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WHY LIMITING TEXTILE IMPORTS WOULD HURT AMERICANS

INTRODUCTION

Hundreds of trade protectionist bills are overflowing the House and Senate hoppers. Almost all of them are hurried reactions by the lawmakers to the mounting U.S. trade deficit. All would force Americans to pay higher prices for tens of thousands of products and would impose a heavy burden on the U.S. economy that would destroy American jobs.

In this protectionist atmosphere, the Reagan Administration is considering the renewal of the Multi-Fiber Arrangement (MFA), the latest in a series of international agreements that have governed textile trade since 1961. The MFA, with some 50 signatory parties, allows for special restrictions on textile trade beyond those allowed by the General Agreement on Tariffs and Trade (GATT), the multilateral agreement that governs most world trade. The current MFA expires next June. Before then, a new agreement must be concluded or else textile trade will be subject to no international standards or rules to prohibit unfair practices.

Meanwhile, President Reagan faces pressure from Congress to tighten textile trade. The Senate is holding hearings on a measure sponsored by Congressman Ed Jenkins (D-GA) (H.R. 1562, S. 680) that would cut the percentage of foreign goods allowed into the U.S. market. The Jenkins bill would be tantamount to abrogating the current MFA.

Ronald Reagan should use the MFA renewal to demonstrate concretely that he is strongly opposed to protection and the way it penalizes American consumers. Distressingly, however, it is expected that, in order to placate protectionists in Congress, the Administration will seek to tighten MFA trade restrictions by including hitherto exempt fibers and by slowing the rate at which textile imports are allowed to grow. That would be a serious mistake.

The U.S. already suffers from one of the world's most restricted textile import policies. This policy adds over $20 billion a year to consumers' shopping bills for textile products. The Reagan Administration estimates that the textile legislation currently before Congress would add at least another $12 billion to consumer prices. The current restrictions, moreover, have delayed seriously needed modernization of the U.S. textile industry. The U.S. also has violated MFA rules on a number of occasions, further restricting textile trade.

U.S. textile manufacturers argue that imports have severely damaged their industry, creating mass unemployment among textile workers. Yet the failure of U.S. textile companies to rehire employees laid off during the 1981-1982 recession is better explained by the U.S. textile industry's introduction of new technology and the resultant increased efficiency.

A tighter MFA, or worse, passage of the Jenkins bill would harm U.S. efforts to open foreign markets further to U.S. exports. The Reagan Administration is seeking a new round of GATT talks as a means of liberalizing world trade. But many Less Developed Countries (LCDs) are now threatening to boycott such talks, claiming that the U.S. discriminates against trade in goods that they would like to export, such as textiles. Further U.S. restrictions of the textile trade would likely keep the LDCs away from trade liberalization talks.

The Administration should negotiate a process to phase out MFA. Textile trade instead should be brought under the provisions of the GATT, from which it is currently exempt. Many sectors of the U.S. textile industry would remain competitive, even with freer trade in textiles. Uncompetitive sectors should be phased down under a realistic plan for structural adjustment. And President Reagan should veto import control legislation that would cost the American consumer billions of dollars in higher textile costs.

HISTORICAL TRENDS IN TEXTILE PRODUCTION

Textile manufacturers in the U.S. maintain that the decline of the industry is due to unfair practices by foreign producers. Yet the world's experience with the trade indicates strongly that textiles are closely associated with the stage of a country's economic development. Newly industrializing countries and regions historically have turned to textile production to spur economic growth. Textile making initially requires much less capital investment and less sophisticated equipment than more highly valued industries like autos or computers. Lower-skilled labor, usually abundant in such countries, can be profitably employed.

Inevitably, as a country or region advances industrially, a stepped-up demand for labor leads to higher wages, making its textile industry vulnerable to competition from new emerging nations. This has been the pattern since the beginnings of the Industrial Revolution in British textile production during the late 18th century. The industry spread to other parts of Europe as the British moved on to produce such higher-valued goods as steel and locomotives. The U.S. industrial revolution also began with textile plants in New England. As heavy industry grew in the Northeast, textile production moved to the Southern states, especially to the Carolinas.

Since the end of World War II, worldwide production of fabrics, upholstery, carpets, and industrial textiles, has been shifting inexorably to the newly developing countries from the U.S. and Europe, and most recently from Japan (see Table I). In clothing production the trend was similar (see Table II).

