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TEXTILE, APPAREL AND FOOTWEAR TRADE ACT OF 1990

HEARING

BEFORE THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

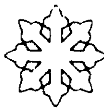
ONE HUNDRED FIRST CONGRESS

SECOND SESSION

ON

S. 2411

JUNE 7, 1990



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TEXTILE, APPAREL AND FOOTWEAR TRADE ACT OF 1990

THURSDAY, JUNE 7, 1990

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, DC.

The hearing was convened, pursuant to notice, at 10:00 a.m., in room SD-215, Dirksen Senate Office Building, Hon. Daniel Patrick Moynihan presiding.

Also present: Senators Baucus, Daschle, Breaux, Heinz, and Symms.

[The press release announcing the hearing follows:]

[Press Release No. H-34, May 23, 1990]

SENATOR BENTSEN ANNOUNCES HEARING ON TEXTILE, APPAREL AND FOOTWEAR BILL; ADMINISTRATION, PRIVATE SECTOR VIEWS SOUGHT

WASHINGTON, DC—Senator Lloyd Bentsen, Chairman of the Senate Finance Committee, announced Wednesday that the Committee will hold a hearing on S. 2411, the Textile, Apparel and Footwear Trade Act of 1990.

Senator Bentsen (D., Texas) said the hearing will be at 10 a.m. on Thursday, June 7, 1990 in Room SD-215 of the Dirksen Senate Office Building.

"Fifty-four Senators are cosponsoring the Textile, Apparel and Footwear Trade Act of 1990, including 10 on the Finance Committee. Because of the wide support for this legislation, I am scheduling an early hearing so the Committee may ascertain the views of the Administration and others concerned with this legislation," Bentsen said.

S. 2411 would establish quotas on U.S. imports of textiles and textile products, and non-rubber footwear, beginning in 1990, from all countries, with the exception of certain textiles and textile products from Canada and Israel.

Import quotas on textiles and textile products would be set at 1989 import levels, plus 1 percent. These quotas would be increased by 1 percent each year after that. Import quotas on non-rubber footwear would be set at 1989 levels for 1990 and all subsequent years.

OPENING STATEMENT OF HON. DANIEL PATRICK MOYNIHAN, A U.S. SENATOR FROM NEW YORK

Senator MOYNIHAN. Good morning to my distinguished audience and Senators who do the Committee a notable honor of appearing before us. This is a hearing on the textile, apparel and footwear legislation which has been introduced and which has at last count a majority of the members of the Senate as cosponsors, not least because of the eminence of its principal sponsors, the sometime President Pro Tempore, Senator Thurmond, and his junior colleague, Senator Hollings.

We welcome you Senators Thurmond and Hollings. Senator Thurmond, would you be kind enough to address the committee first.

STATEMENT OF HON. STROM THURMOND, A U.S. SENATOR FROM SOUTH CAROLINA

Senator THURMOND. Mr. Chairman, I would like to thank you and the other members of the Senate Finance Committee for the opportunity to testify here today. I am very pleased that this measure, the Textile, Apparel and Footwear Trade Act of 1990 has already attracted strong bi-partisan support.

Mr. Chairman, a viable textile and apparel industry is absolutely essential to the economy and national security of this Nation. While this industry has suffered many hardships and textile imports have increased dramatically, this industry still employs nearly 1.8 million Americans. Currently one out of every seven people employed in South Carolina works in the textile and related industries—one out of every seven. And if the current trend of increased imports continues, the resulting job losses will cause harsh economic problems to the people who depend on the textile and apparel industry for their livelihood.

Over 350,000 jobs have been lost in the textile industry during the last 5 years. I want to repeat that Over 350,000 jobs have been lost in the textile industry during the last 5 years. Since the record employment level of 2.5 million employees in 1973 this industry has lost 700,000 jobs. According to the U.S. Department of Labor, South Carolina lost 2,600 textile jobs last year in 1989.

This year it is starting off with another drop in textile employment. Several companies have already announced personnel reductions and as a result 1,700—I repeat 1,700—South Carolinians will soon lose their jobs.

This trend cannot be allowed to continue. The decline of this industry will be felt throughout our economy as supporting and related industries also begin to suffer. In addition to its economic importance the textile industry is also significant to the defense and national security of our Nation. The textile industry—and this is a point that people do not understand—is second only to steel, only to the steel industry in importance to the national defense of this country.

We cannot allow ourselves to become dependent upon foreign countries for the basic defense requirements of our armed forces. While most people think of uniforms and footwear as textile industry products used by the military, many other needed products originate from this industry. Some of the other textile products the military uses are tents, canvas, ammunition, power bags, parachutes, and many others.

It does not make good sense to transfer production of these items to foreign countries and then rely on them in times of international crisis to provide us with these essential items.

Mr. Chairman, the growth in textile and apparel imports during the last several years has not come about due to a lack of effort on the part of the domestic industry. In fact, the American textile and apparel industry is one of the most modern and productive in the

world. Over the last 9 years manufacturers have invested over $18 billion—I repeat, over $18 billion—to modernize operations and increase productivity.

Last year alone the textile industry reinvested nearly 80 percent of their retained earnings for these efforts. This is second only to the computer industry. Mr. Chairman, management and labor have worked hard to modernize, compete and survive. Nevertheless, imports have continued to grow. Textile and apparel imports now account for 59 percent of the U.S.'s market share. In 1989, 12.1 billion square meters of textiles and apparel were imported into the United States.

Think of what that figure is. Last year over 12 billion square meters of textiles and apparel were imported here. This is a 13 percent increase over 1988 levels. Textile imports accounted for 21 percent of the merchandise trade deficit in 1989 and were valued at $26.5 billion. This is 5½ times the $4.7 billion value of the textile trade deficit in 1980.

Mr. Chairman, the textile industry has continued to suffer from the increased imports because the American industry is not competing with foreign countries on an equal basis. That is the reason we are suffering. If they did, then the United States textile and apparel industry could compete with that of any other nation.

However, the domestic textile industry cannot be expected to compete, nor should it have to, with foreign industries that are heavily subsidized by their governments. Developing countries have provided low interest, subsidized loans for capital formation and expansion within that textile and apparel sectors. Favorable tax treatment, as well as other incentives for exporting textile and apparel products has been created by foreign countries. They have fostered and protected their own industries and markets through currency and manipulation and trade restrictions.

Mr. Chairman, another factor with which American companies cannot compete is the relative wage rate. According to the Bureau of Labor Statistics—and catch these figures, Mr. Chairman—China pays its textile workers 27 cents per hour, compared to $9.31 for U.S. workers. Some other examples are Taiwan, $2.62; South Korea, $2.05; Hong Kong, $2.49. While these wage rates are much lower than ours, the cost of textile and apparel products from these countries does not reflect this wage discrepancy.

Mr. Chairman, the legislation we are discussing today is designed to promote the orderly growth of world trade in textiles and apparel products and footwear. We cannot continue to stress free trade if American businesses do not have the same opportunities in other countries as other countries have here. This bill limits the increase of imports, of textile and apparel products, to 1 percent above the current year. The next year the growth rate would be 1 percent of the new level. This is—and I want you to catch this; I hope the members of the committee will catch this one point. This is very important. This is the same rate that the consumption of textile and apparel increases has occurred in the United States. So both domestic and foreign producers would have the same access to the growth in the industry in the United States.

Mr. Chairman, this seems fair. In regard to quotas, they are established on each category of textiles and textile products from all

sources. Therefore, this legislation does not discriminate against any one country. The establishment of global quarters gives the administration maximum flexibility in implementing the requirements of this legislation. This also seems fair.

It is evident that the textile and apparel import deficit problem will not solve itself. Unless we take prompt action, it is possible that within 10 years we may not have a domestic textile and apparel industry.

Mr. Chairman, I appreciate the opportunity to testify before your committee this morning; and I am very pleased to join with my distinguished colleagues, Senator Hollings, Senator Sanford, and Senator Helms, in being here. I hope my remarks will be beneficial to you and the other members of the committee in your efforts to formulate textile trade.

Again, it is not free trade, it is fair trade that we are seeking. We are only asking that this industry be on the same level with foreign industries. Currently, the growth of consumption in this country for textile and apparels is only about 1 percent. At the same time imports have grown almost 10 percent. Why shouldn't we be on a level plain with foreign countries? It is just simply not fair to place the industries in this country at such a disadvantage. We can compete if we are on the same level plain.

Mr. Chairman, I thank you very much for your attention and we will appreciate favorable consideration of this legislation which we think is so essential, not only to South Carolina, but to the entire Nation. You have textiles and apparel in every State of this Nation and we think it is vital that this bill be passed. And we hope the committee will give favorable consideration to it.

Now, Mr. Chairman, since I am handling the crime bill in the Senate and we take that up in a few minutes I will have to leave. Again, I thank you for your kind consideration.

Senator Hollings, I am sure you will understand why I have to leave.

Senator HOLLINGS. Sure. Go ahead.

Senator MOYNIHAN. We thank you, Senator Thurmond, for your very persuasive, factual testimony. And you may be sure this committee will proceed with great deliberation on this matter.

[The prepared statement of Senator Thurmond appears in the appendix.]

Senator MOYNIHAN. Senator Breaux, we welcome you, sir. We have not made opening statements in deference to our distinguished witnesses who are here.

We welcome Senator Sanford; and we will hear from you presently, sir.

Senator Hollings?

STATEMENT OF HON. ERNEST F. HOLLINGS, A U.S. SENATOR FROM SOUTH CAROLINA

Senator HOLLINGS. Thank you very, very much, Mr. Chairman and Senator Breaux. First, Mr. Chairman, let me ask that my prepared statement be included in the record.

Senator MOYNIHAN. Without objection, of course.

Senator HOLLINGS. Thank you. I would like to save the committee the time. I appreciate appearing with my colleagues, Senator Thurmond and Senator Sanford and others. I particularly appreciate, Mr. Chairman, you chairing this hearing because you have been a leader and divine guard to my personal knowledge 30 years ago. You worked on the One Price Cotton and the Kennedy 7 Point Program and really started to turn this thing around to try to stem the tide.

Now for the fifth time appearing before this Finance Committee—in the Johnson administration, Nixon administration, of course, under Carter and under President Reagan. We actually passed bills through the Senate under each of those Presidents—and then through the entire Congress under President Carter, who vetoed it, but then administered it, which was a temporary stop gap. But then under President Reagan vetoed twice. Now we are appearing for the fifth time, but this time we have 55 cosponsors. We are moving on up.

Senator MOYNIHAN. You are moving up, sir.

Senator HOLLINGS. "Moving on up." [Laughter.]

You know, we always pleaded, Mr. Chairman, for jobs; and we still do. After all in the textile industry, 67 percent employed are women and 29 percent, minorities. I remember back just 12 years ago when we had a crisis and we were trying to pass a $5 billion employment bill to get the country moving again. The very concern was women and minorities. Here we have the largest employer of women and the largest employer of minorities. And yet, 60 percent of the apparel in this room is imported; 40 percent of textile goods overall are imported.

We have had over that 10-year period now from 1980 down to 1990 an increase on an average of 12 percent per year and an increase of imports, with an increase of course of domestic consumption at 1 percent, so a net loss of 11 percent.

So when I say survival we know what we are talking about. All you have to do is look at the market reports—I have a Shearson, Lehman report here; I have other stock market reports and other things of that kind. They report, of course, that the profits are down. In 1987, it was $2 billion; it was $1.5 billion in 1988; in 1989 profits down to $1.3 billion. If this trend continues at 11 percent—and my senior colleague has just cited the fact that it is up to 13 percent—but if it continued just at 11 percent net through the 1990's, by the year 2000, 92 percent of all clothing in this room will be imported.

So the real question is survival. And some would say, wait a minute. I had to hear this out in Chicago over the weekend about an inefficient unproductive industry. That was a clarion call, yes, 30 years ago when we worked on this or 40 years ago, because we have been that long with this particular problem. But the truth of the matter is, as it has been pointed out, we have invested $18 billion over the last 9 years. Our productivity, has averaged 4.2 percent as compared to the national average of 2.7 percent in the last 10 years.

OTA has done a report. We would not put it in the record, but we would make reference to it. The committee members have a copy of the "U.S. Textile and Apparel Industry: A Revolution in

Progress" by the Office of Technology Assessment—our own study group in technology has found textiles to be the most productive industry in all of America. We look only to last year for the Baldridge Award—the winner for the most competitive, most productive was Millikin Textile Co.

And I see it every time I go home. You go to Stonesware, an apparel plant. I remember when they had 3,600 employees there when I was running for Lieutenant Governor. I had a fellow stop work and say, "Look, I'll let you make a little 5-minute talk, but it is going to cost me $5,000 so talk fast and get everything you want to say in there." You know, this was back in the 1950's.

Now I go in—and incidentally, they have gone Republican, they won't let me talk. [Laughter.]

And it is down to 1,700. But in all fairness to Stonesware, they have technologically developed and invested in new machinery. They have one to put the pockets on this shirt, another one to put the cuffs, another one to put the strip of buttons in there. Productivity has increased some 30 percent with half the number of employees. So they are very competitive.

But as I indicate here, if we do not do something about it, it takes you 7 years to get your money out of a particular piece of textile machinery—7 to 10 years. In 1992, looking forward to 1993, as to whether or not they invest and with the owner of the plant seeing nothing done in Washington with all this talk about the protection; they are looking at that and say still nothing is going to be done. I am going to go offshore or I am going to close down.

We have had already 25 plant closings of textile or apparel companies since January of this year. They continue to close and continue to go. And yet we are told in these retailer political ads what a wonderful morning in America, we have heard that nonsense now. It is the morning after, fiscally.

I go back, Mr. Chairman, to when you and I both worked there. They had a provision that is now Section 232 of the Trade Expansion Act. It said that President Kennedy, who had made his commitment in the campaign, that he could not take action as President until there was a finding that national security was in jeopardy.

I will never forget it. We had your Secretary Goldberg, you were with Labor as Assistant Secretary there. We had Secretary Dillon of Treasury, Secretary Rusk of State, Secretary Orville Freeman of Agriculture and Secretary Hodges of Commerce and Hickman Price, if you remember, was there to line up the witnesses and I worked with Hickman and we brought the witnesses up; and on May 2 after the finding, we promulgated the Kennedy seven point program.

Now that was a finding of national security. Yes, we think of helmets. We think of webbing, belts, parachutes and everything else. But technologically you do not get computers today without textiles. They make all that fine wiring in there. You go now to what used to be Southern Weaving which is now Woven Electronics in Greenville, South Carolina and a broad belt—it looks like webbing—but the fine copper conductor, woven end of the belt, that is used for the firing control of guided missiles, miles and miles of it used in the D-5 missile on the Trident submarine, and in aircraft,

and in civilian aircraft—not just the B-1, but the Boeing and Lockheed planes.

So textiles are into high technology and more than ever they are second most important to our national security after steel.

In 1981 when you and I started again under the Reagan administration, I realize that in Europe, the whole EEC, they had a $4.5 billion deficit in the balance of textiles trade. We also had a $4.5 billion deficit in the balance of textiles trade. Now in 1990, 9 years later, they have administered their bi-laterals and agreements and otherwise. They know how to operate. And the EEC got their deficit down to less than $1 billion in 1987—from $4.5 billion down to less than $1 billion.

Now what is our deficit in the balance of textile trade? It has gone from $4.5 billion to $26.5 billion. Over 20 percent of the deficit in the balance of trade is in this one area, textiles and apparel; and it is going up, up and away. And you say, how did that happen. Well, of course, we got 140 supplying countries and 146 categories. There is over $5.5 billion in fraud—unreported merchandise, transhipments, dumping and everything else of that kind, according to Customs.

But the point is that we need to get control of ourselves and put it on a global basis. Do you know who agrees with us? The administration. Ms. Carla Hills, the Trade Representative; Senator Baucus; your representative in Geneva now has globalized quotas for textiles on the table in Geneva. Now they will not tell you how. They won't tell you the growth. They won't tell you the factors that go into it, but they articulate just what I am articulating here. And so you adjust within the global quota and then you can control and understand whether or not you want the industry.

I want to talk about protectionism. This is a protectionist bill. And you know who we are protecting? The foreign manufacturer. We are giving him the majority of the business. Name a country that had put in legislation and said, "Give the foreign manufacturers the majority of the business." The only reason we do it is in desperation, to try to save what we have.

It is not the goodness of our heart or the goodness of our minds. We say if we cannot get their attention now and pass it through again, which I am convinced we can, but get the administration using that same approach of globalization, if we cannot get them to sign it, then we are really lost and we really do not want the industry.

So what we are saying here in this bill is, let's respect the free trade agreement with Israel, the free trade agreement with Canada—that I voted and supported for both of those—and the CBI. In fact, we guarantee the CBI countries their 1989 market share. And with the CBI we put a provision in there anything over and above the CBI that can be negotiated by the administration is allowed under the law. And, in fact, when we get to the bill on China, if we can get off all these other side issues on the floor, I would just as soon take the 1 billion square meters from the Peoples Republic of China and transfer it to the Caribbean Basin Initiative countries. There is no reason to award Tiananmen Square and the massacre of students.

I think they would sober up and we would get their attention if we just said, all right, that billion in textiles you really do not need them and do not understand freedom anyway. We will just take that and redirect it down here and start rebuilding our hemisphere—Nicaragua, Panama, and otherwise. So the Congress is on the spot. It is whether you and I want the industry. Otherwise what we have is programmed extinction, phased liquidation of a very basic industry of our economy—the largest employer of women and minorities—and second most important to our national security.

Thank you very much.

[The prepared statement of Senator Hollings appears in the appendix.]

Senator MOYNIHAN. We thank you, Senator Hollings. It should be noted that you are the principal sponsor of S. 2411 and to say again that there are 55 cosponsors.

We welcome Senator Helms, of course.

May I just—we are not making opening statements. But just to confirm a point you have made. Senator Hollings was kind enough to recall—I do not know how kind it is to recall—30 years ago we were working on this subject and it was Mr. Blumenthal, and Mr. Price, and myself who negotiated the long-term Cotton Textile Agreement in Geneva that was incorporated in the Kennedy round.

A principal of that arrangement was that other nations got in effect rights to export to the United States. Something that no other country that I am aware has ever done—none with a market of our size. I was later—our Ambassador to India, and I do not know if this would still be their view—but at that time I asked, what was their view of the long-term Cotton Textile Agreement and they could not have been more supportive. They said, this means we have a market in the United States. We can plan for, maximize, and indeed they have done.

So I think it should be—and your data about the European Community is depressing, I have to say, but exemplary. We thank you very much, sir.

Senator Baucus, we have not made opening statements in deference to our distinguished witnesses.

We thank you, Senator Hollings, most especially.

Senator HOLLINGS. I thank you and the committee.

Senator MOYNIHAN. The North Carolina delegation has arrived. We welcome Senator Sanford, who was here first; and Mr. Helms.

Senator Sanford.

STATEMENT OF HON. TERRY SANFORD, A U.S. SENATOR FROM NORTH CAROLINA

Senator SANFORD. Thank you very much, Mr. Chairman. And thank you and your colleagues for giving attention so expeditiously to this legislation. It is legislation that is long past due and I am glad that it now appears that we can finally get this legislation moving.

Senator Helms and I represent at least 350,000 textile and apparel and footwear workers in North Carolina; and we know first hand

that this industry is being severely and unnecessarily damaged by the flood of imports. Plants are closing almost on a monthly basis. Thousands of jobs have been lost over the last few years. And this is not a statistic that just deals with numbers.

When a textile plant closes it is likely to be in a small town where there simply are no other centers of employment. Certainly record high import levels are causing massive displacement in these industries. Like my colleagues, Senator Hollings, I go back to 1960's too, because I worked to get the commitments during the Kennedy campaign that were translated into the action that you, Mr. Chairman, talked about as part of the Kennedy Round of GATT talks.

Senator MOYNIHAN. In 1960 in the presidential campaign thereof.

Senator SANFORD. Exactly.

Senator MOYNIHAN. And that is a matter of historical record.

Senator SANFORD. That is correct. But by 1980—we were already out of hand. Import policies were already running loose again. In 1980 imports accounted for 28 percent of the market. Now they account for 59 percent of the market, virtually double. Equally disturbing is the fact that the United States now imports 2.3 billion more in textiles than we export. Our imports continue to surge while the domestic market remains stable at a 1 percent growth level.

Many people argue that that is because imports are cheaper; they give the consumer advantage. That simply is not true. It certainly is essential that we have a rational policy to regulate and to stem this unattended flow of textiles into the country. Because the last time the Congress considered textile legislation in 1987 it was argued that the textile industry was making a considerable profit and they had had a good year. But the good year was certainly an exception.

We were told we did not need a textile bill; that imports were declining; that the administration's policy of negotiated bi-lateral agreements would do the job. None of that worked.

Despite all the promises and pledges, imports now have reached an all time high. And Senator Hollings is exactly right, we are going to put this business out of business if we do not do something to better regulate it. The allegation that our textile and apparel industry is not efficient and competitive is simply not true.

During the past 10 years, as has been noted, the productivity level of the textile industry increased almost twice as much as the increase in productivity of all other industries. In 1988 the U.S. textile industry invested a record $2.4 billion in new textile equipment. These increased efficiencies have kept prices for domestically produced textiles and apparel quite stable while the import prices have continued to increase.

North Carolina offers an excellent example of how detrimental the affects of imports are on our domestic market. It is the largest textile State in the country. It employs almost as many textile and apparel workers as all the other States combined. The efforts made by this industry to modernize their plants and increase their efficiency have been nothing short of heroic.

Indeed, I wish you and my colleagues could walk through some of these plants. I was recently in a Burlington mills plant where

they were making the fabric for the jackets that the McDonald workers in Moscow will wear. We can compete anywhere in the world with textiles; but we cannot compete with this unfair advantage that imports now have.

Our plants stand in complete contrast to many of the labor intensive plants found in so many other countries. The differences bring home the stark reality facing the textile industry and its workers. This industry is not suffering because it lacks skilled workers and modern technology or the business smarts to compete internationally. They are doing that. Plants are closing and men and women are losing their jobs because for too long the United States has permitted textile and footwear imports from countries who do not reciprocate and open markets to us. And, therefore, they gain an unfair advantage through government subsidies and excessively low wages.

The bill before us, Mr. Chairman, does not take an unfair advantage. I think historically we have not taken an unfair advantage in the textile industry. The bill imposes global quotas on textiles and apparel with 1 percent growth annually permitted for imports permitting imports to grow as fast as the market is growing here.

It also recognizes our special trade relationships with Canada, and with Israel, by exempting them from this bill. The Caribbean Basin Initiative countries are guaranteed their current 11 percent market share; and this bill, it seems to me, is playing more than fair with our trading partners.

I think we owe it to the textile and apparel workers of this country, I think we owe it to the economy of this country, I think we owe it to the national defense of this country, to see that this industry is not utterly destroyed; and it is going to be if we do not better regulate it. This legislation is designed to do just that.

Mr. Chairman, I would offer my statement for the record in lieu of further testimony, but I appreciate the opportunity to be here this morning. Thank you very much.

Senator MOYNIHAN. Most assuredly.

[The prepared statement of Senator Sanford appears in the record.]

Senator MOYNIHAN. May I, for the record, state that no one was more important in the beginnings of this present trade arrangement than you, sir. In 1960 you were able to obtain a commitment from the Kennedy campaign, that a Kennedy administration would look to a managed trade in an area of great consequence to North Carolina and to New York State. It was keeping that commitment that President Kennedy sent First Secretary Ball and then the delegation of which I was a part to negotiate the agreements; and these were negotiated agreements. These were not unilateral matters.

You did that and they have been in law now for a long time. And yet we have had this steady growth. If in 1960, 1961, 1962 we had contemplated the present import levels, people would have thought that was shameless and irresponsible as regards to the national economy.

So I want to thank you.

Welcome, Senator Helms.

STATEMENT OF HON. JESSE HELMS, A U.S. SENATOR FROM NORTH CAROLINA

Senator HELMS. Mr. Chairman——

Senator MOYNIHAN. I must note that there is a vote on and we can hear you now or hear you afterwards.

Senator HELMS. I am going to ask that my full statement be made a part of the record.

Senator MOYNIHAN. Of course, without objection.

Senator HELMS. It gives essentially the same statistics that my distinguished colleagues from South Carolina and North Carolina, and I will not repeat them.

But, Mr. Chairman, the most glorious statement that I heard from Senators and witnesses during the many times that I have presided over committee meetings is, "I shall be brief."

So let me get right to the heart of the matter. The only thing the domestic textile apparel industry is seeking is a level playing field. As matters now stand, our foreign competitors are eating our lunch and the U.S. Government is letting them do it. A level playing field does not exist now and is unlikely to exist in the future, unless we get the legislation that we talking about this morning.

Now two of the major problems confronting the textile industry are import fraud and the lack of enforcement of our current textile policies. The former Commissioner of Customs, Willie Von Robb, did his best to solve these problems. He put into place policies that enhance the enforcement of our laws regarding textile imports.

Unfortunately since Willie Von Robb departed, the Customs Service has succumbed to pressure to revert to former practices making it easier for importers to bring in textile goods in violation of U.S. laws/U.S. regulations. This includes a relaxation of the seizure policy that Commissioner Von Robb had put into place with respect to fraudulent imports and a weakening of the legal definition of fraud which results in more goods coming in.

So let's make no bones about it, great pressure is being put on the Customs Service to go easy on the import violations and obviously it is a serious problem.

I have some charts over here that I want to call to your attention and I will conclude.

It is bad enough that we get all these textiles from low-wage countries. But I have a cable which leaves me aghast. I want it to go in the record, if you do not mind, sir.

Senator MOYNIHAN. Without objection, of course.

[The cable appears in the appendix.]

Senator HELMS. This cable came from our Consulate in Canton. It says that "China is using unpaid prison labor to make garments in South China which are exported into the United States. Female prisoners are used." And according to prison officials, "All the prisons have these programs."

Now I do not have to tell this committee that in the past 10 years South China has become a gigantic export processing zone aimed at the United States. Now these figures (on a chart) reflect it, if you will take a look at it. Therefore, we must consider nearly all textile and garment imports from communist China to be at

least presumably made by slave or prison labor and they are just about the same.

So I submit these for the record. We will give it to you so they can be printed in the record in smaller form.

Senator MOYNIHAN. And you would, I assume, not wish us to see the continuation of most favored nation treatment for a country that is producing slave labor.

Senator HELMS. Well, Senator Hollings is exactly right. Let's take that money that the State Department is going to send over there and send it instead down to the Caribbean Basin.

Here is the law. I am doing this, obviously, for effect, Mr. Chairman. This is the law that is being violated by our own government.

Senator MOYNIHAN. Oh, there is no question about that being the law. And our government, this administration is not enforcing the law.

Senator HELMS. I will conclude with this———

Senator MOYNIHAN. That is what you assert, sir.

Senator HELMS. Would the Chairman do me a favor?

Senator MOYNIHAN. Yes, sir.

Senator HELMS. Would you read this law into the record?

Senator MOYNIHAN. Yes, sir.

After somewhat 30 years in this business, hold it right where you are, "Convict"———

[Laughter.]

Senator MOYNIHAN. "Convict-made goods importation prohibited. All goods, wares, articles and merchandise, mined, produced or manufactured, wholly or in part, in any foreign country by convict labor or/and forced labor, or/and indentured labor under penal sanctions shall not be entitled to entry at any of the ports of the United States; and importation therefore of hereby prohibited." Amen.

Senator HELMS. Amen. And it doesn't say except for Red China, does it, Mr. Chairman?

Senator MOYNIHAN. It does not say, sir. And if that is your view, if Customs is allowing this, we have to hold them—we have to hear them on this matter. We certainly will take this into consideration as we deal with the MFN proposal about communist China, as you say, sir.

We thank you very much for your testimony.

Senator HELMS. I thank you, Mr. Chairman.

[The prepared statement of Senator Helms and chart appear in the appendix.]

Senator MOYNIHAN. I think all Senators will want to repair to the floor. At this point the hearing will have to stand in recess as there is a vote on the Senate floor. I will be back presently.

[Whereupon, the hearing recessed at 10:39 a.m. and resumed at 11:02 a.m.]

Senator MOYNIHAN. Good morning again. The Chair regrets that we are not as expeditious that we might be. There are many things going on just now and each of us is required to be or expected to be in some three different places. I should have noted earlier, and I do note now, that our Chairman, Senator Bentsen would be here and would be presiding save that he is required to be in the meeting of

the Budget Summit, as I believe it is called, where I was to speak this morning but it now appears to be the afternoon.

For those who like to keep abreast of that tension filled drama, I looked in and Mr. Darman was speaking to an audience of one, Mr. Bentsen. [Laughter.]

But perhaps that means they have resolved so many problems the other principals have departed.

We now go to our last individual witness, Hon. Ronald Sorini, who is our Chief Textile Negotiator, of the Office of the Trade Representative. Mr. Sorini, the committee apologizes for having had to keep you. There was a vote, as you know. We welcome you, sir, and will you proceed exactly as you wish and at the pace you wish.

STATEMENT OF HON. RONALD J. SORINI, CHIEF TEXTILE NEGOTIATOR, OFFICE OF U.S. TRADE REPRESENTATIVE

Mr. SORINI. Thank you, Mr. Chairman. I have a formal statement that I would like to submit for the record.

Senator MOYNIHAN. Please, we will put it in the record as if read; and you tell us what you think.

Mr. SORINI. But for the sake of time if I may just summarize the administration's position.

Senator MOYNIHAN. Please do.

Mr. SORINI. And I would be happy at the end to answer any questions that you might have.

Put very simply, Mr. Chairman, the administration opposes the enactment of S. 2411—the Textile, Apparel and Footwear Trade Act of 1990. We have four basic reasons for opposing this legislation.

First of all, we do not feel that it is justified on the economic merits. We think not only considering the very negative effects that the passage of this legislation would have on the consumers in our country—and I have cited some statistics in my testimony—the indicators, virtually all indicators that we have looked at with regard to specifically the textile and apparel industry, have shown modest, but steady growth throughout the 1980's, particularly when you look at production, fibers consumed by U.S. mills, and capacity utilization statistics. There is evidence that the performance has progressed for the textile and apparel industries.

Secondly, we do not feel the bill is necessary because we already have a wide range of restrictions in place on textile and apparel imports. As was stated earlier, Mr. Chairman, you were very instrumental in developing the system that currently exists. In all, we have well over 1,000 quotas with 38 of our trading partners. In total, 75 percent of textile and apparel imports are covered by quotas. The average annual growth rates of those quotas is about 3.5 percent. Another 15 percent of our imports comes from countries with which we do not choose at this time to have quotas on. Those imports are from developed countries, particularly the European Community, Canada and others.

So while it is clear that imports have taken a larger share of our market through the 1980's—the statistics show that—we have a slightly different view than some in the industry and some here in Congress on what the actual share of the market is taken by im-

ports. Our statistics show that in 1980 21 percent of our apparel market was imports. In 1989 that has increased to 37 percent.

Senator MOYNIHAN. Sir, where are you on your page? Is that page 6?

Mr. SORINI. I am summarizing it; and I am adding an additional remark. I do not believe I used those statistics in my written testimony.

Senator MOYNIHAN. I see. So 37 percent is the present rate in your view for all textiles or——

Mr. SORINI. Just apparel.

Senator MOYNIHAN. Oh, for apparel.

Mr. SORINI. I am looking at only apparel.

Senator MOYNIHAN. Yes, sir.

Mr. SORINI. Which is the most highly impacted part of the fiber, textile, apparel sector by imports.

We feel that during the 1980's, through a combination of protection that we have provided, and the industry's own efforts to modernize, that they have been able to adjust and can continue to adjust to the import situation.

Third, we believe that the legislation would violate our international agreements. To us it is a clear violation of the Multi-Fiber Arrangement which regulates international textile and apparel trade. It is a violation of the 38 bi-lateral textile agreements that we have negotiated with other nations that I mentioned earlier.

We also believe that the bill would violate the provisions of the General Agreements on Tariffs and Trade, particularly Article 19 of the GATT. I made specific reference to that in my testimony.

Senator MOYNIHAN. Would you refresh us, Mr. Sorini? Article 19 is?

Mr. SORINI. Article 19 is the safeguard provision which allows importing countries to provide relief to an industry if we believe that it is being injured by imports. And there are specific requirements in Article 19, which we as a signatory to the GATT are compelled to follow. We feel the provisions of the bill do not meet those requirements.

Also—and this is not in my testimony because we just focused on this frankly—the bill does place quotas on Canada, even though we have a free trade arrangement with Canada. Not all trade from Canada, but it would place quotas on apparel coming in from Canada made from third country fabrics; and that is something we are concerned about.

Due to this violation of our international agreements we feel that it is clear, our trading partners will feel they will have to respond. We are concerned about potential retaliation. Countries in the past have alluded to the fact that if we take this type of measure that they would retaliate against U.S. exports, particularly agriculture and other areas.

And fourth, we are concerned, very concerned, about the impact of this legislation on the Uruguay Round negotiations. As you know, Mr. Chairman, in Geneva we are embarked on very ambitious negotiations to reform the entire international trading system. If this legislation is passed, effectively what we would be doing as a nation is taking textiles, apparel and footwear off the

negotiating table. And if we do that, clearly other countries will take off the negotiating table things of interest to us.

