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Executive Secretary
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THE WHITE HOUSE
WASHINGTON

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Executive Registry
85- 3573

CABINET AFFAIRS STAFFING MEMORAN

Date: 9/23/85 **Number:** 316996CA **Due By:** _____

Subject: Economic Policy Council Meeting -- September 24, 1985

2:00 P.M. -- Roosevelt Room

	Action	FYI
ALL CABINET MEMBERS	☐	☐
Vice President	☑	☐
State	☑	☐
Treasury	☑	☐
Defense	☐	☑
Justice	☐	☑
Interior	☐	☐
Agriculture	☑	☐
Commerce	☑	☐
Labor	☑	☐
HHS	☐	☐
HUD	☐	☐
Transportation	☑	☐
Energy	☐	☐
Chief of Staff	☑	☐
Education	☐	☐
OMB	☑	☐
CIA	☐	☑
UN	☐	☐
USTR	☑	☐
GSA	☐	☐
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NASA	☐	☐
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REMARKS:

The Economic Policy Council will meet on Tuesday, September 24, at 2:00 P.M. in the Roosevelt Room.

The agenda and background paper are attached.

RETURN TO:

☑ **Alfred H. Kingon**
Cabinet Secretary
456-2823
(Ground Floor, West Wing)

☐ **Don Clarey**
☐ **Rick Davis**
☐ **Ed Stucky**

DCI EXEC REG

Associate Director
Office of Cabinet Affairs
Room 129, OEOB)

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THE WHITE HOUSE

WASHINGTON

September 21, 1985

MEMORANDUM FOR THE ECONOMIC POLICY COUNCIL

FROM: EUGENE J. McALLISTER EM

SUBJECT: Agenda and Paper for the September 24 Meeting

The agenda and paper for the September 24 meeting of the Economic Policy Council are attached. The meeting is scheduled for 2:00 p.m. in the Roosevelt Room.

The single agenda item is the Multifiber Arrangement. At its July 19 meeting, the Council asked that the Working Group on the Multifiber Arrangement (MFA) prepare a paper presenting options regarding the U.S. position in the upcoming negotiations for a successor arrangement to the present MFA, scheduled to expire July 31, 1986. Since informal discussions to begin the negotiating process will take place in mid-October, the Council needs to address now the position the U.S. should take in the negotiations. The paper reviews the current program, economic factors, and domestic and international political considerations. It also presents several options on possible general negotiating positions for Council consideration.

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THE WHITE HOUSE

WASHINGTON

ECONOMIC POLICY COUNCIL

September 24, 1985

2:00 p.m.

Roosevelt Room

AGENDA

1. Multifiber Arrangement

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OPTIONS PAPER FOR MEMBERS OF THE ECONOMIC POLICY COUNCIL

FROM: Charles R. Carlisle, Chairman
Working Group of the Economic Policy Council
on the Multifiber Arrangement

Issue for Decision

The EPC decided on July 19 that the United States should enter into negotiations for a successor arrangement to the international Multifiber Arrangement (MFA), which expires July 31, 1986, and that the negotiations should be carried out as expeditiously as possible. The United States has stated this position at a GATT Textiles Committee meeting, and informal discussions to begin the negotiating process will take place in mid-October. The fundamental issue is:

> Should the United States try to negotiate a more restrictive MFA and bilateral textiles agreements, maintain the present level of protection, or agree to relax protection in world textile and apparel trade?

Options

(NOTE: Actions listed under each option are illustrative; further work on one or more of the options will be necessary after a first EPC discussion.)

Option 1: Continuing As We Are.

Possible elements would include extending the present MFA for, say, four to five years, continuing bilateral agreements along present lines, setting quotas on a product-by-product, country-by-country basis, continuing to exempt imports from the developed countries (except Japan), and continuing not to grant special treatment to apparel imports from the CBI nations.

The exporting nations would be displeased by lack of future liberalization, and there would be increasing friction as the United States establishes quotas on new entrants into its markets and the poorest nations. The domestic industries would see the decision as the continuation of what they regard as a failed policy and would intensify their efforts to obtain protectionist legislation.

ORIGINAL C. Carlisle
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Option 2: Liberalization.

Possible elements would include extending the MFA essentially along present lines but possibly including a "fail-safe" provision allowing importing nations to preserve some part of their domestic industries; granting more liberal terms in bilaterals and setting quotas; according more liberal terms to apparel imports from the CBI nations; continuing to exempt imports from the developed countries, except possibly Japan; lowering textile and apparel tariffs in the New Round negotiations; and tying liberalization to market opening and the ending of subsidies by the exporting nations, especially the NICs.

Imports could rise in some years at faster rates than in 1983-84. Foreign governments generally would welcome the U.S. decision (but many exporting nations would fear loss of market share). Chances for a successful New Round would be improved. Consumers would benefit, but domestic industries would be incensed. Congressional reaction would be strongly critical.

Option 3: More Protection.

Possible elements would include negotiating a new MFA essentially along present lines, but extending coverage to ramie (flax-like), silk, linen and other fibers not now covered, and explicitly recognizing importing nations' rights to hold import growth to low levels; lowering import growth under bilaterals; re-opening bilaterals this fall with major suppliers (e.g., Taiwan, Hong Kong, South Korea and possibly China), to freeze or cut back imports from those nations; restraining imports from the EEC and other developed nations; instituting some form of import licensing to reduce quota evasion and provide early warning of import surges; and self-initiating fair trade actions.

This might hold total import growth to 5 percent or less (compared to 83-84 growth of 25-32 percent). Foreign nations would be extremely displeased, and the United States would have to expend considerable capital internationally to negotiate a more restrictive MFA and bilaterals. New Round would be endangered. Domestic industries would be pleased, but still skeptical about the Administration's real intentions. U.S. retailers would be very critical and consumers would be hurt more than they already are.

Option 4: More Protection, Followed by Liberalization.

Possible elements would include negotiating an MFA for say 8-10 years, with explicit commitments requiring both importing and exporting nations to accord gradually more liberal treatment in, say, years five to ten; first period: adopt many of Option 3 elements; apply more restrictions against apparel, but grant more

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liberal treatment to apparel imports from CBI nations; act against imports from developed countries on a selective basis; might negotiate an MFA and bilaterals which would protect against import surges in broad categories of goods. Second period: lower tariffs in New Round negotiations; progressively relax quotas or antisurge provisions; tie liberalization to relaxation of restrictive and subsidy actions by exporting nations, especially NICs.

Might be possible to hold annual import quota to 5 percent range in first period. Exporting nations probably would accept a more restrictive MFA and bilaterals provided there were explicit and firm commitments to phase down protection later. Negotiations, however, would be difficult. Retailers would go along, but it is difficult to predict domestic industries' reaction. They might say this option would only postpone their demise, but they might accept it if they thought the chances of the quota bill's becoming law were not good.

Option 5: Substitution of MFN Tariffs for Quotas (see Treasury paper at Tab B).

This option concerns the means of protection and could be compatible with any of the first four. Possible elements would include negotiating changes in the MFA permitting tariffs to be raised (now prohibited by MFA); negotiating changes in bilaterals; substituting tariffs for quotas, possibly only on some items (probably would have to be raised to about 25 percent for textiles, 50 percent for apparel to give protection equivalent to that afforded now); possibly granting GSP treatment.