Employment and Production in the Textile Industry
Table I

	Textile Production			Textile Industry Employment[1]		
	1953	1970	1980	1953	1970	1980
Developed countries	82%	70%	65%	48%	34%	27%
Developing countries	18%	30%	35%	52%	66%	73%
	100%	100%	100%	100%	100%	100%

Table II

	Clothing Production			Clothing Industry Employment[2]		
	1953	1970	1980	1953	1970	1980
Developed countries	92%	80%	75%	67%	49%	39%
Developing countries	8%	20%	25%	33%	51%	61%
	100%	100%	100%	100%	100%	100%

1. Z. A. Silberston, The Multi-Fiber Arrangement and the U.K. Economy (London: Her Majesty's Stationary Office, 1984), p. 8. From GATT sources.

2. Silberston, op. cit.

During the 1970s, such newly developed Asian countries as South Korea and Singapore became leading textile exporters. Now, predictably, they in turn are feeling competitive heat from other industrialized countries, and losing textile sales to such emerging economies as Sri Lanka, India, and China. Meanwhile, well-developed countries such as South Korea and Singapore are diversifying their mix of industrial production, stressing steel, autos, and electronic goods.

DEVELOPMENT OF THE MFA

The Multi-Fiber Arrangement is the latest in a series of multilateral agreements dealing with the textile trade. In 1957 the U.S. set quotas on textiles from Japan. Two years later, the U.S. went on to raise the problem of "market disruption" in textile trade. It maintained that sudden increases in imports did not allow sufficient time for American manufacturers to adjust to new market conditions. With other developed countries the U.S. argued that textile production was still very important to industrialized economies and vulnerable to foreign imports. Consequently, the U.S. sought a special arrangement to exempt textiles from the normal GATT principles promoting free trade.

The U.S. was successful in winning support for special restrictive trade rules for textiles, and the following treaties have since been concluded:[3]

1) Short Term Arrangement (1961), and the Long Term Arrangement (1962, renewed several times through 1973). These arrangements, signed by nearly 50 countries, covered trade in cotton textiles and clothing. They allowed, contrary to the GATT most-favored-nation rules, import controls that discriminated against particular countries. And also contrary to GATT, importing countries were not required to compensate the countries suffering restrictions. It was intended that these controls should be applied only when imports caused an actual threat of market disruption. And it was hoped that appropriate restrictions would follow an agreement between importers and the exporting countries affected.

Under these agreements, quota limitations--also illegal under the GATT--could be imposed on textiles. But the limits were not to be lower than the actual percentage share of the market held by the

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3. Stuart M. Rosen, et al., The Renewal of the Multi-Fiber Agreement: An Assessment of the Policy Alternatives for Future Global Trade in Textiles and Apparel, report prepared by Weil, Gotshal & Manges, New York, 1985. Also see Silberston.

exporting countries. Moreover, at least a 5 percent annual growth in the level of imports to the country suffering the trade restrictions was permitted.

2) MFA I (1973-1977). The growing use of synthetic fibers, such as polyester and acrylic, together with the global economic problems of the early 1970s, prompted the first Multi-Fiber Arrangement. The MFA imposed quotas on artificial and natural fibers to regulate trade. But it also sought to expand trade eventually by urging those countries imposing restrictions to devise policies to bring about the structural adjustment of their domestic textile industry, such as gradually eliminating noncompetitive segments.

The 5 percent yearly growth of the earlier import quota levels was raised to a 6 percent minimum under the new MFA, which also allowed unused portions of allowable quotas to be carried over from one year to the next. When charges of market disruption were made, importers were required to consult with exporters about proposed controls. Unilateral restrictions were allowed only after such consultations. The alleged threat of market disruption alone, as opposed to actual market disruption proved after the fact, was sufficient to permit bilaterally agreed upon restraints, but not unilateral controls. In addition, a Textile Surveillance Body (TSB) was set up under the GATT to monitor the trade rules of the MFA.

