The Internationalization of the American Economy: The Textile Industry

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March 1982
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ABSTRACT: The U.S. textile industry has, over the last 20 years, been transformed from a small-scale, unintegrated, predominantly family-owned industry producing standardized fabrics and yarns in the Northeast to a large-scale, more concentrated, capital-intensive, technologically advanced, and internationally competitive industry located primarily in the Southeast. Pressure for this transformation came from a variety of sources. Primary among them was competition from foreign low-cost producers, initially of cotton textile products and later of man-made textile products. The other major source of pressure came from internal competition by domestic producers intent on introducing structural reforms and technical change. The industry's response to these foreign and domestic pressures took the form of both political and economic measures. The outcome of these measures is a healthier, more profitable, and more competitive textile industry. In view of the performance of the U.S. textile industry—excluding apparel—in world trade and its relative level of efficiency, further protection appears to be unjustified. Consequently, the United States should adopt a more flexible trading position and seek to split off textiles from apparel in the renewed Multifiber Arrangement (MFA).

THE purpose of this article is twofold. First, to examine the evolution of the U.S. textile industry from a relatively family-owned industry to a large-scale, capital-intensive, technologically advanced, and above all internationally competitive industry. Second, to analyze the two major motivating forces that have shaped this evolution: foreign competition from low-cost producers and internal competition by domestic producers. The responses of the industry over the past 20 years to both domestic and foreign pressures provide an important precedent to other so-called crisis industries that are developing a variety of survival responses, including a restructuring of U.S. trade policy in favor of greater protection.

The first major section of this article briefly outlines the industry's political response to increased imports. The restructurings of the U.S. textile industry under the Multifiber Arrangement (MFA) is discussed in the second section. Finally, in the third section some of the policy options available to the United States now that the MFA is to be renegotiated are presented and discussed.

THE POLITICAL RESPONSE:
AN EXAMPLE OF REGULATED INTERNATIONAL TRADE

In the early 1960s the U.S. textile industry began to react to increased imports of certain cotton textiles from Japan. In 1966 imports of cotton textiles increased to their 1937 level, representing 1.7 percent of domestic production. Despite this seemingly insignificant penetration of the U.S. market, this level of imports was sufficient to stimulate demands for trade restrictions. In large part this response was due, first, to the perception that without protection the industry could not survive and, second, to the political realities of the textile industry. Despite the shrinking of the textile industry between 1910 and 1955, it still remained very large in the early 1960s, representing 6.3 percent of manufacturing employment and 4.0 percent of manufacturing output. Combined with the apparel industry, which accounted for an additional 7.0 percent of manufacturing employment and 3.6 percent of manufacturing output, the enlarged textile complex represented a substantial interest group. In addition the industry was well organized as a political pressure group, with a strong influence in the Industrial Northeast and the low-wage areas of the Southeast.

The first steps toward a system of trade regulation of textile products were taken by Japan in response to U.S. protectionist pressures. Fearing possible "escape-clause" action by the United States, Japan in 1957 agreed to voluntarily control its exports of a number of cotton textile products to the United States. Despite the fact that this agreement was successful in limiting Japanese

1. All references made in this article to the "textile industry" will refer only to textile products consisting of yarns, fabrics, and miscellaneous made-up goods.

exports of cotton to the United States, it shifted the source of increased imports to other large suppliers, such as Hong Kong, and to small producers like Portugal, Spain, Egypt, and India, who took advantage of the restraints on Japanese exports to increase their share. It soon became obvious to the textile industry that in order to control imports adequately, a more comprehensive solution was necessary. A workable solution would have to take into account the long-term interests of both the developing country exporters (LDCs) and the developed country importers (DCs).