Would eliminate uncertainties caused by quota setting and administrative problems in determining country of origin and transshipments. Incentive for foreign producers to upgrade their production would no longer exist. According to CEA, U.S. Government revenues might rise by over $3 billion annually; a portion might be used for adjustment assistance. However, legislation, which probably would be "Christmas treed," would be necessary. Would be necessary to negotiate compensation on GATT-bound tariffs, and prospects for the New Round could be damaged. Many developing nations would dislike the proposal because they would fear loss of market share to the most efficient producers, e.g., China. The domestic industries would oppose, arguing that substitution was tantamount to liberalization and that some exporting nations would set prices at whatever levels were necessary to sell in the U.S. market.

Other Key Questions

In considering the options certain key questions should be kept in mind:

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1. Should there be a net change in protection? Should protection be scaled back over time or after some period of time?

2. Should tariffs be substituted for quotas?

3. Should the United States continue to control imports on a country-by-country, product-by-product basis, or seek more comprehensive controls?

4. Should there be fewer, broader product categories, instead of the present 109?

5. How long should a new MFA last?

6. What should be done about certain categories of countries:

   a. Industrial countries, whose exports the United States does not now control?

   b. CBI nations, which would benefit from more liberal treatment of their apparel exports?

   c. The poorest nations, which have difficulty expanding their exports because of other countries' large quotas?

   d. Major suppliers -- Taiwan, Korea, Hong Kong, China and Japan -- whose large quotas severely restrict the trade of other nations?

7. Should the United States seek controls on fibers not covered by the present MFA -- ramie, linen, jute and silk?

8. Should an import licensing system be devised to try to reduce circumvention and fraud and give advance warning of import surges?

9. Should adjustment assistance be provided if import protection is reduced?

Discussion

Current Program

The textile and apparel industries are the most protected U.S. manufacturing industries. In addition to an extensive quota system, there are high tariffs averaging 13 percent on textiles and 25 percent on apparel. Increasingly restrictive programs have been in force since 1961.

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Currently, the United States has some 1,300 restraints on products from 37 countries; 300 have been added since 1983. About two-thirds of apparel and one-third of nonapparel imports are currently under restraint. If quotas cannot be negotiated, the United States may impose them unilaterally, provided there is market disruption.

Items made wholly or partially of ramie, jute, linen and silk are not controlled. Imports of those items are rising rapidly. Domestic manufacturers also claim that circumvention and fraud plague the program despite the rules of origin promulgated in final form last April.

Neither the United States nor the EEC restrict each other's trade under a "gentlemen's agreement," unwritten and apparently dating back to the 1960s. Japan is the only developed country whose trade the United States does control.

Economic Factors (See Tab A for fuller discussion.)

Imports rose 25 percent in 1983, and 32 percent in 1984. They were down 1 percent in the first seven months of 1985, but were up 36 percent from the EEC. The EEC as a group is now this country's largest supplier of nonapparel. Import penetration is 33 percent in apparel, 11 percent in nonapparel. U.S. exports have been declining sharply since 1980.

Domestic production of apparel and nonapparel declined slightly over the 1972-84 period while consumption grew about 1 percent a year.

Apparel production is concentrated in New York, Pennsylvania, California and North Carolina. Productivity has been increasing faster than for all manufacturing, but no technological breakthrough is in sight which will enable U.S. manufacturers to meet foreign competition without protection.

The textile industry is mainly in the Carolinas and Georgia. Plant closings have accelerated this year, but some of the plants are old. Total job loss in the last two and one-half years has been about 33,000, about 5 percent of the textile labor force. Productivity has been rising much faster than in all manufacturing, but the industry is still labor intensive. Profits, which have fluctuated, grew about 22 percent in current dollars from 1979 to 1984.

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The U.S. manmade fiber industry is very efficient but claims that it is losing its domestic customer base while confronting many foreign trade barriers. U.S. fiber production is stagnant while that in the Far East is expanding rapidly.

The textile and apparel industries provide about 1.8 million jobs, many to minority members, women and poorly educated people. Employment has declined by over 500,000 since 1974. About one-quarter of this decline has occurred in the last year.

The CEA estimates that the U.S. quotas and tariffs cost consumers about $39 billion a year and preserve about one-fourth to one-third of the jobs. That means each job saved costs $65,000-87,000 a year.

USDA believes that additional restrictions on U.S. cotton textile and apparel imports, if all other factors remained the same, would increase returns to U.S. cotton producers. However, retaliation by foreign buyers switching to other sources of supply would be likely to more than offset these gains.

Domestic Political Situation

The domestic industries claim that nothing less than a quota bill will satisfy them. They accuse the Administration of failing to "enforce" the MFA and of failing to carry out a Presidential commitment to relate import growth to the growth of the domestic market. Despite the intensity of feeling, moderate industry leaders might settle for a much more restrictive MFA and bilateral agreements that would hold annual import growth to around 5 percent. Importers and retailers could accept a more restrictive, comprehensive program in return for greater certainty, "contract sanctity," and an eventual MFA phase-out.

International Political Situation

Developing exporting nations are very unhappy about current U.S. actions, including this country's discrimination in favor of developed countries, and are calling for an end to the MFA. They are prepared, however, to negotiate. About half of their textile and apparel exports come to the United States. Japan and the EEC are talking vaguely about a more liberal MFA; Canada wants a more restrictive arrangement because it too has experienced rapid import growth.

Foreign Trade Barriers

Both a Commerce study and one done for the domestic industry leave little doubt that exporting nation governments give

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substantial protection to their markets and also intervene in various ways to assist their domestic industries. The domestic industry claims that both Japan and the EEC more effectively protect their markets than does the United States, the EEC through more restrictive bilateral agreements, and Japan by nontariff barriers and informal arrangements.

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Imports

Tables 1 and 2, attached, present data on U.S. imports of cotton, wool and man-made fiber textiles and apparel from 1972 through July 1985, measured in square yards equivalent (SYE). Tables 2 and 3 present import data by various foreign suppliers from 1980 to June 1986. Tables 5-7 present data on textile and apparel imports not subject to the MFA, such as silk, linen and ramie. The tables show that:

-- Imports accounted for 33 percent of the U.S. apparel market in 1984, 11 percent of the non-apparel market.

-- While the long-term trend of imports has been up, imports have increased much more rapidly in the 1980-84 period, about 13 percent a year for apparel, 26 percent annually for non-apparel. Moreover, imports increased at a 25 percent rate in 1983 and 32 percent in 1984. They declined 1.3 percent in the first seven months of 1985.

-- Imports from the three largest suppliers of apparel and non-apparel products have grown less rapidly than from other suppliers, because of very restrictive growth rates negotiated on many products in 1982. Imports from those countries, however, accounted for over 23 percent of the total growth of imports in the 1982-84 period because of diversification and the full use of large quotas.

-- Imports from the EEC, spurred by the dollar's rise, have grown very rapidly in the last several years, and are still increasing while imports from "controlled" sources are leveling off. The EEC countries, taken as a group, are now this country's largest supplier of non-apparel. Italy accounts for 41 percent of the EEC's non-apparel exports to this country, 52 percent of the apparel exports.

Although exact figures are not available, a sizeable share of U.S. imports of textile and apparel products are imported by the domestic industry. One industry source has estimated that 25 percent of apparel imports are received by U.S. apparel manufacturers, mainly to mix with lines produced domestically to keep costs down. Apparel producers are the main importers of yarns and fabrics, partially to reduce their costs, but also because domestic mills very often will refuse to produce short-run fashion fabrics. Domestic textile mills, however, also import a significant proportion of fabrics from China and other suppliers. More than half of U.S. fabric imports are unfinished cloth, which is dyed and/or printed by converters and U.S. mills and sold to apparel manufacturers.