We all have our own political sensitivities and what we are trying to do is reform the entire trading system. That does not mean, Mr. Chairman, that we are seeking to sell out the textile industry as some people would like us to or have claimed that we are attempting to do. What we are trying to do is, in the area of textiles in the Uruguay Round negotiations is first negotiate and adequate transition mechanism. A transition mechanism that will——

Senator MOYNIHAN. From? To?

Mr. SORINI. From the Multi-Fiber Arrangement to normal trading rules—to normal GATT rules.

So clearly as an outcome of the Uruguay Round the textile and apparel industries will have special protection for quite some time. Our proposal is that the transition period be 10 years. That is longer relief than the industry has ever been given at one time.

As you know, in the past the Multi-Fiber Arrangement has been extended by 3 or 4 years without any certainty beyond that. So it is critical that we have adequate rules that allow us to address import problems when they arise and to give our industry the time they need to adjust and prepare for what will clearly be very stiff international competition.

Another important element of our negotiations is that we have what we refer to as strengthened GATT rules, such as laws as they apply to unfair trade. As you will remember, the Multi-Fiber Arrangement deals with fair trade. It puts quotas on countries when we feel our market is being disrupted by fair trade. But we also have to make sure that the GATT has adequate laws to deal with unfair trade. So it is our intention to come back with a Uruguay Round package that includes appropriate laws, appropriate regulations, dealing with subsidies and dumping, and also an improved safeguard mechanism.

And third, we are insisting that our trading partners open up their markets. The United States is not going to play the game by itself. We are not going to open up our market if our trading partners refuse to open up their markets.

Within the last few years many of our trading partners have made some very courageous decisions to open their market. Barriers are coming down across the world. We look just across our border in Mexico where our statistics show last year that we had a trade surplus in textiles and apparel with Mexico.

Some companies, like Levi Strauss, tell us that they are going to send as many as 3 million pairs of pants, fully made in the United States, down to Mexico this year as a result of the market opening measures that they have taken.

So in all, Mr. Chairman, we do not feel that the bill, as I said, is necessary. Congress is going to have the ultimate say on whether or not the United States accepts a package in the Uruguay Round negotiations. We will have to present that agreement to both Houses for acceptance; and we would prefer to focus our efforts working with you and the private sector on the Uruguay Round negotiations, not on debating and discussing legislation with which at least we do not believe is necessary.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Sorini appears in the appendix.]

Senator MOYNIHAN. Mr. Sorini, we thank you, sir. Are you an Ambassador yet?

Mr. SORINI. Yes, I am.

Senator MOYNIHAN. You are. Ambassador, I thought you might be. Forgive me, Mr. Ambassador.

You have a clear view of this matter and we simply—we surely understand it. I think we would like to see some of that data about Mexico if you could send us that. Would you do that?

Mr. SORINI. We would be happy to provide you that.

[The information follows:]

UNITED STATES EXPORTS, IMPORTS AND TRADE BALANCE IN TEXTILES AND APPAREL WITH MEXICO

[In millions of dollars]

	Exports	Imports	Trade balance
Total Textiles and Apparel			
1988	643	654	−11
1989	767	724	43
January to April 1989	234	210	24
January to April 1990	323	284	40

Source Office of the U.S. Trade Representative, compiled from official statistics of the U.S. Department of Commerce. Textiles and apparel defined as those items in Chapters 50-63 of the Harmonized Tariff Schedule of the United States.

Senator MOYNIHAN. Could I ask you, earlier Senator Hollings mentioned the decline, as I recall, in the EC imports over the decade. Is that your understanding?

Mr. SORINI. Our understanding is the same. The reasons for that decline in the deficit are probably different.

Senator MOYNIHAN. Have the Europeans started going barefoot? Is that it? [Laughter.]

Mr. SORINI. No, they started exporting considerable amounts of textiles and apparel. They export $24 billion in textiles. We export less than $6 billion.

Senator MOYNIHAN. So the issue is balance, is that the point?

Mr. SORINI. The issue is balance. I don't think that the difference in the trade balance figures are due to a more vigorous enforcement on their part of the MFA or actions they have taken to curtail imports.

Senator MOYNIHAN. You don't think that?

Mr. SORINI. No, I don't think they have done a more vigorous job than we have. They have implemented the MFA just as we have. But I think the biggest difference for the discrepancies in our trade imbalance and theirs is the fact that they have exported considerable amounts of textiles and apparel.

Senator MOYNIHAN. Perhaps you would be good enough to give us those numbers, as well as the Mexican details. I found that interesting.

Mr. SORINI. We would be pleased to.

Senator MOYNIHAN. You might give us any view that—would you regard the provisions of the statute concerning Canada to be violative of the Free Trade Agreement? You needn't answer if you would like to go back and study the matter.

Mr. SORINI. Well that particular provision of the textile bill, frankly, we just focused on yesterday. So we are doing an assessment. My guess is it would be a violation of the Free Trade Agreement but I cannot say that definitively.

Senator MOYNIHAN. We would not ask you to do until you are satisfied yourself about that. But do let us have that, because that committee will be concerned about it. We have to be careful about that.

[The information follows:]

WORLDWIDE EXPORTS, IMPORTS AND TRADE BALANCES IN TEXTILES AND APPAREL, UNITED STATES AND EUROPEAN COMMUNITY

[In millions of dollars]

	Exports	Imports	Trade balance
United States:			
1988	7,815.3	25,330.8	−17,515.5
1989	8,870.9	28,596.9	−19,726.0
January to April 1989	2,830 6	8,392.2	−5,561.6
January to April 1990	3,817 9	9275.6	−5,457.7
European Community:			
1988	23,632	33,480	−9,849
1989	27,351	38,205	−10,845

Source Office of the U S Trade Representative, compiled from official statistics of the U S Department of Commerce Textiles and apparel defined as those items included in Chapters 50–63 of the Harmonized Tariff System of the United States
Eurostat, Commission of the European Communities 1989 data is incomplete

Senator MOYNIHAN. Mr. Ambassador, Senator Symms has a question in writing here which we would like to give to you and ask if you would give us a response in writing.

Mr. SORINI. Certainly.

[The question and answer appear in the appendix.]

Senator MOYNIHAN. With which we thank you very much. Are you over in Geneva often?

Mr. SORINI. Too often I think. I will be leaving on Monday for another round of negotiations. We have a session once a month of the textile negotiating group. So I will be there next week and also a week in July where we hope to reach a framework agreement. So hopefully we will have more to report.

Senator MOYNIHAN. You might as well know, Mr. Ambassador, that you have precious little sympathy from this grey-haired legislator. I was on that schedule in the era of—in the pre-jet era. It was a 17 hour flight by prop and you would arrive Monday morning absolutely zonked; and there would be the French waiting for you. They had been skiing all weekend. [Laughter.]

Mr. SORINI. I know what that feeling is like.

Senator MOYNIHAN. You know that feeling? Steady on and thank you very much for your testimony.

Mr. SORINI. Thank you very much.

Senator MOYNIHAN. We now have a panel of the representatives of the manufacturers and makers of the textile industry. Let's see, can we get some volunteers here.

Mr. Daniel Frierson, who is the chairman of the Fiber, Fabric and Apparel Coalition for Trade from Chattanooga. Mr. Frierson,

we welcome you. Dr. Herman Starobin, who will represent the International Ladies' Garment Workers' Union. And Mark Love, who is vice president of the Economic Consulting Services, testifying on behalf of the Luggage and Leather Goods Manufacturers of America. Good morning, Mr. Love.

Mr. Frierson, you are listed first; and would you proceed, sir.

STATEMENT OF DANIEL K. FRIERSON, CHAIRMAN, FIBER, FABRIC & APPAREL COALITION FOR TRADE, CHATTANOOGA, TN

Mr. FRIERSON. Thank you. Chairman. I am Dan Frierson. I am chairman of the Fiber, Fabric and Apparel Coalition for Trade and past-president of the American Textile Manufactures Institute. I am also chairman of Dixie Yarns, a textile manufacturer, located in Chattanooga, TN.

Today I am speaking on behalf of America's textile, apparel, fiber and footwear industries, their unions, and their more than 2 million workers nationwide. The problems of these industries and their workers are familiar ones to this committee. Indeed, the loss of over 1,500 production facilities, over 350,000 jobs, and over 700,000 job opportunities to foreign nations since 1980 has become a major part of the national concern for the decline in American industry. That is a loss of over 1 million potential jobs.

If a strong and viable manufacturing industry is essential to American competitiveness and our standard of living—and I believe it is—then a solution to the Nation's textile trade problems should be of the utmost priority, particularly since we currently represent over 25 percent of the national trade deficit.

The U.S. textile and apparel industry is still the largest employer in the manufacturing section, as has already been pointed out this morning. We also are the largest employer of females and minorities. I want to stress also that the problem of textile trade is not one brought about by our own doing. In fact, we have done much as an industry to deal with the import problem in ways in which we are able to do so. The study which Senator Hollings referred to—the OTA study this morning—points that out very graphically.

For nearly 20 years international trade and textiles and apparel has been carried out under a framework of rules and procedures governed by the Multi-Fiber Arrangement (MFA). I do not really need to remind the members of this committee that this agreement is sanctioned by the GATT but not consistent with the basic GATT principles of most-favored nation treatment.

During the 1980's alone, textile and apparel imports into the U.S. market tripled from 5 billion square yard equivalents to over 15 billion square yard equivalents. Import penetration more than doubled. And, Mr. Chairman, I have with me some figures that differ significantly from those figures given by Ambassador Sorini; and I would like to submit those for the record.

Senator MOYNIHAN. Please do. We welcome that kind of data.

[The figures appear in the appendix.]

Mr. FRIERSON. We show market penetration in the apparel and apparel fabric area at 58 percent.

Senator MOYNIHAN. There is a genuine difference in opinion here, isn't there?

Mr. FRIERSON. I am not sure I would agree. But I think there always is confusion when you are looking at numbers. But if we are looking at apparel and apparel fabric, I think all one has to do is to walk in some stores around Washington and count a little bit and see what you see. But ours are based on U.S. Government data; and I would like to submit those for the record.

Senator MOYNIHAN. Please do. But the Chair wants to insist that it is not usual—I have been 30 years at this matter—and it is not usual to have this wide a discrepancy between what the industry thinks, what the trade unions think, and what Government thinks. It is not normal. I am not comfortable with it. But go ahead.

Mr. FRIERSON. I would agree with you, sir. I would point out that even the figures he presented showed almost a doubling over a 10-year period.

Senator MOYNIHAN. That is right.

Mr. FRIERSON. Certainly our trend lines are in the same direction, even though the figures do differ.

The causes of high import growth are not due solely to the shortcomings of the MFA itself. The European Community, as has already been pointed out, during the 1980's experienced much slower import growth from their MFA control suppliers than did the United States. The problem also lies with the failure of the U.S. Government to rigorously implement the provisions of the MFA. The failure is to due to a number of reasons.

A widespread perception in the executive branch that the U.S. textile and apparel industry is highly protected and additional protection is not necessary. I would say that is the worst of both worlds. We are tarred with the brush of being protected, but not provided the protection as the numbers that we have just talked about so indicate.

The failure also comes from geo-political factors, such as those which have led permitting the Peoples Republic of China to rapidly become one of our largest suppliers of textiles and apparel. And Senator Helms very graphically pointed out the problems there. Many of the products coming into this country from China obviously are produced in environmental and working conditions that simply would not be allowed in this country; and we feel something should be done about that.

Also, there is a basic belief in a free-trade philosophy, which obviously doesn't exist in the real world. And a belief in pursuing such policies, even when the international rules exist for more regulated and managed change.

Well what have we done as an industry to deal with the problem of imports? I have referred to the OTA study already. Our near 4 percent productivity annual growth in textiles is four times greater than the service industry and significantly better than the average for all manufacturing. We are developing a quick response program, working more closely with our customers on quality and delivery, to provide the customer the product he desires when he wants it.

Associated with this endeavor is our "Crafted with Pride in USA" program with which I am sure you are all familiar. Also, our

export initiatives are producing results, with close to $6 billion in exports last year, a 14-percent increase from 1988. We have tried to get our government to police the unfair trade practices which exist in the textile and apparel trade through the filing of over 20 countervailing duty and dumping cases against supplying countries. Even while these countries defy our trade laws, they set up their own barriers to keep our products out of their markets.

I know this committee is very familiar with the list of trade barriers which exist from other countries. Here is the most recent compilation of them from the Department of Commerce. There are 243 pages. I would like to submit that as well.

Senator MOYNIHAN. The committee will accept the document. We will not place it in the record as it has been printed. The trade balance is bad enough as it is. We probably bring the ink in from somewhere else.

Mr. FRIERSON. I would concur. Thank you, sir.

We began discussions with the Bush administration in early January 1989 to see whether this administration would act more effectively to solve the import problem. We recommended that our government use the tools available to it under the MFA, such as the EC did successfully in the 1980's in addressing its similar problem. This approach has produced no results.

Moreover, our government has not offered us any assurances that our problem will be dealt with satisfactorily in the Uruguay round. In fact, there is growing concern that we will become the sacrificial lamb in these trade talks so that other U.S. trade objectives can be achieved. This is why we are again asking Congress to enact legislation that will effectively solve the textile trade problem once and for all.

This legislation which many of you are cosponsoring, the Textile, Apparel, and Footwear Trade Act of 1990, S. 2411, will provide this industry with the import control vitally needed to keep our jobs and keep them in America. It, in fact, supports the position our government has tabled in Geneva as the U.S. position on textiles in the Uruguay Round. It proposes, as does the administration's Uruguay position a global quota to deal with the problem.

S. 2411 we feel is consistent with Article 19 of the GATT. This proposed legislation is effective and fair. It does not single out or exempt individual countries, other than those with whom we have free trade agreements. It provides the administration considerable flexibility. It is not inflationary since there are no rollbacks in trade, and quota compensation is provided.

In closing, I urge this committee to report S. 2411 out of committee at an early date. We ask for the import control we need to give our 2 million workers hope, jobs, a decent living, and to give us a reason to invest in the future of our industry and our country.

Thank you, Mr. Chairman.

Senator MOYNIHAN. We thank you, Mr. Frierson. I think that we can promise you a very prompt consideration of this measure which has great support on this committee and has in the Congress.

[The prepared statement of Mr. Frierson appears in the appendix.]

Senator MOYNIHAN. Dr. Starobin, would you proceed? May I note for the record that you are representing Jay Mazur. Give the Chair's regards to my fellow New Yorkers. Would you proceed, sir?

STATEMENT OF HERMAN STAROBIN, DIRECTOR OF RESEARCH, INTERNATIONAL LADIES' GARMENT WORKERS' UNION, NEW YORK, NY

Dr. STAROBIN. Mr. Mazur asked, Mr. Chairman, that his complete testimony be entered into the record and that I just summarize that testimony here.

Senator MOYNIHAN. It will be done just so.

Dr. STAROBIN. Thank you.

[The prepared statement of Mr. Mazur appears in the appendix.]

Dr. STAROBIN. S. 2411 is the third attempt by Congress to save the apparel and textile industries from the ravages of imports. Bills passed overwhelmingly in 1985 and 1988 were vetoed by President Reagan. Following each veto apparel imports continued to soar and employment dropped. Time proved the President wrong and the Congress right.

Congressional action is now more critical than ever. In earlier years the damage to the domestic industry was the result of the Government's policy in which each country's quota was negotiated without regard to the cumulative impact of all of the agreements on the U.S. industry. Now new developments cloud the horizon.

The apparel and textile industries are being used by the U.S. Government as bargaining chips of the Uruguay Round of GATT negotiations to obtain its GATT goals, opening trade opportunities abroad in services, banking and insurance and protection of intellectual property. While U.S. Government proposals have yet to be flushed-out with numbers, the administration is looking to a phase out of MFA quotas at the end of a 10-year period, a period of transition, with quotas growing at an accelerated pace as the transition winds down.

While the original administration proposals seemed to support the concept of a global import quota for each product during the transition period, it has been undercut in the process of clarification. Outward processing, that is assembly abroad of garment parts cut from U.S. origin fabric, would be excluded from the global quota as would shipments from countries with which the United States has free trade agreements.

The negative response to the U.S. proposal from its GATT partners suggests that it will fall by the wayside. The most likely alternative appears to be some form of a renewal of a multi-fiber arrangement which expires on July 31, 1991, but under greatly liberalized terms. This could have a devastating impact on the domestic apparel industry and its workers.

There is a myth going around that apparel exports can solve the industry's problem. However, about three-fourth of the U.S. exports of apparel are merely cut fabric parts leaving the country for assembly abroad. Exports of completed garments are minuscule, around 1 percent of U.S. production.

The rapid growth of apparel imports from the CBI and Mexico has also been a major problem. Helping our southern neighbors is

worthwhile, but U.S. Government policy has merely created a low-wage factory area for U.S. apparel companies. Profits are typically repatriated to the United States and little contribution is made to the development of local economies and local infrastructures. Exclusion of outward processing from a comprehensive system or any other action to boost CBI and Mexican imports without offsetting cuts elsewhere portends disaster for American garment workers.

When U.S. garment parts are assembled abroad, 95 percent of the jobs are exported and only 5 percent remain here. The plight of the domestic industry is severe because of how successive administrations have implemented MFA. Apparel imports in square meters of fabric used in their manufacture are now 3½ times their 1973 level when MFA started and 2½ times the level in 1980 when the Reagan/Bush administration took office. They rose 14.3 percent in 1989 and are 6.9 percent higher in the first 3 months of 1990.

Employment in the apparel industry is down by 400,000—one-third of the work force since MFA was first negotiated in 1973. Job losses this year are growing more severe with each passing month.

S. 2400 is critical to the preservation of the apparel industry. It sets a 1-percent annual growth for apparel and textile imports, the only way to keep imports in line with domestic consumption growth, and to prevent further job loss. It sets genuine global quotas that include outward processing. It limits duty cuts of the Uruguay Round to 10 percent for apparel and textiles.

Apparel jobs are essential to the United States. They are among the few work opportunities we have for minorities, immigrants and many others who are prevented by language, cultural and educational barriers from taking other jobs in the labor market.

Thank you, Mr. Chairman.

Senator MOYNIHAN. Thank you Dr. Starobin.

Senator Heinz and Senator Symms, we have not been making opening statements. But if you would wish to do, you would be very welcome at this point.

Senator HEINZ. Mr. Chairman, I would ask unanimous consent that my statement be placed in the record. I would like to make an observation though.

Senator MOYNIHAN. Would you do, of course.

OPENING STATEMENT OF HON. JOHN HEINZ, A U.S. SENATOR FROM PENNSYLVANIA

Senator HEINZ. First, thank you, Mr. Chairman, for holding this hearing. We all know what has happened to our apparel industry over the last decade. It is, as Dr. Starobin has mentioned due to a woeful record of enforcing the Multi-Fiber Agreement. It is almost at times as if we did not have an agreement. The inability of successive administering authorities to exercise any kind of discipline over the proliferation of uncovered categories is a real scandal.

And now we find that there is massive circumvention, at least there is a very clear record to that effect, of the Peoples Republic of China through Hong Kong, not according to anything that I have cooked up, but according to the advertising done by the Hong Kong Chamber of Commerce or others, in English—it was very kind of them to do so—whereby they point out that Hong Kong

companies now run some 18,000 factories employing 2 million workers in neighboring Guangdong province. And by the way, some of those are also run at the request of American-based companies.

Of course, one of the main things that they make in those factories is garments. These are currently counted against the Hong Kong share, as I understand it. They are not counted against the PRC quota. And as a result we have seen just a continued ratcheting up, higher and higher, of imports from very, very low-wage countries. I do not think any of us feel much better about it, given the human rights situation in China, that at least up until now we blinked at this circumvention and diversion of a very clear understanding.

So I hope, Mr. Chairman—and I see we have a new Chairman—Senator Daschle, who has been following me and I him all over Capitol Hill this morning. We were testifying at a hearing on the House side, hence our arrival at this point. We make a good alibi for each other, Tom.

It seems to me, Mr. Chairman, just in conclusion, that this matter should get the attention of the Congress and I appreciate the testimony of the various people here that we have already heard from and that we will hear from today.

Thank you very much.

[The prepared statement of Senator Heinz appears in the appendix.]

Senator DASCHLE. Thank you, Senator Heinz.

Senator Symms?

Senator SYMMS. Mr. Chairman, I thank you. I do not have a statement now. I would like to go ahead and hear from our witnesses. I thank you for offering. I apologize I was late, but I had a conflicting committee as many of us do this morning.

Senator DASCHLE. It is my understanding that two of our three panelists have already testified so I will call on Mr. Love at this time.

STATEMENT OF MARK W. LOVE, VICE PRESIDENT, ECONOMIC CONSULTING SERVICES, INC., WASHINGTON, DC

Mr. LOVE. Thank you very much. My name is Mark Love. I am vice president of Economic Consulting Services and appear today on behalf of the Luggage and Leather Goods Manufacturers of America. The LLGMA is an association whose several hundred member companies represent the luggage and flat goods industry in the United States and its suppliers. I want to express the appreciation of the industry for the opportunity to appear today.

As is true of the Textile Quota bill, S. 2411, and these hearings, my testimony has an obvious eye to upcoming developments in the Uruguay Round negotiations as they will affect the Multi-Fiber Arrangement or MFA. I do not know what the outcome of these negotiations will be. I do know that a revised MFA or any new agreement should include textile, luggage and flat goods. There is no reasonable basis on which these products could possibly be excluded.

The purpose of my appearance today is to state the industry's concern that the United States may be targeting luggage and flat

goods for exclusion from any new textile agreement. This would be devastating to the industry. And why we believe that it is necessary for us to look at an alternative to these negotiations, which is S. 2411.

We have had until recently only the broadest outlines of what the U.S. Government is seeking to accomplish in Geneva. Yet on May 14 our government tabled an updated submission on its proposed new textile regime. In that U.S. proposal there was only one textile product category specifically cited as an example of products that have been proposed for immediate integration into GATT by participants in the negotiations. That product category was luggage.

It is reasonable to believe that this singular reference to luggage reflects intentions on the part of some in the Executive Branch. This May 14 proposal was, after all, a U.S. Government proposal. Furthermore, there has not been, to our knowledge, any written proposal on textiles submitted by a foreign government that specifically requested that luggage be immediately integrated into GATT.

Now what is the profile of this product that figures so prominently in the most recent U.S. Government proposal? Here I would offer a few points. First, textile, luggage, and flat goods are highly import sensitive and have long been recognized as such in U.S. trade policy. Among other things, these products are exempt from duty-free treatment under GSP and under the Caribbean Basin initiative.

Second, tariffs on 80 percent of luggage and flat goods imports were not reduced at all in the Tokyo Round precisely because these products were deemed to be import sensitive.

Third, the ratio of imports to production for these products is far in excess of 100 percent. More than 10,000 employees have lost their jobs in this industry over the last decade.

Fourth, textile, luggage and flat goods are a significant textile product. The industry consumes more than 20 million pounds of fiber annually.

Fifth, imports of textile, luggage and flat goods increased more than eight fold, from $83 million in 1980 to $612 million in 1989.

Sixth, textile, luggage and flat goods have long been covered by international textile arrangements. They were included in the long-term Cotton arrangement, the precursor to the MFA that went into effect in 1962 and founding fathers of which we have had represented here today.

Finally, luggage and flat goods are currently subject to numerous restraint and consultation levels pursuant to MFA bilaterals now in effect. Nearly 80 percent of imports of textile luggage is now subject to specific limits.

At the same time—and this is to reinforce what Senator Heinz said—so that you don't get an overblown impression of the practical significance of these restraints, the sum of all these restraint levels on luggage is about equal to the entire U.S. market. Thus, the real effect of these restraint levels is quite modest, involving more of a break on massive damaging import surges than actually halting any import growth.

If luggage is a top the list for immediate trade liberalization in Geneva as the U.S. proposal would suggest, then there is surely

reason for great concern on the part of the fiber, textile and apparel industries. If a product such as this, with its history of coverage by international arrangements, its degree of import induced market disruption, its significance as a textile product, and the long-standing recognition of its import sensitivity, if a product such as this is not even to be included in the new textile regime, then what is?

We would have hoped that the proper balance, consistency and principles would govern whatever liberalization in textiles would be negotiated by the United States in Geneva. We, however, have reason to expect the worse. From this perspective, one must conclude that S. 2411 represents the only alternative for the fiber, textile and apparel industries.

Thank you very much.

[The prepared statement of Mr. Love appears in the appendix.]

Senator DASCHLE. We want to thank each of our panel members. We are working under somewhat of a difficult time constraint this morning. So what I intend to do is to leave the record open for questions. Should there be questions for the record, we will submit them and we would appreciate very much your responding to them should the need arise.

Let me thank each of the panel members and call on Senator Symms if he has any comments or response to make to the panelists.

Senator SYMMS. Mr. Chairman, I understand the plight that the Chair is in and I note that we do have three more witnesses so I will submit any questions I have for the record. I thank you gentlemen very much for your testimony.

Senator DASCHLE. Thank you, gentlemen.

Our final panel consists of Mr. Thomas A. Hayes, the president of the May Department Stores; Mr. Eugene Milosh, the president of the American Association of Exporters and Importers; and Mr. Peter Mangione, the president of the Footwear Distributors and Retailers Association here in Washington.

Let me begin my welcoming each of our panel members. We are pleased you could spend some time with us this morning and share with us your thoughts and certainly your expertise in this area. Let me start from my right and call on Mr. Milosh.

STATEMENT OF EUGENE J. MILOSH, PRESIDENT, AMERICAN ASSOCIATION OF EXPORTERS AND IMPORTERS, TEXTILE AND APPAREL GROUP, NEW YORK, NY

Mr. MILOSH. Mr. Chairman, AAEI represents 1,200 importing, exporting, retailing and manufacturing firms and is vehemently opposed to this bill. It is undisputed that quotas impose far higher costs and damage on the U.S. economy than do tariffs and other temporary trade regulations.

Numerous studies have shown that the MFA already costs the U.S. consumers more than $20 billion annually or $240 per average family. Furthermore, the costs of protection are regressive, with the poorest 20 percent of U.S. families experiencing a 3.6-percent decline in their standard of living. Globalization of quotas clearly represents an expansion of the present textile import quota ar-

rangements. The only purpose of this bill is to serve as leverage to prod the administration to obtain as restrictive a textile agreement as possible in the Uruguay Round.

Enactment of this bill would violate U.S. international obligations under both the MFA and GATT, require the United States to abrogate most of its bilateral textile agreements, invite retaliation and substantially limit U.S. chances of liberalizing and opening markets to other sectors under negotiation in the GATT Round.

The permanent quotas S. 2411 would place on all textile and apparel imports from almost all countries would be a significant cutback from current quota levels for many suppliers. It would mean new restraints on supplier countries never before subject to restraint, particularly the EC. The bill would freeze footwear imports at 1989 levels indefinitely. These blatantly protectionist steps would be taken on a pretense that imports are causing serious injury to domestic producers. But the domestic textile, apparel and footwear industries are not suffering serious injury at all, much less because of imports.

A review of the profits of U.S. textile companies shows that they are considerably better than those of retail concerns and other manufacturing sectors. According to one study, textile industry before tax profits, in both 1988 and the first three quarters of 1989 were a healthy 4.6 percent. In addition, domestic textile and apparel shipments are up almost 24 percent between 1985 and 1989, substantially more than the entire manufacturing average.

Similarly, while the capacity utilization rate for all manufacturing averaged 84 percent in 1989 the rate for textiles was extremely impressive at 91.5 percent, up 9.8 percent over 1985. These facts make the textile industries "consumer be damned" attitude all the more offensive.

The domestic footwear industry also cannot claim serious injury. The U.S. Shoe Corp., one of the largest U.S. manufacturers only last month announced it had achieved record first-quarter earnings in 1990. The price, quality and fashion sense of manufacturers, be they domestic or foreign, is what dictates what will sell. Locking out imports will not change that basic reality. It will only increase prices for consumers least able to pay.

The bill is also GATT illegal. It establishes permanent quotas disregarding GATT Article 19 requirements that relief be temporary and tied to domestic industry conditions. In addition, the bill makes a mockery of the compensation requirements of Article 19, limiting the President's authority to reduce tariffs to no less than 90 percent of current rates.

The clear result of enactment of this bill would, therefore, be massive retaliation by U.S. trading partners at the expense of many industries, including especially specialty agriculture.

S. 2411 also requires that 20 percent of the textile and apparel quotas be sold at auction. The combination of cutbacks and restraint levels and new levels of bureaucracy will surely create substantial uncertainty and chaos for U.S. businesses and cause costs to spiral both for importers and consumers.

AAEI also is concerned that an auction system carries with it the very real potential for conferring upon the few companies monopolistic type control of American markets. Small businesses and

U.S. consumers once again would be the losers. The textile industry will tell you it needs this bill in order to adjust to import competition.

What have they been doing for the last 30 years? Was that not the purpose of the temporary protection intended by the MFA in the first place? What do you think they will be telling you 10 years from now? They also will tell you that the MFA has not worked, or that the U.S. Government has failed to enforce its rights under the MFA. And that is clearly not true. There are some 40 bilateral textile agreements and more than 1,000 individual restraints spanning from nightwear from Fiji to sheeting from the Soviet Union.

AAEI proposes a gradual phaseout of the MFA by requiring increasingly higher growth rates until quota levels become irrelevant. The Association urges you to consider this very logical and workable proposal; and to either not report S. 2411 out of committee or report it unfavorably.

Senator DASCHLE. Thank you, Mr. Milosh.

[The prepares statement of Mr. Milosh appears in the appendix.]

Senator DASCHLE. Mr. Hays?

STATEMENT OF THOMAS A. HAYS, PRESIDENT, THE MAY DEPARTMENT STORES CO., ST. LOUIS, MO

Mr. HAYS. Mr. Chairman and members of the committee, good morning. I am Thomas Hays, president of The May Department Stores Co., which owns and operates 13 quality department store divisions around the country—Lord & Taylor in New York, Foley's in Houston, May Co. in Los Angeles, Hecht's here in Washington, Robinson's in Los Angeles, Kaufmann's in Pittsburgh, Famous-Barr in St. Louis, Filene's in Boston, May Co. in Cleveland, G. Fox in Hartford, L.S. Ayers in Indianapolis, May D&F in Denver, and Meier & Frank in Portland. Including our Volume Shoe Corp., the Nation's largest chain of self-service shoe stores, May Co. employs about 115,000 people in 47 States and the District of Columbia and 14 overseas offices.

I am appearing today on behalf of the Retail Industry Trade Action Coalition (RITAC), which is composed of large and small retail companies and their trade associations in the United States. We oppose S. 2411, the Textile, Apparel and Footwear Trade Act of 1990. My written comments have already been submitted for the record, so I will briefly summarize our reasons for opposing this bill.

At the outset, however, I would like to say a few words about the retail industry. Retailers employ nearly 20 million people or roughly 18 percent of the work force. Our annual sales are over a trillion dollars, constituting a third of the Nation's gross national product. To remain competitive and to keep our people employed, retailers must find merchandise that offers value to American consumers at a price they can afford to pay. We prefer domestically produced goods to imports; in fact, we buy them every time we can. But when domestic sources are unavailable, overseas manufacturers often help us meet customer demand.

Our industry is customer driven: the customer, not the retailer, ultimately determines what sells and what stays on the shelf. This

means that the market is subject to constant change. For a retailer to stay in business, we must anticipate the market's direction and meet customer demand.

Our concerns with S. 2411 are four-fold. First, the bill would seriously jeopardize our ability to serve our customers. By restricting U.S. textile and apparel imports to 1989 levels, with a mere 1 percent growth thereafter, the bill would severely disrupt our efforts to follow changes in market demand.

I can tell you that the availability of children's wear and lower priced items in particular, as well as footwear, would be substantially reduced, if not eliminated. Moreover, as foreign manufacturers change their product mix to adjust to the new quota limits, they will concentrate on producing higher priced items. As a result, many lower priced items simply will not be available, and those items that will be available will be too expensive for those who live on a limited budget.

Second, the enactment of this bill would invite retaliation and violate our international obligations. In the past, the European Community and other governments have indicated they would retaliate if textile quota legislation were enacted. This would be particularly devastating to farm families in the Midwest.

Third, the additional protection this bill provides is simply unnecessary. The fact is that the domestic textile industry is prospering. For the textile industry as a whole, profits have been up and are substantially above retail sector returns. Textile and apparel production has risen smartly since 1985 and industry sales are at an all time high. Capacity utilization for the industry is an astonishing 91.5 percent. Exports by the industry increased last year a full 27 percent over 1988 levels.

I should note that existing protection for the textile industry—consisting of extremely high import tariffs and a web of bilateral restraint agreements—already costs the American family, as we have just discussed, $240 a year. In fact, 76 percent of all textile and apparel imports from countries restricted by quotas are already subject to annual growth caps under the existing MFA and bilateral agreements; the remaining 24 percent are subjected to "consultation calls" at any time.