3) MFA II (1978-1981). The first MFA was to last until 1977, when a new agreement was to be concluded. As the renewal date approached, the industrialized countries, still recovering from the post-1973 recession, pressed for additional protection for their textile industries. Thus the renewed MFA was generally more restrictive than its predecessor, especially in the way it applied to developing countries. For instance, MFA II allowed for bilateral "jointly agreed reasonable departures" from such MFA provisions as the requirement that quota levels increase by at least 6 percent annually. It also focused more on the clothing trade than on general textiles. The U.S. made extensive use of "reasonable departures" in order to keep quota growth low.

4) MFA III (Dec. 1981-July 1986). The second renewal of the MFA appeared to move toward trade liberalization. For instance, it ended "reasonable departures" from MFA provisions, and it reemphasized the need for structural adjustments of the textile industries in countries restricting imports. But MFA III also included an "anti-surge" provision to dampen the effects of import increases resulting from legitimate use of underutilized quotas for sensitive products.

THE U.S. AND THE MFA

It is ironic that the first multilateral textile trade agreement was called the Short-Term Arrangement; this "temporary" protection has now lasted twenty-five years. And the original agreement, intended to allow orderly adjustment in the cotton trade, has since grown into a protectionist monster covering over a hundred fibrous commodities.[4] Rather than promoting liberalization and market adjustment, the MFA has become a permanent instrument of trade restriction, encouraging U.S. textile producers to seek more and more protection. Instead of structural adjustment, the U.S. textile industry, under the MFA, has instituted cost cutting and modernization only after import controls failed to turn back foreign competition.[5]

The impact on the consumer has been severe. The MFA quotas, along with high U.S. tariffs on textile imports, currently cost the U.S. consumer between $23 and $38 billion a year in higher prices;[6] as much as $630 annually for a family of four. In addition, capital and labor are diverted from more efficient sectors of the economy.

Despite the tighter trade restrictions and GATT exemptions allowed under the MFA, the U.S. has violated the treaty on a number of occasions.[7] For example, in August 1984, the U.S. unilaterally changed its rules for determining the country of origin of textile imports. The new definitions were contrary to established international practice.[8] The Textile Surveillance Body (TSB), set up by the MFA to monitor treaty compliance, found the U.S. in violation of the agreement. The U.S. has done nothing to correct the violation.

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4. The Reagan Administration itself maintains that it has imposed "an unprecedented number of new quotas...." Ambassador Richard H. Imus, testimony of April 3, 1985, before the House of Representatives, Ways and Means Trade Subcommittee.

5. Record capital spending and modernization has occurred in the last few years in the face of rising imports. See Scott Kilman and Linda Williams, "While Textile Makers Bemoan Imports, They Are Modernizing Too," The Wall Street Journal, September 14, 1984, p. 1.

6. The $23 billion figure is an updated calculation from Michael C. Munger, "The Costs of Protectionism," Center for the Study of American Business Working Paper #80, Washington University, St. Louis. The $38 billion figure is a recent Reagan Administration estimate.

7. Weil, Gotshal & Manges report, op. cit.

8. Edward Hudgins, "New Textile Import Rules: More Study Needed," Heritage Foundation Issue Bulletin No. 111, September 4, 1984.

Despite its original purpose, the MFA has not eased the process of structural economic adjustment; it has actually been a source of delay. Nor has the MFA led to trade liberalization; it has instead strengthened the forces of trade protectionism in the U.S.

THE JENKINS BILL

As the Administration considers its position on the renewal of MFA, it faces pressure from Congress to seek even tighter restrictions on textile trade. By rolling back permissible import levels, the Jenkins bill would be far more restrictive of trade than the current MFA. In burdening American consumers and slowing down world trade, this would be an economic calamity for both the U.S. and the rest of the world. The Reagan Administration estimates that U.S. retailers would pay $14 billion (or even twice this figure) in higher wholesale prices for textile and apparel prices as a result of this legislation.[9] Indeed, a study by the International Business and Economic Research Corporation (IBERC) estimates that consumer prices for textiles would rise between 15 and 30 percent.[10]

The impact of the legislation on the employment picture is just as disturbing. Even if the legislation reinstated all the 200,000 textile jobs lost since 1980, the annual cost to consumers of saving each job would be $70,000, while the average salary per textile worker is approximately $15,000. But the job gains in the textile industry certainly would be less than 200,000. The IBERC estimates that, in fact, only about 70,000 jobs might be created,[11] implying a cost of $200,000 per job. However, jobs would be lost elsewhere in the economy if textile import controls were enacted, due directly to the reduced flow of imports and to billions of consumer dollars drained from the nontextile sector. IBERC calculates that the retail sector alone could lose 61,000 jobs.[12] Notwithstanding job losses elsewhere in the economy, the result would be a net gain of only 9,000 jobs--with a price tag of $1.5 million per job.