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Table 8 shows that U.S. import growth was much greater than that of either the EEC or Japan in the 1982-84 period, but that imports have a larger market share in those countries than in the U.S.

Exports

Table 9 shows that while both apparel and non-apparel imports have been increasing rapidly in value since 1980, exports have been declining sharply. Table 10, which presents data on U.S. exports by destination, shows that the fall-off in exports apparently was caused by the rising dollar. For example, U.S. exports to the EC declined 62 percent from 1980 to 1984.

Domestic Industries

Table 11 presents volume data on apparent domestic consumption and production for both the non-apparel and apparel industries for the period 1972 - 1984. This table shows that:

-- Consumption has increased about 1 percent a year, although apparel consumption grew 5 percent a year from 1980 to 1984.

-- Domestic production has declined slightly over the entire period.

Apparel industry. The apparel industry has about 22,000 shops and plants. Ownership is characterized by a small number of large multi-plant manufacturers engaged in manufacturing of many kinds of apparel and by thousands of small firms that go in and out of business constantly. For this reason there is no reliable way of estimating the number of firms or plants that have been closed by imports. U.S. apparel production is concentrated in New York, Pennsylvania, California and North Carolina (Table 12).

Capital expenditure estimates also are not available for the apparel industry, but, according to a Commerce study, productivity increased by an annual average of 2.5 percent from 1974 through 1982, compared to 1.7 percent for all manufacturing. Industry leaders claim that they are doing all they can to make their operations more efficient, but that there is no way they can offset labor costs that, for example, in the Far East, often are less than $1 an hour (compared to over $5 in the U.S., exclusive of fringes).

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Most industry leaders also say that no technological breakthrough is in sight (say, over the next 10 years) that will enable U.S. manufacturers to meet foreign competition without protection. About $7 million is being spent annually by industry and the U.S. Government to fund research at an MIT laboratory on apparel manufacture automation. The Japanese, with substantial government support, are spending $50-60 million a year for research on a robotized, workerless apparel factory, which might be operational by 1990.

Textile industry. The U.S. textile industry has about 6,000 plants, mainly in the Carolinas and Georgia (Table 12). Some firms are publicly owned but many are family owned.

An average of 47 textile plants closed their doors in both 1983 and 1984; in the first half of 1985, 48 have done so. According to the American Textile Manufacturers Institute, these plant closings, plus lay-offs at plants which have remained open, resulted in a job loss of over 33,000 in the 2-1/2 year period, about five percent of the textile industry labor force (Table 13). It is impossible to say how many plants have closed because of import pressures, either direct or on their customers the (apparel manufacturers), and how many have closed simply because of modernization programs.

Textile mill owners say that many of their plants are as modern as any in the world. Textile mill capital expenditures have averaged $1.5 - 2.0 billion a year since 1979, while productivity grew at an average of 5.2 percent between 1974-82, about three times the average for all manufacturing.

Textile mills remain labor intensive, however, with the fourth lowest output per worker among U.S. industries. Moreover, with labor costs averaging, say, about one-third of total manufacturing costs at the mill, textile executives claim that they are unable to offset foreign labor costs that may run as little as 25 cents an hour in China.

Table 14 shows that textile corporate profits, which have fluctuated, grew by 22 percent in current dollars from 1979 to 1984. Profits almost doubled from 1982 to 1983 and increased again, marginally, last year. Profits usually run from two to three percent of sales and eight to 12 percent of equity.

Fiber Industry. The U.S. fiber industry consists of about 15 companies, mainly subsidiaries of large, U.S. and foreign owned chemical companies. These firms, e.g., DuPont, have led the world in developing and commercializing new synthetic fibers.

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U.S. fiber producers say that they are as efficient as any producers in the world, but that they are badly disadvantaged because their domestic customer base is shrinking while foreign trade barriers seriously hamper export sales. Far Eastern apparel and textile producing countries have been integrating backward. For example, Taiwan (whose producers, U.S. manufacturers claim, are subsidized) has increased its capacity significantly, becoming not only self-sufficient but a substantial exporter of low-cost fiber to offer in Asian markets. China and Korea have also increased their fiber capacity dramatically. Table 15, attached, gives fiber capacity data for the U.S. and principal foreign countries since 1976.

Four U.S. fiber plants have closed in the last 18 months, and a fifth is scheduled to close. No new plants have opened and none is planned.

Cotton

USDA believes that additional restrictions on U.S. cotton textile and apparel imports may result in a net loss for U.S. cotton farmers if foreign nations retaliate.

In the 1982-84 period, according to USDA, about 25 percent of U.S. cotton textile and apparel imports consisted of U.S. cotton. With foreign cotton production accelerating rapidly, the proportion of U.S. cotton textile and apparel imports comprised of U.S. cotton could drop from about 25 percent to 15 percent in 1986. This is especially likely if the U.S. minimum loan rate continues to support U.S. cotton prices above foreign prices.

If U.S. cotton textile and apparel imports were to decrease, U.S. mill use of domestically grown cotton (cotton imports are minimal) would increase. That gain would be partially offset by a decline in U.S. cotton exports, so that a 10 percent decline in U.S. cotton textile and apparel imports might cause total use of U.S. cotton to increase 100,000 - 200,000 bales a year -- about 1.0 percent of the U.S. cotton crop. USDA believes, however, that the loss of goodwill and possible trade retaliation could more than wipe out that gain.

Labor Force and Job Loss

Table 16 shows that there are approximately 1.9 million textile and apparel workers. Table 14, attached, gives data on the characteristics of the labor force in the textile and apparel industries. This table shows that in both industries:

-- The percentage of minority workers is high.

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-- The percentage of female workers is high.

-- The percentage of poorly educated workers is high.

-- Workers receive an average wage well below the average of manufacturing workers throughout U.S. industry.

In short, the textile and apparel industries afford a large number of entry-level jobs to women and minority members who have difficulty finding jobs elsewhere. Moreover, many apparel and textile plants are in small communities where alternative employment is scarce. Apparel plant jobs may help attract illegal immigrants to large cities.

Table 16 gives annual employment data in the textile and apparel industries since 1972. The table shows that:

-- Apparel and non-apparel employment has declined by over 500,000 jobs since 1974, and that about half of that decline has occurred since 1981.

-- Until 1980 employment was declining about 1.4 percent a year; since then the rate of decline has increased to 2.1 percent.

Consumer Costs

The Council of Economic Advisors has estimated that if all U.S. textile and apparel tariffs and quotas were eliminated, American consumers would save $39 billion a year, about $640 a year for a family of four. The CEA also has estimated that if just quotas were eliminated, consumers would gain $21 billion annually. If the textile quota bill now before the Congress were to become law, it would cost consumers an addition $14 billion a year, according to CEA estimates.