Economist William Cline estimates that, even with no change in protection, consumer costs in apparel will escalate to an additional $31 billion by the year 2000, due to growth in the market. With the 1-percent growth cap proposed by S. 2411, it would raise the cost further to a total of about $74 billion in the year 2000.

In fact, if this bill were enacted, over the course of the 1990's consumers would be forced to pay a total textile tax of nearly $500 billion, or roughly the same amount that the S&L crisis is now predicted to cost taxpayers.

With respect to footwear, according to a recent report by the U.S. International Trade Commission, imports in 1989 fell to their lowest level since 1985. Freezing footwear imports at 1989 levels would impose a tremendous restriction on product availability and price.

And while the consumer foots the bill for all this unnecessary protection, the retail industry would lose roughly 50,000 jobs because of reduced supply and increased prices.

Finally, enactment of the bill would undermine this committee's successful efforts to produce positive trade legislation in 1988. We commend the committee for producing an omnibus trade bill in 1988 that furthers our goal of establishing an open trade environment. At the outset of the hearings on trade reform, RITAC urged Congress to produce positive trade legislation that did not provide sectors—or country—specific relief from import competition. Enactment of the Textile Quota Bill would not only undermine your accomplishment, but would also jeopardize the multilateral trade talks that are now underway in the GATT.

In conclusion, Mr. Chairman, I ask your committee to analyze carefully the alleged need for this legislation. As a matter of fact, on March 19, 1985 the domestic textile industry claimed that if Congress did not act to curb imports at that time," in 5 years the entire industry and 4 million jobs that depend on it would simply cease to exist." Well, the 5 years have passed and the industry is thriving—increased profits, record sales, and factories running at virtually full capacity. This bill is fundamentally flawed.

It is not a modest measure. It is time for Congress to stop doling out even more protection to a healthy industry. It is time for Congress to say, "Enough is enough."

Thank you.

Senator DASCHLE. Thank you, Mr. Hays.

[The prepared statement of Mr. Hays appears in the appendix.]

Senator DASCHLE. Mr. Mangione?

STATEMENT OF PETER T. MANGIONE, PRESIDENT, FOOTWEAR DISTRIBUTORS AND RETAILERS ASSOCIATION, WASHINGTON, DC

Mr. MANGIONE. Thank you, Mr. Chairman. My name is Peter Mangione and I am president of the Footwear Distributors and Retailers of America. Our group represents the Nation's chain shoe stores—some 20,000 units, accounting for more than half of all retail shoe sales nationwide. We also represent major footwear marketing firms, including many of the Nation's leading footwear brands.

We oppose the protection for nonrubber footwear manufacturers provided for in the bill. There are many reasons. The U.S. nonrubber footwear manufacturing industry does not need the extraordinary protection afforded by the bill. After many years of decline and adjustment in response to style changes and foreign competition, U.S. production has remained fixed at about 225 million pair for 4 consecutive years.

This is the profile of an industry of survivor competitors in the world market, not an industry in need of permanent protection. It is in many respects a success story. Indeed, the industry has increased sales from $3.5 billion in 1986 to $4.1 billion in 1989, a more than 17 percent growth. It does not make economic sense to protect a successful industry that has met competition and is now growing.

U.S. manufacturing companies have concentrated on products that can be manufactured domestically and marketed in the face of foreign competition which is invariably lower prices. U.S. firms have focused on brand names, size, fit and nitch marketing. In the

areas where they presently operate U.S. shoe manufacturers are highly competitive and in no need of protection. On the other hand, the relatively high cost of U.S. production means that U.S. producers could not make shoes in low price areas that would be kept out by the bill.

Also, the so-called ceiling on imported shoes at the 1989 level is in reality an intricate maze of some 38 quotas based on type, gender and price. The bill would freeze consumption patterns at 1989 levels, creating a mass of new regulations that would strangle shifts in consumer demand, even if those demands were within the 1989 aggregate level.

For instance, the 19 quota categories for footwear under $2.50 would become increasingly irrelevant as inflation and currency fluctuation force F.O.B. prices above that extraordinarily low level. Large amounts of quota created by the bill would thus be unusable and huge quota rents would be created as the demand for footwear over $2.50 F.O.B. increased in the face of quota limits.

This means higher prices for consumers; and worst of all a scarcity of lowest price items relied upon by our poorest citizens and only available from foreign sources.

It is no exaggeration to say that if this type of law had been in effect in the early 1980's that there probably would not have been the explosion in athletic footwear that now accounts for 40 percent of all shoes sold in America. Imports created this demand by their high quality, fashion responsiveness, and attractive prices. Freezing consumer consumption patterns based on 1 year's trade, as the bill does, is a prescription for disaster for consumers.

Indeed, in 1989 nonrubber footwear imports are more than 10 percent or 80 million pair below the highest level of such imports in 1986. This is due to the fashion shift away from nonrubber footwear into rubber canvas footwear which is not controlled by the bill. When fashion shifts away from rubber fabric and back to more traditional nonrubber styles the bill would prohibit that growth. This would create no opportunity for U.S. manufacturers since virtually all of the growth is in the area of athletic and low-priced footwear, areas where U.S. production is virtually nonexistent.

In sum, it is difficult to understand why there is need to help U.S. shoe manufacturers whose business has grown, while subjecting American export industries to retaliation and harming U.S. consumers, particularly low-income consumers who are dependent on foreign products as their only source of most of their shoes.

We urge the committee to reject the footwear provisions of the bill and would be happy to answer any questions.

[The prepared statement of Mr. Mangione appears in the appendix.]

Senator DASCHLE. Mr. Mangione, Mr. Hays, Mr. Milosh, thank you very much. I would reiterate what I said to the last panel. Given our restraints on time, we won't have any questions orally, but we will certainly submit them for the record and would encourage your response should the need arise.

Senator DASCHLE. Let me again thank you and call on Senator Symms for any concluding remarks he may make.

Senator SYMMS. Mr. Chairman, I appreciate all of the witnesses that testified this morning; and that we are having this hearing. I

think it is no secret to most of the witnesses that although I come from the Pacific Northwest, where we do not have much of a textile industry we are not insensitive to those people that are concerned about its future, because we also have our parochial problems. But we also are very concerned about the threat of retaliation on the U.S. agriculture industry that exports its products to the Pacific Rim.

So I want to study this issue very carefully. But I would hope that we can at least work very carefully with the administration to prevent jeopardizing U.S. trade policy in the Uruguay Round. I hope this committee will consider all aspects of this legislation. The concerns of the people, who have testified here about industries that they feel are threatened by foreign competition, and the U.S. position of the Uruguay Round, where we are trying to get a level playing field and open up markets for many products must be taken into consideration.

So I hope that the administration, the textile industry, and others can work together on this so that we do not go back into a rapid move on this bill. Although I see that 55 of our colleagues are sponsoring it, I think there are some people from my part of the country that are very concerned, particularly the exporters of soft white wheat, peas and lentils, the people in the produce industry that export to the Pacific Rim. We are very concerned about this legislation's impact on the potato trade.

So I will have some questions I want to submit for the record about how it will impact specific countries that are big trading partners with the agriculture community, and particularly, specifically, the Pacific Northwest. We will submit those for the record to USTR and to some of the other witnesses.

[The questions appear in the appendix.]

Senator SYMMS. But I want to thank all the witnesses that were here on both sides of this, what I consider to be a very important issue; and I will try to keep a very positive, open mind on the entire subject.

Thank you.

Senator DASCHLE. Thank you, Senator Symms.

I want to thank all of our witnesses on behalf of the entire committee for their excellent testimony.

With that, the hearing stands adjourned.

[Whereupon, the hearing was adjourned at 12:02 p.m.]

APPENDIX

Additional Material Submitted

Prepared Statement of Daniel K. Frierson

My name is Daniel K. Frierson. I am chairman of the Fiber, Fabric & Apparel Coalition for Trade and past president of the American Textile Manufacturers Institute. I am also chairman and chief executive officer of Dixie Yams, Inc., a textile manufacturer headquartered in Chattanooga, Tennessee. Today I am speaking on behalf of America's textile, apparel, fiber and footwear industries, their unions and their more than two million workers nationwide.

The problems of these industries and their workers are familiar ones to this committee. Indeed, the loss of 1,500 production facilities, 400,000 jobs and 750,000 job opportunities to foreign nations since 1980 has become the major part of a national concern for the decline in American industry and American business opportunity generally.

If a strong and viable manufacturing industry is *essential* to American competitiveness and our standard of living—and I believe that it is—then a solution to this nation's textile trade problem should be of the utmost priority.

The U.S. textile and apparel industry is still the *largest* employer in the manufacturing sector in the United States, with over two million workers in the fiber, textile and apparel complex. The industry's contributions to GNP exceed $50 billion, which places it ahead of such other basic manufacturing industries as primary metals, automobiles, paper and chemicals, and only slightly behind aerospace.

Add to the textile figure the GNP of supplying industries such as chemicals, paper, power and a wide range of service industries, and it is clear our industry's impact on the economy is important.

I want to stress, also, that the problem of textile trade is not one brought about by our doing. Quite the contrary. In fact, we have done much as an industry to deal with the import problem in ways in which we are able to do so. I'll come back to this in a minute.

For nearly 20 years, international trade in textiles and apparel, has been carried out under a framework of rules and procedures governed by the Multifiber Arrangement (MFA)—I don't really need to remind the members of this committee—an international agreement sanctioned by the GATT but not consistent with the basic GATT principles of most favored nation treatment.

During the 1980s alone, textile and apparel imports in.to the U.S. market tripled from 5 billion square yards to nearly 14 billion square yards. Import penetration during this period doubled. Import growth averaged 12% per year while our market was growing at about 1% per year. This subsequent loss of market share and jobs has occurred in spite of the MFA's objective of non-disruptive import growth.

But, the causes of the high import growth are not due solely 'to shortcomings of the MFA itself. The European Community during the 1980s experienced much slower import growth from their MFA-controlled suppliers than did the U.S. The problem also lies with the failure of the U.S. government to *rigorously* implement the provisions of the MFA.

This failure is due to a number of reasons:

1. A widespread perception in the Executive Branch that the U.S. textile and apparel industry is already highly protected and additional protection is not necessary; I would only suggest to those of our critics who maintain the we are so protected to look at the bottom line as we have to: 60% of our domestic apparel and apparel fabric and yarn market is now foreign sourced; and this part of our industry is at

extreme risk. Imports of these products have tripled in the past ten years. Is this protection?

2. There is also a belief that many of the debtor LDC's must be allowed to ship textiles and apparel to the U.S. in order to earn foreign exchange; and in some instances we now see where these debts are being forgiven in return for a barter for textiles.

3. Geopolitical factors, such as those which have led to permitting the People's Republic of China to become our largest supplier of textiles and apparel; and,

4. A basic belief in a free trade philosophy, which does not exist in the real world, and pursuing such policies even when international rules exist for more regulated and managed trade.

What *have* we done as an industry to deal with the problem of imports?

—Our nearly 4% per year productivity growth in textiles is *four* times greater than the service industry and 1% better than the average for all manufacturing industries. We have achieved this kind of productivity by reinvesting *80%* of our retained earnings in new plant and equipment, at an annual rate of almost $2 billion.

—We are a very competitive industry within the U.S.

—We do not pay excessive wages. They are slightly below the all manufacturing average.

—We are developing a quick response program working more closely with our customers on quality and delivery to provide the consumer the product he desires when he wants it. Associated with that endeavor is our "Crafted With Pride in USA" message which you have probably seen on TV shows.

—Also, our export initiatives are producing results, with close to $6 billion in exports last year—a 14% increase from 1988.

—We have tried to work within the context of the MFA and the bilateral textile agreements that emanate from it and have urged our government to more rigorously enforce and implement the MFA and the bilateral agreements.

—We have tried to get our government to police the *unfair* trade practices which exist in world textile and apparel trade; through the filing of over 20 countervailing duty and dumping cases against supplying countries. Even while these countries defy our trade laws, they set up their own barriers to keep imports out of their markets. I know this committee is very familiar with the list of trade barriers which exist from other countries. Here is the most recent compilation of them from the Department of Commerce. There are 243 pages of barriers listed.

With the change of administration, we began anew our efforts to work with the Executive branch on this problem. We began discussions with the Bush Administration in early January 1989, to see whether this Administration would act more effectively to solve' the import problem. We recommended that our government use the tools available to it under the MFA, such as the EEC did successfully in the 1980s in addressing its similar problem. This approach produced *no* results.

Moreover, our government has not offered us any assurances that our problem will be dealt with satisfactorily in the Uruguay Round negotiations. In fact, there is growing concern that we will become the sacrificial lamb in these trade talks, so that other U.S. trade objectives can be achieved.

This is why we are again asking the Congress to enact legislation that will effectively solve the textile trade problem once and for all.

This legislation which many of you are co-sponsoring, the Textile, Apparel & Footwear Trade Act of 1990, S. 2411, will provide this industry with the import control vitally needed to keep our jobs and keep them in America.

It, in fact, supports the position our government has tabled in Geneva as the U.S. position on textiles in the Uruguay Round in its basic concept. It proposes, as does the government's Uruguay position, a global quota to deal with this problem.

The bill's key provisions include:

- Total, global limits will be established for each product category;
- Each quota category will be based on those record-setting 1989 levels. There will be no rollbacks in trade;
- An allowance of one percent annual import growth, a rate that is compatible with the historical growth of the domestic market;
- The Secretary of Commerce is to give priority in the quota allocation to countries that increased their commercial purchases of U.S. agricultural products in the previous year.
- Compensation for these quotas are in the form of tariff cuts on products covered under the bill.

• This bill will not target specific nations or regions. And it will allow the Administration to exercise discretion and flexibility in its implementation. Textile agreements can be continued, re-negotiated or terminated in an orderly manner.

• Canada and Israel, with which the United States has free trade agreements, are exempted from the global quota;

• Caribbean Basin imports are specifically not to be reduced, they will be maintained at current levels;

• The operation of the Act will be reviewed by the Secretary of Commerce after 10 years and the findings reported to the Congress;

• And S. 2411 is consistent with Article XIX of the General Agreement on Tariffs and Trade.

This proposed legislation is effective and fair. It provides the Administration considerable flexibility. It is not inflationary since there are no rollbacks and quota compensation is provided. It will not provoke retaliation. It allows us to honor our existing agreements.

Clearly, the approach taken by this bill demonstrates this industry's interest in working with the Administration, Congress and other interested parties toward the goal of passing responsible legislation.

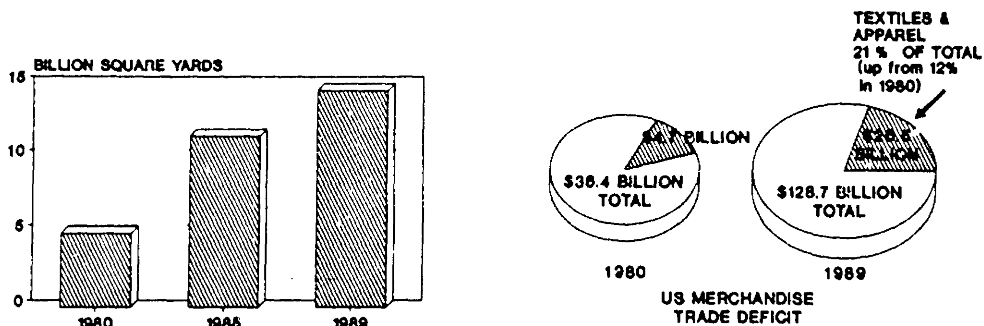
And clearly, actions taken the past year by Administration officials and others, however well intended, have done little to solve the textile, apparel, and footwear import problems. We have documented this and other points I have made today in charts and graphs which are attached. I ask that these be made a part of my testimony.

In closing, I urge this committee to report S. 2411 out of committee at an early date. Our industry hasn't given up on itself. We ask that this committee and this Congress not to give up on us. We are willing and able to make a contribution to U.S. competitiveness. But, our contribution must be based on the certainty that our domestic market will not be overwhelmed by imports.

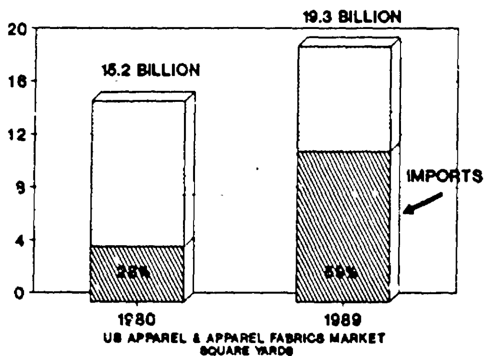
We ask for the import control we need to give our two million workers hope, jobs, a decent wage, and to give us a reason to invest in the future of our industry and our nation.

Thank you.

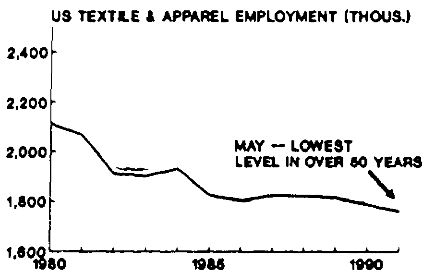
TEXTILE AND APPAREL IMPORT PROBLEM WORSENS



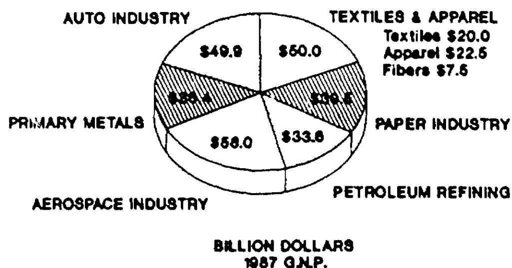
o 1989 was a record year for textile and apparel imports. The textile and apparel trade deficit was also a record, as well as a record share of the U.S. deficit.



o U.S. market for textiles and apparel grows slowly -- import share soars.

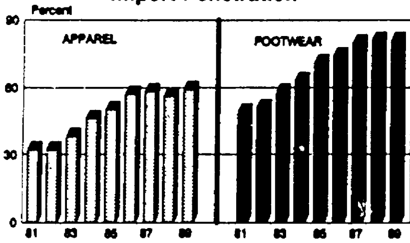


o U.S. jobs and job opportunities fleeing to Asian and other foreign suppliers.



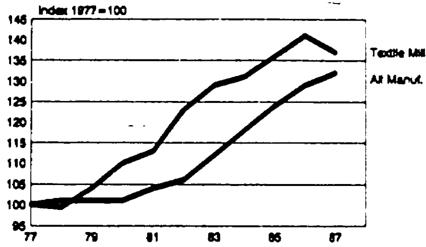
o Legislation is essential to curb damage: industry is a major GNP contributor.

Apparel To Follow Footwear's Path? Import Penetration



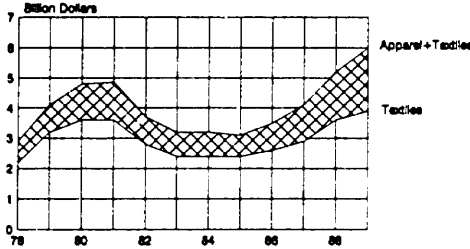
- *The footwear industry is 81% import impacted, up from 50% eight years earlier. Apparel imports are tracking footwear imports.*

Textiles Lead In Productivity Growth



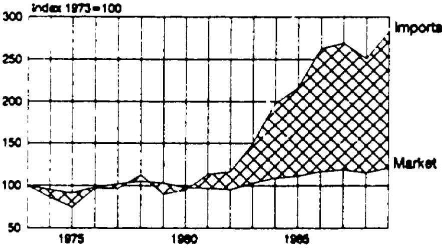
- *Mills continue to invest over $2 billion a year in modernization. The resultant better than average productivity growth has sharpened its competitiveness.*

U.S. Textile and Apparel Exports



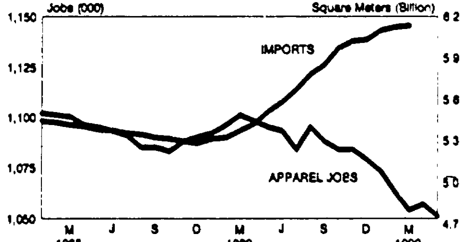
- *Export initiatives have boosted exports of textiles to $4 billion and apparel to $2 billion, both record highs. Further growth is possible if foreign import barriers are removed.*

Textile Import Growth Has Been Unrelated To Market Growth



- *Textile and apparel import growth has far exceeded modest market growth since 1980, despite the Multi-Fiber Agreement.*

Apparel Imports Take Their Toll: U.S. Employment Plunges



- *The most recent import surge has reduced apparel to their lowest level since 1945.*

NON-APPAREL TEXTILE MARKET IN SQUARE YARDS

	1	2	3	4	5	6	7	8	9
	U.S. NON-APPAREL OUTPUT	THREAD, HOME YARN	LESS PIECE GOODS	ROPE, CORDAGE	EXPORTS	IMPORTS OF MADE-UP GOODS	U.S. MARKET	NON-APPAREL FABRIC, YARN IMPORTS	IMPORT MARKET SHARE %
			(MILLION SYE)						
1973	13,778	133	1,198	1,307	322	358	14,056	453	5.8%
1974	13,328	101	1,257	1,317	422	315	13,383	361	5.1%
1975	12,636	118	1,270	1,282	320	227	12,673	249	3.8%
1976	13,620	129	1,244	1,298	374	329	13,758	339	4.9%
1977	14,090	147	1,194	1,301	366	327	14,305	379	4.9%
1978	14,308	164	1,063	1,386	376	398	14,817	386	5.3%
1979	14,199	159	904	1,399	462	413	14,804	238	4.4%
1980	13,413	143	814	1,195	566	403	13,774	239	4.7%
1981	12,941	129	818	1,220	502	490	13,460	309	5.9%
1982	11,895	125	703	1,172	406	579	12,662	295	6.9%
1983	12,862	134	603	1,259	548	1,093	14,197	419	10.7%
1984	13,005	123	574	1,379	556	1,674	15,051	585	15.0%
1985	12,867	119	516	1,356	422	1,933	15,337	585	16.4%
1986	13,280	131	463	1,397	516	2,164	15,993	744	18.2%
1987	13,703	126	440	1,411	604	2,255	16,451	680	17.8%
1988	13,792	124	396	1,383	772	2,073	16,204	663	16.9%
1989 est	14,000	120	380	1,400	900	2,362	16,602	760	18.8%

Column 1 = "Cotton Counts Its Customers": NCAA
Column 2 = 50 percent of Thread and Yarn for home use
Column 3 = Reflects removal of 80 percent of retail piece goods from non-apparel markets; moved to apparel markets
Column 4 = CCIC End use group 82 x 7.8 sy per pound
Column 5 = USDA exports in pounds x 2 sy per pound
Column 6 = USDC "made-up and miscellaneous goods"
Column 7 = Columns 1 + 2 - 3 + 4 - 5 + 6
Column 8 = Approximately 17 percent of imports of fabric and yarn
Column 9 = (Col 6 + Col 8)/Col 7

Note: Data reflect cotton, wool, manufactured, and other vegetable fibers.

March 1990

APPAREL MARKET IN SQUARE YARDS

	1	2	3	4	5	6	7
	U.S. OUTPUT OF APPAREL	HOSIERY, SWEATER, THREAD, & PIECE GOODS	APPAREL EXPORTS	APPAREL IMPORTS	U.S. APPAREL MARKET	APPAREL FABRIC, & YARN IMPORTS	IMPORT MARKET SHARE %
			(MILLION SYE)				
1973	10,244	3,348	128	2,090	15,554	2,224	27.7%
1974	9,910	3,187	184	1,937	14,850	1,798	25.1%
1975	9,265	3,203	185	2,077	14,360	1,273	23.3%
1976	9,770	3,478	234	2,449	15,483	1,869	27.9%
1977	10,497	3,360	279	2,466	16,044	1,804	26.6%
1978	10,379	3,245	311	2,905	16,218	2,051	30.6%
1979	10,431	3,142	522	2,671	15,722	1,317	25.4%
1980	10,290	2,955	886	2,884	15,243	1,359	27.8%
1981	9,924	3,237	893	3,136	15,404	1,840	32.3%
1982	9,896	2,957	594	3,382	15,641	1,679	32.4%
1983	9,839	3,022	394	3,874	16,341	2,319	37.9%
1984	9,924	2,975	397	4,707	17,209	3,252	46.3%
1985	9,643	2,889	395	5,347	17,484	3,214	50.0%
1986	9,822	2,985	501	6,325	18,631	4,210	56.6%
1987	9,802	2,960	637	6,603	18,728	4,215	57.8%
1988	9,460	2,909	700	6,311	17,980	3,768	56.1%
1989 est	9,900	2,900	800	7,235	19,235	3,993	58.5%

Column 1 = "Cotton Counts Its Customers": NCCA
Column 2 = "Cotton Counts Its Customers", Amended to add Hosiery, Sweaters, 80 percent Retail Piece Goods, and Thread
Column 3 = ATMI estimate from Census Reports
Column 4 = U.S. Department of Commerce
Column 5 = Col 1 + Col 2 - Col 3 + Col 4
Column 6 = Approximately 83 percent of textile imports of fabric and yarn
Column 7 = (Col 4 + Col 6)/Col 5

Note: Data relect cotton, wool, manufactured, and other vegetable fibers.

March 1990

THE U.S. TEXTILE MARKET IN SQUARE YARDS

	1	2	3	4	5	6	7
	U.S. OUTPUT OF APPAREL & NON-APPAREL GOODS	ADDITIONS TO PRODUCTION IN COLUMN 1	EXPORTS INCLUDED IN 1 & 2	IMPORTS OF APPAREL & MADE-UP GOODS	U.S. TEXTILE MARKET	IMPORTS OF FABRIC & YARN	IMPORT MARKET SHARE %
			(MILLION SYE)				
1973	24,022	3,591	450	2,448	29,611	2,677	17.3%
1974	23,238	3,349	606	2,252	28,233	2,159	15.6%
1975	21,901	3,333	505	2,304	27,033	1,523	14.2%
1976	23,410	3,660	608	2,778	29,240	2,208	17.1%
1977	24,587	3,614	645	2,793	30,349	2,183	16.4%
1978	24,687	3,732	687	3,303	31,035	2,436	18.5%
1979	24,630	3,796	984	3,084	30,526	1,555	15.2%
1980	23,703	3,480	1,452	3,287	27,018	1,597	16.8%
1981	22,865	3,768	1,395	3,626	28,864	2,149	20.0%
1982	21,791	3,551	1,000	3,961	28,303	1,974	21.0%
1983	22,701	3,811	942	4,967	30,537	2,738	25.2%
1984	22,929	3,904	953	6,381	32,261	3,837	31.7%
1985	22,510	3,848	817	7,280	32,821	3,799	33.8%
1986	23,102	4,050	1,017	8,489	34,624	4,954	38.8%
1987	23,505	4,057	1,241	8,858	35,179	4,895	39.1%
1988	23,252	4,021	1,472	8,384	34,185	4,431	37.5%
1989 est	23,900	4,040	1,700	9,597	35,837	4,753	40.0%

Column 1 = "Cotton Counts Its Customers": National Cotton Council of America
Column 2 = Additions to above source, including sweaters, hosiery, thread, cordage (ATMI)
Column 3 = Exports of finished garments, homefurnishings, rope, etc. (ATMI)
Column 4 = Source: Office of Textiles and Apparel, USDC
Column 5 = Col 1 + Col 2 - Col 3 + Col 4
Column 6 = The amount of imported yarn and fabric used in the production of finished goods in columns 1 and 2; Office of Textiles and Apparel, USDC
Column 7 = (Col 4 + Col 6)/Col 5

Note: Data reflect cotton, wool, manufactured, and other vegetable fibers.

PREPARED STATEMENT OF THOMAS A. HAYS

Mr. Chairman and Members of the Committee: I am Thomas A. Hays, President of The May Department Stores Company. The May Department Stores Company is one of the largest department store companies in the country, operating 295 quality department stores in 29 states and the District of Columbia, including Lord & Taylor, New cork City; Foley's, Houston; May Company, Los Angeles, California; Hecht's, Washington, D.C.; Robinson's, Los Angeles; Kaufmann's, Pittsburgh; Famous-Barr, St. Louis; Filene's, Boston; May Company, Cleveland, Ohio; G. Fox, Hartford; L.S. Ayers, Indianapolis; May D&F, Denver; and Meier & Frank, Portland, Ore. In addition, May operates and is aggressively expanding Volume Shoe Corporation, the nation's largest chain of self-service family shoe stores, which operates principally under the trade name Payless ShoeSource. There are 2,765 Payless ShoeSource stores in 4 states and the District Columbia. In total, May Company employs approximately 115,000 people in 47 states, the District of Columbia and 14 offices overseas.

I am appearing today on behalf of RITAC—The Retail Industry Trade Action Coalition. RITAC is composed of large and small retail companies and retail associations whose member companies employ over one million Americans, with stores in all 50 states. We oppose enactment of S. 2411, the Textile, Apparel, and Footwear Trade Act of 1990.

Our concerns are fourfold. First, retailing is a vital and highly competitive sector of the economy whose survival depends upon meeting customer demand. By artificially restricting access to imports even further than under present law, the bill would jeopardize our ability to serve our customers. Second, enactment of this draconian legislation would invite retaliation, violate our international obligations under the Multifiber Arrangement and the 40 bilateral textile agreements negotiated pursuant to it, and undermine our nation's efforts to secure a more open trading system through the Uruguay Round of GATT multilateral trade negotiations Third, given the vibrant health of the domestic textile industry and the unparalleled level of protection it already enjoys, further relief from legitimate import competition is unnecessary. Existing protection costs the average family of four $238 a year; this bill would increase that burden substantially. Finally, enactment of the legislation would undermine the Committee's successful efforts to produce positive trade legislation in 1988 and the Administration's ongoing efforts to implement that legislation to expand world trade.

On March 19, 1985, at the outset of the 99th Congress, the domestic textile and apparel industry asserted that it would be extinct in five years if H.R. 1562, an earlier textile quota bill, were not enacted into law. As of March 19, 1990, the domestic textile industry showed no signs of dying. Indeed, it continues to prosper, outperforming nearly all other manufacturing sectors. Its current projections for extinction the year 2000—should be seen for the false alarm it clearly is. We hope you'll come to recognize that it printed its autobiographical obituary prematurely.

I. OVERVIEW

Retailers are a major industry in the country, employing nearly 20 million people or roughly 18 percent of the American workforce. Our annual sales of over one trillion dollars constitute a third of the nation's gross national product. Because we make a substantial contribution to the health of the economy, retailers have a major stake in the formulation of U.S. trade policy.

To remain competitive and to keep our own people employed, retailers must find merchandise that offers value to American consumers, at a price they can afford to pay. We prefer domestically produced goods to imports, but when domestic sources of supply are unavailable, overseas manufacturers often help us meet customer demand.

Since 1985, retailers have found it increasingly difficult to source abroad as the Executive Branch continued to tighten restrictions on imports. Between 1985 and 1989, for example, the Administration "called" nearly 400 product categories to establish new quota limits on imports. It also negotiated successively tighter bilateral restraint agreements with major suppliers. As a result, retailers now find that more than three quarters of all textile and apparel imports from countries restricted by quotas are subject to an annual growth cap through specific, group, or aggregate quota limits. These caps effectively restricted annual growth from these countries to an average of just 3.1 percent from 1987 to 1989. And because the U.S. Government has been so vigilant in enforcing the terms of the existing 40 bilateral restraint agreements and imposing calls textile and apparel imports have not reached 59% of domestic consumption as the textile industry alleges. Rather, since 1985 there has

been no change in the ratio of imports to domestic consumption of textile products (6.6 percent) and the ratio of imports of apparel products to domestic consumption has remained fairly constant, increasing only 3.5 percentage points (from 21.9 to 25.4 percent) over the period 1985 to 1989. In short, the U.S. Government's aggressive administration of the textile quota import program has significantly limited imports and continues to provide the domestic industry with opportunities to increase sales in an expanding market.

II. ANALYSIS OF THE LEGISLATION

The Textile, Apparel, and Footwear Trade Act of 1990 would restrict U.S. textile and apparel imports to 1989 levels plus a mere one percent growth thereafter on a category-by-category basis. Additionally, it would freeze nonrubber footwear imports at 1989 levels. The bill also would—for the first time—subject the exports of the European Community to quotas. If enacted, it would:

- raise consumer costs by billions of dollars per year, to a total of $74 billion in the year 2000 alone, culminating a decade in which total textile taxes will approximate a recent estimate of the total cost of the S&L bailout—*$500 billion;*
- force widespread job losses throughout the retail industry and importing sector of the economy, including approximately 50,000 retail employees alone;
- undermine the Uruguay Round of GATT multilateral trade negotiations and violate our international obligations;
- invite retaliation against U.S. exports, in particular agricultural exports; and
- negate this Committee's commendable effort in drafting effective trade laws and in promoting a coherent trade policy.

The bill is fundamentally flawed. It is not a "modest" measure. It ought to be rejected.