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9. See Fact Sheet attached to June 19, 1985 letter from Secretary of the Treasury James A. Baker, III, and other members of the Administration's Economic Policy Committee.

10. Laura M. Baughman and Thomas Emrich, Analysis of the Cost of the Textile and Apparel Trade Act of 1985, June 1985 report prepared by International Business and Economic Research Corporation (IBERC).

11. Ibid.

12. Ibid.

FOREIGN IMPORTS AND THE U.S. TEXTILE INDUSTRY

Supporters of further textile trade restrictions and a tighter MFA argue that, for the U.S. textile industry to survive, there must be a substantial decrease in the market share captured by imports. Even if this were true, it would not justify sweeping protectionism and heavy burdens on the consumer. Yet it is not at all clear that the U.S. textile industry does face destruction by imports.

Proponents of increased textile protectionism argue that, since 1980, imports have cost over 200,000 jobs out of the industry workforce of 2,100,000. However, closer inspection reveals that most of these jobs were lost between 1980 and 1982, while between 1982 and 1984 there was a modest gain in employment (see Table III).[13]

Table III
Employment and Textile Imports

	Employment	Change in employment	Imports, in millions of sq. yds. material	Percentage import change
1980	2,111,000	1980-1982 -200,700	4,884	1980-1982 +10.2%
1981	2,067,000		5,775	
1982	1,910,000		5,935	
1983	1,905,000	1982-1984 +32,000	7,706	1982-1984 +30.9%
1984	1,934,000		10,170	

The greatest increase in imports, it should be noted, occurred during this later period, when employment was on the rise. Clearly the U.S. economic recovery drew in more imports, but it also helped the domestic textile industry. And the failure of the U.S. textile industry to rehire all the 200,000 workers laid off during the recession can be explained by improved productivity, not increased imports. According to the American Textile Manufacturers Institute,

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13. "A Second Look at the Need for Textile Import Legislation," report prepared by the Retail Industry Trade Action Coalition (RITAC), August 1985.

14. Kilman and Williams, op. cit.

capital spending in the U.S. industry in 1984 reached $1.7 billion.[14]

Technology has become a key characteristic of what was once a labor intensive industry. Computers now direct parts of the production process, and shuttleless looms imported from Europe and Japan weave four times as fast as the older, American-made machines. Some 30 percent of U.S. mills have such looms. Thus the evidence points strongly to increased efficiency as the major cause of lower total industry employment. Between 1982 and 1984, the output of broadcloth from U.S. mills actually increased by 11.7 percent, for instance, while employment in that sector dropped by 2.8 percent.[15]

THE MFA'S ADVERSE EFFECT ON U.S. EXPORTS

The effects of a tighter MFA (or still worse, of the restrictions being proposed in Congress) would go well beyond the textile industry. A more restrictive textile agreement would jeopardize the entire cause of worldwide trade liberalization and probably lead to retaliation in many areas of trade. Further, a more restrictive MFA would be particularly harmful to U.S. exporters, because it would serve to perpetuate the debt crisis of the less developed countries (LDCs).

The debt crisis is a major factor in the slow growth of U.S. exports. Many LDCs are already threatening to boycott the new GATT round currently sought by the U.S., and some are threatening to withhold debt repayments. These countries maintain that, while the U.S. seeks free trade for goods and services in which it is competitive, it refuses to consider liberalization for goods in which the LDCs are competitive--such as textiles. A tighter U.S. trade policy toward textiles would give LDCs very little incentive to enter a new GATT round. And failure to achieve a new GATT round would mean a further deterioration of the international trading system, resulting in fewer opportunities for U.S. exports.

Tighter restrictions on textile imports into the U.S. would exacerbate the debt crisis by reducing the ability of LDCs to obtain foreign exchange--and thus to purchase American goods and services. The Latin American debt crisis has had an especially adverse impact on U.S. exports. Between 1981 and 1983 U.S. exports to that region plummeted from $41.9 billion a year to just $25.2 billion, a 40

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15. RITAC report, op. cit.