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Table 1

U.S. IMPORTS OF APPAREL
(Millions of Square Yards Equivalent)

		Yearly % Change	Import Share of U.S. Market
1972	2,226		17.4
1973	2,090	- 6.2	17.3
1974	1,937	- 7.3	16.8
1975	2,077	+ 7.2	18.6
1976	2,449	+17.9	20.5
1977	2,466	+ 0.7	19.5
1978	2,905	+17.5	22.7
1979	2,671	- 8.0	21.7
1980	2,884	+ 7.9	24.7
1981	3,123	+ 8.3	25.6
1982	3,373	+ 8.0	26.9
1983	3,862	+14.5	27.7
1984	4,703	+21.7	33.0
Compound Annual Change:			
1972-1984		+ 6.4	
1980-1984		+13.0	
Jan.-July			
1984	2,905		
1985	3,004	+ 3.4	

Note: Imports are for cotton, wool and man-made fiber. Excluded are from 1972-1984 figures are certain down-filled apparel items which were not included in U.S. import statistics until 1982 (1984 imports equaled 11.6 million square yards). U.S. market is production of all fibers minus exports plus imports.

Source: U.S. Department of Commerce

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Table 2

U.S. IMPORTS OF NON-APPAREL
(Millions of Square Yards Equivalent)

	Imports of Yarns, Fabrics & Made-Up Articles	Yearly % Change	Imports of Made-Up Articles Only	Import Share of Market 1/
1972	4,010		384	2.9
1973	3,035	-24.3	358	2.7
1974	2,474	-18.5	315	2.5
1975	1,750	-29.3	228	1.9
1976	2,537	+45.0	329	2.5
1977	2,512	- 0.1	328	2.4
1978	2,835	+12.9	398	2.8
1979	1,968	-31.3	413	3.0
1980	2,000	+ 1.6	403	3.1
1981	2,639	+32.0	490	3.9
1982	2,553	+ 3.3	579	4.9
1983	3,536	+38.5	799	6.2 (8.4)*
1984	5,063	+43.1	1,238	9.0 (11.4)*
Compound Annual Change:				
1972-1984		+ 2.0	+ 10.2	
1980-1984		+26.1	+ 32.4	
Jan.-July				
1984	3,378		980	
1985	3,200	- 5.3	1,053	(+ 7.5)

1/ Market share for non-apparel is for made-up textile products other than apparel; such as soft-sided luggage, draperies, sheets, etc.

Note: Imports are for cotton, wool and man-made fiber. Excluded from 1972-1984 figures are certain man-made fiber products which were not included in U.S. import statistics until 1983 (1984 imports equaled 37.4 million square yards). U.S. market is production of all fibers (including imports of yarns and fabrics consumed by domestic manufactures of the end product) minus exports plus imports.

* Import share including certain man-made fiber products not added in statistics until 1983.

Source: U.S. Department of Commerce

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Sanitized Copy Approved for Release 2010/11/10 : CIA-RDP87M00539R002303830009-1

APPAREL 1/
U.S. General Imports
(Millions of Square Yards Equivalent)

COUNTRY	1980	1981	1982	% Change 80-82	1983	1984	Year End 7/85	% Change '83-7/85	% of Growth '83-7/85
WORLD	2,884	3,123	3,373	16.9	3,862	4,703	4,800	+ 24.3	100.0
MAJOR SUPPLIERS	2,106	2,296	2,522	19.8	2,847	3,098	3,060	+ 7.5	22.7
Taiwan	670	654	745	11.1	858	927	894	+ 4.2	3.8
Hong Kong	628	656	690	9.8	760	814	788	+ 3.7	3.0
Korea	494	583	572	15.9	623	681	659	+ 5.8	3.8
China	166	241	355	113.5	428	442	374	- 12.7	---
Philippines	148	162	161	8.8	177	234	350	+ 41.5	18.4
MAJOR DEBTORS	815	933	907	11.3	1,021	1,294	1,411	+ 38.2	41.6
Brazil	5	4	5	16.8	9	33	42	+366.7	3.5
Mexico	92	82	56	-39.2	60	86	103	+ 71.7	4.6
Korea	494	583	572	15.9	623	681	659	+ 5.8	3.8
Argentina	*	*	*	N/A	*	*	*	N/A	---
Indonesia	5	18	39	607.3	46	129	142	+208.7	10.2
Venezuela	*	*	*	N/A	*	*	*	N/A	---
Philippines	148	162	161	8.8	177	234	350	+ 41.5	18.4
Egypt	2	2	1	-50.2	*	*	*	N/A	---
India	69	82	73	5.1	106	131	115	+ 8.5	1.0
Nigeria	*	*	*	N/A	*	*	*	N/A	---
ASEAN	276	314	360	30.5	411	661	736	+ 79.1	34.6
CBI	117	113	110	-6.1	127	153	186	+ 46.6	6.3
VERY POOREST 2/	58	53	56	-2.8	65	93	163	+150.6	10.4
OECD (except Japan)	47	41	45	-4.7	70	157	206	+193.9	14.5
Italy	16	13	13	-14.0	20	56	65	+225.0	4.8
Spain	2	2	2	0.9	3	4	4	+ 33.0	**
Portugal	3	3	3	-11.5	3	13	22	+633.3	2.0
Greece	3	*	1	-63.4	*	4	7	N/A	**
Turkey	*	*	*	42.6	4	15	30	+650.0	2.8

* Less than 1 million square yards.
** Less than 1 percent.
1/ Cotton, wool and man-made fiber. Excludes certain apparel products not added to the statistical data base until 1982.
2/ Bangladesh, Haiti and Nepal.

Source: U.S. Department of Commerce

Table 3

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NON-APPAREL 1/
U.S. General Imports
(Millions of Square Yards Equivalent)

COUNTRY	1980	1981	1982	% Change 80-82	1983	1984	Year End 7/85	% Change '83-7/85	% of Growth '83-7/85
TOTAL	2,000	2,639	2,253	12.6	3,536	5,063	5,008	+ 41.6	100.0
MAJOR SUPPLIERS	904	1,276	1,970	117.8	1,834	2,375	2,308	+ 25.9	32.2
Japan	378	416	437	15.5	572	599	568	- 0.6	N/A
Italy	109	181	195	79.0	256	450	476	+ 85.8	14.9
Taiwan	112	166	728	548.8	319	399	436	+ 36.8	7.9
China	159	319	332	109.7	355	522	448	+ 26.2	6.3
Korea	147	194	277	89.3	332	405	380	+ 14.4	3.3
MAJOR DEBTORS	382	474	519	35.9	771	1,106	988	+ 28.4	14.7
Brazil	12	62	74	492.1	124	162	145	+ 16.9	1.4
Mexico	42	48	59	41.5	126	186	132	+ 4.5	**
Korea	147	194	277	89.3	332	405	380	+ 14.4	3.3
Argentina	*	4	11	3,916.6	8	2	1	- 87.5	N/A
Indonesia	2	7	5	177.7	38	140	126	+231.6	6.0
Venezuela	*	*	*	N/A	*	*	3	N/A	**
Philippines	15	16	10	-30.8	14	7	9	- 35.7	N/A
Egypt	83	68	23	-72.0	61	82	39	- 36.0	N/A
India	82	75	60	-27.1	68	122	153	+125.0	5.8
Nigeria	*	*	*	N/A	*	*	*	N/A	N/A
ASEAN	75	127	112	49.2	137	293	308	+124.8	11.6
CBI	10	11	17	70.4	18	38	31	+ 70.5	**
VERY POOREST 2/	1	2	5	271.5	2	3	3	+ 85.7	**
OECD (except Japan)	501	604	648	29.4	886	1,548	1,655	+ 86.8	52.2
Italy	109	181	195	79.0	256	450	476	+ 85.8	14.9
Spain	10	19	16	54.3	51	87	98	+ 92.2	3.2
Portugal	14	14	18	34.1	25	45	49	+ 96.0	1.6
Greece	*	1	*	-36.8	1	2	5	+500.0	**
Turkey	5	3	5	-0.5	4	48	60	+1,400.0	3.8

* Less than 1 million square yards.
** Less than 1 percent.
1/ Cotton, wool and man-made fiber. Excludes certain apparel products not added to the statistical data base until 1982.
2/ Bangladesh, Haiti and Nepal.