On the initiative of the United States, multilateral discussions under the auspices of the General Agreement on Tariffs and Trade (GATT) began in 1961. These discussions led to a temporary one-year solution, the Short Term Cotton Textile Arrangement (STA). Negotiations continued in 1961 and 1962 and resulted in the Long Term Arrangement on Cotton Textiles (LTA), which went into effect on 1 October 1962. Under the LTA, cotton textile imports were to be controlled for five years on an item-by-item basis.1

The major function of the LTA was to control trade in cotton textiles within a multilateral framework. The bilateral agreements negotiated under the LTA were contrary both to the principles of non-discrimination of Article I and to the safeguard provisions of Article XIX of the GATT. Consequently, with the signing of the LTA, the departure from GATT rules was initiated. Under this new agreement importers could apply restraints selectively without compensation to the exporter. Furthermore, under LTA provisions, unilateral action against an exporter could be implemented to cover all cotton exports regardless of whether or not there was any evidence of market disruption in the importing country. By 1967, the United States had restrained the supply of specific cotton textile and apparel products from 17 of its major suppliers. Despite these constraints, cotton imports as a percentage of apparent consumption—calculated in pounds—increased from 6.0 percent in 1960 to 9.4 percent in 1967. In response to these increased imports the United States had concluded similar restraining agreements with 13 other countries by 1972, bringing the total restraints to 30 suppliers. In 1973, cotton imports as a percentage of apparent consumption—pounds—reached 14.7 percent.

The LTA was supposed to limit the growth of cotton textile imports. The assumption was that, once controlled by quantitative limitations, imports would grow at a slower but managed rate and thus would enable domestic firms to adjust to competition. In fact, when the LTA expired in 1973 it left the exporting as well as importing countries with a large network of restrictive bilateral agreements that provided LDC suppliers with a major incentive to shift into wool and man-made fiber textile products.

3. For an in-depth discussion of the various trade agreements, see Donald B. Keesing and Martin Wolf, Textile Quotas Against Developing Countries (London: Trade Policy Research Center, 1980); Joseph Pelzman, The Competitiveness of the U.S. Textile Industry (Columbia: University of South Carolina, College of Business Administration, 1980); and U.S. Tariff History, and Current Status of the MFA. One should note that all of the agreements beginning with the Japanese voluntary export controls cover both textile and apparel products.
While U.S. imports of cotton textiles almost doubled from 1960 to 1970, imports of man-made fiber textiles increased more than 10-fold. In 1971 the United States had reacted to these increased imports of wool and man-made fiber textiles by negotiating bilateral agreements with Japan, Hong Kong, Taiwan, and Korea. With the signing of these agreements in October and November of 1971, the United States had effectively controlled the flow of wool and man-made textile and apparel products from its principal suppliers.

Nevertheless, continued import pressure in man-made fibers and wool textile and apparel products induced industry representatives to focus their attention on amending the LTA such that it would cover textile and apparel products of all three fibers. In response to industry pressure, the U.S. government initiated discussions under GATT auspices in order to negotiate a multilateral agreement on trade in textiles covering all three fibers.

Such an agreement was reached on 20 December 1973 by some 50 governments. This multilateral agreement, known as the Agreement Regarding International Trade in Textiles, or more commonly the MFA, became “the statement of principle and policy” regarding international textile trade. The MFA, which covered the period 1 January 1974 to 31 December 1977, and was later extended with some modification through 31 December 1981, took as its primary goal the fulfillment of two mutually exclusive objectives, that is, fostering the expansion of world trade in textiles with particular emphasis on LDC exports while preventing disruption of DC markets.

Compared with the earlier agreements, the MFA modified the rules managing textile trade in several important respects. The most significant of these changes was the extension of the MFA to cover all major textile fibers. Furthermore, along the general lines of the LTA, initial quotas were to be based on past import levels with the exception that these quotas were to grow at a minimum of six percent per annum. Provisions were also made for a transfer of unused quotas among categories—“swing” provision—and between years—“carry-over” and “carry-forward.” Another major feature was the establishment of a Textiles Surveillance Body and a more precise definition of market disruption. In effect the MFA was a more restrictive and more comprehensive trade management tool than its predecessor agreement, the LTA.