Increased Consumer Costs

This legislation would impose substantially higher costs on consumers at a time when they already are burdened with billions of dollars in hidden textile and apparel taxes. In a 1987 study, William R. Cline estimated that the total consumer costs of protection amount to $17.6 billion annually in apparel arid $2.8 billion annually in textiles. *The average family of four pays $238 more per year as a result of existing protection.* Preliminary new estimates by Cline find that, even with no change in protection, consumer costs in apparel will escalate from $22 billion in 1992 to $31 billion by the year 2000 (at constant 1989 prices) due to growth of the market. The textile industry proposal for a one percent growth cap would raise consumer costs further by $5 billion in 1992 and $43 billion by the year 2000 (for a total cost of $74 billion in that year alone). *Over this coming decade, enactment of this legislation would force consumers to pay a total textile tax of nearly $500 billion or roughly the same amount the S&L crisis is now predicted to cost taxpayers.*

The additional costs would fall disproportionately on our lower- and middle-class customers, who are least able to afford significant price increases. Given the hidden textile taxes they already are forced to pay, they should not be burdened with an additional tax on basic necessities.

Job Losses

In 1987, economists predicted that enactment of the pending textile quota bill would have forced 52,000 American retail employees out of work. Assuming S. 2411 would have a comparable impact on the economy, the retail sector would see comparable losses. And for what purpose? Simply to preserve jobs in an industry that enjoyed an *increase* in employment between 1985 and 1989?

In 1985, Members of Congress were told by textile industry lobbyists that "if import penetration of U.S. markets continues, hundreds of thousands more workers will be laid off or more likely terminated because of plant closings." Imports have since risen to meet expanding domestic demand. The industry, however, has not been devastated. As one measure of its prosperity, *textile employment has risen since 1985.*

EMPLOYMENT TRENDS IN TEXTILE AND APPAREL INDUSTRY

[Total employment]

	1985	1989	Change 1985-89 (Percent)
Textile Sector	702,300	726,100	+3.3
Apparel Sector	1,121,300	1,091,400	−0.1

As one would expect, labor in three southern states (North Carolina, South Carolina, and Georgia) would be the prime beneficiaries of the additional quotas. yet, these states have been enjoying gains in manufacturing employment, including increased textile and apparel employment. Moreover, the unemployment rate in North and South Carolina now is well below the national average (4.5% and 3.5%, respectively, vs. 5.3% nationally). Workers in other states should not be forced out of work simply to increase employment Opportunities in these states.

Immediate Impact on Retailers and Consumers

The domestic market is consumer driven. This means that the consumer, not the retailer, ultimately determines what sells and what stays on the shelf. It also means that the market is subject to constant change, with some segments growing rapidly while others stagnate or even decline. Retailers must anticipate the market's direction, even as they try to influence its course through a variety of merchandising practices.

If enacted, S. 2411 would severely disrupt this process. The textile industry's assertion that limiting import growth to one percent simply places imports and domestic manufacturers on a common footing is patently false. The one percent growth rate does not reflect growth in a market which fluctuates considerably over a much shorter time horizon. F [illegible] xample, during the economic expansion that began in 1982, total textile fiber c[illegible]sumption has actually been growing at a rate approaching 10 percent annually. More important, long-term growth rates are of little consequence to retailers—and manufacturers—who must respond to surges in demand.

The proposed legislation would go beyond just "fixing" the U.S. market for domestic manufacturers by guaranteeing them the same snare of consumption in future years that prevailed in 1989—an idea totally antithetical to our free market economic system. The legislation would grant domestic manufacturers an increasing share of the market over time in any product category in which growth in consumption exceeds one percent. In other words, this legislation would force retailers to buy an increasing share of their overall product mix domestically, regardless of whether it made any merchandising sense.

Finally, the additional restrictions being proposed would cut trade dramatically. Many of the products our customers currently demand simply will not be available. Domestic manufacturers either cannot or will not fill this need. The availability of children's wear and budget department items in particular will be substantially reduced, if not eliminated. Moreover, as foreign manufacturers change their product mix to adjust to the new quota limits, they will increasingly concentrate on producing higher-priced items to garner the higher profits on the limited number of products they can export. As a result, many lower-priced items simply will not be available and those ems that will be available in retail stores will be too expensive for persons on a limited budget.

In the end, reduced supply and corresponding higher prices will generate inflationary pressures. In past years, import prices have increased as the market has felt the force of increased quota restrictions, the fall in the value of the dollar, and overall growth in demand. Enactment of S. 2411 would only compound the problem.

Retaliation

Enactment of the legislation would provoke retaliation against our exports, in particular agricultural exports. In the past, the European Community and other governments have indicated they would retaliate if textile quota legislation were enacted This would be particularly devastating to farm families in the Midwest. Agriculture already has paid a heavy price for textile protection. In 1983, for example, the textile bilateral restraint agreement between the United States and China lapsed as a result of our government's attempt to freeze China's share to our domestic market. China shifted its source of grain purchases, costing our farmers an estimated $500 million in lost sales.

Agricultural exports have always been the first to feel the sting of retaliation. In addition, some of our most sensitive and competitive exporters—like those in the high tech industry—also would be hurt. It simply makes no sense to add yet another layer of protection for the domestic textile industry at the expense of U.S. farmers and other export-dependent Americans.

Flawed Legislation

While often described as "modest," this legislation will create havoc within the retailing community by totally disrupting retailers' ability to follow changes in market demand. In addition to the one percent limitation on growth, the bill also provides the Secretary of Commerce with authority to prescribe regulations to enforce the Act, including rules to ensure the reasonable spacing of imports over [each] calendar year." Like the licensing provision in earlier textile quota bills, this requirement—if it could be administered—would unnecessarily complicate the importing process and impose additional costs.

By mandating global quotas, the legislation also would bring products from the European Community under tight control. Their exports to the United States are confined largely to yarns and fabrics purchased by U.S. textile and apparel manufacturers for further processing in the United States. Their trade in finished apparel is of little consequence.

The legislation would leave the Administration with the delicate task of allocating quota rights among our trading partners. It would be forced either to breach the terms of existing bilateral agreements with many smaller developing country suppliers by reducing annual growth to 1 percent (destroying the MFA in the process) or to grant newly controlled suppliers such as the European Community less than 1 percent growth. In the past, retailers could react to new controls on a given country's trade by seeking new sources of supply. No longer. This essentially would become a zero-sum game. If one country is allowed to grow by more than 1 percent, another country's growth must be reduced by an offsetting amount (unless that country is Canada or Israel, which have been exempted from quota coverage).

Finally, since the bill provides for only a 10 percent reduction in tariffs—not a 10 percentage *point* reduction—the compensation" being provided is virtually meaningless, particularly when staged over 5 years. With textile and apparel tariffs averaging 19 percent, they would be reduced to only about 17 percent, still roughly 4 times higher than the average duty on all other imported products. Moreover, the bill denies the President the authority to enter into trade negotiations to reduce existing duties on textile and apparel products as part of the GATT round, limiting his authority only to offer concessions as part of separate bilateral agreements.

III. MORE HELP FOR A HEALTHY INDUSTRY?

Upon introduction of H.R. 1562 in the 99th Congress, the nation was told that "[if Congress does] not act now to curb imports, in five years our entire industry and four million jobs that depend on it will simply cease to exist." Notwithstanding this dire prediction, the domestic textile industry is prospering. This year's plea for protection should be assessed in light of the industry's current economic performance.

Profits

For the textile industry as a whole, profits have been up and are substantially above retail sector returns. Members of Congress should be careful not to attribute to imports any declines in textile industry profitability that are owed to heavy indebtedness resulting from numerous recent LBOs.

PROFITS PER DOLLAR OF SALES INCOME AFTER TAXES

[In cents]

	1985	1989
Textile Industry	2.4	2.5
Retail Sector	2.2	1.9

Production

Textile and apparel production has risen smartly since 1985 and industry sales are at an all-time high. In fact, total industry shipments have increased by a greater percentage than shipments by the manufacturing sector generally. Not surprisingly,

textile industry capacity utilization continues to be higher than the all-manufacturing average.

SHIPMENTS

[In millions of current dollars]

	1985	1989	Change 1985–89 (percent)
All Manuf.	2,341,220	2,781,354	+18.8
Textiles	52,627	63,482	+20.6
Apparel	56,993	72,192	+26.79
Total	109,620	135,674	+23.8

Source: U.S. Department of Commerce.

CAPACITY UTILIZATION RATE

[In percent]

	1985	1989	Change 1985–89 (percent)
All Manuf.	80.3	84.0	+4.6
Textiles	83.3	91.5	+9.8

Source: The Federal Reserve Board.

Exports

The U.S. textile and apparel industry is experiencing phenomenal export growth. Last year, the industry's exports increased 27% over 1988 levels. The largest markets for U.S. exports of textile and apparel products include countries that this legislation would subject to quotas: the European Community, Saudi Arabia, and Australia.

IV. AMERICAN COMMITMENT TO EXPANDING WORLD TRADE

As retailers, we vitally depend on the health of the world trading system. Our customers rely on the output of other nations. We must not take the easy route and blame all of our ills on foreigners. Along with the Administration, Congress must work to establish a world trading environment in which export opportunities increase for all.

We commend the Committee for producing an omnibus trade bill in 1988 that furthers this goal. At the outset of hearings on trade reform, RITAC urged Congress to produce positive trade legislation that did not provide sector- or country-specific relief from import competition. Enactment of the textile quota bill not only would undermine your accomplishment, but would jeopardize the multilateral trade talks that are now nearing their conclusion.

With the support of this Committee, the Administration has established important national trade objectives to guide negotiations in the Uruguay Round. The U.S. Government encouraged our trading partners to begin these negotiations to increase U.S. exports of goods and services, protect U.S. intellectual property rights, and eliminate barriers to U.S. investment. Both importing and exporting countries agree that a phased return of textile and apparel trade to the GATT system will be an essential element of a balanced package of trade liberalizing measures. Nonetheless, the domestic industry is continuing to press the Administration to impose a global quota scheme in Geneva. That approach is as unacceptable to retailers as imposition of global quotas by legislative fiat. In any event, by unilaterally rejecting the GATT negotiations through enactment of global quota legislation, Congress will squander a rare opportunity to achieve important national trade objectives.

We have no doubt that the domestic textile industry appreciates the benefits of free trade. Domestic textile manufacturers, for example, buy nearly all their fabric formation and fiber-to-fabric machinery from foreign suppliers. In fact, they do so with the benefit of duty-suspension legislation on roughly $500 million worth of these and additional products, including power driven weaving machines, carding and spinning machines specially designed for wool, power driven flat knitting machines, and decorative braiding machines. At least in one sector, the domestic industry appreciates that David Ricardo, John Stuart Mill, and Adam Smith were on to

something. Retailers believe they ought to have the same freedom to shop the world's markets for high quality, reasonably priced goods.

V. CONCLUSION

Mr. Chairman, American retailers support a strong, viable domestic textile and apparel industry. But we oppose the textile industry's quota bill because it will raise consumer prices and create further retail market uncertainty, force job losses in the retail and import sectors, risk retaliation by our trading partners, and undermine the Uruguay Round. In contrast, returning textile and apparel trade to GATT rules will enhance national welfare by eliminating distortions that force U.S. consumers to pay an annual textile and apparel tax of over $20 billion and will help the domestic industry compete in the 21st century. Having had to live with the current system long enough, retailers believe the Administration (with the support of Congress) should phase out import protection so that textile and clothing trade is eventually returned to market principles and forces. Instead of providing further import protection, the U.S. Government should negotiate in Geneva for foreign market access for U.S. textile and apparel products and give the domestic industry an opportunity to compete rather than an excuse to continue relying on government protection for its survival.

Thank you.

PREPARED STATEMENT OF SENATOR JOHN HEINZ

Mr. Chairman, this morning's hearing is good news because it means we are once again moving forward to the enactment of textile legislation. I have supported this bill twice in the past, and I intend to do so again.

Frankly, Mr. Chairman, the way the past three administrations have treated the domestic textile and apparel industry is a national disgrace. Over the past 10 years, imports have risen at an average annual rate of 10.6%, to the point where they account for the largest part of our trade deficit aside from petroleum—over $30 billion.

This growth has occurred despite a pledge by President Reagan to limit it to the level of growth of the domestic industry, which has averaged less than 2% per year.

While some part of the very high growth rates of the early 1980s could be attributed to the high dollar, the significant increase in 1989, following the first decline in 9 years in 1988, is particularly disturbing because it means we may be back on the road to further decimation of the domestic industry.

I am also particularly concerned, Mr. Chairman, with the extent to which this empire of imports is built on dumping, subsidies, fraud, and quota circumvention. Right now a major dumping case against sweaters from Hong Kong, Korea, and Taiwan is making its way through the Commerce Department. This investigation is revealing not only significant dumping but blatant circumvention of Chinese textile quotas by Hong Kong.

I have here, Mr. Chairman, advertisements run in the New York Times by Hong Kong producers which lay out publicly the extent of the circumvention and attempt to make it an asset in their effort to capture market share. I have written Administration officials about this, but as yet I have no evidence that any action is being taken, despite obvious violations of trade agreements.

And that is why we have these textile bills. If past administrations had kept their commitments; if past and current administrations would enforce the agreements we have; if they would enforce our current trade laws; this legislation might not be necessary. But they have not, and ten years of experience suggests they are not going to. Under the circumstances, I don't think any of us has any alternative but to support this bill.

Attachment.

CHAIRMAN
STANLEY MATZKIN
Devon Apparel Inc

PRESIDENT
IVAN GORDON
Gloray Knitting Mills

TREASURER
LEWIS J. THALER
Nicholas Company

EXECUTIVE DIRECTOR
SETH M. BODNER

VICE PRESIDENTS
MORTON BLUTSTEIN
Reliable Knitting Works
THOMAS E. CAHILL
Somerset Knitting Mills
ADAM DOERINGER
ACD Knitting Mills
LARRY HIRSHMAN
The Lion Knitting Mills
ROBERT HOY
Lord Jeff Knitting Mills
BERNARD LAX
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F.F. Knitting Mills
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J. GENE HOCHFELDER
Bedford Industries Corp
JOSEPH KATZ
Knit Resource Center Ltd
LESLIE LEVY
Heritage Sportswear
STANLEY MATZKIN
Devon Apparel Inc
LEWIS J. THALER
Nicholas Company

Mr. Auggie Tantillo
Deputy Assistant Secretary for Textiles and Apparel
Chairman, C.I.T.A.
U.S. Department of Commerce
14th Street & Constitution Ave. N.W.
Washington, D.C. 20230

May 21, 1990

Dear Mr. Tantillo:

The attached item from today's New York Times speaks pretty much for itself. CITA and the Department should be concerned about what amounts to an advertisement that rules of origin and quota are irrelevant to the development of business in Hong Kong. Consider the implications of these:

"At stake is $8.5 billion worth of China-made goods re-exported by Hong Kong to the U.S. each year.....Hong Kong companies now run some 18,000 factories employing 2 million workers in neighboring Guangdon Province. Many are subcontracted by Hong Kong to manufacture for American companies. Hong Kong product lines made in China and most under threat buy proposed M.F.N. action are toys, electronics, garments and household goods.."

".... The service sector makes up more than 75% of Hong Kong's GDP, direct manufacturing has declined to about 20%...Rising wages, high land costs and restrictions on trade overseas have pushed local manufacturers toward higher quality and value added products."

The Chairman of the Swire group is quoted as saying that "The nimble fingers will be on their [PRC] side of the border, the brains will be on our side." The advertisement then notes that, "In fields like textiles, the design and quality control work on garments will be done in Hong Kong with the bulk of the work being finished in factories in China."

Given other recent stories forwarded to your office, and given this advertisement, a vigorous enforcement of the rules of origin on textile and apparel products clearly is required. Our industry has made clear its willingness to assist the Department in any practicable manner with this effort.

I would be most interested in learning of your and CITA's plans to carry out your collective responsibilities for administration of the textile program as provided for under section 204 of the Agriculture Act of 1956, as amended, and Executive Orders 11651 and 12465.

Very truly yours,

Seth M. Bodner

enc. Advertisement from NYT 5.21.90
cc. AFTAC

ADVERTISEMENT

■ Hong Kong ■

South China's Business Dynamo

No matter what happens in Hong Kong after the 1997 takeover, the city will continue to be a major business focus for southern China

Opinion on both sides of the border is unanimous that the city's entrepot role for a huge swathe of China will become even more vital in the future

The busy container port at Kwai Chung continues to grow as new reclamations extend the shoreline out into what was once the secluded anchorage of Gin Drinkers' Bay

Latest estimates are that by 2011, port traffic is expected to grow 500% above 1989 figures which saw 4 46 million 20-foot equivalent containers handled

Director of Marine Michael Sze contends the key to success is not only efficiency at the private-enterprise container terminals but also service at reasonable prices

He estimates port cargo throughout would rise from 85 million tons last year to 450 million tons by 2011 To handle the enormous increase in shipping much of it channelling goods to or from China the Port and Airport Development Strategy hinges on further reclamation, continuous dredging, a hub of safe moorings behind breakwaters and typhoon shelters and navigational channels through the busy harbor to the berths

Much of the wealth of China trade passes through Hong Kong's efficient harbor, a flow that has increased dramatically since China opened wide her trade doors in the late 1970s

In 1978, Hong Kong did $1 4 billion business with China By 1989, this had grown to $43 billion

With domestic rates of pay rising rapidly (now second-highest in Asia after Japan) and with land prices higher than Manhattan, Hong Kong manufacturers have increasingly set up industries in the Special Economic Zones established by China strategically close to the border

The result has been beneficial, for both societies; although firm figures are not available, it is generally agreed more than two million workers in Guangdong are employed in Hong Kong-owned factories. This is significantly more than labor in manufacturing in Hong Kong

"Our economies are growing closer together," explains industrialist Dennis Ting, Chairman of Kader Industries, a toymaker

"Hong Kong will be the New York of China Other cities will become the Pittsburghs and Chicagos We in Hong Kong will initiate the orders for goods which will be made in China and then marketed to the world through Hong Kong "

Politically, the border remains As a matter of security, the 22-mile land border is sealed by a stout wire fence that runs along the Hong Kong side of the Shenzhen River Police and army patrols on both sides of the land border and marine police launches at sea attempt to staunch a continuous flow of illegal immigrants from lowly-paid Guangdong into what is perceived as the gold-paved streets of Hong Kong

But economically, the border is melting away as the two complementary commercial entities grow together

It is, says prominent academic commentator T L Tsim like a banyan tree in which separate trunks combine to form a stronger whole

Dame Lydia Dunn, Chairman of the Hong Kong Trade Development Council, talks of Hong Kong as the linchpin for the South China economy, the wealthy area south of the Yangtse Kiang with a population of more than 300 million Says David Gledhill, Chairman of the Swire Group "The nimble fingers will be on their side of the border, the brains will be on our side "

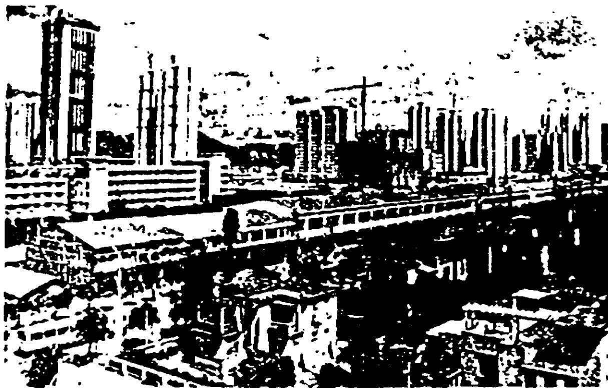
In fields like textiles, the design and quality control work on garments will be done in Hong Kong with the bulk of the work being finished in factories in China, Mr Gledhill says of the developing pattern of symbiotic manufacturing

"What we are entering now is an era of vast potential opportunity," adds Jack So, Executive Director of the Trade Development Council.

Many agree They see post-1997 Hong Kong not as time of depression but one of potential good fortune that will bring lucrative rewards to the agile

U S involvement in a huge planning contract to build an enormous airport-port-rail complex on Lantau Island has been secured through the San Francisco-based construction giant Bechtel Inc.

From the Hong Kong Convention and Exhibition Centre on the Wanchai waterfront, anyone who has lived in Hong Kong for 20 years can gaze down the harbor and not see a building that stood when he arrived in the city The huge Centre, built to capture a significant sector of the lucrative Asian convention business stands on reclaimed land which two decades ago was 300 yards from shore ■



China's Shenzhen Special Economic Zone on Hong Kong's border.

BEST AVAILABLE COPY

U.S. Trade Surplus — a Reality with Hong Kong

For the first time in two decades the United States is in the black with one of its major trading partners in Asia — Hong Kong

But there are dark clouds on the horizon Proposed U S trade sanctions against China currently before Congress could impact heavily against Hong Kong-U S trade

The U S Commerce Department's figures for February show that the U S dramatically turned its $470 7 million deficit in January trade with Hong Kong into a $45 9 million surplus

Analysts attributed the surplus to a 27% increase in American exports to Hong Kong in February It is consistent with rising U S exports to that market and falling Hong Kong imports in recent months

Trade officials are watching to see if the U S surplus with Hong Kong is sustained in the March figures

"We re very glad to see the U S round the corner on trade with Hong Kong said Alan Wong Regional Representative (Americas) of the Hong Kong Trade Development Council

"It's proof positive that Hong Kong is a free and fair trading partner with a level playing field

"We hope this is the beginning of a long-term market trend for American products in Asia

Hong Kong s exports to the U S fell in the first two months of this year, especially for watches and clocks data processing machines and toys During the same period imports to Hong Kong of American-made consumer products, transport equipment electrical machinery telecommunications equipment and transistors grew substantially

The gathering clouds over U S - Hong Kong trade relations are in the form of U S threats to withdraw Most Favored Nation (M F N) trade status from China

This action proposed by China critics in Congress, would seriously affect Hong Kong both economically and psychologically according to Chris Jackson, Hong Kong s Assistant Director-General of Trade (U S)

At stake is $8 5 billion worth of China-made goods re-exported by Hong Kong to the U S each year. Loss of M F N would make these products subject to tariffs of up to 70%, rendering much re export merchandise uncompetitive in the territory's most important export market

"Since China began a more open policy in the early '80s its manufacturing sector has grown dramatically Hong Kong has played a major part in that growth, and is now inextricably linked to China," said Mr Jackson

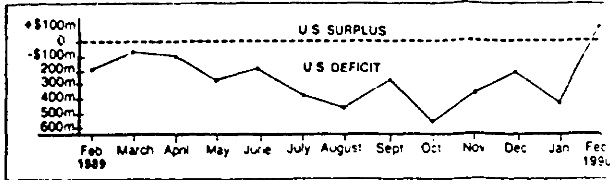
Hong Kong companies now run some 18 000 factories employing 2 million workers in neighboring Guangdong Province Many are subcontracted by Hong Kong to manufacture for American companies

Hong Kong product lines made in China and most under threat by the proposed M F N action are toys, electronics, garments and household goods

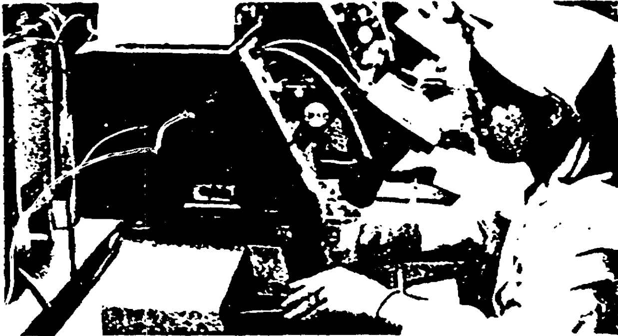
"The loss of the M F N would not only damage Hong Kong s trade with its two biggest trading partners — the U S and China — but it would undermine Hong Kong s investment in China and harm the territory's services sectors — particularly finance and transportation Mr Jackson said

Hong Kong is the world's 14th largest market for U S products and the 11th largest supplier to the American market It is the U S s leading market for cut diamonds and ginseng and a prominent buyer of U S cigarettes and oranges Conversely the U S is Hong Kong s foremost export market accounting for 32% of the territory s total domestic exports

On the investment side American companies have a significant stake in Hong Kong s growing services sector including finance At the end of 1989, there were some 900 U S firms in Hong Kong including 20 licensed banks ■



The road to a 1990 surplus in U.S. trade with Hong Kong.



Video technology in a Hong Kong electronics factory.

I, 1990

ADVERTISEMENT

Hong Kong Lives On Trade

Standing as the free trade focal point of the Pacific Rim with the greatest harbor in Mainland Asia, Hong Kong ships and tranships goods to the world marketplace

As China's gateway, it is the tunnel through which flows much of the increasing trade of the world's most populous country

Despite events of the past year and the toughening attitude of Chinese rulers to dissent at home, Hong Kong's entrepot role has not slackened China trade is expected to continue growing no matter what turn politics take in Beijing.

Between 1980 and the end of the decade, Hong Kong's re-exports grew at a phenomenal 32% annually In 1988, they leapt 52% Mainly because of business with China, re-exports now greatly outstrip the territory's domestic exports

The old image of Hong Kong as a manufacturing center of inexpensive goods has not been a reality for many years The service sector now makes up more than 75% of Hong Kong's GDP direct manufacturing has declined to about 20%

Rising wages, high land costs and restrictions on trade overseas have pushed local manufacturers towards higher quality and value-added products.

As well as playing a pivotal role in China's trade with the world, Hong Kong increasingly is the focal point of East Asia's commerce

In the past two decades, exports to Taiwan have leapt more than 30 times the 1970 value, to South Korea they have risen 88 times, to Japan they have increased 26 times and to ASEAN nations more than 20 times

Overall, the territory which has to import virtually all its food, all raw materials used in its factories and even its drinking water has leapfrogged into 11th position in the world's list of trading nations

In trade value terms, this tiny rocky speck on the coast of South China with fewer people than Massachusetts, is the 11th largest trading partner in the world. The total value of Hong Kong's trade last year was $145 billion

"When Hong Kong talks to America about business, we're all talking the same language," says John Chan, the territory's Secretary for Trade and Industry.

Precisely because it adheres to free enterprise, Hong Kong finds itself in trade situations similar to those which frustrate Washington.

Like the United States, Hong Kong has a significant deficit with Japan — $7.4 billion last year. It also runs trade deficits with Taiwan and South Korea.

Cargo ship alongside Kwai Chung Container Terminal.

Since it became an independent member of GATT four years ago, Hong Kong has championed the global expansion of free trade.

"The entire basis of Hong Kong's economic philosophy and success has been an emphasis on freedom of enterprise, on what has been described as positive non-intervention by government," says John Chan.

"We provide the framework for business, either directly or indirectly, such as with electricity, gas and transport. Then we let business get on with business"

Hong Kong's independent membership of GATT will continue after China resumes sovereignty in 1997, preserving direct access of Hong Kong manufacturers to world markets ■

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PREPARED STATEMENT OF SENATOR JESSE HELMS

Mr. Chairman, early last year, I and several of my colleagues in the Senate, joined by industry representatives, initiated a dialogue with President Bush and others in the Administration regarding the problems faced by the domestic textile/apparel industry. We had numerous meetings and discussions leading up to the negotiations now taking placing in the Uruguay Round of trade talks.

As a result of these efforts, I believe the Administration has developed an enhanced appreciation for the situation facing our domestic textile industry. That was demonstrated when the Administration included in its GATT proposal the framework for a global quota system, a system that the industry has been proposing for years.

Mr. Chairman, despite the willingness of the Administration to propose a global quota system, we were unable to receive the assurance we needed that this proposal would not be bargained away for other trade concessions. That is why this legislation is necessary. We cannot afford to wait and take a chance that nothing will be done to address the problems facing the textile industry.

I've supported the Administration's attempts to mitigate the effects of textile imports by fighting foreign barriers and encouraging the domestic industry to increase its competitiveness. We must continue in our efforts to keep world markets open. But we have made little progress in that regard, and U.S. antidumping and countervailing duty laws have proven inadequate as a means of offsetting the competitive advantages enjoyed by other countries as a result of government subsidies, export strategies, and import barriers.

The textile/apparel industry has made tremendous steps to increase its productivity. In fact, the productivity for the textile industry has increased at twice the rate of all manufacturing over the last decade. Nevertheless, the evidence is irrefutable: imports have continued to grow at an alarming rate and capture more of the domestic market.

Mr. President, the Multi-Fiber Arrangement (MFA) has not been effective in slowing the growth in imports. The responsibility for managing our textile import control program resides within CITA the interagency Committee for the Implementation of Textile Agreements. CITA's primary function is, in instances of rapid import growth, to issue requests for consultations or "calls" as they are known, to foreign countries for the purpose of negotiating a mutually agreed quota. This is the way the program has been administered since 1974.

As textile and apparel imports began to rise rapidly in the mid-1980s. CITA greatly increased the number of calls it made: from 38 calls in 1982 to a peak of 135 in 1986. In 1987, the number of calls fell to only 38, even though imports were continuing to grow to record levels. Consequently, textile and apparel imports during 1987 grew to an all-time high. Let me cite several specific examples that demonstrate the ineffectiveness of the current system.

During the twelve months that ended March 1990, nine and a half million square meters of apparel have entered the United States from Kuwait, Oman, Bahrain, and Qatar. The Administration chose not to take immediate action. Meanwhile, these imports keep climbing. Aside from the fact that these four oil-rich countries are not known to have *any apparel* exporting industry, thus raising some very disturbing questions, this episode shows conclusively why a system of global quotas is far preferable to the sieve that passes for an import control program today.

North Carolina leads the nation in the production of bath towels; an important product worth $1.1 billion in annual sales to the domestic industry. This figure would be higher if this product was not so heavily impacted by imports. Yet, when Thailand began exporting towels to the United States, the Administration did nothing until imports from Thailand reached 14.5 million units, which is 3 percent of domestic production—three percent to one country, a brand new supplier, before its exports were controlled.

The U.S.-Thailand textile trade agreement expired on December 31, 1988, and has not been renewed to this date. During 1989, the first year in which Thailand did not have a textile agreement with the United States, our imports from Thailand leaped 37 per cent. With a global quota, this would never been allowed to happen.

Furthermore, I have a videotape in my office that was made a few years ago by a British journalism team who visited several textile plants in Thailand It shows young girls working 12-15 hours a day, seven days a week. They don't go to school, and many spend the night on the floor of the textile plant.

In China, the conditions in textile plants are even worse. In fact, there is increasing evidence coming to light of the extent to which China uses forced and convict labor in it's textile and other industries.

In the United States, our industries face strict wage and hour restrictions, clean water and clean air requirements, complex tax laws, and a host of other government mandates that add significantly to the cost of production.

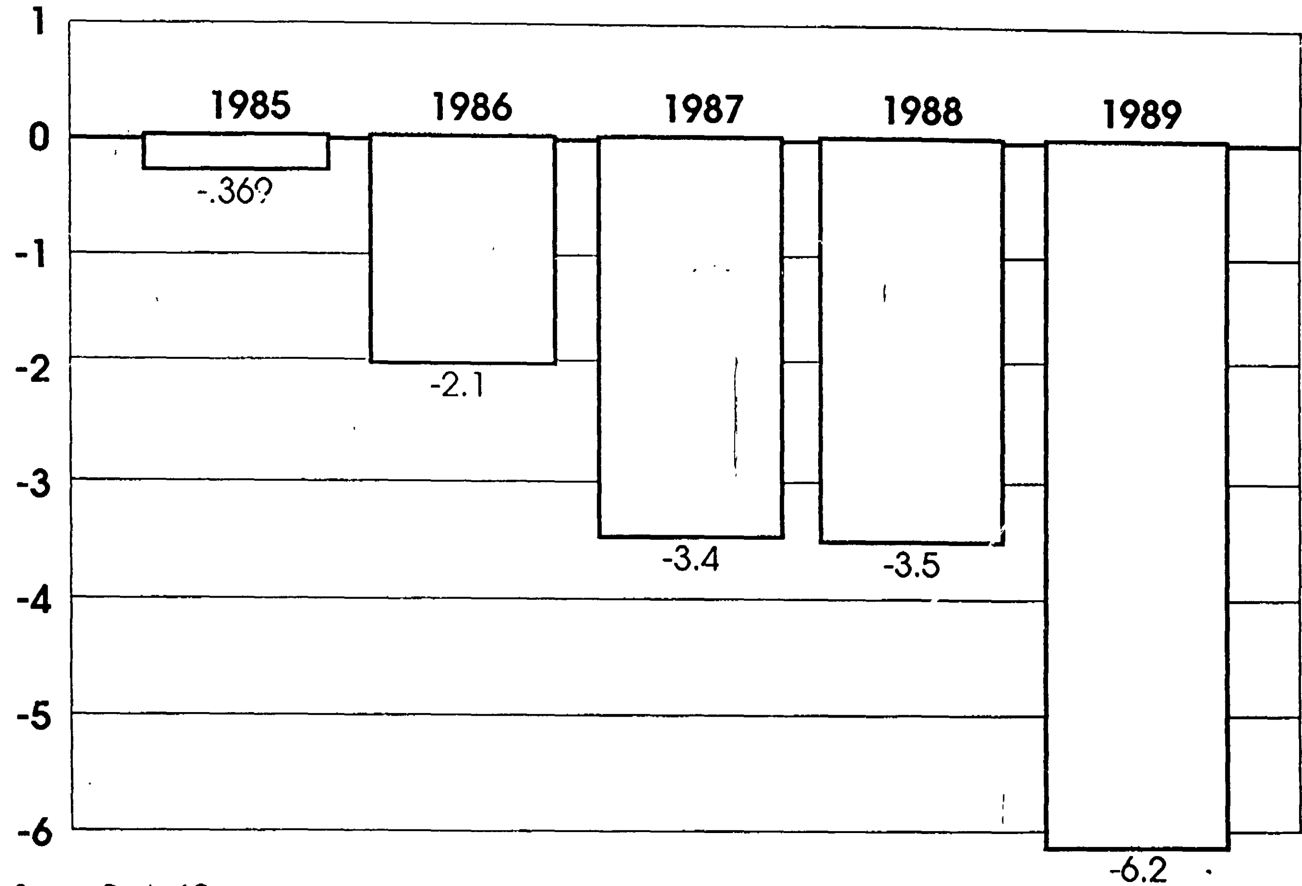
Almost all other developed countries control textile imports to an extraordinary degree, leaving the United States market as the world's dumping ground. For example, under the MFA from 1982 to 1986, U.S. imports accelerated to an average rate of increase of more than 18 percent. During the same period, the rate of import growth into the EEC actually *declined,* and the growth rate in Japan remained essentially unchanged.