Source: U.S. Department of Commerce

Table 4

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Table 5

"NON-MFA" APPAREL IMPORTS
(Millions of Square Yards Equivalent)

	1983	1984	7/85	% Change '83-7/85	% of Growth '83-7/85
WORLD	79	252	437	+ 454.0	100.0
BIG THREE*	65	211	350	+ 436.2	79.6
Hong Kong	43	109	196	+ 356.8	42.7
Korea	15	81	112	+ 674.9	27.1
Taiwan	8	22	41	+ 429.8	9.2
China	6	17	47	+ 653.3	11.5
Italy	2	6	8	+ 285.2	1.7

* Three largest suppliers of MFA textile and apparel products

Source: U.S. Department of Commerce

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Table 6

SILK APPAREL IMPORTS
(Millions of Square Yards Equivalent)

	1983	1984	7/85	% Change '83-7/85	% of Growth '83-7/85
WORLD	67	136	135	+ 103.1	100.0
BIG THREE*	55	115	112	+ 102.8	83.8
Hong Kong	42	70	64	+ 54.0	32.4
Korea	12	42	45	+ 266.3	48.5
Taiwan	1	4	3	+ 188.2	2.9
China	.6	11	13	+ 112.0	10.3
Italy	2	4	4	+ 124.9	2.9

OTHER "NON-MFA" APPAREL IMPORTS 1/
(Millions of Square Yards Equivalent)

	1983	1984	7/85	% Change '83-7/85	% of Growth '83-7/85
WORLD	12	116	302	+2,334.5	100.0
BIG THREE*	10	96	238	+2,254.9	78.6
ong Kong	1	39	132	+9,314.9	45.2
Korea	2	39	67	+2,964.0	22.4
Taiwan	7	18	38	+ 488.3	10.7
China	.3	6	34	+12,681	12.0
Macau	0	.8	4	N/A	1.4
Italy	.4	2	3	+8,240.0	0.8

* Three largest suppliers of MFA textile and apparel products
1/ Would most likely be vegetable fibers other than cotton, such as linen and ramie.

Source: U.S. Department of Commerce

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Table 7

NON-APPAREL IMPORTS OF ALL FIBERS
(Millions of Square Yards Equivalent)

	1983	1984	7/85	% Change '83-7/85	% of Growth '83-7/85
WORLD	5,278	7,064	6,638	+ 25.8	100.0
Japan	608	642	622	+ 2.2	1.0
Brazil	669	891	562	- 16.0	N/A
China	377	561	503	+ 33.5	9.2
BIG THREE*	1,168	1,415	1,280	+ 9.5	8.2
Taiwan	571	681	610	+ 19.3	2.9
Korea	385	490	448	+ 16.3	4.6
Hong Kong	212	244	222	+ 4.4	0.7
OECD (x Japan)	1,087	1,822	1,920	+ 76.7	60.9
Italy	269	471	494	+ 83.7	16.4
Germany	181	311	335	+ 84.5	11.3
Canada	189	334	264	+ 40.0	13.8
United Kingdom	101	169	217	+115.1	8.4

* Three largest suppliers of MFA textile and apparel products

Source: U.S. Department of Commerce

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Table 8

APPAREL AND NON-APPAREL IMPORTS
(Billions of Dollars)

Country/ Imports Share Of Market	1982	1983	1984
U.S.	$ 10.5 16.3%	$ 12.4 18.3%	$ 17.2 22.9%
EEC	$ 14.3 37.6%	$ 13.9 39.0%	$ 14.4 N/A
Japan	$ 2.8 19.7%	$ 2.4 19.9%	$ 3.2 N/A
Canada	$ 1.9	$ 2.3	$ 2.7

Sources: Import Values: GATT Doc. COM.TEX/W/167
Market Shares: U.S. - Department of Commerce
EEC & Japan - Obtained by USTR Geneva

Note: While market shares in this table are based on fiber consumption of U.S. mills and the basis for calculation of market shares in tables 1 & 2 is square yards equivalent, both show essentially the same results.

Sanitized Copy Approved for Release 2010/11/10 : CIA-RDP87M00539R002303830009-1

Sanitized Copy Approved for Release 2010/11/10 : CIA-RDP87M00539R002303830009-1

Table 9

U.S. APPAREL & NON-APPAREL TRADE
OF ALL FIBERS
(Millions of Dollars)

	Apparel		Non-Apparel		Trade Balance	
	Imports	Exports	Imports	Exports	Apparel	Non-Apparel
1972	1,718	198	1,497	745	-1,520	-752
1973	1,955	229	1,541	1,164	-1,726	-378
1974	2,095	333	1,597	1,704	-1,763	+107
1975	2,318	341	1,212	1,533	-1,978	+321
1976	3,257	434	1,626	1,855	-2,822	+229
1977	3,650	524	1,765	1,857	-3,126	+ 93
1978	4,833	548	2,212	2,073	-4,286	-139
1979	5,015	772	2,214	3,029	-4,243	+815
1980	6,142	1,001	2,645	3,458	-5,141	+813
1981	7,253	1,032	3,221	3,474	-6,221	+254
1982	7,888	775	2,963	2,650	-7,113	-313
1983	9,308	664	3,399	2,241	-8,644	-1,158
1984	12,963	638	4,790	2,246	-12,325	-2,544
Jan.-July						
1984	7,566	380	2,843	1,322	-7,186	-1,522
1985	8,228	329	2,977	1,291	-7,899	-1,686

Apparel & Non-Apparel

	Imports	Exports	Balance
1972	3,215	943	-2,272
1973	3,496	1,393	-2,103
1974	3,692	2,037	-1,656
1975	3,530	1,874	-2,594
1976	4,883	2,289	-1,894
1977	5,415	2,381	-3,034
1978	7,045	2,621	-4,424
1979	7,229	3,801	-3,428
1980	8,787	4,459	-4,328
1981	10,474	4,506	-5,968
1982	10,851	3,425	-7,426
1983	12,707	2,905	-9,802
1984	17,753	2,884	-14,869
Jan.-July			
1984	10,409	1,702	-8,707
1985	11,205	1,620	-9,585

Source: U.S. Department of Commerce
Imports: 1972-1979 Customs Value
1980-Present C.I.F. Value

Sanitized Copy Approved for Release 2010/11/10 : CIA-RDP87M00539R002303830009-1

Sanitized Copy Approved for Release 2010/11/10 : CIA-RDP87M00539R002303830009-1

09/04/85

US EXPORTS OF TEXTILES AND APPAREL
U.S. DOMESTIC EXPORTS

11157137

(E.A.S. VALUE IN DOLLARS)

Commodity/Country	1980	1981	1982	1983	1984
TEXTILE MILL PRODUCTS					
Canada	579,209,846	623,504,947	473,871,069	547,070,654	509,825,487
Mexico	145,143,262	159,971,411	101,373,300	85,603,726	135,527,476
Saudi Arabia	114,490,830	138,000,509	152,485,427	152,120,054	132,087,123
United Kingdom	326,576,282	266,408,235	156,828,773	126,122,074	111,411,340
Belgium and Luxembourg	164,814,975	123,993,628	90,364,342	103,340,801	99,493,783
Japan	95,111,781	106,860,235	86,427,714	80,120,256	94,689,201
Australia	126,360,902	153,218,458	112,680,515	78,530,242	86,720,101
Germany, West	117,979,266	85,697,453	71,539,864	61,549,285	68,000,221
Venezuela	69,445,615	80,018,893	88,768,192	39,483,360	53,396,143
China	128,361,641	281,656,037	127,526,851	17,277,309	46,276,854
All other	1,590,058,133	1,454,824,894	1,187,237,421	949,549,345	908,046,030
All countries	3,457,552,533	3,474,154,700	2,649,603,468	2,240,767,106	2,245,473,759

Source: Compiled from official statistics of the U.S. Department of Commerce.

