Fashion Economics: FM 4339
Quiz #6: The US Textile Industry
Chapters 6 & 7
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a. **In relation to the textile industry, where was the apparel industry located? When was the formation of the Apparel industry? What were considered "inside-shops" versus "outside shops"? (2 pts)**

The apparel industry was located in the early-nineteenth-century New England and would later move to the South. In the United States, the apparel industry started in New York City as it began to develop during the end of the nineteenth century and the early twentieth century (Rosen, 2002, pg. 96, par. 1). The majority of the owners of the businesses were Jewish and Italian immigrants from southern Italy and eastern Europe, who arrived in the U.S. between 1880 and 1920. They became owners of small manufacturing and contracting firms that helped bring more demand into the textile industry for uniforms and customized garments.

The cultural background of Italians and Europeans were traditionally rooted in years of tailoring and sewing skills, which helped them incorporate a sense of urban and cosmopolitan values in fashion and art. As the industry began to expand, the labor movement in the apparel industry was marked by the establishment of trade unions such as the International Ladies' Garment Workers' Union (ILGWU) in the women's clothing and the Amalgamated Clothing Workers of America (ACWA) in men's clothing (Rosen, 2002, pg. 97, par. 1). The union played a crucial role in recruiting the proper workers to do the jobs, giving them workers' rights, fostering a sense of class consciousness, and keeping the culture within the company. As brutal labor conditions continued to increase in lofts and factories in New York City in the 1930s, as it led to labor-management relationships and trade unions.

"Inside-Shops" perform all stages in the factory process by the manufacturers themselves, whereas "Outside-Shops" only do one manufacturing level such as cutting and assembly, or just assemble, but the process involves different manufacturers during the stages of production.

b. **Define *runaway* shop. How did *runaway shops* affect the apparel industry? How did the International Ladies' Garment Workers' Union (ILGWU) make union contract shops honor their contractual obligations? (2pts)**

Some factories, known as runaway shops, had to relocate in pursuit of lower operating costs, including reducing labor expenses, and this affected the apparel industry.Manufacturers moved to locations where wages were lower than in their current location, as they were aiming to increase profit margins. Many companies searched for locations with less jurisdictions and less stringent labor regulations that allowed them to operate with greater flexibility and potentially lower compliance costs. In addition, some companies moved to areas offering favorable tax incentives or breaks, in hopes of reducing their overall operating expenses. Many moved to regions with weaker union presence or anti-union sentiments, as it made it difficult for unions to enforce contracts and workers' rights in the new locations.

The ILGWU enforced union contracts in factories that had relocated or "run away" in the 1950s. Their efforts in reformation were aimed at ensuring union agreements would still be honored by manufacturers, when they relocated their operations (Rosen, 2002, pg. 101, par. 4). It would include wage commitments and the employment of unionized workers. They strategize ways to offer immunity from union organizations, to set a period to a southern manufacturer that would agree to pay a wage of at least $0.15 above minimum wage. They maintained a persistent effort in providing union standards for workers even as protests and resistance took place in the form of violence against the ILGWU.

The shift within the apparel industry in the United States between 1949 and 1960 affected the productivity of the industry; there was a notable decline in the number of apparel workers in the New York metropolitan area. The brutal working conditions continued to increase as strikes demanded a 15 percent wage increase. They eventually settled for arbitration, resulting in an 8 percent wage increase that would help match their cost of living (Rosen, 2002, pg. 99, par. 3). The crucial development during this period was the shift of apparel production to the south. Sixteen southern states had passed right-to-work laws, which eventually also weakened the work labor by companies taking advantage of these open-shop provisions, that then allowed them to move to the south where the labor conditions and wages were less regulated by their unions.

The challenges that ILGWU was trying to create a safe environment for workers as they sought partnership with the National Labor Relations Board (BLRB) and the courts to enforce contractual relationships with manufactures or contractors who were not adhering to the unions agreements (Rosen, 2002, pg. 102, par. 1). The "run away" manufacturers and contractors took advantage of the working conditions—which lacked federal regulations—and were able to relocate or open new plants in areas of lower wages and right-to-work policies. This made it very challenging for unions to maintain their presence with so many violations, as opposed to the postwar Federal Republic Germany, where a national consensus supported unions that helped prevent policies like open shops and right-to-work states. Federal requirements prohibited union avoidance that might have made it more difficult for the apparel industry to leave New York.

c. **What was the result when U.S. importers, retailers, and manufacturers decided to contract work to East Asian producers? Why did U.S. importers, retailers, and manufacturers decide to contract work to the East rather than to U.S textile mills if foreign competition was already problematic? (2pts)**

The U.S. importers, retailers, and manufacturers decided to contract work to East Asian producers in the 20th century, marking a new phase in the globalization of supply chains. The U.S. companies saw it as a cost-effective solution by outsourcing labor-intensive manufacturing processes to countries where the costs were lower. The shift resulted in a decline in the labor-intensive industries and created challenges in competing with lower-cost production abroad. This contributed to the changes in various industries and the job market declined in certain manufacturing sectors. Although it did increase the interconnectedness of the global economy, the supply chain became more complex, with different components and finishing goods crossing borders multiple times before reaching the end consumer.