It is time for Congress to address this problem, and I commend you for holding this important hearing.

Attachment.

U.S.-Communist China Trade Balance

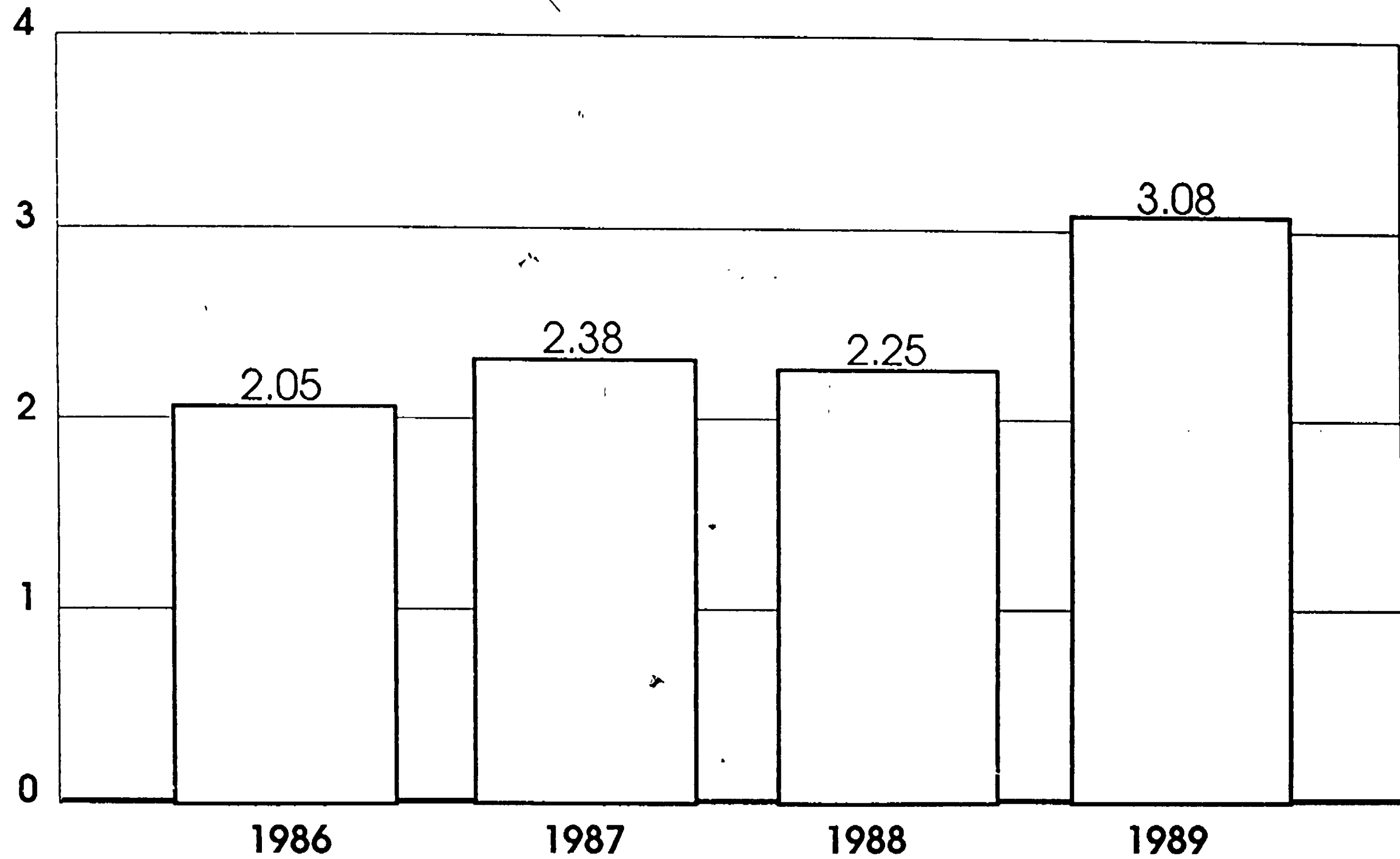
In Billions of Dollars



Source: Dept. of Commerce

U.S. Textile Imports from Communist China

In Billions of Dollars



Source: International Trade Commission

1|26|40

SUBJECT: UNPAID PRISON LABOR IN GUANGDONG

REF: GUANGZHOU 331

1. (U) SUMMARY: LOCAL PRISON OFFICIALS CONFIRM GUANGDONG PRISONS ROUTINELY DO IN-HOUSE MANUFACTURING UNDER SUBCONTRACT TO LOCAL FACTORIES. ALTHOUGH THE PRISONS ARE PAID BY THE FACTORIES, THE PRISONERS ARE NOT PAID FOR THEIR WORK. THESE OFFICIALS CLAIM NONE OF THE "SEVEN EVILS" IS A CRIME UNDER THE CHINESE LEGAL CODE. THIS MEANS THE 350,003 PEOPLE REPORTED ARRESTED SO FAR IN CONNECTION WITH THIS CAMPAIGN (45,000 IN GUANGDONG) ARE NOT ENTITLED TO COURT HEARINGS OR LEGAL REPRESENTATION, BUT FACE SUMMARY SENTENCING BY THE ARRESTING AUTHORITIES. THEY ARE NOT CONSIDERED "PRISONERS", BUT RATHER "DETAINEES", AND ARE BEING KEPT IN SPECIAL "DETENTION CENTERS" RATHER THAN "PRISONS." END SUMMARY.
/
2. (U) WE RECENTLY VISITED A MODEL PRISON IN GUANGZHOU FOR JUVENILE OFFENDERS TO OBSERVE THEIR VOCATIONAL TRAINING PROGRAM. THE PRISONERS WE WERE SHOWN DIVIDE THEIR TIME BETWEEN VOCATIONAL TRAINING AND STUDIES. THEY RECEIVE A MONTHLY SPENDING ALLOWANCE OF RMB 3.00 FOR BOYS AND RMB 3.50 FOR GIRLS. IF THEY FULFILL THEIR PRODUCTION QUOTAS FOR THE MONTH, THEY RECEIVE AN ADDITIONAL RMB 5.00. THIS SPENDING MONEY IS USED TO BUY THINGS LIKE SOAP AND STATIONERY SUPPLIES AT THE PRISON STORE.
/
3. (U) VOCATIONAL TRAINING FOR THE BOYS CONSISTED OF MAKING CIRCUIT BOARD ASSEMBLIES FOR THE NAN HONG COMPANY OF GUANGZHOU FOR USE IN TELEVISION SETS AND RADIO-CASSETTE PLAYERS. THE PRISON PRODUCES "SEVERAL THOUSAND" OF THESE BOARDS EACH MONTH. THE WORKSHOPS WHERE THESE ARE MANUFACTURED ARE UNVENTILATED AND POORLY LIT. EACH WORKSHOP HAS A CONVEYER-BELT ASSEMBLY LINE, OPEN VATS OF MOLTEN SOLDER AND RESIN AND VARIOUS OTHER WORK STATIONS. WE TOURED TWO SUCH WORKSHOPS, EACH WITH ABOUT 150 WORKERS. THE GIRLS DO SEWING, TAILORING, OR SIMPLE ASSEMBLY WORK. THE PRODUCTS ARE THEN SENT TO LOCAL FACTORIES FOR FINISHING. CAREFUL RECORDS ARE KEPT OF THE MATERIALS USED AND OUTPUT OF EACH WORKER. THE PRISON DIRECTOR SAID THE MONEY RECEIVED FROM THIS WORK IS USED TO BUY THINGS FOR THE PRISONERS SUCH AS STUDY MATERIALS. PRISON OFFICIALS SAID ALL PRISONS IN GUANGDONG HAD SIMILAR TYPES OF "VOCATIONAL TRAINING PROGRAMS."

Prepared Statement of Senator Ernest F. Hollings

Mr. Chairman, I appreciate the opportunity to appear before the Finance Committee this morning.

OVERVIEW OF S. 2411

Mr. Chairman, I speak today on behalf of the 55 Senators who are cosponsoring S. 2411, the Textile, Apparel and Footwear Trade Act of 1990.

By way of introduction, permit me to summarize briefly the bill's objectives and principal components. I think you will agree, this bill is remarkably simple and straightforward:

The Textile, Apparel and Footwear Trade Act was introduced to prevent the outright extinction of the U.S. textile, apparel and nonrubber footwear industry.

To accomplish these goals, imports of textiles and apparel in each category would be permitted to increase by 1 percent annually—roughly equal to the growth rate of the domestic U.S. market. Imports of nonrubber footwear would be restricted to 1989 levels. The Administration would be responsible for prescribing regulations to implement the import limits.

The bill rewards those countries who increase their purchases of U.S. farm products by guaranteeing them an increase in their prior year's quota. This was an amendment to the 1988 textile bill proposed by Senator Daschle.

In addition, the President would be required to report to Congress annually on the administration of the Act, and a ten-year review of the Act is mandated. Finally, a pilot program which would auction quotas for 20% of textiles and apparel in 1991 is established.

Mr. Chairman, this is not the first textile bill to come before Congress. In 1968, I, along with Senator Cotton of New Hampshire, sponsored a textile bill that passed the Senate only to die on a procedural technicality in the House. In 1978, substantial majorities in both Houses passed another textile bill. President Carter vetoed it, but was spurred to toughen enforcement of our textile trade agreements. His efforts succeeded in largely stabilizing textile imports through the end of his term.

Regrettably, this was followed by the laissez-faire of the Reagan years and—to no one's surprise—an unprecedented surge in textile and apparel imports. Foreign producers seized over half of the U.S. apparel market. As a consequence, some 1500 U.S. firms have closed their doors. Nearly 400,000 American textile and apparel workers have lost their jobs.

In 1985, in response to this inundation of imports, Congress again passed a textile and apparel trade bill. I happen to think that that bill was a good one—so did a total of 60 Senators and 262 Representatives, solid majorities in both Houses of Congress. But the will of those majorities was frustrated by the opposition of one man, Ronald Reagan.

Again, in 1987, we introduced and passed with substantial majorities a textile bill. And again it was vetoed.

We have gone out of our way to address the principal criticisms of last year's bill. In contrast to the 1987 version, S. 2411:

—exempts Canadian and Israeli imports from quota; and

—guarantees the Caribbean Basin Initiative countries their 1989 market share—which is 11% of U.S. apparel imports.

By incorporating these modifications in the current bill, we hope to persuade the President to join with us in a united front. However, should he decide to adopt an obstructionist posture, I am confident that we have crafted a moderate, compromise bill that will command the support of veto-proof majorities in both Houses of Congress.

BROKEN PROMISES, TRASHED AGREEMENTS

Mr. Chairman, throughout the 1980s, we heard the Administration say that American industry had to shape up and cut out the fat. So we restructured American industry from top to bottom, slashing employment throughout the manufacturing sector—textiles is but one example. Yet the flood of imports has continued to swamp the U.S. market.

They said the dollar was overvalued. They reassured us that as the dollar fell, imports would fall. So Congress welcomed the Plaza Agreement of September 1985, and many applauded as Secretary Baker talked the dollar down. But, lo and behold, the import deluge continued. The U.S textile trade deficit ballooned to a record $26.5 billion in 1989, comprising 21% of the U.S. merchandise trade deficit. And, in

the first quarter of 1989, we set a record for imports, 3.13 billion square meters, with textiles and apparel comprising 26% of our trade deficit.

They said, let the U.S. Trade Representative jawbone our partners into obeying American trade laws. Let him negotiate equitable and reasonable limits on imports into the U.S. market. So we watched the flurry of diplomatic activity. But we also noted with dismay the Customs Service's estimate that a whopping $5.5 billion in fraudulent and illegal textile apparel imports crosses our borders every year.

In January 1989, a new Administration entered the picture. They wanted to sit down to talk with the industry. So for the last fifteen months, textile industry leaders have been meeting with this Administration to try to reach agreement on some proposal to stem the tide of imports. While they've been talking, imports went up 12.7%.

TEXTILES AND NATIONAL SECURITY

Mr. Chairman, not only is the textile industry one of America's largest employers, it is also an industry of critical importance to our national security. Two and a half decades ago, the Kennedy Administration conducted a cabinet-level study which determined that, next to steel, textiles are the United States' most important strategic industry. That finding is no less valid today.

It is a truism that nobody wants Americans GIs to go to war in Japanese-manufactured uniforms. But the role of textiles in our national defense is far broader than that. It encompasses everything from medical supplies to parachutes to the fiber webbing that goes into the high-tech skins of Trident submarines and B-1 bombers.

PRODUCTIVITY IN THE U.S. TEXTILE INDUSTRY

One of the favorite shibboleths of free-trade zealots is that domestic industries are inefficient and slothful. We listen to their neo-puritanical preachments that U.S. companies deserve to be punished by their "disciplined" and "virtuous" foreign competitors. Ignored is the fact that the "discipline" of those foreign producers is to enforce a 14-hour day, and their "virtue" is to pay 30 cents an hour to their desperate workers.

The New Republic intones grandly, "If foreign workers can make a product more cheaply than we can, it is to our benefit to stop making it here, and to buy it from them." This is the reductio ad absurdum of the free trade argument. After all, as a practical matter, what product cannot be made more cheaply abroad? Does the New Republic advocate that we simply disband American industry, lock, stock, and barrel?

This is an insult to American industry and the American worker. According to the Bureau of Labor Statistics and to President Bush, U.S. workers rank first in the world in productivity.

The reality is that the U.S. textile industry is as advanced as any in the world. Investments in modernization have reached almost $18 billion since 1980. The result has been an explosion of technical innovation and productivity. Indeed, since 1974, the productivity of U.S. textile workers has increased at an average annual rate of 4 percent. This compared to an average annual rate of increase of 2.7 percent for all workers in manufacturing. According to the Office of Technology Assessment, the productivity of U.S. textile workers is the highest of all U.S. manufacturing industries and the highest of all textile industries in the world.

Today, however, there is a very real question in the minds of textile executives: Can they afford the expense of additional huge investments for the long term if they are going to be destroyed in the short term by cheap foreign competition? Consider that foreign producers of apparel and apparel fabrics already control some 60 percent of the U.S. market. The *Economist* Intelligence Unit predicted in May of 1988 that if imports continued to enjoy the high growth rate of the 1980s, the U.S. would have 80% import penetration in textiles and apparel by 1995. Truly, if some version of S. 2411 does not become law, we will be looking at the programmed extinction—the phased liquidation—of the domestic U.S. textile complex.

Accordingly, one critically important impact of this bill is that it gives industry executives some assurance that the domestic textile industry will still be here in five and ten years' time, and that continued long-term investments are worthwhile. It provides that degree of stability and predictability that are essential to long-term planning.

THE NONRUBBER FOOTWEAR INDUSTRY

Mr. Chairman, if the textile and apparel industry is suffering from pneumonia, then by comparison the domestic nonrubber footwear industry is in the terminal stages of tuberculosis. Import growth has averaged 11 percent annually since 1981, resulting in import penetration of almost 83 percent of the U.S. market in the first quarter of 1989. Employment in the domestic nonrubber footwear industry is in precipitous decline. Since 1981, 408 nonrubber footwear factories have closed their doors.

Three times, the International Trade Commission has ruled that domestic nonrubber footwear producers are suffering grievous injury. Three times, Executive Branch officials have adjusted their Adam Smith neckties and said, "Too bad. That is the 'creative destruction' of the free market at work."

In this respect, Mr. Chairman, it is ironic that some would say this bill is an exercise in Japan-bashing or Korea-bashing or whatever. It is more accurate to describe this bill as Washington bashing. Its provisions are aimed, first and foremost, at our own government and its refusal to vigorously exercise our rights under the MFA, tighten our bilateral agreements and enforce our trade laws. From the ivory towers of OMB, CEA and State, this Administration preaches a childlike faith in the "invisible hand." Meanwhile, our trading partners pursue a policy of the iron fist. Their nations are citadels of tariffs and barriers to trade. They gang together in consortia and cartels and "common markets" to protect their own industries and to plunder America's.

So let us be done with the mythology of "free trade." The reality is that 90 percent of world trade today is government-to-government trade—trade conducted according to ground rules laid down and enforced by governments. It is time, at long last, for our own government to come in out of left field and go to bat for the hardworking industries and workers of the United States.

The American textile and apparel worker is eager to compete. American industry is eager to compete. By passing the Textile, Apparel and Footwear Trade Act of 1990, let us tell the world that we in the U.S. Government are equally resolved to compete.

PREPARED STATEMENT OF MARK W. LOVE

My name is Mark W. Love, Vice President of Economic Consulting Services. I am appearing today on behalf of the Luggage and Leather Goods Manufacturers of America, Inc. or LLGMA. The LLGMA is an association whose several hundred member companies represent the luggage and flat goods industry in the United States and its suppliers. On behalf of the LLGMA, I want to express the appreciation of the industry for the opportunity to appear today.

As is true of the textile quota bill (S. 2411) and these hearings, my testimony has an obvious eye to upcoming developments in the Uruguay Round negotiations as they will affect the Multi-fiber Arrangement, or MFA. I do not know what the outcome of those negotiations will be. I do know that a revised MFA or any alternate international textile agreement should include textile luggage and flat goods. There is no reasonable basis on which these products could possibly be excluded.

Ours is an industry that has been knocked from pillar to post by international trade. First, there were the initial surges of imports in the early 1980's. This was soon followed by the damaging impact of the strong dollar that completely hamstrung the industry's ability to compete with imports and that greatly increased the rate of import growth.

As a result, the U.S. Government acknowledged the industry as an endangered species, and took what reasonable measures in U.S. trade policy that were available to address the problem. Part of this acknowledgement was the recognition of the vital role that this, and similar industries, play in creating entry-level and semiskilled jobs for newly-arrived Americans and others with fewer options for employment in our increasingly technological and specialized economy.

The industry now is concerned that the government will reverse itself again and remove the modest trade relief it afforded this industry, as a trade-off in international negotiations.

The most recent and troublesome indication of this pressure has come from the textile negotiations taking place as part of the Uruguay Round. The luggage and flat goods industry is concerned that the United States may be targeting its products for exclusion from any new agreement that would replace the current MFA. This would be devastating to the industry. And this is why we believe that it is necessary for us to look at an alternative to these negotiations, which is the bill S. 2411.

As is usually the case in international negotiations, we in the private sector have had, until recently, only the broadest outlines of what the U.S. Government is seeking to accomplish in Geneva. Yet on May 14, the U.S. Government tabled an updated submission on its proposed new textile regime.

In that proposal, there was mention of only one textile product category as an example of products that have been proposed for immediate integration into GATT by participants in the negotiations. That product category was luggage.

It would not be unreasonable to believe that this singular reference to luggage is a reflection of intentions on the part of some in the Executive Branch. This May 14 proposal was a U.S. Government proposal. Furthermore, there has not been, to the knowledge of LLGMA, any written proposal submitted by a foreign government on textiles that specifically requested that luggage be immediately integrated into GATT.

Now, what is the profile of this product that figures so prominently in the U.S. Government proposal?

Here, I make several short points.

First, textile luggage and flat goods are highly import-sensitive and have been long recognized as such in U.S. trade policy. Among other things, these products are exempt from duty-free treatment under GSP and under the Caribbean Basin Initiative.

Second, tariffs on 80% of luggage and flat goods imports were not reduced at all in the Tokyo Round multilateral trade negotiations because these products were deemed to be import-sensitive.

Third, the ratio of imports to production for these products is far in excess of 100%. More than 10,000 employees have lost their jobs in this industry over the last decade.

Fourth, textile luggage and flat goods are a significant textile product. The industry consumes more than 20 million pounds of fiber and, in 1987, used more than $160 million of fabrics in the making of its products.

Fifth, imports of textile luggage and flat goods increased from $83 million in 1980 to $612 million in 1989; between 1988 and 1989 alone, textile imports rose by more than $100 million. See Exhibit 1.

Sixth, textile luggage and flat goods have long been covered by international textile arrangements. They were included in the Long-Term Cotton Arrangement that was in effect starting in 1962, and which was the precursor to the MFA.

Seventh and finally, luggage and flat goods are currently subject to numerous restraint and consultation levels pursuant to the MFA bilaterals now in effect. See Exhibit 2. In fact, nearly 80% of imports of textile luggage is now subject to specific limits. At the same time, so that you do not get an overblown impression of the practical significance of these restraints, the sum of all of these restraints levels is about equal to the entire U.S. market for these products. Thus, the real effect is quite modest, involving more of a brake on massive, damaging import surges than actually halting import growth.

If luggage is atop the list for immediate trade liberalization in Geneva, as the May 14 U.S. proposal would suggest, then there surely is reason for great concern on the part of all of the fiber, textile, and apparel industries. If a product such as luggage and flat goods—with its history of coverage by international agreements, its degree of import-induced market disruption and attrition, its significance as a textile product, and the long-standing recognition of its import-sensitivity in U.S. trade policy is not even to be included in the new textile regime, then what is?

The LLGMA would have hoped that proper balance, consistency, and principles will govern whatever liberalization of textiles is negotiated by the United States in Geneva. We, unfortunately, have reason to expect the worst. From this perspective, one must conclude that S. 2411 represents the only alternative for most of the fiber, textile, and apparel industries.

Exhibits.

Exhibit 1

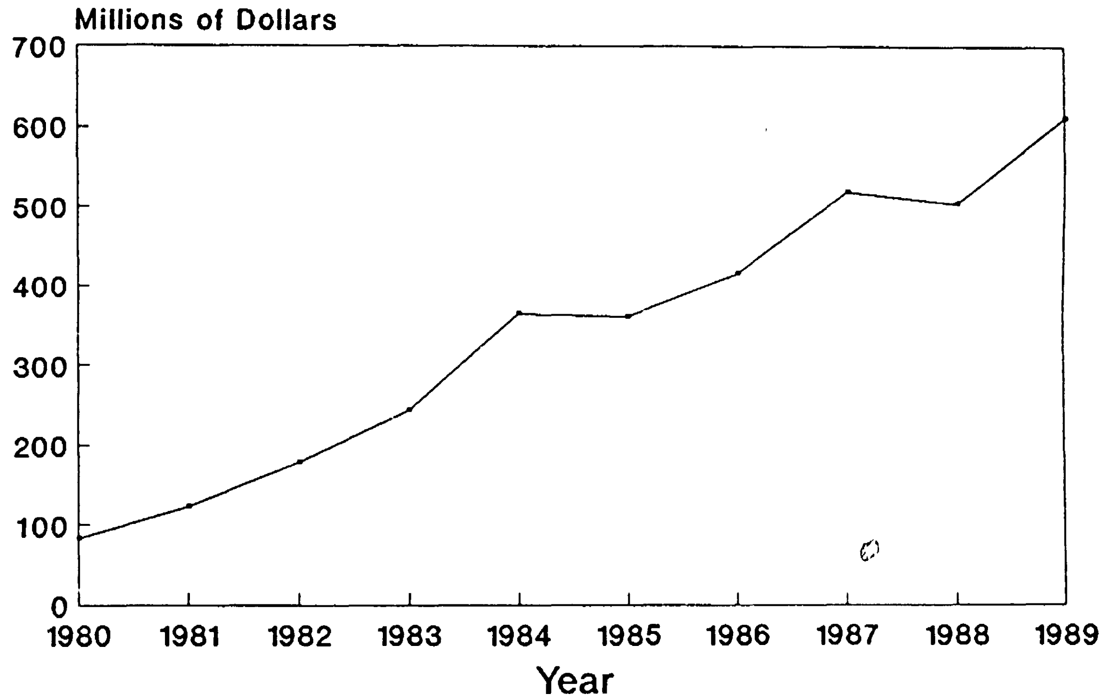


Exhibit 2

MFA QUOTAS ON TEXTILE LUGGAGE AND FLAT GOODS

Product	MFA Category [1]	Country	Type of Quota [2]	In Effect From:
Cotton Luggage	369L	Taiwan	S.L.	Jan. 1986-present
Cotton Luggage	369L	S. Korea	S.L.	Jan. 1986-present
Cotton Luggage	369L	China	S.L.	Aug. 1985-present
Cotton Luggage	369L	Thailand	S.L.	Aug. 1987-Dec. 1988
Cotton Luggage	369B	Mexico	S.L.	Jan. 1987-Dec. 1989
Cotton Luggage & Flat Goods	369	Singapore	D.C.L.	pre 1983-present
Cotton Luggage & Flat Goods	369	Philippines	D.C.L.	pre 1983-Dec. 1986
Cotton Luggage & Flat Goods	369	Romania	D.C.L.	pre 1983-Dec. 1989
Cotton Luggage & Flat Goods	369	Thailand	M.C.L.	Jan. 1982-June 1983
Cotton Luggage & Flat Goods	369	Colombia	M.C.L.	pre 1983-Dec. 1986
Cotton Luggage & Flat Goods	369	Macau	M.C.L.	pre 1983-present
Cotton Luggage & Flat Goods	369	Poland	M.C.L.	pre 1983-Dec. 1989
MMF Flat Goods	670F	Taiwan	S.L.	July 1984-Dec. 1989
MMF Luggage	670L	Taiwan	S.L.	July 1984-present
MMF Luggage	670L	S. Korea	S.L.	March 1984-present
MMF Luggage	670L	China	S.L.	Sept. 1985-present
MMF Luggage	670L	Thailand	Article 3	May 1988-May 1989
MMF Luggage	670L	Hong Kong	Article 3	Sept. 1985-Aug. 1986
MMF Luggage & Flat Goods	670	Mexico	D.C.L.	Jan. 1987-present
MMF Luggage & Flat Goods	670	Singapore	D.C.L.	Jan. 1986-present
MMF Luggage & Flat Goods	670	Macau	D.C.L.	Jan. 1987-present
MMF Luggage & Flat Goods	670	Poland	M.C.L.	Jan. 1987-Dec. 1989
MMF Luggage & Flat Goods	670	Pakistan	M.C.L.	Jan. 1987-Dec. 1989
Jute Luggage	870	Taiwan	S.L.	Aug. 1986-present
Jute Luggage	870	S. Korea	S.L.	Jan. 1986-present
Jute Luggage	870	China	Article 3	June 1988-Oct. 1989
Jute Luggage	870	Thailand	Article 3	May 1988-May 1989
Jute Luggage	870	Macau	M.C.L.	Jan. 1987-present
Jute Luggage	870	Romania	M.C.L.	Jan. 1988-Dec. 1989
Jute Flat Goods	871	Macau	M.C.L.	Jan. 1987-present
Jute Flat Goods	871	Romania	M.C.L.	Jan. 1989-Dec. 1989

(See next page for footnotes)

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Exhibit 2 (cont.)

2

Footnotes:

1/ The MFA categories are as follows:

369L - Cotton luggage
369B - Cotton luggage and handbags
369 - Miscellaneous cotton manufactures. (Includes cotton luggage and flat goods, among other products.)
670F - Man-made fiber flat goods
670L - Man-made fiber luggage
670 - Man-made fiber luggage, flat goods, handbags
870 - Luggage of non-cotton vegetable fibers and silk blends. (Consists primarily of jute luggage.)
871 - Flat goods and handbags of non-cotton vegetable fibers and silk blends. (Flat goods in this category would consist primarily of jute.)

2/ The quota types are as follows:

S.L. - specific limit
D.C.L. - designated consultation level
M.C.L. - minimum consultation level
Article 3 - a unilateral "call" by the U.S. Government when there is evidence of market disruption

Sources: "Summary of Agreements," various issues, U.S. Department of Commerce, Office of Textiles and Apparel; various bilateral agreements and Federal Register notices.

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CONDITIONS IN THE U.S. LUGGAGE AND FLAT GOODS INDUSTRY WARRANT CONTINUED COVERAGE UNDER ANY TEXTILE TRADE REGIME

FACT SHEET

One aim of the Uruguay Trade Round is to work toward integrating textile and apparel trade into the GATT. Such trade is currently governed by the Multifiber Arrangement (MFA). The nature and scope of any "transition mechanism" is not yet clear, and the issue of product coverage is of extreme importance. Based on the long history of MFA coverage and quotas for textile luggage and flat goods, and also based on the import-sensitivity of the industry, it is apparent that these products warrant continued coverage under any new textile trade regime. This position is supported by the following facts:

- Textile luggage and flat goods have been covered by the MFA for many years; coverage for cotton luggage and flat goods dates back to the Long Term Cotton Textile Arrangement, which was in effect from 1962 to 1973. In addition, specific quotas have long been in place on luggage and flat good exports from the major foreign suppliers, most of whom are located in the Far East.

- Luggage and flat goods warrant continued coverage, more so than most other textile and apparel products. The imports-to-production ratio, at over 100 percent, is much higher for luggage and flat goods than it is for most textile fabrics and many apparel products.

- The U.S. luggage and flat goods industry has been recognized as import-sensitive by U.S. trade policy for many years:

  - Luggage and flat goods are exempt from duty-free treatment provided under GSP.

  - These products are exempt from duty-free treatment under the Caribbean Basin Initiative.

  - U.S. tariffs on luggage and flat goods products accounting for more than 80% of total luggage and flat goods imports in 1979 were not reduced by the Tokyo Round of multilateral trade negotiations.

- The luggage and flat goods industry remains as import sensitive as in previous years.

  - Textile imports have grown sharply over the period from 1980 to 1989, from $83 million to $612 million.

  - Over the same period, domestic shipments, in constant dollars, fell nearly 40 percent.

  - By 1988 import penetration in value terms had reached 68% for all luggage and 47% for all flat goods, with import penetration for textile luggage and flat goods considerably higher. Import penetration in terms of quantity is now estimated to be over 80 percent for luggage.

- Luggage and flat goods of leather, textile materials, and plastic have all been heavily impacted by imports. Over the last decade many domestic producers were forced to augment their domestic production with imported product lines, with a number of companies either switching to imports entirely or withdrawing from the industry altogether.

- The result has been a large decline in the work force. From 1979 to 1989, more than 10,000 jobs were lost from this small industry. Many remaining workers are employed in non-urban areas in plants that represent major employers.

- The thrust of imports in the early to mid-1980's was in luggage of textile materials, which entered in massive surges. Several developments caused a short pause in the growth of textile imports in 1988. However, the growth in textile luggage imports resumed in 1989, when imports grew 23 percent over the 1988 level.

- For the U.S. government to now exclude luggage and flat goods from any textile trade regime after the widespread structural adjustments caused by imports over the last decade would be a killing blow for the remaining domestic producers.

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PREPARED STATEMENT OF PETER T. MANGIONE

This statement is submitted on behalf of the Footwear Distributors and Retailers of America ("FDRA") in opposition to S. 2411, the Fertile, Apparel and Footwear Trade Act of 1990. FDRA is an association of chain shoe stores, whose m^ters retail about half of aLl the footwear sold annually in the United States and provide 150,000 Jobs, as well as footwear marketing firms, including many of the nation's leading footwear brands. A list of FDRA members is attached.

S. 2411 is protectionism and unwarranted legislation. It would place a permanent global quota on non-rubber footwear imports, freezing imports at 1989 levels, establish 38 permanent quota categories, and prohibit the President from making any reductions in non-rubber footwear tariffs in the Uruguay Round.

FDRA urges Committee members to oppose S. 2411 on the grounds that it will: (1) increase consumer footwear prices and threaten U.S. Jobs; (2) not make the U.S. footwear manufacturing industry anymore competitive; (3) reduce the ability of retailers to meet changes in consumer demand; (4) violate U.S. obligations under the GATT, giving rise to compensation claims and retaliation; and (5) undermine our efforts to achieve greater market access abroad and our chances for progress in the Uruguay Round.

The bill is at cross-purposes with the provisions of the recently enacted Omnibus Trade and Competitiveness Act of 1988, in particular the amendments to Section 201, which are intended to promote the competitiveness of U.S. industry. *The U.S. non-rubber footwear manufacturing industry has restructured and is highly competitive in categories such as medium priced, branded footwear.* Domestic shoe producers will never become competitive in low price, handmade, fashion and athletic footwear, which together account for a significant percentage of U.S. footwear imports and most of the growth in imports. *Over half of the imports are imported by domestic producers themselves.* The footwear quotas imposed under this bill will do nothing to change this situation. Thus, the footwear quotas imposed under the bill will only succeed in raising prices, limiting consumer choice, provoking retaliation and threatening U.S. jobs.