09/04/85

US EXPORTS OF TEXTILES AND APPAREL
U.S. DOMESTIC EXPORTS

11157137

(E.A.S. VALUE IN DOLLARS)

Commodity/Country	1980	1981	1982	1983	1984
APPAREL					
Mexico	153,604,618	188,251,175	119,860,518	95,086,669	118,353,751
Dominican Republic	58,017,540	66,849,402	64,343,101	72,442,250	78,192,145
Costa Rica	26,011,451	31,890,823	34,450,602	48,038,747	53,597,031
Haiti	24,579,060	24,898,731	22,363,215	37,334,036	44,152,678
Canada	51,267,371	58,419,626	52,239,196	54,352,427	41,762,717
Japan	61,513,356	62,065,333	43,717,764	25,485,011	22,650,396
United Kingdom	83,117,073	85,915,149	44,009,417	32,211,560	20,928,320
Saudi Arabia	11,558,284	15,208,302	20,036,771	20,551,988	19,441,081
Germany, West	38,674,880	37,050,508	28,752,847	23,416,866	17,272,845
Netherlands Antilles	53,742,524	39,168,425	39,966,761	20,488,984	16,217,332
All other	438,486,526	422,351,583	305,162,222	234,333,631	205,328,239
All countries	1,000,572,733	1,032,069,057	774,907,969	663,742,169	637,897,035

Source: Compiled from official statistics of the U.S. Department of Commerce.

Table 10

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Table 11

APPAREL & NON-APPAREL
PRODUCTION AND APPARENT CONSUMPTION
(Millions of Square Yards Equivalent)

	Apparel		Non-Apparel	
	Production	Apparent Consumption	Production	Apparent Consumption
1972	10,762	12,762	13,309	13,296
1973	10,244	12,110	13,778	13,475
1974	9,910	11,545	13,329	12,740
1975	9,378	11,183	12,636	12,280
1976	9,790	11,937	13,619	13,264
1977	10,497	12,638	14,090	13,769
1978	10,229	12,780	14,309	14,175
1979	10,131	12,311	14,198	13,815
1980	9,840	11,688	13,413	12,951
1981	9,923	12,246	12,942	12,694
1982	9,729	12,593	11,875	11,810
1983	10,135	13,548	12,937	13,468
1984	10,086	14,327	13,150	14,124
Compound Annual Change:				
1972-1984	- 0.5%	+ 1.0%	- 0.1%	+ 0.5%
1980-1984	+ 0.6%	+ 5.2%	- 0.6%	+ 2.2%

Source: U.S. Department of Commerce

Note: Imports are for cotton, wool and man-made fiber. Apparent consumption is production of all fibers minus exports plus imports. Non-Apparel data is household and industrial made-up items.

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Sanitized Copy Approved for Release 2010/11/10 : CIA-RDP87M00539R002303830009-1

Table 12

APPAREL AND NON-APPAREL
EMPLOYMENT TOP 10 STATES
THOUSAND WORKERS)

State	1974	1984	Change	State Seasonally Adjusted Unemployment Rate July 1985
North Carolina	349,700	312,500	- 37,200	5.6
Georgia	182,800	180,300	- 2,500	7.3
New York	253,400	177,100	- 76,300	6.1
South Carolina	198,900	162,700	- 36,200	6.7
Pennsylvania	209,200	148,000	- 61,200	7.8
California	117,900	123,100	+ 5,200	7.7
Tennessee	108,000	94,500	- 13,500	8.7
Alabama	101,400	94,400	- 7,000	9.3
Virginia	84,800	76,000	- 8,800	5.8
New Jersey	91,100	66,500	- 24,600	6.0

Apparel

State	1974	1984	Change	
New York	199,900	145,100	- 54,800	
Pennsylvania	149,800	113,900	- 35,900	
California	93,000	109,000	+ 16,000	
North Carolina	81,000	92,300	+ 11,300	
Georgia	60,200	74,600	+ 14,200	
Tenessee	74,000	68,900	- 5,100	
Texas	73,500	62,000	- 11,500	7.7
Alabama	51,600	55,000	+ 2,400	
New Jersey	62,500	51,500	- 11,000	
South Carolina	44,700	49,700	+ 5,000	

Non-Apparel

State	1974	1984	Change	
North Carolina	281,200	220,200	- 61,000	
South Carolina	154,200	113,000	- 41,200	
Georgia	122,600	105,700	- 16,900	
Virginia	45,000	43,400	- 1,600	
Alabama	49,800	39,300	- 10,500	
Pennsylvania	59,400	34,100	- 25,300	
New York	53,500	32,000	- 21,500	
Tenessee	33,700	25,600	- 8,100	
Massachusetts	28,300	20,600	- 7,700	4.3
New Jersey	28,600	15,000	- 13,600	

Source: Department of Labor

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Sanitized Copy Approved for Release 2010/11/10 : CIA-RDP87M00539R002303830009-1

Table 13

U.S. TEXTILE MILL CLOSINGS

	1983	1984	Jan-June 1985
Plants closed	47	46	48
Number of Employees	8,650	11,200	8,200
Plants with permanent layoffs	25	36	20
Permanent layoffs	1,160	2,000	1,350
Total permanent layoffs	9,810	13,200	9,550

Source: American Textile Manufacturers Institute

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Table 14

TEXTILE CORPORATE PROFITS
(Millions of Dollars)

	Profits		Percent of	Percent of
	Current$	Constant$	Sales	Equity
1979	1,340	919	3.2	11.9
1980	977	611	2.2	8.4
1981	1,157	662	2.4	9.4
1982	851	487	2.0	6.9
1983	1,599	896	3.3	12.0
1984	1,635	879	3.1	11.2
Compound Annual Change:				
1979-1984	+ 4.1	- 0.9	- 0.6	- 1.2
1980-1984	+13.7	+ 9.5	+ 9.0	+ 7.5

Sources: Department of Commerce
Constant dollars are based on 1972 as published in 1985 U.S. Industrial Outlook

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Table 15

WORLD MAN-MADE FIBER PRODUCTION & CAPACITY
(Thousands of Metric Tons)

	West Europe	U.S	Other America's	Japan	China	Taiwan	Korea	World
1976	2,303	2,746	541	1,204	52	272	309	8,601
1977	2,155	3,037	589	1,280	60	364	350	9,149
1978	2,344	3,218	638	1,376	137	464	433	10,034
1979	2,382	3,484	715	1,363	164	521	477	10,601
1980	2,169	3,234	735	1,358	248	558	536	10,476
1981	2,297	3,276	681	1,327	347	587	610	10,827
1982	2,176	2,603	669	1,304	369	631	612	10,140
1983	2,310	3,009	716	1,318	400	737	664	11,074
1984	2,422	2,936	786	1,369	701	866	746	11,893
1985*	2,978	3,607	1,104	1,654	1,015	1,055	762	15,401
1986*	3,022	3,631	1,122	1,654	1,095	1,210	842	15,956
Compound Annual Change:								
1976-1984	+ 0.6	+ 0.8	+ 4.8	+ 1.6				+ 4.1
1980-1984	+ 2.3	- 2.4	+ 1.7	+ 0.2				+ 3.2
1985-1986 *	+ 1.5	+ 0.7	+ 1.6	0				+ 3.6

* Producing capacity, prior to 1985 is actual production

Source: Textile Organon

Note: production if for noncellulosic yarns, monofilaments, staple, tow and fiberfill.