At the expiration of the first MFA in December 1977, the United States had bilateral agreements with 18 countries limiting their principal textile exports. Furthermore, through its consultation mechanisms it had authority to unilaterally control imports of other products considered disruptive. Textile imports, excluding apparel, over the 1974-77 period increased by 1.5 percent, or at an annual average rate of .4 percent. Apparel imports, on the other hand, increased by 24 percent, or at an annual average rate of six percent. On balance the textile industry was satisfied with the controls these regulations provided.

4. These growth rates are determined from imports measured in millions of equivalent square yards. Data were provided by the Office of Textiles, U.S. Department of Commerce.
When the MFA came up for renewal at the end of 1977, the European Economic Community (EEC) member states pressed for greater control over LDC exports. Whereas the United States had actively pursued bilateral agreements restricting the growth of imports during the first MFA and was satisfied with the management of textile and apparel trade, the Europeans had no consistent textile trade policy. Consequently, LDC suppliers increased their sales of textile and apparel products to EEC markets.\(^5\)

In December 1977 when the MFA was renewed, the extension protocol contained an amendment that allowed “jointly agreed reasonable departures” from the six percent growth rate in quotas and from the agreement’s “flexibility provisions,” allowing not only growth at less than six percent, but also zero or negative growth in those products considered sensitive by importing countries.

While never formally invoking the reasonable departure clause, the U.S. government did respond to industry pressure threatening to hinder U.S. participation in the multilateral trade negotiations (MTN) by limiting some of the flexibility in existing agreements. On 15 February 1979, the U.S. government issued its Administration Textile Program, referred to as the “White Paper.”\(^6\) As part of this program, provision was made to limit the flexibility of the MFA. Furthermore, the Administration Textile Program promised greater monitoring of import quotas, a renegotiation of bilateral agreements to prevent “surges,” and provided a “snap-back clause” so that tariff concessions negotiated in the MTN would revert to pre-MTN levels unless the MFA was renewed.

To date, under the provisions of the MFA, the United States has concluded bilateral quota agreements with 22 supplying countries and consultative mechanisms with 11 other countries. These bilateral agreements controlled over 80 percent of total U.S. imports of textile and apparel products in 1980.

As a result of both trade restrictions and competitiveness factors, textile mill imports measured in square-yard equivalents have declined by 50 percent from 1972 to 1980, and by 29 percent since 1978. Textile exports have almost tripled since 1971 and have increased by 44 percent since 1978. In 1980, the U.S. textile industry had in excess of $1 billion trade surplus. The ratio of imports to consumption in 1980 was five percent while the ratio of exports to consumption was seven percent. The trade picture for the apparel industry is considerably different. Apparel imports, measured in square-yard equivalents, have since 1972 grown at an annual average rate of 2.9 percent. Since 1978, imports measured in square-yard equivalents have been stable. The ratio of imports to apparent consumption measured in dollars was 9.9 percent in 1980. The 1979 level of import penetration to domestic consumption of textiles and apparel combined measured in raw fiber equivalent was 10.6 percent.\(^7\)

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5. The delay to negotiate bilateral agreements by the EEC member states was in part due to their lack of agreement over the allocation of imports within the EEC. Furthermore, the community debate over comprehensive or selected agreements further delayed an EEC trade position vis-à-vis textiles.


7. Trade data were provided by the Office of Textiles.
Does the textile industry's concentration on the political arena as a solution to its import problem suggest that it is a stagnant industry attempting to postpone adjustment? On the contrary, the MFA and its predecessor agreements have provided the market stability necessary to induce an already competitive industry to make some very crucial structural changes, which have strengthened it today.

INDUSTRY ADJUSTMENT UNDER THE MFA

Over the past 20 years, the U.S. textile industry has adjusted its industrial structure, technology, and product mix in response to both trade and nontrade-related developments. All of these changes were undertaken in a stable market environment provided by the system of trade management.