Dollar sales of U.S. non-rubber shoes have increased from $3.5 billion in 1986 to $4.1 billion in 1989, an increase of 17%. Factory output has remained steady at about 225 million pair per annum for the last four years. This demonstrates an adjusted and competitive industry, not one needing government assistance.

I. S. 2411 WILL INCREASE CONSUMER PRICES. By establishing an aggregate limit on imports of non-rubber footwear at the 1989 level, it might be thought that such a "freeze" would not cause consumer prices to rise. In reality, *the ceiling in the bill could easily "bind," resulting in higher retail shoe prices and a scarcity of the low priced goods that are only available from foreign sources.*

First, imports of non-rubber footwear have been declining from a high of 940.7 million pair in 1986 to 860.4 million in 1989. This, despite stable or somewhat declining U.S. production. While the U.S. population has increased during that period, imports of non-rubber footwear have declined because of fashion shifts. The fashion shift has been principally in the direction of rubber/fabric footwear, where imports have increased from 103.3 million pair in 1986 to 189.7 million pair in 1989. (U.S. production of rubber/canvas footwear also increased from 57.6 million in 1986 to 79.9 million in 1989.) The level of non-rubber footwear imports could increase dramatically if fashion trends shift away from rubber/fabric and back to non-rubber styles. Under such circumstances, the 1989 non-rubber footwear "ceiling" for imports would "bind" and drive consumer prices up substantially.

Second, the provisions of the bill implement the overall 1989 quota ceiling through an intricate system of 38 separate quotas (each of the 19 footwear types has a separate quota for imports above and $2.50 FOB). Imports of non-rubber footwear in each of the 38 categories would be limited to that which was imported during 1989. As inflation continues to push more and more footwear products above the $2.50 level, the quota categories would "bind," forcing prices higher and "cutting off" supplies of low priced goods.

These price increases will fall hardest on low-income consumers. In addition, these consumers can expect to see less and less lower-priced footwear available for purchase because foreign suppliers will ship higher value footwear to the U.S. in order to maximize income over a smaller volume of shipments. *Almost all low-priced footwear that is currently imported cannot be produced by U.S. manufacturers at even remotely competitive prices.* Consumers will be forced to purchase high-priced domestic substitutes, or most probably to forego the purchase altogether. Moreover, the product upgrading that is certain to occur under S. 2411 will put more imported

footwear in direct competition with the higher priced domestically-produced footwear.

The hidden costs of S. 2411 are not confined to price increases. The bill will cause the loss of jobs at shoe stores and in the shoe departments, as higher prices curb purchases and the need for retail employment.

II. THE BILL WILL NOT MAKE THE DOMESTIC FOOTWEAR MANUFACTURING INDUSTRY MORE COMPETITIVE: IMPORTS HAVE GROWN TO MEET CONSUMER DEMAND AND WILL NOT BE REPLACED BY DOMESTIC PRODUCTION. Total consumption of footwear grew by over 400 million pairs from 1975 to 1989. U.S. per capita, non-rubber footwear consumption in 1989 reached 4.3 pair. Per capita consumption prior to 1984 for non-rubber footwear had hovered between 3 and 4 pair for twenty-five years. *Imports created this boom in consumption.* The introduction of wide style ranges of imported athletic footwear and low-cost fashion footwear has fueled growth in a previously static marketplace. These growth segments are limited to imports. Due to U.S. wage scales and overhead costs, the U.S. industry cannot produce these products at the at the requisite price points. Restraining imports within these products groups to 1989 levels would, thus, restrict U.S. consumer choice without increasing U.S. production or creating more U.S. jobs.

Low-cost imports and athletic footwear imports are labor intensive, hand-made products manufactured in a wide range of fashion-oriented styles. The limited U.S. production of lower-valued footwear, on the other hand, is largely not competitive with imports. It is machine-made, injection molded footwear extremely limited in style and product-type. Moreover, U.S. production of athletic footwear has never approached the volume necessary to satisfy market demand. For example, U.S. non-rubber athletic footwear production in 1989 equalled about 9 percent of total U.S. non-rubber athletic footwear consumption. Thus, imports of these two product groups complement rather than displace U.S. production and restraining these import-specialty groups will not result in significantly increased U.S. production. The role these two import-specialty groups played in increasing U.S. consumption is readily demonstrated by a per capita analysis of the U.S. marketplace. (See Table 1).

Between 1931 and 1989 per capita consumption increased from 3.2 pair to 4.3 pair. During the same time period per capita consumption of the low priced imports (those valued at $5.00/per pair or less) increased from 0.7 pair to 1.2 pair, while athletic import per capita consumption increased from 0.3 pair to .8 pair. Thus, these two import groups accounted for nearly all of the pair per capita increase and of the growth in consumption.

Restricting these import specialty groups would, thus, halt the growth in U.S. consumption without increasing U.S. production.

III. QUOTAS WOULD FRUSTRATE CONSUMER DEMAND. As noted, the bill would restrict not only the total volume of imports but would also arbitrarily freeze the product mix available to the American consumer according to 1989 demand patterns. *A static quota category system with 38 categories based on gender, upper composition, style and price point fails to allow for changes in consumer preference.* Such inflexibility in the fashion-driven, constantly changing U.S. footwear business would severely restrain the retailer's ability to respond to consumer demand. For example, in 1979 U.S. women were demanding "Candies" leather high-heeled "slides" and women's leather footwear imports from Italy were the response to this demand, growing by 50 percent in 1979 over 1973 levels and then dropping by 53 percent in 1980 when the fashion changed. Since 1983, fashion and lifestyle changes have shifted demand to athletic-styled footwear. Today instead of "Candies," high-topped Reeboks or L.A. Gear's are the height of fashion.

Recent trends in athletic footwear clearly demonstrate the shifting pattern of demand. For example, between 1983 and 1986 imports of athletic footwear grew by 142.8 million pair and the product group's share of total imports increased from 15.1 percent to 24.5 percent. (See Table 2).

Arbitrarily imposing the product mix of one year on subsequent years' imports spells disaster for consumers. If 1986 imports of athletic footwear had been restricted to 1983's category share, *the American public would have experienced a shortfall of 88.5 million pair of non-rubber athletic shoes.* Moreover, the U.S. footwear manufacturing industry would not have been able to cover the shortfall because it could not produce competitively at the price points which created consumer demand.

The bill also will create uncertainty for retailers and importers because it makes no provision with respect to the administration of the footwear quotas. The bill merely gives the Secretary of Commerce the authority to promulgate regulations necessary to "fair and efficient administration" of the quotas. Importers and retailers have no assurance as to how this authority would be implemented. Critical questions as to the method and timing of quota allocation are left unanswered.

IV. S. 2411 WILL VIOLATE U.S. OBLIGATIONS UNDER THE GATT AND PROVOKE COMPENSATION CLAIMS AND RETALIATION. The permanent, unilateral import freeze imposed under the bill violates the United States obligations under Articles XI, II, and XIX of the GATT giving rise to compensation claims and the threat of foreign retaliation. Article XI of the GAFF prohibits the unilateial imposition of quantitative restrictions unless specifically authorized under a GAFF rule.

The global import quotas on footwear imports under S. 2411 cannot be justified as an import safeguard measure under Article XIX because they are permanent rather than temporary, are based on a mere declaration of injury and prohibit any growth in imports above 1989 levels. The bill also provides inadequate tariff negotiating authority to meet the compensation requirements under Article XIX. The fact that the bill freezes footwear imports at 1989 levels and allows for no growth is also inconsistent with Article XIII.

As noted, the compensation authority provided to the President under the bill is far from adequate to meet Article XIX compensation claims from footwear exporters. The bill limits the President's authority to reduce tariffs on non-rubber footwear to no less than 90 percent of the existing *ad valorem* rate and requires that these reductions be phased in over 5 years. This level of compensation is far from adequate to meet compensation claims from affected suppliers who would be likely to exercise their right to retaliate. For example, women's leather footwear is now subject to a 10 percent *ad valorem* rate. The bill, thus, allows for a total reduction of only one percentage point implemented over a 5 year period at a reduction of a mere .2 percentage point per year. This translates to a tariff saving's of just $0.01 per year on a pair of $5.00 (F.O.B. value) shoes. Under Article XIX having found compensation to be inadequate, footwear exporters would be entitled to respond to the footwear quotas by placing equivalent restrictions on $7.4 billion in U.S. exports.

V. S. 2411 WILL UNDERMINE CHANCES FOR PROGRESS IN THE URUGUAY ROUND. In addition to violating the GATT and encouraging retaliation, S. 2411 will undermine our chances for achieving greater market access and increased international discipline in the areas of intellectual property, services and investment in the Uruguay Round. Imposition of GAFF-inconsistent unilateral footwear import restrictions under the bill would violate the United States' commitment to refrain from implementing new import restrictions under provisions of the Punta del Este Ministerial Declaration. This action by the United States would lead our trading partners to question the seriousness of the United States commitment to the New Round.

The second way in which the bill would undermine the chances for progress in the Uruguay Round is that it *prohibits the President from making any tariff reductions in non-rubber footwear tariffs in the New Round or in any other bilateral or multilateral negotiation outside of an Article XIX compensation negotiation.* Tariffs on non-rubber footwear imports are one area in which U.S. tariffs remain relatively high. Developing countries will seek reduction in non-rubber footwear tariffs in the Uruguay Round. Therefore, in prohibiting any tariff cuts on non-rubber footwear, the bill removes an essential area of leverage that could be used by the President to gain greater access to developing country markets and to achieve progress in investment, services and intellectual property issues. Refusal to bargain in footwear would seriously weaken the United States position.

VI. CONCLUSION. For the foregoing reasons, FDRA urges committee members to oppose S. 2411.

Table 1.—PER CAPITA APPARENT CONSUMPTION OF NON-RUBBER FOOTWEAR TOTAL AND SELECTED PRODUCT GROUPS, 1981–89

	Apparent consumption		Imports under $5.00/PR [1]		Athletic Imports	
	Vollume (Mill PR)	Per Capita (PR)	Volume (Mill PR)	Per Capita (PR)	Volume (Mill PR)	Per Capita (PR)
1981	736.2	3.2	159.3	0.7	57.3	0.3
1982	829.7	3.6	209.9	0.9	87.0	0.4
1983	913.4	3.9	267.0	1.1	88.0	0.4
1984	1020.0	4.3	318.2	1.4	121.6	0.5
1985	1096.8	4.6	373.4	1.6	175.0	0.7
1986	1162.2	4.8	414.9	1.7	230.8	1.0
1987	1156.3	4.7	436.6	1.8	216.6	0.9
1988	1122.5	4.6	339.9	1.4	234.1	1.0

Table 1.—PER CAPITA APPARENT CONSUMPTION OF NON-RUBBER FOOTWEAR TOTAL AND SELECTED PRODUCT GROUPS, 1981-89—Continued

	Apparent consumption		Imports under $5.00/PR [1]		Athletic Imports	
	Vollume (Mill PR)	Per Capita (PR)	Volume (Mill PR)	Per Capita (PR)	Volume (Mill PR)	Per Capita (PR)
1989	1071.7	4.3	305.6	1.2	202.8	0.8

[1] Except athletic.
Source: 1981-86—U.S. Department of Commerce. 1987-89—Footwear Industries of America.

Table 2.—U.S. IMPORTS ON NON-RUBBER ATHLETIC FOOTWEAR BY PRICE POINT AND UPPER

	1983		1984		1985		1986	
	Volume (000 PR)	Import share (Percent)	Volume (000 PR)	Import share (Percent)	Volume (000 PR)	Import share (Percent)	Volume (000 PR)	Import share (Percent)
Categories:								
Under $2.50/pair								
Leather	1,727	0.3	1,172	0.3	2,704	0.3	3,010	0.3
Plastic	823	0.1	1,751	0.2	1,789	0.2	2,596	0.3
Over $2.50/pair								
Leather	77,485	13.3	109,040	15.2	152,214	18.1	174,136	18.5
Plastic	8,001	1.4	8,580	1.2	18,278	2.2	151,052	5.4
TOTAL	88,036	15.1	121,543	16.7	174,985	20.8	230,794	24.5

Source: U.S. Department of Commerce.

Prepared Statement of Eugene J. Milosh

The American Association of Exporters and Importers (AAEI) is an association of 1,200 importing, exporting, retailing and manufacturing firms, including more than 350 members involved in textile and apparel trade and 50 members involved in footwear trade. As such, it is the largest United States association of textile, apparel and footwear importing firms.

AAEI has for many years maintained a position in favor of phasing out the Multi-Fiber Arrangement's artificial and disruptive trade restrictions on textiles and apparel that have regulated our business by dictate for more than 30 years. We therefore are extremely concerned and dismayed, to say the least, that another textile quota bill requiring the establishment of global quotas on textile products and footwear is once again pending before the Congress. We vehemently oppose this initiative.

It is undisputed that quotas, and their restriction of open trade and associated market forces, impose far higher costs, and damage, on the United States economy than do tariffs and other temporary foreign trade regulation measures. Numerous studies have shown that, overall, high tariffs and quotas under the MFA already cost U.S. consumers more than $20 billion annually, or $240 per average family. Since globalization of quotas represents an expansion of the present textile import quota agreements, it is clear that the textile bill would dramatically increase costs to consumers and add new and unnecessary layers of bureaucracy and regulation.

Because of the regressive nature of the additional costs created by increased protection, the lowest income consumers who can least afford higher prices will be hurt the most if global quotas are implemented. It already has been determined that the MFA has caused the poorest 20 percent of U.S. families to experience a 3.6 percent decline in their standard of living, nine times the burden of the average household.

The bill which brings us together today is the third such bill since 1985. It is a bill whose only purpose is to serve as leverage to prod the Administration to obtain as restrictive an agreement as possible in the Uruguay Round negotiation. Just like its predecessors, this bill would violate U.S. international obligations under both the MFA and the GATT, require the United States to abrogate most of its bilateral textile agreements, and invite retaliation. Allow us to review, once again, the offensive provisions of the current quota bill.

S. 2411 would place permanent quotas, based on 1989 *levels of trade*, on all textile and apparel imports from all countries, except Canada and Israel, on a product-by-product basis, with annual growth limited to one percent. This means that there would be a *cutback* of current restraint levels for many suppliers already subject to quotas, because the level of trade has been less than the actual quotas, and new restraints on suppliers never before subject to restraint. The one percent annual growth permitted does not reflect the current growth of the market and would serve only to make it nearly impossible for importers and retailers to respond to frequent changes in consumer demand. Given that the U.S. Government has committed in the Uruguay Round to ultimately integrate textile and apparel trade into normal GATT rules, this bill is obviously a large step in the wrong direction on textile policy. It also would substantially limit our chances of liberalizing the rules and opening markets in other sectors being considered in the GATT negotiations.

The bill also would freeze footwear imports at 1989 levels.

These blatantly protectionist steps would be taken on the pretense that these imports are causing serious injury to domestic producers. The domestic textile, apparel and footwear industries are not suffering serious injury at all, much less because of imports.

A review of the profits and shipments of textile companies shows that they are considerably better than those of retail concerns and other manufacturing sectors. According to one study, textile industry before tax profits in both 1988 and the first three-quarters of 1989 were 4.6 percent, with after tax profits of 3.1 and 3.2 percent, respectively. This is even better than in 1985 when textile industry before tax profits were 4.1 percent and after tax profits were 2.4 percent. By comparison, during 1988 and the first half of 1989 the retail sector had before tax profits of 2.0 and 2.6 percent, respectively, and after tax profits of 2.0 and 1.6 percent, respectively. In addition, domestic textile and apparel shipments are up almost 24 percent, in dollar terms, between 1985 and 1989. This is substantially better than the "all manufacturing" average, which increased 18.8 percent.

Even more telling about the health of the over-protected textile industry are the capacity utilization rates. While the capacity utilization rate for all manufacturing averaged 84 percent in 1989, reflecting an increase of 4.6 percent over 1985, the capacity utilization rate for textiles in 1989 was an extremely impressive 91.5 percent, up 9.8 percent over 1985. These facts make the textile industry's "consumer be damned" attitude all the more offensive.

The domestic footwear industry also cannot claim serious injury. It is an industry which already has successfully rationalized production. A prime example of the current favorable condition of that industry is U.S. Shoe Corporation, which only last month announced that it had achieved record first-quarter earnings in 1990. According to U.S. Shoe, the company's footwear operations posted an operating profit margin of 5.8 percent, outstripping the company's 5.5 percent company-wide operating margin. Those impressive earnings were attributed to domestic manufacturing production increases of 20 percent over the company's plan. Similarly, the Brown Group, Inc. the other major domestic footwear producer, has increased its earnings 19.5 percent over the first quarter of 1989. Those increases are directly due to the performance of its footwear divisions. Both of these companies have been very innovative, introducing popular lines of fashionable walking shoes.

Under these circumstances, where there is a clear need for footwear companies to be able to respond quickly to changes in the market, an inflexible restraint on imports is nonsensical. The U.S. footwear market is varied and the footwear consumer is discriminating. The price, quality and fashion sense of manufacturers, be they domestic or foreign, is what dictates what will sell. Locking out imports will not change that basic reality; it will only increase prices.

The bill is also GATT-illegal. First, the blanket statement of injury contained in the bill is a sham, intended only to provide the appearance of complying with the requirements of Article XIX of the GATT. Second, Article XIX authorizes import relief, but only to the extent that, and for such time as, may be necessary to remedy serious injury caused by imports. S. 2411 establishes permanent quotas on textiles, apparel and footwear which will only be *reviewed* at the end of 10 years, with no requirement that the restrictions be modified or terminated in response to "improvements" in conditions in the domestic industry.

In addition, the bill makes a mockery of the compensation requirements of Article XIX by outrageously limiting the President's authority to compensate the suppliers affected by the new quotas. According to the bill, the President may reduce textile and apparel tariffs to no less than 90 percent of current rates and must phase in that minimal reduction evenly over a five year period. Let's be blunt—that hardly qualifies as compensation. Our textile and apparel tariffs average 18.3 percent,

almost five times the rate of approximately 3.6 percent for all other dutiable products. It is obvious that the domestic industry wants to retain its tariff protection as well. When you consider that the U.S. International Trade Commission has determined that the current quotas already equate to an additional tariff of 21.8 percent for textiles and 28.3 percent for apparel, this is truly outrageous. The clear result of enactment of this bill would be massive retaliation by our trading partners, at the expense of many industries, including, if not especially, agriculture.

S. 2411 also would require that 20 percent of the textile and apparel quotas be sold at auction by the Treasury Department—an auction in which only "U.S. companies" could participate. AAEI understands that the intention of this provision is to move "quota rents" from foreign countries to the U.S. Treasury. However, the combination of cutbacks in restraint levels and new levels of bureaucracy will surely create substantial uncertainty and even chaos for U.S. businesses and undoubtedly cause costs to spiral, both for importers and consumers and small businesses.

There can be no question that should an auction be implemented, it would become an irrevocable tax on imports. As was noted in a recent World Bank study, once a revenue-raiser is in place, it is here forever, to the detriment of U.S. consumers who would have to bear the brunt of the additional costs.

AAEI also is concerned that an auction system carries with it the very real potential of conferring upon a few companies monopolistic-type control of the American market. Small-business and U.S. consumers once again would be the losers.

The bill purports to create special provisions for Caribbean countries, but those provisions are just a smokescreen. Caribbean countries may be guaranteed their level of trade in 1989, but only at the expense of shipments from other suppliers.

The textile industry will tell you it needs this bill in order to adjust to import competition. What have they been doing for the past thirty years? Was that not the purpose of the "temporary" protection intended by the MFA in the first place?

They also will tell you that the MFA hasn't worked, or that the U.S. Government has failed to enforce its rights under the MFA. That's not true. There are some 40 bilateral textile agreements and more than 1,000 individual restraints, not to mention a plethora of even more restrictive group and aggregate restraint levels which often preclude suppliers from filling individual category quotas. There have been 16 new unilateral restraints established by the U.S. Government this year alone, as well as 8 embargoes, preventing U.S. businesses from bringing in the merchandise they already paid for. Protestations that imports increased 13 percent in 1989 compared to 1988 have to be taken with a grain of salt since imports of textiles and apparel actually declined in 1988.

The fact is that the domestic textile industry does not want to adjust to import competition—they want permanent protection and a guaranteed large share of the American market, regardless of prices. They introduced this bill solely because they are afraid that the Uruguay Round negotiations may result in the *eventual* elimination of quotas on textiles and apparel imports. It is not a surprising action, since the same tactic worked very well during the last re-negotiation of the MFA. It was as a direct result of the legislative threat of a global quota bill that the U.S. Government negotiated an expanded MFA and highly restrictive bilateral agreements with the major suppliers.

The importing and retailing community implores this Committee not to be a pawn in this latest ploy. The domestic industry has had three decades to adjust to import competition. Instead of providing even greater protection to the textile industry, the Congress should be promoting a smooth transition to free trade in textiles and apparel. Toward that end, AAEI proposes a gradual phase-out of the MFA by requiring increasingly higher growth rates until quota levels become irrelevant. Like the Administration textile proposal in the Uruguay Round, AAEI believes this can be accomplished within ten years. Unlike the Administration proposal and S. 2411, it would provide an effective and practical transition toward true free trade in this sector, a goal to which all members of the international trade community, including the United States, have committed. The Association urges you to consider this very logical and workable proposal and to either not report S. 2411 out of Committee or report it out unfavorably.

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Prepared Statement of Senator Terry Sanford

THE TEXTILE AND APPAREL WORKERS OF THIS COUNTRY CAN WAIT NO LONGER FOR A TEXTILE BILL

Thank you, Mr. Chairman, I appreciate your efforts and those of our colleagues to move so expeditiously with hearings on the Textile, Apparel and Footwear Trade Act of 1990. I don't need to remind the members of this Committee how long this issue has been debated. It is time to get on with it and I appreciate all of the committee's efforts to act promptly.

I represent more than 350,000 textile and apparel workers in North Carolina and can attest that the industry is once again being severely damaged by an ever increasing flood of imports. In my state alone, 6 plants were closed in 1989, causing job losses for over 1,000 people, while new-plant closings have followed this year. One thousand jobs may not sound like a lot of jobs overall, but to the person who loses his job, it is no consolation that he or she is one of only a thousand. These job losses extract a more painful price when they occur, as most of them do in North Carolina, in small towns where there are no other centers of employment. Many of these workers are women with children; all are workers of modest means.

Record high import levels are causing massive displacement in these industries. Since 1980, imports have virtually doubled their claims on this country's apparel and apparel fabric market. In 1980, imports already accounted for 28% of the market, but they now account for 59% of the market. Equally disturbing is the fact that the United States now imports $2.3 billion more in textiles and apparel then we export. Imports continue to surge while the domestic market remains stable at a one-percent growth level. As a result, U.S. profits are down by 71%.

It is essential that we enact a policy to stem this intolerable flow of imports. Since 1980, the U.S. trade deficit for the textile and apparel industries expanded from $4.6 to $26.5 billion. Presently, the textile and apparel trade deficit accounts for nearly a quarter of this country's entire trade deficit. This trend must not continue, as it will ultimately lead to the destruction of one of this country's most important manufacturing industries.

The last time the Congress considered textile legislation was 1987, when the industry was having an unusually good year. We were told then that we didn't need a textile bill, that imports were declining, that the Administration's policy of negotiated bilateral agreements would solve everything. Nothing could be further from the truth. Despite bilateral agreements with most of our major trading partners, imports have reached an all time high.

Next came the allegation that our textile and apparel industry in not efficient and competitive, but again, nothing could be further from the truth. During the past ten years, the average productivity level of the textile industry increased by 4.6% per year, compared to 2.7% for all manufacturing. In 1988, the U.S. invested a record $2.14 billion in new textile equipment. These increased efficiencies have kept prices for domestically produced textiles and apparel quite stable, while import prices have increased by almost 5% over the last year.

North Carolina offers the best example as to how detrimental the effects of imports are on our domestic market. North Carolina is the largest textile state in the country, employing almost as many textile and apparel workers as all of the other states combined. The efforts made by this industry to modernize their plants and increase their efficiency have been nothing short of heroic. Indeed, I wish my colleagues could walk with me through any number of the textile or apparel plants in my home state. I know that you would be impressed, as I have been during my visits to so many companies, at how modern our plants are and at how hardworking and efficient our labor force is.

These plants stand in complete contrast to many of the labor intensive plants found in so many countries in Asia The differences bring home the stark reality facing the textile industry and its workers: this industry is not suffering because it lacks skilled workers, modern technology, or the business smarts to compete internationally. Plants are closing and men and women are losing their jobs because for too long the United States has permitted textile and footwear imports from countries who do not reciprocate our open market policies or who seek to gain an unfair advantage through government subsidies and excessively low wages.

The bill that is before the Committee today offers the stability and fair playing field that our domestic market rightfully deserves and expresses our commitment to our nations's economic security. This bill imposes global quotas on textiles and apparel, with one percent growth annually, thus giving imports the right to grow as fast as the domestic market has typicallygrown. It also gives increased quotas to countries who increase their purchases of U.S. farm products.

It also recognizes our special trade relationships with Canada and Israel by exempting them from the bill. The Caribbean Basin Initiative countries are also guaranteed their current 11 percent market share. This bill is thus more than fair to all of our trading partners.

We owe it to the textile and apparel workers of this country to enact legislation to ensure that imports do not continue to flood our markets at ever increasing rates. The millions of textile and apparel workers deserve a fair playing field and we need to make sure they get one. This legislation does not attempt to shut imports out or to spare our textile and apparel industry the need to compete. It is an attempt to allow a basic and vital American industry to survive in the face of a tide of unfair and uncontrolled imports.

I thank the Committee for its efforts to act on this bill in a timely fashion and urge you to favorably report out this bill soon.

Prepared Statement of Ronald J. Sorini

I appreciate the opportunity to appear before you to express the Administration's views on S. 2411, the Textile, Apparel and Footwear Trade Act of 1990.

Simply stated, the Administration strongly opposes enactment of this legislation. We do not believe that this legislation is necessary, and its very introduction sends the wrong messages to our industries and to our trading partners. It encourages domestic industries to come to Washington to obtain government protection instead of focusing their entrepreneurial abilities and efforts on competing in the global market place. It invites our trading partners to turn inward and erect trade barriers against U.S. exports rather than negotiate with us to develop a global system that will expand trade, thus enhancing economic opportunities for all nations. In addition, the Department of Justice advises that it has constitutional concerns with S. 2411, which it will be reporting on separately.

Our textile and apparel industries do not need greater protection. These industries, and especially the textile sector, have grown steadily over the past few years. Domestic shipments for both textiles and apparel increased 6.7 percent in 1989, while exports increased 27 percent. Capacity utilization in the textile industry was 88.9 percent in 1989, compared to 84 percent for all U.S. manufacturing industries. The U.S. industry has maintained high rates of capacity utilization over the past four years, averaging 88.6 percent. Fiber consumption by U.S. textile mills reached an all time high in 1989, increasing by 3 percent from 1988. At the same time, the capacity index, which measures capacity as a percentage of 1987 output, is at an all time high of 114.6, reflecting steady growth over the past five years. Unemployment in the major textile and apparel producing states is generally lower than the national average. Based on the information available to us, we have a hard time segregating the textile and apparel sector from the rest of U.S. industry on the basis of exceptionally poor performance.

Textile and apparel imports fluctuate yearly. For example, imports decreased by 6 percent in 1988, and increased by 13 percent in 1989. However, from 1986, the year the current Multifiber Arrangement (MFA) was negotiated, to 1989, imports in volume terms increased at a compound annual rate of only about 2.5 percent. During the first quarter of 1990, imports grew by 4.7 percent as compared to the same period last year. While developing countries still send more of their apparel and textile exports to the U.S. than to any other nation in the world, the share we take is declining. According to GATT statistics, in 1985 we absorbed 48 percent of the dollar value of apparel exports from developing countries, and 35 percent of their textile exports. However, in 1987 we received 41 percent and 30 percent, respectively, of the apparel and textile exports from developing countries.

Our consumers shoulder a heavy burden given the current restrictions we have in place on textile and apparel imports. The bill would significantly add to the burden on American consumers, especially for those in the lower and middle income levels, by raising prices and limiting consumer choices. On the basis of a preliminary review, the Council of Economic Advisors conservatively estimates the consumer costs of the import restrictions imposed by the bill from 1990 to 1994 to range from $29 billion to $43 billion. Other estimates of the costs of the bill's restrictions are similarly high. Consumer costs per job saved in the textile and apparel industries could run as high as an annual average $100,000 or more during the first five years. The Administration is currently preparing more detailed estimates of the costs of this legislation.

The textile and apparel industries clearly have substantial protection from imports under the MFA, which is the international arrangement that establishes spe-

cial trading rules for textiles and apparel. In fact, from the point of view of consumers, the retailing industry, and many importing companies, our restrictions are too rigid. For example, we were highly criticized by these groups last year, when in renegotiating our agreements with Taiwan and Korea, we reduced quotas by nearly 200 million square yards. We agreed to do this, partially at the urging of some Members of Congress, in an effort to expand the opportunities for Caribbean nations in our market. However, since it now appears that textiles will be excluded from an enhanced Caribbean Basin Initiative (CBI), the critics are even more concerned about potential shortages in our market.

In all, well over 1,000 quotas have been negotiated with 38 foreign suppliers of textiles and apparel to the U.S. In addition, we are seeking agreements with three additional countries. As a result, about 75 percent of our textile and apparel imports are restricted by quotas that grow at an annual rate of 3.5 percent. Another 15 percent of our imports come from Europe, Canada and other developed countries that are not now subject to quotas in the U.S. market.

The bill would violate the MFA, and the 38 international agreements we have negotiated under its auspices, by setting unilateral quotas on virtually all textile and apparel imports. The MFA does permit the unilateral imposition of quotas, but only in accordance with special procedures for dealing with market disruption caused by "imports of particular products from particular sources." Within the confines of the global quotas that would be mandated by this legislation, we simply could not honor the quota levels and other provisions of the bilateral agreements we have negotiated.

In addition, most would argue that this legislation is inimical to the normal rules and disciplines of GATT. Article XIX of the GATT permits us to grant temporary relief to an industry provided we can demonstrate that increased imports of the relevant product have caused or threaten serious injury to domestic producers. S. 2411 contains only a broad Congressional finding that increased imports are causing or threatening serious injury to our textile, apparel and footwear industries. "Textiles, apparel and footwear," however, are actually several industries covering scores of products. For example, the industries that produce hosiery, leather footwear, men's suits and broadwoven fabrics are all very different. In order to justify Article XIX actions, specific economic analysis would be necessary for each industry demonstrating the link between increased imports and injury to domestic producers. Therefore, the bill, most would argue, attempts to supersede established GATT rules, as well as U.S. procedures under Section 201 of the Trade Act of 1974, for taking safeguard measures.

A responsible nation such as the United States simply can not disregard the international rules and agreements we have negotiated without severely undermining our credibility around the world and forcing other countries to respond. If this legislation were to become law, then under Article XIX of the GATT, other nations could legally retaliate against us without going through the established dispute settlement process. The passage of this bill would undoubtedly provoke retaliation against U.S. exports. Virtually all of our trading partners would suffer the consequences of its passage. Our most competitive exports, such as aerospace and agricultural products, would be in jeopardy. The compensation authorized in the bill, a *maximum* ten percent reduction in existing textile, apparel and footwear duties, would be inadequate to address the potential losses to our trading partners. In the case of apparel, for example, the average tariff rate would be reduced by less then 2 percentage points, from 19.3 percent to about 17.4 percent. This compensation would be insignificant considering the impact of the unilaterally imposed restrictions on our trading partners. In addition, no further duty reductions would be permissible in the Uruguay Round tariff negotiations. Thus, the legislation changes the tariff negotiating authority granted to us under Section 1102 of the 1988 Omnibus Trade Act two years after it was granted and just six months before the end of the Uruguay Round.

Not only are we concerned about retaliation, but the dangerous precedent this legislation would set. How can policy makers in Mexico, which have made courageous decisions to open their market, continue to resist protectionism pressures if we shut our door to increased textile and apparel trade? How would other countries, such as those in Eastern Europe that are looking to free market principles for their salvation, respond to this legislation?

In particular, we are extremely concerned about the damage this legislation would cause to the Uruguay Round of multilateral trade negotiations, which the United States and nearly one hundred other nations are conducting in Geneva. These negotiations represent our best, and perhaps the last opportunity of this century to reform agricultural trade, expand market access overseas for all U.S. indus-

tries, including textiles, apparel and footwear, curtail trade-distorting subsidies, expand the disciplines of the trading system to services and investment, provide adequate protection for intellectual property, and to ensure that all countries, developed and developing alike play by the rules. The Uruguay Round trade talks are ambitious and its success is vital to the future economic prosperity of the U.S. and all nations of the world. If this textile legislation is passed into law, then other nations will take off the negotiating table matters that are extremely important to us. Should this happen, the Uruguay Round negotiations will fail and the future of the international trading system will be bleak. Therefore, we must ask, why should we risk our economic prosperity in order to enact S. 2411?