The United States decided to contract work to the East rather than to the U.S. textile mills because apparel producers benefited from the low-cost imports of the cotton textiles from Japan. Although they began facing challenges such as "run away" shops and the breakdowns in labor-management agreements (Rosen, 2002, pg. 103, par. 2). The Eisenhower administration implemented a new East Asian foreign policy, reducing textile tariffs that would help encourage Japanese textile imports, including low-wage apparel items. In the early 1950s, the U.S. producers went to Japan and contracted with manufacturers to produce apparel for export to the U.S.. The rapid volume of demand of Japanese apparel imports reached 4 million by 1955, causing the domestic production to also increase as the growth rate of Japanese imports outpaced the domestic production. The Asian economy began to recover from the war; Japan began exporting textiles to other countries such as Hong Kong, which helped the Japanese investments expand and integrate their textile and apparel industry (Rosen, 2002, pg. 105, par. 1). The partnership between Japan and Hong Kong consisted of acquiring garment factories and establishing new spinning and weaning plants in Hong Kong for more production. The significant increase primarily in the form of garments, helped shape the direction between textiles and apparel.

d. **Define MFA? What was the purpose of the MFA? How did the NIC (Newly Industrializing Countries) of Hong Kong, Taiwan & South Korea keep abreast of the changes in foreign policy and manage an increase in imports? (2pts)**

The Multi Fiber Agreement (MFA) is a worldwide agreement that governs the trade in textiles and garments, setting quotas on the textile and clothing industry by the countries exporting products to countries that are low on resources or do not produce enough goods.

From 1974 to 1994 the short-term and long-term agreements in the 1960s had mentioned quotas regimes were characterized by the compromises with special interest groups. The goal was to slow down the rate of import growth and moderate the flow of imports to U.S. retailers and consumers, as opposed to providing shields to producers from the expansion of the low-wage imports (Rosen, 2002, pg. 103, par. 2). Their official goal was to create expansion of trade, reduce barriers, and progressively liberalize world trade in textile products. Furthermore, the industries were portrayed as being overprotected but not measuring how they can be beneficiaries of a unique system of import protection that is not available for other industries.

William R. Cline was a neoclassical economist who was against the MFA, sought quotas regimes as not a need of much protection. He best described the MFA as a "semipermeable screen" as the agreement would not stop the economic forces of intensity that cause import pressures. He believed that if the trade was initially protected, then the annual import levels might be controlled based on a certain percentage by the U.S. market share that would then link to the rate of the U.S. market growth (Rosen, 2002, pg. 111, par. 3). This would have helped align the textile industry and the trade union movement with the apparel industry. Cline's opinion pursued President John F. Kennedy to regulate imports from Hong, Taiwan and South Korea with short and long term agreements, helping him create his Seven Point Program which aimed to regulate cotton textiles at the request of the American Cotton Manufacturers' institution.

e. **How did the Reagan administration view foreign trade policy? What were some of the social transformations that the U.S. had endured the 1970's that effected foreign trade policy? What was the effect on apparel imports? Imports from The People's Republic of China (PRC)? (2pts)**

The Reagan administration viewed the foreign trade policy as a determination in the power of the trade protectionists. During this time, his administration created a protectionist and embraced a more liberalized trade agenda by legitimacy of trade protection and replaced it with a neoliberal agenda as a marked turning point in the formation of the trade policy. His initial shift towards free trade initiatives was illustrated through specific trade policies (Rosen, 2002, pg. 119, par. 1). The trade of the Caribbean Basin Economic recovery Act, Enterprise for the Americas Initiative under President Bush, and the North American Free Trade Agreement (NAFTA) under the President Clinton administration, helped promote free trade. This paved the way for the US. to dominate the trade and investment regime with Latin America by creating policies that led to the termination of the General Agreement on Tariffs and Trade (GATT) and the establishment of the World Trade Organization (WTO).

Reagan found himself in a challenging position as he sought reelection and needed support from the Southern Democrats and protectionist-leaning congressmen. In order for him to secure the votes from the states, he made a formal commitment to aid the textile industry, even though it was against his neoliberal view that did not align with the protectionist agenda of the industry (Rosen, 2002, pg. 121, par. 2). Reagan employed a combination of coercion, reward, and incentives to navigate the conflicting interests within his political base. He also had to address the growth between the influence of transnational corporations in retailing and apparel importing, that enhanced freer access to low-wage offshore production and open markets abroad. Reagan supported the enforcement of quotas regulations and negotiating reductions in quotas for East Asian apparel exporters.

Reagan re-election engaged in political maneuvers with the MFA, which encouraged the imports from the People's Republic of China, and was vetoed significantly by the protectionist legislation. Ultimately, Reagan reached a compromise with the textile industry that assisted in furthering the process of the trade liberalization for textiles and apparel (Rosen, 2002, pg. 121, par. 3). The apparel imports had a rapid growth throughout the years of 1960 and 1980. The value of apparel imports had almost tripled by the ending of his presidency. It also represented a large proportion of the growing U.S. trade deficit. The Capitol Hill of Wall Street felt like it began to provoke the U.S. textiles and apparel producers.

The commitment of the Committee for the Implementation of the Textile Agreement (CITA) was measured under the Reagan administration with regards to monitoring and regulating the textile and apparel trade. They responded by issuing "calls," that were imposing moratoriums of sixty-to-ninety days on textiles and apparel imports that had exceeded negotiating with the quotas (Rosen, 2002, pg. 123, par. 1). Reagan also imposed new restrictions on textile and apparel imports from the East Asian countries, including Taiwan, Hong Kong, South Korea, and the People's Republic of China (PRC). This caused many major textile and apparel manufacturing countries to begin reducing their exports to the U.S that would eventually lead to an increase in China's textiles and apparel exports. The Chinese textile industry wanted more of a present and known presentation in the U.S., as the subcontractors from China contributed to the rise in apparel exports labeled as "made in China."

Reference:

Rosen, E. I. (2002). *The Globalization of the U. S. Apparel Industry: Making Sweatshops.* University of California Press; Los Angeles, CA.