwise would exist? And should public policy protect people or positions? If the answers are that this cost is excessive, and that known, named people should be sheltered from excessive hardship in adjusting to imports—but that perpetual protection of abstract sectoral positions is not a national goal—then it is time for the policy debate to shift from asking how much more protection is needed to designing a program for dismantling existing protection over time. This study reaches these conclusions on the basis of quantitative models that examine not only the existing cost of protection but also the past and prospective trends of production, employment, and trade under alternative policy regimes.

Industry Health and Foreign Trade

The trade problem in apparel stems from the natural comparative advantage of labor-abundant developing countries in this labor-intensive industry that has proven difficult to mechanize. The underlying trade position of the textile sector is much stronger, because increased capital intensity and mechanization have made this sector internationally competitive at an equilibrium exchange rate. Indeed, in 1979–80 the textile sector achieved a modest trade surplus.

Both textiles and apparel have more robust economic health than might be suspected from the trade policy debate (chapter 2). Neither sector is deindustrializing: although growth has decelerated since the 1960s, domestic production has risen at an average annual rate of 0.45 percent in textiles and 1.1 percent in apparel since the early 1970s. However, because the pace of labor productivity increase has exceeded the rate of output growth, employment has fallen from its peak in 1973 by 31.8 percent in textiles and 19.1 percent in apparel (table 2.1).

Profitability has been surprisingly strong in apparel, where the ratio of profits to capital stock has averaged approximately twice the level for manufacturing as a whole. In textiles, the ratio of profits to capital has typically been below the manufacturing average, although in 1986 profits were considerably higher than that average. Yet the opportunities for technological improvement have been strong in textiles, and investment has been high, often exceeding profits in recent years. In contrast, in apparel only one-third or less of profits has been invested in capital equipment, reflecting the lesser scope for technical change.

The role of imports has remained limited in textiles, at less than 10 percent of domestic consumption (and, if exports are subtracted, the net figure is much lower). For apparel, the degree of import penetration is an intensely debated subject. Advocates of protection commonly cite 50 percent as the share of the market currently held by imports; the best estimate of this study, however, is that in 1986 imports accounted for 31 percent of consumption. It is important to make this calculation on the basis of value rather than physical units because domestic production tends to be of higher unit value; however, it is also important to expand the f.o.b. import values to the wholesale level (by including the insurance, freight, and tariff costs) to obtain an accurate comparison with the wholesale value of domestic output.

Imports have grown rapidly in the 1980s. Improved competitiveness through technological change virtually halted the growth of textile imports from 1971 through 1983, but the overvalued dollar then spurred a surge. In apparel the rise of imports was more steady, from approximately 5 percent

of the market in the 1960s and between 10 percent and 15 percent in the 1970s to 20 percent by 1982, even before the more rapid recent increases.

From 1980 to 1986, the real value of textile imports rose by 92 percent; real apparel imports increased by 129 percent, giving average annual growth rates of 11 percent in textiles and 15 percent in apparel. Despite these rapid rates in the 1980s, since the inception of the MFA imports have grown only at about (or below) the 6 percent notional rate embodied in that arrangement in the early 1970s. Measured by square-yard equivalents, imports have grown on average at 4.0 percent annually since 1972 in textiles, and at 7.1 percent in apparel. (The rate for textiles is even lower, 1.8 percent annually, on the basis of real values deflating by wholesale prices; tables 2.4 and 2.6.)

Consumption has grown more slowly than imports, however. After rapid growth associated with new man-made fibers in the 1960s, textile consumption slowed to less than 1 percent annual growth in 1972–86. Apparel consumption has grown at 2.7 percent annually over the same period, about the same rate as GNP. Slow or moderate consumption growth is an important factor in the sectors. However, they are by no means under the same kind of pressure as such industries as steel, where consumption has declined substantially in absolute terms; moreover, alternative data sources suggest higher growth in apparel consumption.

In policy terms, the fact that long-term import growth since the beginning of the MFA has been approximately at or below the 6 percent annual rate envisioned at its outset is of little consolation to representatives of labor and firms in the industry. The reason is that the import growth has been concentrated in the 1980–86 period, after the industry had become accustomed to relatively slow import growth in the initial years under the MFA in the 1970s.

Labor and industry critics maintain that in the 1980s the Reagan administration failed to implement MFA protection in an effective way, and that loose interpretation of the provisions for flexibility in the arrangement permitted an explosion of imports. Hence, the call in 1985 for a Textile and Apparel Trade “Enforcement” Act. As noted below and developed in chapter 9, in 1986 in particular the administration did substantially tighten its restrictive procedures. It is important to recognize, moreover, the surge of imports in the 1980s was at least as much the consequence of macroeconomic forces (and especially the rising value of the dollar) as of any administrative decisions, and in fact the administration of protection successively tightened in several dimensions in the early 1980s. Placed in this context, despite the understandable frustration of textile and apparel labor and industry groups, their appeal for new restrictions loses some of its urgency, because the unfavorable macroeconomic pressures of the early 1980s have begun to reverse.

The Role of Macroeconomic Forces

Protection under the MFA acts as a semipermeable screen that impedes imports but nonetheless does not fully stop their more rapid entry when the underlying economic forces intensify import pressure. Chapter 3 applies a quantitative model of trade, production, and employment to identify the impact of macroeconomic influences such as the real exchange rate and the growth of the economy, trade policy in the form of levels of protection, and microeconomic forces including underlying price trends and long-term foreign supply shifts.

The evidence indicates an important role of the overvalued dollar in the early 1980s as a force in the rapid growth of imports. In textiles, where half of imports are from countries belonging to the Organization for Economic Cooperation and Development (OECD), this influence is more obvious. Even in apparel, however, where nearly 90 percent of imports is from developing countries (especially the East Asian newly industrialized countries [NICs]), the dollar's role was important. Data for 1973–84 clearly show that in periods of dollar strength, US apparel imports from developing countries have risen more rapidly than European and Japanese imports from these countries, while the reverse has been true during periods of dollar weakness (table 3.6). And while the real value of the dollar weighted by shares in US textile and apparel imports rose by nearly 40 percent with respect to OECD suppliers from 1980 to 1985, it also rose by 25 percent to 30 percent with respect to developing-country suppliers (table 3.1).

The model developed in chapter 3 (and appendix A) relates the price of imports to the level of protection, the exchange rate, and the real product price abroad. Imports respond to the import price over a period of two years, to domestic income growth, the state of the business cycle, and a term for outward shifting foreign supply (which follows an S-curve with high initial growth tapering off over time to more moderate rates in the case of apparel imports from developing countries). Domestic consumption responds to population, per capita income, and the weighted product price including domestic and imported goods. Exports are driven by foreign income growth, the real exchange rate, and the underlying domestic product price. Domestic production is determined as the amount required to satisfy consumption and export demand after deducting imports, and employment is determined on the basis of labor/output ratios as adjusted over time for rising labor productivity. In the case of textiles, domestic output includes the amount required as an intermediate input into apparel production. The model as calibrated achieves a high degree of adherence to actual trends over the past 16 years (figures 3.1 through 3.6).