16. Latin American Trade Review 1984: A U.S. Perspective, U.S. Department of Commerce, April 1985, p. 30.

percent drop.[16] U.S. sales of manufactured goods, such as machinery, transportation equipment, and aircraft, experienced a 50 percent drop from over $17 billion in 1981 to around $8 billion in 1983.

Protectionist policies in the U.S., especially in such a crucial area to Third World countries as textiles, would dampen economic growth in the LDCs and hence aggravate the debt crisis. While some LDCs would gain under the Jenkins textile bill, others would be big losers. For instance, this legislation would roll back imports from Brazil by 80.5 percent, from Indonesia by 81 percent, from China by 59 percent, from Thailand by 64 percent, from Taiwan by 47 percent, and from Pakistan by 41 percent.[17] Even the free trade colony of Hong Kong, which maintains virtually no barriers against U.S. goods, would suffer a 17 percent cut on top of the restrictions added in 1984 by U.S. redefinition of customs rules. Such cutbacks would have a devastating effect on these economies--which would soon be manifest in lower demands for U.S. exports.

CONCLUSION

The "temporary" protection of the U.S. textile industry has lasted for twenty-five years, forcing the U.S. consumer to pay tens of billions of dollars in higher costs for textile products. Modernization by the U.S. textile industry has been delayed by this protectionism, and U.S. exports have been hurt. Thus it is time for the U.S. to liberalize the textile trade, not to consider further restrictions.

To encourage liberalization, the Reagan Administration should take the following actions:

1) Veto legislation that would impose tighter restrictions on textile imports.

The Administration must do all that it can to block congressional action that would cost the American consumer billions of dollars in higher textile costs.

2) Renew the MFA for only one more five-year period, with the aim of ending the agreement at the end of that period.

Ideally, the U.S. should simply abandon the MFA outright when it expires next year. But since the textile trade has been controlled

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17. Inside U.S. Trade, Vol. 3, No. 25, June 21, 1985, quoting a Commerce Department internal study. Figure for Taiwan is from IBERC study, op. cit., Table 2.

for twenty-five years, an adjustment period is necessary to minimize the painful effects of adjustment.

3) <u>Bring the textile trade under the provisions of the GATT system.</u>

Phasing out the MFA would not mean completely free trade in textiles, as desirable as that might be. Currently the textile trade is exempt from the provisions of GATT, and so merely allowing the MFA to expire could lead to unfair trade practices. To avoid this, textiles should be phased into the GATT system, which would bring freer trade in textiles. U.S. quota restrictions would have to be converted to tariffs, which are legal under the GATT. Claims of injury from foreign textile imports should be handled under Sec. 201 of the Trade Act of 1974, which governs such cases in other industries. The inclusion of textiles would strengthen the GATT system, making progress in trade liberalization more likely.

4) <u>If necessary, develop a serious program to allow an orderly phasing down of noncompetitive segments of the U.S. textile industry.</u>

Much of the U.S. textile industry would survive with freer textile trade, but some sectors would undoubtedly prove to be uncompetitive. Both Japan and Germany have successfully phased down uneconomic segments of their textile industries. Given the special situation of the U.S. textile industry, some temporary, limited adjustment aid might be necessary to reduce the problems associated with the prudent contraction. In addition, weaker sectors of the industry could be exempted from all U.S. antitrust laws, except the provision of the Sherman Act prohibiting any business from restricting trade. This step would allow mergers, joint ventures, and coordination of efforts to salvage marginal parts of the industry.

Workers and communities engaged in textiles are understandably concerned about the future of the industry. Import restrictions may seem to offer these Americans at least a temporary solution. But whether in the form of a tougher MFA or in congressional legislation, restrictions on trade are counterproductive. They breed retaliation and dampen the entire economy. History shows that the manufacture of textiles is highly suited to emergent economies undergoing rapid industrialization with low labor costs. If the U.S. is to retain a large textile industry, it thus must encourage technical innovation to boost American productivity. Import controls will only slow down this necessary process, while damaging the economies of countries that are essential markets for U.S. exports.

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