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Table 16

TEXTILE AND APPAREL
TOTAL EMPLOYMENT
(Thousand Workers)

	Textile*	Apparel	Total
1972	985.7	1,382.7	2,368
1973	1,009.8	1,438.1	2,448
1974	965.0	1,362.6	2,328
1975	867.9	1,243.3	2,111
1976	918.8	1,318.1	2,237
1977	910.2	1,316.3	2,227
1978	899.1	1,332.3	2,231
1979	885.1	1,304.3	2,189
1980	847.7	1,263.4	2,111
1981	823.0	1,244.4	2,067
1982	749.4	1,161.1	1,911
1983	741.3	1,163.4	1,905
1984	746.0	1,196.6	1,943
July 1985	690.6	1,121.5	1,813
Compound Annual Change:			
1972-1984	- 2.3	- 1.2	- 1.6
1972-1980	- 1.9	- 1.1	- 1.4
1980-1984	- 3.1	- 1.3	- 2.1

Source: Textile Mill Products (SIC22)
Apparel & Other Textile Products (SIC23)

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Table 17

EMPLOYEE CHARACTERISTICS

	Textiles	Apparel	All Manufacturing
Median Age (Years)			
Male	37	37	37
Female	38	39	36
Percent High School Graduates			
Male	51	58	72
Female	48	47	66

(Source: OMB)

Percent Women	49	79	33
Percent Black	20	14	10
Percent Hispanic (1984)	4	14	6
1984 Average Hourly Wage	$6.39	$5.20	$9.20

(Source: Labor Department)

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Table 18

Hypothetical Rollback of U.S. Textile and Apparel Imports in 1984 Under S. 680

U.S. Imports From:	Percent Reduction of U.S. Imports of: Textiles & Apparel	Textiles	Apparel
All Exporters	26.7	30.1	22.6
Major Exporters	39.6	52.4	28.6
Brazil	80.5		
India	22.2		
Pakistan	41.3		
Thailand	64.4		
Singapore	3.2		
Indonesia	89.7		
Philippines	21.2		
Peoples' Republic of China	59.1		
Korea	35.1		
Hong Kong	14.7		
Taiwan	47.9		
Japan	20.1		

Source: Department of Commerce, USTR

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Tab B

SUBSTITUTION OF TARIFFS FOR QUOTAS IN THE MAJOR MARKETS

The current system of discriminatory quotas provides a leaky wall of protection for the domestic industry, the repair of which involves repeated confrontations with some thirty supplying nations and the associated uncertainty for producers both here and in our LDC suppliers. The overall effect of this protection is to promote production in relatively inefficient countries (the U.S. and the EC) at the expense of the more efficient.

The protection which the domestic industry would receive from tariffs would be more constant in terms of profit margin but (possibly) less predictable in terms of the absolute volume of imports. (Either more of fewer import might result.) This protection would be additive to the competitive effects of currency movements, i.e., it could be either magnified or offset by them. There would be greater reliability of supply for importers/retailers and, as a result, possibly lower profit margins. There would also be greater competition among foreign suppliers leading to lower export prices, even from the most efficient producers (who had been collecting the greatest quota rents).

A likely summary of the outcome on the domestic ledger is that while prices to producers would be generally unchanged, retail prices could be somewhat lower, and collections of import duties would go up quite substantially (i.e., by at least $ 1 billion). The national economic welfare would thus clearly be increased. Likewise, the international political benefits, especially in the longer run, would be considerable.

The technical problems posed by an orderly conversion to MFN tariffs as the principal means of protection for the textile and apparel industries in the developed world are substantial. As the discussion below brings out, though, there are a number of ways to approach these problems and the rewards appear sufficient to make the undertaking worthwhile.

Current Levels of Tariffs

Industrial country tariffs on textiles and apparel are variable but generally much higher than on other goods. As Table 1 indicates, of the major markets the United States and Canada have the highest tariffs--trade-weighted averages of around 20 percent. Finland and Austria, however, have the highest average duties on the textiles and apparel complex of some 30 percent. These two countries, followed by the United States and Canada, also have the largest absolute disparity between textile and apparel duties and average duties on manufactured imports as a whole, suggesting the highest degree of relative protection. (Although comparable data are not available for Australia and New

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Zealand, it should be noted that they also have very high duties--close to 100 percent on some apparel items.)

Partly as a result of the high level of duties for textiles and apparel, the tariff structures of the industrial textile trading nations are also characterized by a very high degree of tariff escalation in this area, as shown in Table 2. It is notable in the case of the United States that there appears to be negative effective protection on made-up articles and very high duties on fibers, at least when compared to other importing countries.

Table 3 gives data on the dispersion on tariffs by level for these same eight importing countries which are useful in crafting formulae for additional tariffs, as demonstrated below. For example, given the sensitivity of the U.S. garment industry to imports, any tariff formulae would have to preserve, if not increase, the effective protection embodied in our current tariff schedules. One way to do this would be to add uniform increments of duty to those currently prevailing, or larger increments for apparel than textiles, or simply to multiply the current duties by some factor.

Another consideration raised by the disparity of current duties would be the effect of possible harmonization of duties across importing markets as a way to increase import flows into those markets which have prohibitively high duties, such as Finland, New Zealand, and Australia. We would want to be careful, though, that the considerable tariff escalation between the fabric and garment stages in the United States not be compromised in the course of item by item (or group by group) harmonization with other importers. An advantageous approach might be to seek a ceiling on duties at "prohibitive" levels, arbitrarily defined to accomodate the U.S. tariff structure (and those of the other major traders), but not the truly high-duty countries. Were post-Tokyo Round duties to be doubled, for example, all but 6 percent of U.S. tariff line items would be accomodated by a ceiling of 40 percent a.v.e., while 31 percent of Canadian, 34 percent of Austrian, 79 percent of Finnish, and presumably most Australian and New Zealand tariffs could not go up by their full "formula" amount. (See Table 3.)

Tariff Equivalents of Quotas

While there has been some empirical research in the United States on the question of the tariff equivalent of the quota system in effect on textiles and apparel, it has been limited in scope and is now somewhat dated. We do not know of comparable work done in other importing markets.

Interagency calculations in May, 1985, based on the work of Morkre and Tarr, estimated the tariff equivalents of existing U.S. quotas in 1984 to have been some 12 percent for textiles and 24 percent for apparel, i.e., increments approximately equal to

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the existing average tariffs on these product groups. The relative restrictiveness between these two groups is consistent with general expectations. It is also confirmed by data on the relative portions of imports in each group under import control: 43 percent for non-apparel and 80 percent for apparel in 1984.