A major factor in the industry's structural change has been the decline in consumer expenditure on textile products. In 1950, apparel, a major end user of textile products, represented 10.2 percent of overall consumer expenditure. By the late 1960s this share had dropped to 8.2 percent, and in 1980 it reached 5.3 percent. In terms of fiber consumption there has been a high degree of fluctuation. In 1947, consumption of all fibers was 49.4 pounds per capita. In 1960 it had dropped to 36.4 pounds, to rise again to 59 pounds per capita in 1980.

An additional factor has been the substitution from cotton and wool to man-made fibers. Whereas in 1940 the man-made fiber industry supplied only 10 percent of the total fibers used by the textile industry, by 1980 man-made fibers supplied 75 percent of the total fibers. Cotton usage dropped from 81 percent to 1940 to 24 percent in 1980, and wool usage dropped from nine percent in 1940 to one percent in 1980. This interfiber competition had two very basic effects on the structure of the textile industry. First, it made those textile firms that were unwilling to install new machinery capable of handling man-made fibers uncompetitive. Second, it led to the demise of small firms that could not adjust rapidly to technological change.

This competition from synthetics was stimulated by both domestic and trade-reflected factors. First, changes in technology led to lower and more stable man-made fiber prices in contrast with higher natural fiber prices. Second, imports of man-made fiber products increased at a rapid rate. Third, consumer tastes shifted in favor of easier-care fabrics. These changes affected the industry tremendously. Not only did they cause a collapse of smaller textile firms, but they also coincided with a major shift of the industry from the Northeast to the Southeast in search of cheaper labor.

Another striking development associated with the shift in technology, the concentration of the industry, and its move to the South was a trend toward increased capital investment. Capital investment by the textile industry has doubled during the past decade, from $800 million in 1970 to $1.6 billion in 1980. Capital investment per person has increased by an annual average rate of 5.1 percent in textiles versus six percent in overall manufacturing during the 1970-80 period. This capital investment not only made the U.S. textile industry more productive than its major European and Asian competitors, it has also made it more productive than overall U.S. manufacturing. The added technology that increased the industry's
productivity also transformed it from a labor-intensive, small-scale industry to one more capital-intensive, more concentrated, and, above all, profitable.

Today the U.S. textile industry is very competitive. At the Thirty-Second Annual Meeting of the American Textile Manufacturers Institute, its president, William C. Battle, stated the following:

Today we are the most modern and efficient textile industry in the world. . . . We are 33% more productive than Japan. Even more startling are the figures for Hong Kong, Korea and Taiwan, our major international competitors. Comparing man hours of labor per pound of production, it takes Hong Kong 93% more man hours per pound of production, and it takes Korea and Taiwan more than 100% more man hours. In weaving, it takes Hong Kong 104% more man hours, and it takes Korea and Taiwan 130% more.8

One cannot ignore the fact that U.S. trade policy toward textiles has indeed provided the industry with a stable market environment in which to grow. Other government programs have also aided the industry. U.S. agricultural support programs aided in the shift from natural to man-made fibers by raising the price of cotton. Tax and depreciation rules further aided many textile firms in concentrating their production facilities. While the MFA may not have played the major role in the restructuring of the textile industry, it did provide market stability without which the industry would probably not have been able to raise capital funds for its restructuring.

POLICY OPTIONS

In view of the performance of the U.S. textile industry, excluding apparel, in world trade and its relative level of efficiency, attributed to its expansion of capital investment and adoption of new technology, continued regulation of textile trade is unjustified. The U.S. should therefore adopt a more flexible trading position and seek to split off textiles from apparel in the renewed MFA. The U.S. position with respect to the upcoming extension of the MFA, however, is being neutralized by both EEC and U.S. industry protectionist pressure.

The industry position in the United States is quite clear: a more restrictive MFA. The industry position outlined at the House Ways and Means Committee by the Textile-Apparel Steering Group9 calls for a global quota system instead of the present differentiated system. According to this proposal each importing country would set a total import limit for each textile category. These quotas would in turn be related directly to the growth of their domestic markets. In addition, U.S. industry representatives would prefer to shift the share of the quotas to what they call the true LDCs and away from Hong Kong, Taiwan, and South Korea, the so-called newly industrialized countries (NICs). Furthermore, the industry would completely eliminate the flexibility provisions in the MFA.