This legislation does not attempt to open foreign markets, but merely to close ours. If the goal really is to "level the playing field" then the tools under Section 301 of the Trade Act of 1988, and our efforts in the Uruguay Round negotiations, are adequate.

We strongly believe in competition and the inherent benefits to our economy that result from the dynamics of a free market. The textile and apparel industries historically have been protected by high tariffs, and for over thirty years by special protection in the form of quotas. We are seeking to gradually reduce their reliance on protection by negotiating a new international trading order that eliminates the need for special textile and apparel trading rules. Major portions of our textile and apparel industries are globally competitive and could prosper in an open world trading system, but many sectors also need and deserve a further period of transition to help the adjustment process. We are committed in the Uruguay Round negotiations to bringing textiles and apparel under strengthened GATT rules and disciplines, but we are also committed to the negotiation of an acceptable transition mechanism for doing so. As Ambassador Hills said before the American Textile Manufactures Institute on May 11, "integration is inevitable, but transition rules are critical."

We are studying three options for a textile and apparel transition; (1) a system based on the MFA, (2) global-type quotas and (3) tariff-rate quotas. At present, most of our trading partners, as well as U.S. importers and retailers, prefer an MFA-based system. While the specific transition rules are not yet decided, special protection for textiles and apparel will continue for some time—our proposal is that it continue for ten years beyond the current MFA, which expires on July 31, 1991. It is not only imperative that the transitional rules we employ are accepted by our trading partners, but that they allow our textile and apparel industries to adequately prepare for global competition. The move toward a free and open trading system will not be easy for those industries in the U.S. and in other countries that have relied on protection from imports. We will be working closely with the private sector to ensure that the transition for our textile and apparel industries is not too abrupt.

The Administration is also committed to working with Congress on the Uruguay Round negotiations. We do not believe that legislation to provide additional protection to our textile, apparel and footwear industries will assist our efforts. We and our trading partners are fully aware that ultimately, Congress will have the final say on whether or not the agreements we negotiate in Geneva will be accepted by the United States. We believe our effort; should be focused on a successful conclusion of these negotiations, not on debating unneeded legislation to further restrict textile and apparel imports.

In summary, the reasons for dismissing this legislation are clear to us; the additional protection it would provide our textile, apparel and footwear industries is not warranted in domestic economic terms, and would have a catastrophic impact on the international trading system, it would violate our existing international commitments, jeopardize the new global trading order we are attempting to negotiate and threaten to reverse the sweeping economic changes that have taken place in Mexico and are just beginning in other countries such as in Eastern Europe, and would hurt our consumers.

RESPONSE OF MR. SORINI TO A QUESTION SUBMITTED BY SENATOR SYMMS

Question. Commerce Department data show that domestic shipments of textiles increased by 29% between 1985 and 1989 and that domestic shipments of textiles captured 91% of the growth of the U.S. textile market during this period. Similarly domestic shipments of apparel increased by 27% between 1985 and 1989 and domestic apparel shipments captured 63% of the growth of the U.S. apparel market.

Given this strong showing of the U.S. textile and apparel industries, why is there a need for any additional protection from overseas competition?

Answer. We do not believe the additional protection proposed in the Textile, Apparel and Footwear Trade Act of 1990 is necessary or warranted. Economic indicators for the industry, in addition to shipments, such as capacity utilization and fiber consumption, have continued to show steady gains. In addition, the textile and apparel industry is already protected by over 1,000 product quotas contained in bilateral agreements with 38 trading partners, and by tariffs that are much higher than the average U.S. tariff level on manufactured products.

For these reasons, as well as the fact that if enacted, the bill would violate our international obligations and wreak havoc with the ongoing multilateral trade negotiations being conducted in the context of the Uruguay Round, the Administration strongly opposes the bill.

PREPARED STATEMENT OF JAY MAZUR (SUBMITTED BY HERMAN STAROBIN)

This statement is submitted on behalf of the International Ladies' Garment Workers' Union, AFL-CIO. Our Union has some 200,000 members employed in the production of women's and children's apparel, accessories and related products. Our members live and work in more than two-thirds of the states spread across our nation.

I am here today in support of S. 2411, the Textile, Apparel and Footwear Trade Act of 1990. The survival of our industry and the jobs of 860,000 garment workers depend on its passage into law.

The sponsors of S. 2411 deserve to be commended. They recognize the plight of a key American industry and its workers in the face of profit-hungry retailers and importers and an uncaring government and they have once again introduced legislation to prevent the destruction of the apparel and textile industries.

This is now the third time since 1985 that the Congress has come forward in an effort to save our industry.

Congress first acted in 1985. At that time, imports already accounted for nearly 40 percent of the U.S. market and production worker employment in apparel had fallen to 933,000, a loss of nearly 300,000 jobs since the 1973 peak. Both houses of the Congress overwhelmingly passed the Textile and Apparel Trade Enforcement Act of 1985. Despite support by nearly two-thirds of the Congress, President Reagan vetoed the bill.

It was argued in support of the veto that a combination of the falling American dollar, the government's existing textile and apparel program and the then newly renewed Multifiber Arrangement would keep imports in line. But they did not.

The President was wrong and the Congress was right.

By 1987, apparel import penetration was nearing 50 percent and production worker employment had fallen to 916,000. Once again our industry looked to the Congress for aid and again, to its credit, Congress responded. In 1988 both houses passed the Textile and Apparel Act, again with overwhelming support. For a second time, President Reagan vetoed this essential legislation.

And for a second time, the President was wrong and the Congress was right.

Now it is 1990. Apparel import penetration is close to 60 percent and the number of production workers in our industry has fallen to 860,000, its lowest point in over half a century. With the Administration continuing to avoid the issue, Congress has once again been forced to act. This time it must not fail.

The situation now is more ominous than ever for American garment workers. Our industry has long been caught between two fires—retailers and importers seeking profit by importing ever greater quantities of clothing from low-wage areas and a government that has willingly traded apparel quota for presumed economic and political advantages abroad.

Now new developments further cloud the horizon:

- The Uruguay Round of GATT negotiations has placed the U.S. apparel industry on the auction block.
- The export myth—that the U.S. apparel industry can save itself through exporting.
- The Caribbean Basin Initiative and its twin, the Special Regime for non-Caribbean Latin American nations such as Mexico—the false notion that increased apparel imports from these countries are good for the U.S. apparel industry.

Before reviewing the current economic plight of the domestic apparel industry, let me touch on the three points cited above.

THE URUGUAY ROUND

After almost four years of talks aimed at further liberalizing world trade, the GATT Uruguay Round is due to conclude at a ministerial meeting this December. The United States government has several primary goals at the GATT talks. It seeks to open up trade in services. It looks for a system to protect trade in ideas, referred to as intellectual property. And it wants an agreement to open up other countries, especially in the third world, to investment, primarily for United States banks and insurance companies.

The U.S. government has two bargaining chips to use to obtain its GATT goals agriculture and apparel and textiles. With few signs that agreement will be reached on agriculture, only apparel and textiles remain as give-aways. And there is every indication that the Administration is prepared to give them away.

A number of countries have made proposals on how to integrate textiles and apparel trade into the GATT. They range from immediate integration into GATT disciplines—i.e., dropping quotas—to plans to integrate textiles and apparel into the GATT through various transition mechanisms.

The current U.S. proposal is among the latter and, as first offered in February and subsequently elaborated upon, consists of the following:

- A ten-year transition period with a global quota for each category and then end all quotas.
- Accelerating growth rates in import quotas as the transition period progresses.
- Variable import growth rates for specific categories, depending upon the size of imports to domestic production ratios.
- A "stock market" in quotas in the transition period to allow quota holders to trade their quotas.

These principles were to be implemented by means of one of three approaches—a global quota plan replacing MFA, a two-tier tariff system or a liberalized MFA.

The U.S. Government proposal has been offered in skeleton form without any numbers—for example, growth rates—that would permit any evaluation of its potential impact on the domestic industry. It does not take much imagination, however, to see that the U.S. Government approach would lead to significantly higher import levels much before controls would be phased out.

Since February, the Administration has offered a number of clarifications to the original global quota alternative:

- The base for determining global and country quotas would be the average of the last three years of trade, namely 1987-1989, with no country accounting for more than 15 percent of the total allocation for any category.
- Existing product categories would be consolidated to provide greater flexibility to importers.
- Outward processing—in the case of the U.S. this means 807-A imports would be exempt from global quotas.
- All exporting countries would be covered, except where customs unions have been created or free trade agreements exist.
- Special preference would be given to the least developed countries.

While the U.S. Government seemed to be pushing a global quota route, the approach has met with wide rejection for varying reasons.

Each exporting country is seeking to maximize its apparel shipments and views global quotas, even larger ones than at present, as limiting its ability to do this. Some also seek a more rapid end to quotas. The fact that an uncontrolled market, awash with over-production of apparel, is unhealthy for all countries is ignored.

Other importing countries, the Common Market, for example, with a population greater than ours, oppose the U.S. government's quota liberalization proposals because they fear that these proposals would encourage additional shipments into their own markets. Despite protestations that it favors greater liberalization of trade, the EEC's policy has been to minimize apparel imports, the opposite of that of the United States.

For example, GATT data show that developing countries (including China) shipped equal amounts of clothing to the United States and the EEC in 1980—$6.1 billion dollars to each. While shipments to the United States grew to $19.0 billion in 1987, those to the EEC grew only to $11.3 billion.

The extent of resistance to the U.S. proposal in Geneva suggests it will be dropped sooner or later, perhaps even before the Administration spel[illegible]ut its ideas on growth rates. The most likely alternate candidate is a grea[illegible]eralized MFA, which would incorporate a number of the features of the older [illegible]vernment proposal—accelerating growth rates, greater flexibility, etc.

In the past, the government policy in implementing MFA has generally been one of "special cases." Negotiations with individual countries have typically been conducted without regard to the cumulative impact of particular negotiations. A switch to an MFA solution will clearly lead to an even greater accelerated destruction of the remaining domestic apparel industry.

To the extent that the initial U.S. government proposal will be retained in some form in a new proposal, a number of features have serious implications for American garment workers:

- Use of average data for the three years 1987-1989 presents a problem. In calculating 1988 apparel production, the Bureau of the Census has reportedly discovered 600 apparel companies that previously had not been reported. This makes the data for 1987 non-comparable with 1988 data.
- The proposal to exclude from any global quota countries where free trade agreements exist opens the door to evasion. In the case of the U.S., in addition to present free trade agreements with Israel and Canada, discussions are under way with Mexico, a major apparel supplier to the U.S.
- The proposal to exclude from global quotas garments assembled abroad from fabric formed and cut in the United States, the 807-A provision, is another serious problem. This proposal may be viewed as beneficial to fabric producers through sustained demand for U.S. fabric and for U.S. apparel manufacturers in the form of higher profits from using low-wage foreign labor. But for the American apparel worker it spells certain doom. Each garment assembled abroad exports 95 percent of the labor required to complete the garment, with only 5 percent of the labor—the cutting—remaining here. The announced Administration plans to broaden 807-A to other Latin American countries would only worsen the plight of American garment workers.

THE EXPORT MYTH

To forestall controls on apparel imports, the Administration has increasingly been claiming that exports of apparel are helping the industry. Such claims are misleading.

Under the classification system in use by the United States, exports of the garment parts needed to assemble a garment abroad under the provisions of what was formerly known as Item 807 of the Tariff Schedules (now Item 9802 of the Harmonized Schedule) are commingled with exports of completed garments. In 1989, U.S. import data showed re-import of $1.3 billion dollars in U.S. components (i.e., garment parts). This means that of a total apparel export value of $1.8 billion, only $0.5 billion, or 27 percent of the total, represented actual garment exports.

Similarly, the greater use by American firms of off-shore assembly/ accounts for most of the growth in apparel exports. Of a total growth of $1.1 billion in apparel exports between 1985 and 1989, $0.7 billion was merely growth in garment parts leaving the country for assembly abroad.

Apparel exports have always played a minor role and will continue to do so. In 1989 they amounted to only 2.3 percent of apparel imports (in customs valuation, i.e. excluding duty, freight, insurance and domestic markup). If the import data are adjusted to make them comparable with export data, true exports amount to barely one percent of apparel imports. Looked at another way, roughly one percent of domestic apparel production is exported, a truly minuscule amount.

Unlike exports of garment parts which go mainly to Mexico and the CBI countries, almost all completed garments go to Europe and Japan. Export growth to these countries can be related to a low-valued dollar against their currencies and may be a temporary phenomenon. Apparel exporting nations have, by and large, yet to develop any significant internal market for their own manufactured apparel, let alone imports from the U.S.

CBI

The rapid growth in apparel shipments from the CBI area and Mexico has been one of the major problems threatening U.S. apparel workers. These countries now provide over 14 percent of total U.S. apparel imports.

While it would seem worthwhile from a policy point of view to try to bolster the economies of our southern neighbors, the implementation has been seriously flawed.

Most of the growth in shipments from the CBI and Mexico has been limited to garments assembled there of garment parts shipped from the U.S. Since 1986, additional impetus has been given to garments assembled from parts made of U.S.-origin fabric, with quotas virtually unlimited for such garments.

As a result of the U.S. government program, the countries have merely served as low-wage factories for U.S. apparel companies. The profits from such off-shore assembly operations are typically repatriated to the U.S. and make minimal contribution to the local economies and their infrastructure, so badly in need of improvement.

Many American firms that engage in such off-shore assembly have converted themselves into importers rather than being domestic manufacturers. While the offshore assembly process enriches the producers and retailers of such merchandise, the garment worker, without job opportunities as a result, is typically forgotten.

The ILGWU fully supports the need to aid the CBI area and other Latin-American countries, but the burden of such support should not fall entirely on a defenseless group of American garment workers. Proposed exclusion of "outward processed" garments, primarily goods assembled in the CBI or Mexico, from global quotas or any other arrangement which increases such shipments without reducing other countries' shipments as an offset, threatens American jobs.

S. 2411 properly proposes inclusion of the outward processing countries in global quotas, but provides for special treatment for them within this quota.

THE PLIGHT OF THE APPAREL INDUSTRY IN THE U.S.

The need for apparel and textile import legislation is not merely a theoretical question, but is strongly supported by the available data.

Apparel imports have literally exploded under the United States government's administration of the MFA. Today, they are three and a half times the quantity in 1973 when MFA I was adopted (measured in equivalent square meters of fabric used in their manufacture). They are two and a half times the quantity in 1980 when the Reagan-Bush Administration took office. In 1989, apparel imports rose 14.3 percent and through the first 3 months of 1990 they are ahead 6.9 percent.

Growth rates for apparel imports from individual countries have been more outrageous than the world totals suggest. Major shippers continue to dominate the market, while newer entrants have shown spectacular growth. For example, consider the following apparel import growth rates between 1980 and 1989: Taiwan 43 percent, Hong Kong 48 percent, South Korea 53 percent, China 482 percent, Indonesia 4285 percent, Singapore 172 percent, India 169 percent, Malaysia 749 percent, Sri Lanka 237 percent, Pakistan 4925 percent and Thailand 267 percent.

Closer to home, apparel import growth between 1980 and 1989 was 129 percent for Mexico, 376 percent for the Dominican Republic and 529 percent for Costa Rica.

Massive apparel export growth is also still possible in many of the key supplying nations and a host of new entrants are waiting to make their way into the competitive arena. Africa, with its millions of potential garment workers, is yet to be heard from.

Import penetration has reached unacceptable levels in numerous major items of women's apparel. Imports account for roughly two-thirds of domestic consumption of sweaters and many types of blouses and knit shirts. Many other products are also marked by extraordinarily high import penetration, including brassieres and cotton slacks and skirts.

While apparel imports have been soaring relentlessly over the years, domestic output has been falling. The ILGWU Research Department compiles a series on physical volume of output of women's and children's garments based on U.S. Department Commerce production data. Between the 1979 peak and 1988 (the latest year for which data are available), physical output declined by roughly one-third. This was a period during which imports were more than doubling.

As already noted, employment in the apparel industry dropped sharply as result of import growth. From a 1973 peak of 1,257,400 production workers engaged in making apparel, only 1,079,000 were left in 1980. Since then, the number has fallen to 860,000. Employment declines in 1990 are becoming more severe as the year progresses. Twenty-seven years of an MFA, poorly administered by successive Administrations, especially the current and immediately prior one, have left our industry with 400,000 fewer workers, a loss of one-third of the work force.

Garment and textile workers constitute our own "third world." Approximately 80 percent of the garment industry work force is female and is older, on the average, than that of other industries. Many garment workers are recent immigrants with little command of the English language. Many have minimal education. Many are members of minority groups. Most have few opportunities for alternative employment, whether in urban centers or in small, rural communities where little industry can be found.

THE IMPORTANCE OF S. 2411

The latest U.S. Government proposal on the future of the textile and apparel industry differs from S. 2411 in a number of significant ways, the most important of which are:

- The bill realistically calls for a one percent rate of growth per category per year, consistent with the long term growth in domestic consumption. This would maintain current jobs and halt the erosion of employment. The U.S. GATT proposal does not as yet spell out a specific growth rate. It can be assumed, however, that when such a growth rate is announced or an alternate plan devised it will be at a considerably higher rate than the rate in the legislation.
- Special treatment for outward processing is provided in the bill, but only within the global quota, very different from its exclusion from any coverage in the U.S. government proposal in Geneva.
- The bill uses 1989 data as the base year, eliminating data inconsistencies in the U.S. government proposal.
- The bill provides for a maximum tariff cut of 10 percent, staged equally over five years. The U.S. government proposal still must be fleshed out in the Geneva talks, although most observers expect the government to propose much higher cuts than those contained in the legislation.

The signs from Geneva suggest that the U.S. government may trade away the very existence of the domestic apparel industry to achieve what it considers more important in the GATT negotiations. This makes the passage of S. 2411 all the more critical.

Recognition of the problems confronting the American apparel and textile industry by the Congress reflects the will of the American people, not merely the self-interest of special pleaders. A number of national polls taken in recent years underline an overwhelming concern over apparel and textile imports and a desire for a strong domestic industry. They show tremendous national support for the elements embodied in S. 2411.

We recognize that a solution to our problem is not a one-way street. We continue to take very basic actions to survive. Over the years the textile industry has invested billions of dollars to make it more efficient and more competitive worldwide. The trade unions and management in the apparel industry are jointly working to make this industry more competitive. By their very nature, these are long-term efforts. But we cannot be successful alone. We need the help of the Congress to develop a rational trade policy for our nation. I strongly urge your support for this bill.

PREPARED STATEMENT OF SENATOR STROM THURMOND

Mr. Chairman: I would like to thank you and the other members of the Senate Finance Committee for the opportunity to testify here today. I am very pleased that this measure, "The Textile, Apparel, and Footwear Trade Act of 1990," has already attracted strong bipartisan support. Mr. Chairman, a viable textile and apparel industry is absolutely essential to the economy and National security of this Nation. While this industry has suffered many hardships and textile imports have increased dramatically, this industry still employs nearly 1.8 million Americans. Currently, one out of every 7 people employed in South Carolina works in the textile and related industries.

If the current trend of increased imports continues, the resulting job losses will cause harsh economic problems to the people who depend on tie textile and apparel industry for their livelihood. Over 350,000 jobs have been lost in the textile industry during the last five years. Since the record employment level of 2.5 million employees in 1973, this industry has lost 700,000 jobs. According to the United States Department of Labor, South Carolina lost 2,600 textile jobs during 1989. This year is starting off with another drop in textile employment. Several companies have already announced personnel reductions and as a result 1700 South Carolinians will soon lose their jobs. This trend cannot be allowed to continue. The decline of this industry will be felt throughout our economy as supporting and related industries also begin to suffer.

In addition to its economic importance, the textile industry is also significant to the defense and national security of our Nation. The textile industry is second only to the steel industry in importance to the National defense of this country. We cannot allow ourselves to become dependent upon foreign countries for the basic defense requirements of our Armed Forces. While most people think of uniforms and footwear as textile industry products used by the military, many other needed prod-

ucts originate from this industry. Some of the other textile products the military uses are tents, canvas, ammunition powder bags, and parachutes. It does not make good sense to transfer production of these items to foreign countries and then rely on them in times of international crisis to provide us with these essential items.

Mr. Chairman, the growth in textile and apparel imports during the last several years has not come about due to a lack of effort on the part of the domestic industry. In fact, the American textile and apparel industry is one of the most modern and productive in the world. Over the last nine years, manufacturers have invested over $18 billion to modernize operations and increase productivity. Last year alone the textile industry reinvested nearly 80 percent of their retained earnings for these efforts. This is second only to the computer industry.

Management and labor have worked hard to modernize, compete, and survive. Nevertheless, imports have continued to grow. Textile and apparel imports now account for 59 percent of the United States' market share. In 1989, 12.1 billion square meters of textiles and apparel were imported into the United States. This is a 13 percent increase from 1988 levels. Textile imports accounted for 21 percent of the merchandise trade deficit in 1989 and were valued at $26.5 billion. This is 5 and one-half times the $4.7 billion value of the textile trade deficit in 1980.

The textile industry has continued to suffer from the increased imports because the American industry is not competing with foreign countries on an equal basis. If they did, then the United States textile and apparel industry could compete with that of any other nation. However, the domestic textile industry cannot be expected to compete, nor should it have to, with foreign industries that are heavily subsidized by their governments.

Developing countries have provided low interest, subsidized loans for capital formation and expansion within their textile and apparel sectors. Favorable tax treatment, as well as other incentives for exporting textile and apparel products, has been created by foreign countries. They have fostered and protected their own industries and markets through currency manipulation and trade restrictions.

Another factor with which American companies cannot compete is the relative wage rate. According to the Bureau of Labor Statistics, China pays its textile workers $.27 per hour compared to $9.31 for U.S. workers. Some other examples are Tiawan—$2.62, South Korea—$2.05, and Hong Kong—$2.49. While these wage rates are much lower than ours, the cost of textile and apparel products from these countries does not reflect this wage discrepancy.

Mr. Chairman, the legislation we are discussing today is designed to promote orderly growth of world trade in textiles and apparel products as well as footwear. We cannot continue to stress free trade if American businesses do not have the same opportunities in other countries as other countries have here.

This bill limits the increase of imports of textile and apparel products to one percent above the current year. The next year the growth rate would be one percent of the new level. This is the same rate that the consumption of textile and apparel increases has occurred. So both domestic and foreign producers would have the same access to the growth in the industry in the United States. Mr. Chairman, this seems fair.

In regard to quotas, they are established on each category of textiles and textile products from all sources. Therefore, this legislation does not discriminate against any one country. Establishment of global quotas gives the Administration maximum flexibility in implementing the requirements of this legislation. This also seems fair.

It is evident that the textile and apparel import deficit problem will not solve itself. Unless we take prompt action, it is possible that within 10 years we may not have a domestic textile and apparel industry.

Mr. Chairman, I appreciate the opportunity to testify before your Committee this morning and I hope my remarks will be beneficial to you and the other members in your efforts to formulate textile legislation.

COMMUNICATIONS

STATEMENT OF THE INTERNATIONAL MASS RETAIL ASSOCIATION

The International Mass Retail Association (IMRA) is a trade association representing 140 major discount retail chains whose sales represent an overwhelming majority of the $130 billion a year discount retail industry. Our members collectively operate more than 35,000 stores in all fifty states and employ millions of Americans. Many of our members directly import textile and apparel products, nearly all of them sell imported apparel in their stores and so have a direct interest in the provisions of S. 2411, The Textile, Apparel and Footwear Trade Act of 1990.

IMRA strongly opposes S. 2411, and urges the Senate Finance Committee to carefully examine the effect its provisions will have on American consumers and, more particularly, how its passage at this time might affect the Uruguay Round of Trade Negotiations.

S. 2411 WILL HARM AMERICAN CONSUMERS

Numerous studies of the current MFA-based textile and apparel import program leave little doubt that the kind of trade restraints S. 2411 would impose, will increase consumer costs. For example, the International Trade Commission (ITC) in its Finance Committee commissioned study of the consumer effects of trade restraints released in October 1989 estimated that it costs $10.7 billion dollars each year to protect domestic textile and apparel producers through the existing program of high tariffs and quota restraints. The ITC indicated that quotas and tariffs increase the price of some apparel items as much as 63 percent.

Similarly, in 1985, the Federal Reserve Bank of New York published a study that showed that consumers paid 17 percent or $8.5 billion more for textiles and apparel than they would have if the United States allowed the free entry of clothing imports.

The customers of IMRA's Member firms are particularly hard hit by clothing quotas. Less expensive imports are critical to discounters' ability to provide a wide variety of fashion and quality at reasonable prices. A study conducted by the National Retail Merchants Association and presented to the International Trade Commission last year concluded that 33 percent of a boy's spring wardrobe purchased at a national discount chain could be directly attributed to high quotas and tariffs, compared with only 3 percent for a similar group of items purchased at an exclusive Department Store.

This fact is even more troubling since the individuals at the lowest income levels are the most likely to shop at discount stores. The 1986 Consumer Expenditure Survey indicates that households with income in the lowest 20 percent spend 15.1 percent of their income on apparel while those in the highest 20 percent spend a mere 3.8 percent of household earnings on apparel.

Trade restraints on clothing impose a hidden and regressive tax on those Americans who are least able to pay it. S. 2411, by freezing imports of footwear, and limiting the growth of clothing imports to only one percent per year would simply exacerbate the already untenable situation.

The Retail Industry Trade Action Coalition, of which IMRA is a member, has estimated that enacting legislation similar to S. 2411 would raise annual consumer costs by an additional $5 billion in 1992, $21 billion by 1996 and $43 billion by the year 2000. It is very clear that the major portion of that price tag will be borne by the Americans who shop at the nation's discount department stores.

Of equal importance, the global quota scheme envisioned by S. 2411 would hit the nation's discounters especially hard. Such a scheme presupposes that the United States government would get in the business of allocating quota rights among the nation's retailers, importers and domestic manufacturers. The bill requires that a

portion of these quota rights be auctioned by the U.S. treasury—a process that is likely to add dramatically to the cost of merchandise, and pit retailers serving lower income Americans against those who serve consumers with more disposable income. IMRA strongly objects to this unwarranted and largely unnecessary intrusion into the daily operation of the nation's discount retailers.

ENACTING S. 2411 WILL JEOPARDIZE THE URUGUAY ROUND

The United States and its trading partners are now engaged in an important and ambitious round of multi-lateral trade negotiations. Issues of Critical long-term significance to our nation's future, including trade in services, investment, intellectual property rights protection and agriculture are on the table.

The Ministerial Declaration that began the Uruguay Round in 1986, also calls for serious negotiations on the ways and means of "reintegrating" trade in textiles and apparel into the General Agreement on Tariffs and Trade (GATT). The United States and many of our industrialized trading partners have already committed to finding a way to liberalize the current MFA regime, and over time, to eliminate all special protection for this industry sector. For many lesser developed nations that are party to the Uruguay Round, world textile and apparel trade may be the only issue of any real significance. Many of these countries would simply walk away from the GATT Round, should the United States choose to unilaterally impose new quotas on textiles, apparel and footwear quotas outside the disciplines of either the MFA or the GATT. The future of many other American business sectors—services, high tech, agriculture—could be seriously jeopardized by the enactment of this ill-considered and ill-timed bill. In addition, it is worth reiterating that because S. 2411 violates the GATT and the MFA its enactment will open the very same U.S. export sectors to retaliation, even should the Uruguay Round collapse.

S. 2411 IS UNNECESSARY

U.S. textile and apparel producers do not need this legislation in order to remain a viable part of the U.S. economy. In almost every respect, this industry is the very picture of health. Capacity Utilization for the Textile industry was 95.5 percent during 1989, and continues at well above the average for all manufacturers. Textile Industry employment has grown by over 20,000 jobs since 1985, according to the Bureau of Labor Statistics. Finally, exports of textile products climbed by more that $25 billion from 1985 to 1989.

There is no indication at all that special protection, over and above the 30 year old MFA program, is justified or warranted.

CONCLUSION

S. 2411 would drastically increase the cost of clothing and footwear for American consumers—particularly those at the lowest income levels who can least afford such increases. The bill, which would impose unilateral quotas on textiles, apparel and footwear in near perpetuity, would violate the disciplines of the GATT and the MFA and if enacted this year, would certainly jeopardize the successful conclusion of the Uruguay Round. Finally, the bill is completely unnecessary to protect U.S. producers of these products.

STATEMENT OF THE NATIONAL APPAREL AND TEXTILE ASSOCIATION

I am Larry Mounger, Chairman of the Board of Pacific Trail Sportswear and President of the National Apparel and Textile Association (NATA). NATA is strongly opposed to S. 2411, the Textile, Apparel and Footwear Trade Act of 1990.

NATA is a trade association of apparel importers, retailers, and related industries representing companies in the western half of the United States. It is the largest apparel importer trade association with over sixty members including, among others, Bugle Boy, Esprit, Seattle Pacific, Generra, Pacific Trail, Brittania (a subsidiary of Levi Strauss), Patagonia, Shah Safari, Helly Hansen, and M. Genauer & Co. Related industry members include Sealand, American President Lines, the ports of Seattle, Los Angeles and Oakland, Seafirst Bank, Burlington Northern, and Expeditors International.

NATA has been a leader in fighting restrictive textile quota legislation since 1985 and has built excellent relationships with West Coast Members of Congress. NATA recruited Senator Dan Evans to spearhead the effort from 1985-1988. The Association is currently actively involved in working with the Administration on the textile and apparel portion of the Uruguay Round negotiations.

HISTORICAL PERSPECTIVE

I testified before the Finance Committee in 1985 in opposition to almost identical legislation. In my view, the situation has not changed dramatically since that time. The domestic textile industry stated publicly in March of that year that the industry would be gone in five years unless protective legislation was passed. Legislation has not been enacted and the five years have passed. The domestic textile industry today employs more people than in 1985 (726,000 in 1989, up from 702,000 in 1985). 1988 produced double digit profits for much of the industry and was their most profitable year since the early 1970's. Textile industry shipments increased by 20.6% from the 1985 to 1989, exceeding the "all manufacturing" rate by almost 2%.

CURRENT PROTECTION

When I testified in 1985, the world of Washington, D.C. and legislative battles were new to me and to NATA, which had just been formed. Although I had been in the apparel business all of my life, I had not realized that the comprehensive reach of quotas on textiles and apparel was unique in the U.S. market. Since I did not have to deal with other products in my daily business, I did not know that the domestic textile industry was the most highly Protected industry in the country. Almost 80% of textile and apparel imports into the United States are restricted by quotas. The United States has bilateral agreements with approximately 40 nations, covering all of the significant suppliers except Europe. The list includes all of the well-known large suppliers such as Hong Kong and Korea but also extends to Sri Lanka, Bangladesh and Jamaica, among others. The system of protection has grasped every avenue of apparel and textile trade and squeezed tightly. In addition, apparel import tariffs continue to average 18.5%, over four times the national average for manufactured goods. No other domestic industry enjoys protection even approaching that covering the textile industry.

CONSUMER IMPACTS

The extensive system of protection for the domestic textile industry costs substantial amounts of money, money provided by American consumers. In 1987, William Cline of the Institute for International Economics estimated the cost of protection at just over $20 billion per year, all paid by the American consumer. Mr. Cline projects an increase to $22 billion in 1992 and to $31 billion in 2000 *with no additional protection.* He projects that the proposed textile quota bill would increase costs by $5 billion in 1992 and by $43 billion in the year 2000. The total in 2000 would be $74 billion.

The consumer costs are real. They are paid at the cash register daily by millions of Americans. For many garments, the cost of protection represents 25% of the price—billions of dollars of unproductive expense for consumers. The costs, of course, are hidden and not obvious to the consumer. However, if the cost were added to the garment as a *25% tax* collected at the cash register, the consumer uproar would be deafening.

URUGUAY ROUND NEGOTIATIONS

Finally, I want to discuss and strongly oppose the Administration effort to provide increased protection to the domestic textile industry. Textile and apparel trade is a key element in the current Uruguay Round of trade negotiations. The great majority of nations in the negotiations are pushing for immediate liberalization of textile and apparel trade and a complete elimination of special protection within ten years.

The U.S. Administration, however, has proposed a global quota scheme that will bring virtually all textile and apparel imports under quotas. The domestic textile industry is, of course, supporting that approach since it would allow them to achieve much of what they are seeking through legislation. We are strongly opposed to global quotas. We do not believe that the textile industry needs further protection, for all of the reasons spelled out in this statement. Globalization would also require a U.S.-administered quota allocation scheme, an immensely complex and expensive system of additional protection. We do not believe that such a system can be fairly and equitably structured.

Finally, I must stress the importance of the textile and apparel sector of the negotiations to the overall Uruguay Round effort. Many developing countries depend on textile and apparel production and exports to build their economies and to earn hard currency to purchase U.S. exports. Those countries will insist on liberalization of textile and apparel trade in exchange for meeting U.S. demands on services and

agriculture trade. That linkage will be key as the culmination of the negotiations approaches at the end of the year.

I urge the Senate to reject the textile and apparel quota bill.

STATEMENT OF THE NECKWEAR ASSOCIATION OF AMERICA, INC.

The Neckwear Association of America (NAA) is submitting these written comments in support of S. 2411, the Textile, Apparel and Footwear Trade Act of 1990. While we support in general the concept of legislated quotas on apparel items, our support at this time is even stronger due to the concerns we have about the negotiations taking place in the Uruguay Trade Round. Two areas of the negotiations—textiles and tariffs—are of particular concern to our industry.

Following is a synopsis of what is taking place in the Round, and the potential impact these negotiations could have on our industry. Considering what is at stake in the Round and our apprehension as to its outcome, the quota legislation now before this Committee is the best, and perhaps the only, way to preserve the U.S. necktie industry.

The current U.S. textile proposal, tabled in Geneva on May 14, 1990, discusses issues related to the transition mechanism that would replace the current Multifiber Arrangement (MFA) with the goal being the eventual integration of all textile and apparel trade into normal GATT rules. The area of particular concern to NAA is in product *coverage* during the transition. The U.S. proposal notes that one of the product coverage issues to be addressed is an "agreement on which of these products should be subject to a transition arrangement and which should be integrated into GATT forthwith or at different stages during the transition period." Thus, it appears that certain textile and/or apparel items will be excluded from the transition mechanism.

NAA believes strongly that all textile and apparel items that are currently covered by the MFA should retain their coverage under any transition mechanism. The whole textile and apparel sector has been repeatedly designated by our government as being import-sensitive. Liberalization of textile and apparel trade will naturally occur over the course of the transition as the amount of trade covered by quotas grows smaller and smaller. There is no need to make further concessions by removing products from coverage.

NAA is particularly concerned that neckties may be one of the products targeted by our government for immediate integration into the GATT. There is no basis upon which to exclude neckties from the transition mechanism, yet we fear that logic will not dictate the final outcome of the textile negotiations. Among the reasons to maintain coverage for neckties are the following:

- Neckties have always been covered by the MFA and its precursor agreement, the Long Term Cotton Textile Arrangement. The Long Term Cotton Textile Arrangement was in effect from 1962 through 1973, and the MFA has been in place since 1974.
- Even with MFA coverage necktie imports have grown dramatically over the past decade. In 1980 the quantity of necktie imports totalled 268 thousand dozen. By 1989, this figure had risen to 1,762 thousand dozen, for an increase of over 550 percent. Increases in imports have been felt in all product lines.
- The result has been an erosion of the domestic manufacturing industry and related supplier industries. The imports-to-production ratio has grown from only 8 percent in 1982 to an estimated 25 percent in 1987. This deterioration in the domestic industry's position occurred during a time when total U.S. consumption of neckties has increased.
- Far Eastern suppliers have made significant inroads into the U.S. market. By 1989 Korea had become the third largest foreign supplier and the PRC had become the sixth largest supplier.
- The rapid increase in imports from the PRC is particularly threatening given the enormous reserves of raw silk available to the Chinese. The government has also put more emphasis on the production and export of finished articles, as opposed to merely raw materials.
- The loss of market share and revenues to imports has led to numerous plant closings and a 12 percent decline in U.S. employment.

NAA believes that eliminating coverage for neckties will exacerbate the already grave situation being faced by domestic producers. Unchecked import flows would undoubtedly cause the loss of more U.S. production and many more lay-offs in this small industry. Continued coverage is crucial because it would permit potential re-

medial action in the event of future market-disrupting surges in imports, such as might occur from the PRC.

Tariffs, another issue being negotiated in the Uruguay Round, are also of extreme importance to NAA. In the last trade round seven of the eight necktie tariff items received substantial cuts, ranging from 20 percent to 52 percent. The domestic necktie industry has thus already borne a disproportionate share of the tariff cuts allocated to the textile and apparel sector in the Tokyo Round. As a result of these cuts, the trade-weighted tariff on neckties declined from 14.8 percent in 1979 to 8.6 percent in 1987. Consequently, necktie tariffs are far lower than those on most other apparel imports—the average tariff on apparel items is 24 percent.

Lower tariffs have contributed to the import increases our industry has experienced. Lowering tariffs still further in the Uruguay Round would put neckties at serious risk of further contraction. NAA hopes that such a scenario can be avoided, and that neckties will be exempt from any tariff reductions that are negotiated in Geneva.

The concerns outlined above lead NAA to the conclusion that S. 2411, the Textile, Apparel and Footwear Trade Act of 1990, would be the most rational course of action for our industry. We therefore urge the Committee to report favorably on this bill as soon as possible.

Statement of the Toy Manufacturers of America

These comments are filed by Sharretts, Paley, Carter & Blauvelt, P.C. on behalf of the Toy Manufacturers of America (TMA) in response to a Press Release dated May 23, 1990, soliciting public comment on S. 2411 the "Textile, Apparel and Footwear Trade Act of 1990." TMA is the toy industry trade organization representing approximately 230 companies which account for 90 percent of the toys, games and dolls sold in the United States each year.

If enacted, S. 2411 would impose "global quotas" (with certain specific exceptions) on imported textile products covered by any category identified by a three-digit number in the Department of Commerce publication entitled "Correlation: Textile and Apparel Categories with Harmonized Tariff Schedule of the United States" dated 1990 and in any amendments to such publication correcting clerical errors or omissions. Also included would be certain narrowly defined textile products not currently covered by the specified category system. Furthermore, S. 2411 calls for the establishment of an ill conceived and poorly defined import license auctioning procedure intended to cover "no less than 20 percent of the value of textiles entered."

The current language of S. 2411 exempts the vast majority of toys, games and toy related articles from "global quotas" and import license auctioning, because the vast majority of such products currently are classifiable in Chapter 95 of the Harmonized Tariff Schedule of the United States (HTSUS) and none of the provisions of HTSUS Chapter 95 are subject to three digit textile and apparel quota categories.

However, to the extent that any provision of S. 2411 encompasses toys, toy parts or toy related products, TMA vehemently opposes its enactment. The American toy industry is characterized by unique competitive conditions. Competition is fierce and for the most part it is between American based companies with rationalized international production facilities. While a substantial portion of the value of toys sold in the United States represents American based value (i.e. for design and development, marketing, advertising, packing, component parts, etc.) many toys are manufactured or assembled abroad and imported into the United States. In large measure, American toy companies have turned to foreign sources to produce small toys and component parts which no longer can be sold at competitive prices if produced in the United States. It is through this rationalization of production that the toy industry has survived and prospered to its own benefit and to the benefit of the US consumer.

TMA's request to exclude any toy, toy part or toy related product from the scope of S. 2411 is strongly supported by an analysis of the policy statement and the "findings and determinations" set forth in Sections 2 and 3 of S. 2411. The authors and the numerous co-sponsors of this legislation clearly are not concerned with importations of toys, toy parts, and toy related products. This is entirely understandable since American toy manufacturers, through TMA, have always opposed the imposition of quota restraints and licensing requirements on competitive products. The American toy industry has not been seriously damaged or threatened with serious damage by imported products, as domestic textile and apparel firms claim to be. Rather, domestic toy manufacturers require imports to complement and supplement their domestic operations.

Accordingly, to protect the American toy industry, TMA requests that S. 2411 be amended or alternatively, that the senate Committee report on S. 2411 clearly state that those few toy industry products which are currently classified under HTSUS subheading that do have three digit textile and apparel categories are exempt from the coverage of S. 2411. Examples of such products include textile Halloween costumes, backpacks that simulate cuddly animals and sample swatches of material for stuffed animal skins. If any of these products were to be included in a quota auction system, it is highly unlikely that toy companies would be able to obtain the quota required to import these products. The American toy industry, therefore would be injured. TMA urges that the Senate take whatever steps it deems necessary to ensure that the American toy industry is not drawn into the political controversy surrounding textile imports. Clearly, one important American industry should not be subjected to restrictive trade legislation merely because another industry has not been able to adjust to import competition.

Statement of the United States Association of Importers of Textiles and Apparel

This statement is submitted on behalf of the United States Association of Importers of Textiles and Apparel (USA-ITA) in opposition to S. 2411, the Textile, Apparel and Footwear Trade Act of 1990. USA-ITA is a national association of textile and apparel importers, importer-retailers, importer-manufacturers, and related companies devoted exclusively to textile trade issues.

Proponents of S. 2411 have made clear they support textile quota legislation at this time to bolster their efforts to obtain global quotas limited to one percent annual growth in the Uruguay Round. In effect, the textile industry seeks to hold the U.S. Government and the entire Uruguay Round hostage to its insatiable interest in quotas and greater protection.

As those who are following the Uruguay Round know, textiles has become a make-or-break issue in the Uruguay Round, the measure of U.S. credibility in these critical negotiations. Liberalization of the rules of international trade, including increasing market access for U.S. agricultural products, manufactures, services, investments, and protection of U.S. intellectual property rights, which has been the major U.S. trade objective through two Administrations, is dependent on successful negotiations in the Uruguay Round.

From the outset, the developing countries have viewed the Uruguay Round as a U.S.-sponsored initiative to benefit the developed countries at their expense. As a result, the developing countries consistently have insisted that negotiations on the integration of textiles into the GATT system be included in the Uruguay Round, to match U.S. insistence on inclusion of services, investments, and intellectual property.

Today, the Uruguay Round stands at risk because the U.S. Government, fearful of the domestic textile industry, is pressing for a global system of protections for textile and apparel. In effect the U.S. Government, under pressure from the domestic industry, already is offering a more restrictive system as the basis for transition from the current highly protectionist MFA system to the GATT. The U.S. proposal repeatedly has been rejected by U.S. trading partners, including the EC, as well as the developing countries. At the recent OECD meeting, the EC rejected U.S. assertions that the EC position on agriculture threatened the Uruguay Round, and instead accused the United states itself of holding up the Uruguay Round by dragging its feet on textiles. Representatives of the developing countries also have stated progress on the "new issues," including services, investment and intellectual property is not possible without progress on key market access issues, such as textiles. S. 2411, which would establish a global system of quotas with one percent growth in violation of the GATT, the MFA, and 39 U.S. bilateral textile agreements, is precisely the unilateralism which our trading partners view as antithetical to the Uruguay Round. It places at risk the Uruguay Round, the most significant opportunity in many years to achieve the major U.S. trade objectives.

S. 2411 is the third textile quota bill before the Congress since 1985. President Reagan wisely vetoed both previous bills as unnecessary, unwise and contrary to the U.S. national interest. The current bill, a virtual carbon copy of the 1987 bill, suffers from the same fatal flaws as its predecessor. Moreover, today, more than five years after the first attempt to legislate additional protections for these industries, even less justification exists for this special interest legislation.

Despite the absence of textile quota legislation, quota protections have grown significantly during the past five years. In 1985, when the first textile quota bill was

introduced, there were over 400 quotas in effect. Today there are over 1,200. Since 1985, the United States also has negotiated a series of bilateral agreements, including group and/or aggregate limits, which even cover products not disrupting the U.S. market. As a result, almost 90 percent of all textile and apparel imports are subject to some form of import restraint, including practically all textile and apparel imports from the developing countries, most often at rates of annual growth of six percent or less.

Adding to the pervasive system of quota protections are protective tariffs which average 17.4 percent for all textiles and apparel and 20.2 percent for apparel. These rates are over 6 times and 7 times, respectively, the average duties on non-textile products, and many times the rates of duties in effect on other labor intensive manufactured products such as jewelry (5.6 percent) furniture and non-textile floor coverings (2.8 percent) drugs and vitamins (2.9 percent), electrical machinery (3.6 percent), motor vehicles (1.6 percent), office machines (1.9 percent) and games and sporting goods (3.4 percent).

The economic well being of textile and apparel industries does not warrant the pervasive system of protections now in place, and most assuredly further restrictions are unwarranted. Despite doomsday cries accompanying the introduction of this legislation echoes of cries now heard for over 30 years—these industries remain profitable, continue to grow, and have increased their competitiveness in recent years.

The protections accorded these industries are not free. Consumers, particularly low income consumers, pay a staggering cost. Textile quota legislation would only increase this cost.

THE U.S. TEXTILE AND APPAREL INDUSTRIES ARE COMPETITIVE

The claims that the very existence of the textile and apparel industries is threatened by imports do not stand up to objective scrutiny. Both the textile and apparel industries have undergone notable restructuring and adjustment and now successfully compete with imports. In fact, despite the growth of imports, both industries have grown remarkably in recent years. Since 1985, when the first textile bill was introduced, domestic shipments of apparel have increased by 26.7 percent in value and the Federal Reserve Board's Index of Apparel Production has increased by 12.6 percent. In the textile sector, the value of domestic shipments increased by 29.5 percent and the Index of Textile Production increased by 13.6 percent.

The growth of domestic shipments and production in these industries is a reflection of both the dynamism of the U.S. textile and apparel markets and the competitiveness of U.S. textile and apparel manufacturers in those markets. The U.S. textile and apparel industries have actually captured a greater share of the growth of the U.S. market than have imports in recent years. Between 1985 and 1989, domestic apparel shipments accounted for 63 percent of the growth of the apparel market. During this same period, domestic shipments accounted for 87 percent of the growth of the non-apparel textile market.

The Apparel Manufacturing Industry

During the past several years the U.S. apparel manufacturing industry has undergone a major transformation through significant changes in its outlook and operations.

The most significant change in the U.S. apparel industry in recent years is its change in outlook from a production to a marketing orientation. This change in outlook was enunciated in the 1986 American Apparel Manufacturers Association Report, *Planning and Implementing an Apparel Sourcing Strategy,* which recognized that the changing U.S. apparel market, with new types of apparel products designed to fit new lifestyles and consumer segments, requires that U.S. apparel companies obtain the products demanded in the market, regardless of their factories' capabilities and regardless of sources. The report's conclusion was that the health of U.S. apparel manufacturers requires balanced sourcing, principally from four major sources—domestically-owned facilities, domestic contracting, 807/Caribbean Basin sourcing, and the Far East—but not excluding any source:

> The TAC's [AAMA's Technical Advisory Committee] overall conclusion is that global sourcing is a present reality in apparel; the world is now our stage.
>
> The U.S. apparel industry has a clear mandate to source its merchandise in any of the four major sourcing alternatives discussed in the report—as well as elsewhere in the world . . .

Apparel manufacturing has become a truly international industry. *Sourcing Strategy*, at 39.

A key part of this balanced sourcing strategy is the domestic industry's expanded use of overseas assembly operations, particularly in the Caribbean Basin and Mexico. Under section 807 (now Harmonized Tariff Schedule item 9802.00.80), fabric is cut in the United States and the U.S. components are assembled abroad into finished garments. 807 operations allow the domestic industry to control the overall apparel manufacturing operation and to continue cutting operations domestically. The use of 807 also enables the U.S. manufacturers to continue full cut-and-sew production in the United States, by combining the cost advantages of the 807 operations with the speed, control, and flexibility of full domestic manufacturing.

The expansion of 807 operations in recent years, and particularly since the advent of President Reagan's "Special Access Program" for the Caribbean in 1986 and "Special Regime" for Mexico in 1988, has been impressive. Between 1985 and 1988, the duty-free value of 807 apparel imports increased by 81 percent.[1]

The sharp growth of imports from the Caribbean and Mexico, due in major part to the U.S. apparel industry's 807 operations, contrasts sharply with trends in imports for countries where the U.S. apparel industry is not heavily involved in 807 production. Between 1987 and 1989, U.S. apparel imports from sources other than the Caribbean and Mexico increased by only 3.9 percent, while imports from the Caribbean and Mexico increased by 20 percent.

Moreover, the expanded utilization of 807 to improve the domestic apparel industry's competitiveness in relation to full imports is just beginning. According to the U.S. International Trade Commission, the use of 807 for apparel is expected to accelerate during the beginning of the 1990's because of the Special Access Program and Special Regime.[2]

As a result of this marketing orientation, many of the largest U.S. apparel manufacturers are also the largest importers of apparel. Indeed, the most noteworthy difference between the textile quota bill introduced in 1987 and the current bill is that the American Apparel Manufacturers Association has not endorsed the current legislation because many of its most important members are opposed to it. In effect, textile quota legislation would harm the very companies it is supposed to protect.

Along with its expansion into importing and increased use of 807, the U.S. apparel industry has increased the competitiveness of its domestic operations through technological innovations, including implementation of "Quick Response" (QR). A fully implemented QR system provides electronic linkage between the retailers' cash register, the apparel manufacturer, and the textile mill, keeping retail shelves stocked at optimum levels to yield higher sales and profits. With QR, the apparel manufacturer knows what is selling at retail and can immediately prepare cuttings for reorders. The textile mill also has immediate knowledge of fabrics needed by the apparel producer and can quickly start the weaving/dyeing/coloring process to be able to provide fabric for the apparel producer. On items for which QR is operational, stores place smaller initial orders, reorder more often, and dramatically reduce the time required for replenishment of stock. The result is increased sales, reduced markdowns, and greatly improved return on investment.

The advent of QR as a U.S. apparel manufacturing strategy comes at a particularly opportune moment due to the recent restructuring and problems of major segments of the U.S. retail industry. Retailers are insisting on working "closer to the market" to reduce risk and maximize profit. This means smaller opening orders, shorter lead times between ordering and delivering, and more frequent reorders. This major change in outlook favors U.S. producers generally, who are able to supply retail stores more quickly than foreign exporters, and particularly those companies which have implemented QR.

The Textile Mill Industry

Even among those most closely associated with the U.S. Textile Program, serious questions have always existed about the need for special quota protection for the textile mill industry. In this regard, Michael Smith, former U.S. Chief Textile Negotiator and Deputy U.S. Trade Representative, noted in his testimony on the 1987 textile quota bill:

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[1] *Imports Under Items 806.30 and 807.00 of the Tariff Schedules of the United States, 1984-1987* (U.S.I.T.C. Pub. 2144, December 1989).

[2] (*Production Sharing: U.S. Imports Under Harmonized Tariff Schedule Subheadings 9802.00.60 and 9802.00.80, 1985-1988* (U.S.I.T.C. Pub. 2243, December 1989, pp. xx, 6-7)).

As one involved with textiles for nearly seven years, I do not believe that the U.S. textile industry is going out of business ever. We will always have a textile industry in the United States.

* * * * * * *

I still think it was a mistake, we should have protected only those things which needed protection and we didn't have to protect the yarn and fabric industry, this is a personal view, but in my experience, it was a fundamental mistake to do that.[3]

There is even less need for quota protections for this industry today. As noted above, domestic shipments and production of non-apparel textile products increased 29 percent and 13.6 percent respectively, between 1985 and 1989. During this same period exports of U.S. textile products increased 64.7 percent in value to $3.9 billion, growing more rapidly than U.S. imports on a relative basis and matching the growth of imports on an absolute basis. Moreover, the industry has consistently been profitable, with 1989 profits estimated by the American Textile Manufacturers Institute at $1.7 billion, up 6 percent from 1988.

A major factor in the competitiveness of the mill sector in recent years is the favorable realignment of the dollar. Between 1986 and 1988 the value of the dollar declined by 17.4. During that period, imports of non-apparel declined by 7.1 percent on a quantity basis, while the index of textile production increased by 6.3 percent.

In addition, the U.S. textile mill industry has undergone a radical restructuring over the past several years which has further improved its competitiveness through a series of mergers, takeovers, leveraged buyouts, acquisitions and divestitures. The privatization and streamlining of the industry has fashioned (1) "lean and mean" corporate philosophies; (2) "niche" type product orientation with firms focused on specific market segments; and (3) additional emphasis on QR and just-in-time capabilities. The restructured textile industry is therefore in a more flexible, reactive mode which is able to serve its apparel, home textile, and industrial customers.

The U.S. textile mill sector is also becoming increasingly international in outlook. Rationalization is occurring with U.S. producers emphasizing aspects of their business in which they have comparative advantage, but using foreign sourcing in situations that improve their competitive position. Moreover, the Special Access Program and Special Regime have created a strong incentive for using components of U.S. fabrics in imports. For example, it is estimated that in 1988, in trousers alone, approximately 50 million square meters of U.S.-made fabric were used in Mexican and Caribbean garment production that was exported to the United States.

THE COST OF PROTECTION FOR TEXTILES AND APPAREL

The pervasive quotas and extraordinary duty rates on textiles and apparel currently in effect represent a massive tax on U.S. consumers, with low income consumers carrying a disproportionate share of this burden on the U.S. economy. In a recent report on the effects of U.S. quotas in textiles, autos, and steel, the Federal Trade Commission has estimated that MFA restraints on textiles and apparel cost the U.S. economy between $11.7 billion and $13.1 billion per year, in 1984 dollars.[4] The FTC estimated that due to the combination of tariffs and quotas, U.S. consumers of textile and apparel are paying prices that are, on average, 58 percent higher than they would have been paying without these restraints. MFA quotas alone result in an estimated 40.5 percent premium for imports, on average.[5] In another study, William Cline has estimated that the MFA raised imported textile and apparel prices by 21.9 percent and 34.6 percent respectively, on average.[6] Cline estimated the combined consumer costs of tariffs and MFA quotas to be $20.3 billion on the wholesale level, and as much as $40 billion on the retail level.[7] Finally, the U.S. International Trade Commission has estimated that the combination of tariffs and quotas for textiles and apparel cost U.S. consumers between $7.5 billion and $13.8 billion in 1987.[8]

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[3] *Hearings before the Subcommittee on Trade of the Committee on Ways and Means, House of Representatives, on H.R. 1154, "Textile and Apparel Trade Act of 1987,"* May 7, 18 and June 2, 1987, pp. 201-202.

[4] Tarr, op. cit., p. 8-2.

[5] *Ibid*, p. 1-5.

[6] William R. Cline, *The Future of World Trade in Textiles and Apparel, (Washington: Institute for International Economics, 1987), p. 191.*

[7] *Ibid*, p. 193.

[8] U.S. International Trade Commission, *The Economic Effects of Significant U.S. Import Restraints, Phase I: Manufacturing,* U.S.I.T.C. Pub. 2222, October 1989, pp. 4.6-4.21.

The cost of protecting jobs in the textile and apparel industries is enormous as well. The most comprehensive estimates are those of the FTC which are based on a general "equilibrium" analysis that attempts to determine the job impact of quota protections in all respects, including the beneficial employment effects that lowered import prices have on importing, retailing and related industries; the employment increases that follow increased consumer spending; the fact that labor moves between sectors; the effect of reduced textile input prices on employment in the domestic apparel sector; as well as the effect of such protections on the manufacturing sector.

Based on the FTC estimates, actual employment loss could range from negligible to 40,740 jobs. Based upon the FTC's mid-range estimates, MFA restrictions cost $12.335 billion annually, protecting 22,390 jobs at a cost of *$550,916 per job.*[9] Even under the maximum possible employment loss calculated by the FTC, 40,740 jobs paying an average of $15,000 total compensation per job are saved by the MFA at a cost of at least *$302,773 per job.*[10]

The FTC study suggests that those favoring textile protection value jobs gained in the textile and apparel sectors more than jobs lost at the same time in other sectors, such as importing, retailing and related industries, despite the fact that textile and apparel jobs are among the lowest paying.

Moreover, a disproportionate share of the costs of protection are placed on low-income Americans. According to the Government's *Consumer Expenditure Survey,* the poorest 20 percent of American households spend 15.1 percent of their budgets on apparel.[11] Given the FTC's estimate that U.S. consumers pay 58 percent more for textiles and apparel than they would without U.S. government-imposed import restraints, this means that textile and apparel protection costs the poor 8.8 percent of their disposable income, compared to less than 2.2 percent for the wealthy. Cline's study emphasizes the regressive nature of this tax, " . . . apparel consumption is a relatively larger fraction of income at low-income levels, [thus] the incidence of higher apparel prices is relatively greater upon low-income households." [12] In other words, those least able to pay carry the highest proportionate burden for textile and apparel protection.

S. 2411 Threatens Additional Consumer Costs, Job Losses, and the Fragile Retail Sector

S. 2411 would add enormously to the cost to consumers and harm to importers and retailers of the current system of protections for textiles and apparel. A detailed analysis of the virtually identical 1987 textile quota bill prepared by the International Business and Economic Research Corporation estimated the consumer cost for textiles and apparel under the bill to be over $8 billion a year at retail, reflecting increases in both domestic and imported prices for these products. The study also estimated that lost jobs at the retail level alone for textiles and apparel were virtually the same as production jobs protected. Moreover, this does not include the substantial losses in other import-related jobs—importers, port services, customs brokers, freight forwarders, inland transportation, banks and insurance companies.

By imposing global quotas with import growth limited to one percent growth on a category-by-category basis, S. 2411 completely ignores the realities of the U.S. textile and apparel markets. For most products, cyclical swings in U.S. consumer demand requires far more flexibility than a one percent growth limit would permit. For example, for the year ending September 1989 (the most recent data available) the domestic market (including domestic productions and imports) for cotton dresses declined by 11.2 percent from the previous twelve months, while the domestic market for women's cotton trousers increased by 18.7 percent; the domestic market for men's and boys' knit shirts and women's and girls' knit shirts and blouses increased by 56.4 percent and 10.1 percent respectively, while the domestic market for cotton sweaters decreased by 12.2 percent; the domestic market for cotton nightwear increased by 16.5 percent, while the domestic market for man-made fiber nightwear decreased by 16.3 percent. These wide swings in apparel demand (and similar swings

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[9] Tarr, op cit, p. 8-22.

[10] The compensation figure is from Tarr, op cit, p. 9-1.

[11] The Consumer Expenditure Survey (CES) is collected by the Census and tabulated by the U.S. Bureau of Labor Statistics (BLS). The CES data serves as the basis for estimating expenditure shares for the Consumer Price Index. According to BLS, the poorest 20 percent of American households allocate 15.1 percent of their consumption expenditures to apparel, while the wealthiest 20 percent of households allocate only 3.8 percent. On average, apparel accounts for about 6.4 percent of consumer expenditures.

[12] Cline, op cit, p. 202.

in textile products) are characteristic of this industry and could not be accommodated under S. 2411. For this reason, enactment of S. 2411 would be enormously disruptive to importers, retailers and consumers alike.

The impact would be particularly severe given the fragile state of the retail industry today. The past several years has seen major changes in the industry: the closing of a major retailer; another major retailer filing chapter 11; the lowering of another retailer's credit rating; the internal restructuring of a leading mass merchandiser. The increased prices and reduced availability of merchandise which would result from S. 2411 would risk major dislocations to this sector which employs 3.6 million workers in general merchandise and apparel and accessory stores, two times the workers employed in textile and apparel manufacturing.

CONCLUSION

S. 2411 is a blatant attempt at coercion of the U.S. Government in the Uruguay Round, threatening major U.S. trade objectives in the negotiations. The legislation is unnecessary and harmful to the U.S. economy and to U.S. consumers.

For these reasons, USA-ITA urges the Committee to reject the legislation.

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FACT SHEET ON TEXTILES AND APPAREL TRADE

- Between 1985 and 1989 the value of shipments of U.S. textile manufactures increased by 29 percent, 14 percent on a constant dollar basis (U.S. Industrial Outlook).

- Between 1985 and 1989 the value of shipments of U.S. apparel manufactures increased by 27 percent, 11 percent on a constant dollar basis (U.S. Industrial Outlook).

- Between 1985 and 1989 shipments of U.S. textiles and apparel captured 91 percent and 63 percent respectively of the growth of t... U.S. textile and apparel markets (U.S. Industrial Outlook and Value Major Shippers Report).

- There are already over 1200 quotas in effect on textiles and apparel imports.

- Duties on textile and apparel products are over six times the average of non-textile imports and duties on apparel alone are over seven times those on non-textile imports.

- The U.S. International Trade Commission estimates the cost of quotas and tariffs for textiles and apparel to be between $7.5 billion and $13.8 billion annually.

- The U.S. Federal Trade Commission (FTC) estimates the cost of quota alone on textiles and apparel to be between $11.7 and $13.1 billion annually.

- Based upon FTC estimates, textile and apparel quota restrictions cost between $302,773.00 and $550,916.00 per job protected.

- Quota and tariff protections for textiles and apparel cost the poorest one-fifth of U.S. consumers 8.8 percent of their disposable income (FTC and Bureau of Labor Statistics).

June 6, 1990

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TRENDS IN U.S. TEXTILE MARKET 1985-1989

Domestic Textile Shipments have increased:

Value of Textile Shipments
(Billion Dollars)

1985	1986	1987	1988	1989	Change 1989/1985
53.3	55.3	62.9	65.6	69.0	29.5%

Source: U.S. Industrial Outlook

Domestic Textile Production has increased:

Index of Textile Production
(1987=100)

1985	1986	1987	1988	1989	Change 1989/1985
89.7	93.9	100.0	99.8	101.9	13.6%

Source: Federal Reserve Board

Domestic textile shipments have captured the preponderance of the growth of the U.S. textile market:

	1985/86	1986/87	1987/88	1988/89	1985-89
			(billion dollars)		
Growth of domestic textile market	2.0	7.6	2.7	3.4	15.7
Growth (decline) of non-apparel imports	0.8	.7	(0.3)	.3	1.6*
Growth of U.S. textile markets	2.8	8.3	2.4	3.7	17.3*
Percent of market captured by domestic shipments	71.4	88.4	100.0	91.9	91.0

Sources: 1990 U.S. Industrial Outlook, U.S. Commerce Department, Value Major Shippers Reports

Textile capacity and capacity utilization have increased:

Textile Capacity & Capacity Utilization

	1985	1986	1987	1988	1989	Change 1989/1985
Capacity = 100	108.0	108.8	110.4	112.6	114.6	6.1%
Capacity Utilization (%)	83.0	86.3	90.6	88.7	88.9	7.1%

Source: Federal Reserve Board

Textile productivity has increased:

Textile Mill Productivity Index
(1977 = 100)

1985	1986	1987	Change 1987/1985
131.8	141.2	136.9	3.8%

Source: American Textile Manufacturers Institute Textile Hi-Lights

*Difference due to rounding.

Square Yards Produced Per Loom Hour

1985	1986	1987	1988	1989	Change 1989/1985
12.4	12.1	12.9	13.9	15.9	28.2%

Source: American Textile Manufacturers' Institute Textile Hi-Lights

Textile mill employment has increased:

Textile Mill Employment
(In Thousands)

1985	1986	1987	1988	1989	Change 1989/1985
702.3	703.2	725.6	729.1	726.1	3.4%

The growth in the value of textile exports has matched growth in the value of textile imports:

Textile Exports
(Million Dollars)

1985	1986	1987	1988	1989	Change 1987/1985
2,366	2,570	2,900	3,651	3,897	1,531 64.7%

Source: American Textile Manufacturers Institute, Textile Hi-Lights

Textile (Non Apparel) Imports
(Million Dollars)

1985	1986	1987	1988	1989	Change 1989/1985
4,109	4,934	5,624	5,356	5,667	1,558 37.9%

Source: U.S. Commerce Department Value Major Shippers Reports

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TRENDS IN U.S. APPAREL MARKET 1985-1989

Apparel shipments have increased:

Value of Domestic Apparel Shipments
(Billion Dollars)

1985	1986	1987	1988	1989	Change 1989/1985
57.0	57.9	65.1	67.7	72.2	26.7%

Source: U.S. Dept. of Commerce 1990 U.S. Industrial Outlook

Apparel production has increased:

Apparel Production Index
(1987 = 100)

1985	1986	1987	1988	1989	Change 1989/1985
92.6	96.3	100.0	102.2	104.3	12.6%

Source: Federal Reserve Board

Domestic apparel shipments have captured the majority of the growth of the U.S. apparel market:

	1985/86	1986/87	1987/88	1988/89	1985-89
	(billion dollars)				
Growth of domestic apparel shipments	0.9	7.2	2.6	4.5	15.2
Growth of apparel imports	2.2	4.0	.1	2.7	9.1
Growth of apparel markets	3.1	11.2	2.7	7.2	24.2
Percent of market captured by domestic shipments	29.0	64.3	96.3	62.5	62.8

Sources: 1990 U.S. Industrial Outlook, U.S. Commerce Department, Value Major Shippers Reports

Capacity and capacity utilization have increased:

Apparel Capacity & Capacity Utilization

	1985	1986	1987	1988	1989	Change 1989/1985
Capacity (1977=100)	115.2	117.5	120.0	122.5	125.4	8.9%
Capacity Utilization (%)	80.4	81.9	83.3	83.4	83.2	3.5%

Source: Federal Reserve

Productivity has increased:

Apparel Productivity Index

1985	1986	1987	1987/1985
120.4	123.0	132.0	9.6%

Source: American Textile Manufacturers Institute, Textile Hi-Lights

Imports have increased:

Apparel Imports
(in million square meters)

1985	1986	1987	1988	1989	Change 1989/1985
4,278	4,898	5,459	5,276	6,029	40.9%

Source: U.S. Dept. of Commerce, Major Shippers Report

Employment has been virtually unchanged since 1986:

Apparel Employment
(In Thousands)

1985	1986	1987	1988	1989	Change 1989/1985
1,121.3	1,100.8	1,098.8	1,092.3	1,091.5	- 2.7%

Source: Bureau of Labor Statistics, Employment & Earnings