At the recent GATT Textile Committee meeting (14-21 July 1981), the EEC position as expressed by Horst Krenzler of West Germany was strikingly similar to the U.S. industry position. The “essential elements” of the EEC proposal are as follows:

—relation of the growth of imports from low-cost countries to the trend in domestic consumption;
—globalization of quotas;
—preferential treatment of so-called true LDCs;
—differentiation according to product sensitivity; and
—access of NIC markets to LDC exports.

In addition the EEC wishes the next MFA to include a statement whereby re-exports could be charged to the original country.10

This protectionist position of the EEC is led by France and the United Kingdom. In large part this is due to the poor output and employment performance of their textile industries. In both countries increases in productivity combined with the decline in demand—post 1973—have led to a major loss in textile employment. During the 1973-80 period, France and the United Kingdom lost one-quarter of their textile labor force. This loss in jobs occurred in a period when the overall unemployment rate was rising rapidly. Consequently, the governments of the United Kingdom and France find themselves compelled to defend the textile industry. While the loss in employment in the German textile industry has also been substantial, its government does not appear to be committed to defending the textile industry. The only major survivor within the EEC is Italy. It has been successful in minimizing textile employment losses by maintaining a strong export performance in textile and apparel products.

Naturally the proposals made by the exporting countries are a light-year away from those presented by the EEC. Whereas the EEC proposal would turn the MFA into a highly restrictive trade mechanism, the LDC proposals would, if implemented in their totality, make the MFA a much more liberalized instrument. The essence of the LDC proposals is as follows:

—restriction of the use of the minimum viable production (MVP) provision of the MFA;
—clarification of the concept of market disruption and introduction of a formal set of “clear-cut and objective” criteria for market disruption;
—implementation of adjustment measures by the importing countries;
—reaffirmation of special treatment for new entrants, small suppliers, and exporters of cotton textiles;
—progressive liberalization of trade in textiles;
—enhanced role of the Textiles Surveillance Body; and
—elimination of the “reasonable departures” provisions.

Given the disparity between the EEC and U.S. industry position and

that of the LDC exporters, the demise of the MFA may not be far off. Would that improve the trading world? Or is an MFA-like instrument necessary for “orderly” textile trade? A strong argument can be made for the exclusion of textiles from a new MFA. The developed countries as a whole, and the United States in particular, have for a long time been net exporters of textile yarns and fabrics. Moreover, given the relative efficiency of the U.S. textile industry, as was noted previously, it would hardly seem necessary to protect textiles from import competition. A new MFA could be structured to cover only apparel, a few made-up textile products, and possibly cotton textiles.

Politically, the demise of the MFA would imply not only countless “escape-clause” cases being filed by U.S. textile and apparel firms with the U.S. International Trade Commission (U.S. ITC), but would also invoke the snap-back clause of the White Paper. The escape-clause cases may result in a number of restrictive measures, such as orderly marketing arrangements, new quotas, or increased tariffs, should the U.S. ITC find injury and the president grant relief. None of these prospects should appeal to the supplying countries and especially to the new entrants. Clearly the resulting situation would be chaotic with no certainty and much more dispute. Consequently, if we accept the necessity of an MFA-like instrument, even for textiles, what form should it take?

If objectives of the MFA could be reduced to the two diametrically opposed objectives of “greater trade in textiles” without “market disruption” to DC markets, then we are bound to relive the history of the MFA. However, if we add to our list of objectives a third goal, namely, “adjustment in DC markets will be encouraged,” then one can visualize a new kind of MFA that may fulfill all these objectives. That new MFA could be a long-term contract of 10 to 15 years’ duration in which constraints on LDC suppliers might be severe for the initial five to eight years and then be eliminated gradually. This would assure that textile trade would expand, that domestic industries in developing countries would have sufficient time to adjust, and finally would imply that at the end of the agreement no further quotas would be necessary. This compromise solution appears to be a viable alternative to the present deadlock.