Alternative analytical approaches would produce somewhat different results, but it should be kept in mind that domestic political imperatives and negotiating possibilities will be more determinant of a formula (for the substitution of tariffs for quotas) than the results of any econometric determination of equivalence. Moreover, there is little doubt that the restrictive effect of quotas is by no means constant, much less readily measured. (Quotas are based on absolute numbers rather than market share, will vary considerably by product and over the business cycle. One advantage of tariffs over quotas from the viewpoint of the domestic industry is that they provide a producer of a given product a constant margin of protection regardless of swings in consumer taste or overall demand.) Nonetheless, the 12 and 24 percent figures are useful in providing an order of magnitude and possible point of departure in the search for a means to convert quota protection to tariff protection without adversely affecting domestic economic interests.

In an effort to determine which importing markets and products receive relatively more protection under existing quota regimes, one might look at the degrees of utilization of the quantitative restraints involved. In theory, the more restrictive a quota, the higher its utilization. The data do not support any meaningful conclusions, though. Table 4 shows the degree of utilization of quota by supplier and importer over some recent years. These data demonstrate the variable restrictiveness of particular restraints over time and, even more dramatically, the differential restrictiveness across suppliers (for one importer) and across importers (for one supplier). For these reasons and the fact that the structures, mechanisms, and category systems of various importing nations all differ, it is hard to interpret these data in any meaningful manner.

Another way to attempt to measure tariff equivalents of quotas across countries would be to make international price comparisons for each of a wide range of comparable products and then adjust the results for applicable tariffs, taxes and fees. This would be a huge technical undertaking which could yield results of limited practical value because of differences in marketing practices internationally, including costs of doing business, among other factors.

Probable Trade Effects

Substituting tariffs for quotas should result in the maintenance of the existing overall competitive situation for producers in importing markets. This could be defined in a

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number of ways (e.g., in either value or volume terms as import level, import penetration, or trade balance) and at a number of levels (e.g., individual product, product group, or in aggregate).

While the overall trade situation would be unchanged, significant adjustments would be expected in other respects, though. The substitution of MFN for discriminatory restraints would presumably result in considerable shifts in sourcing, from DCs and less efficient LDCs to the more efficient LDCs. Based on current market shares (in descending order of magnitude), this would make Taiwan, Korea, Hong Kong and China winners and Italy, West Germany, Canada, and the UK losers. The product composition of trade might well change too, although in an unpredictable fashion, due to differential price elasticities of import demand. This is especially likely where the equivalent tariffs of the earlier quotas are determined for relatively large product aggregates. (Looked at the other way, the earlier subjecting of large categories to quotas created greater distortions of product composition due to upgrading.)

Assuming other developed countries were to apply similar MFN increases in duties in the place of their quotas on LDCs, our exports (largely textiles) to them could be reduced. The overall significance of this side-effect for our industry would of necessity be small because even in textiles only three percent of domestic production is exported to developed countries. (The EC, which exports some $7 billion to developed countries, would face greater difficulties.) We could largely avoid even this minor adverse effect though, if we chose to, by negotiating with our "Gentleman's Agreement" partners to minimize increases in the rates of duty to be applied to particular products of interest to us. This would be most readily achieved through "carve-outs" of particular goods, including high-valued products. Duty increases would be on an MFN basis, but our more important two-way trade could be largely insulated from adverse effects.

In addition to such agreements, adverse effects on U.S. exports might be offset in part if the more efficient producers of garments (who would be expanding operations) were particularly reliant on our textiles or if they were to provide greater market access. As Tables 5 and 6 show, developing countries maintain even higher levels of tariff (and possibly non-tariff) barriers to imports of textiles and apparel than do the industrial markets. It would be a reasonable U.S. negotiating request, and possibly a political necessity to sell conversion to tariffs domestically, to seek very substantial liberalization on our textiles from the LDCs. For example, any ceiling applicable to duties by importing nations as discussed above might equally apply to supplying nations. (The suspension of quotas for a particular supplier might be conditioned on such liberalization.)

There would be another factor which could compensate our textile producers for any lost sales to other "Gentleman's

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Agreement" countries which might also convert to tariffs. Higher U.S. tariffs on garments would increase the incentive to all foreign assemblers to use American parts and enter goods under TSUS item number 807.

Implementation

Legislation would be needed to implement the envisioned substitution of tariffs for quotas under U.S. law and presumably in most other textile trading countries as well. Delays and possible complications would be likely but could be accomodated in much the same way that acceptances of the MFA have been spread out over the years and compliance with its provisions has not been uniform or perfect. For example, importing markets might be authorized to maintain (and extend) existing quantitative restrictions for some period while they negotiate with domestic interests and foreign suppliers the particular adjustments in tariffs they would make consistent with the agreed formula. Similarly, as discussed above, individual exporters could be denied the benefits of the relaxation of quotas by the major industrial markets until these exporters had taken steps to reduce to some agreed maximum their import barriers on such goods.

The problems posed by the legislative process in the United States are always considerable when it comes to trade, but should not be daunting in this instance because, unlike most others, trade liberalization would not be sought. Indeed, the levels of duty envisioned for the United States are well in excess of those which Congress mandated (in section 504 of the Trade Agreements Act of 1979) to go into effect should quantitative restraints cease to apply.

Those members of Congress which have pushed for textile legislation on the grounds that current partial restraints have not been effective might prefer a global tariff approach to a fine-tuned discriminatory system. The considerable revenue raising potential of the tariff approach and related capture of the existing foreign quota rents (as well as the profit-paring effect on importers/retailers) would be strong selling points. Most of Congress' concerns with effective and fair enforcement of the current system (including release from embargoes, origin determinations, transhipments, overshipments and prior visa approval) would also be made moot by the conversion to MFN tariffs. Customs staffing and other resources dedicated to the complex operation of the textile program could be redirected to other projects.

For a proposed tariff increase to receive legislative approval here and in other importing markets, it would have to meet the particular needs of especially import sensitive or politically important sectors. Rather than rigidly applying a tariff formula across all items, we might want to to increase duties by some trade-weighted average while retaining the freedom

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to spread the burden across products as we wish. This would of course be a complicated process but well worth the effort in view of the economic and international political benefits of this approach which would accrue as long as it was in effect.

Similarly, both import-competing industries and exporting interests will dispute the calculations which would underly the conversion to tariffs and want to be able to make considerable adjustments in the tariffs on the basis of market results after the initial conversion. This would constitute a very natural safeguard against unforeseen developments or the unpredictability of the effects of a tariff system presumed by many in industry.

For example, if import penetration were to rise (or fall) more than a certain threshhold from a base period, uncompensated adjustments in the duty would be provided for. Building on the illustrative figures mentioned above, after doubling existing tariffs an increment (or decrement) of say 10 percentage points might be allowed were the market results to indicate the tariffs for a particular product provided significantly more or less protection than the earlier quotas. Alternatively, only compensated adjustments might be allowed, but they could be of much larger degree and more permanent.

The final implementation of a conversion to tariffs could be linked to a new trade round if we wished to try to use it as a carrot to induce LDC support or, alternatively, it might be formally agreed that the results of the conversion would be exempted from future multilateral tariff concessions for a decade or so to increase its saleability to import competing industries. Presumably no Article 19 actions would be allowed for textiles and apparel until after subsequent tariff cuts were made in a multilateral round, or possibly even until cuts were made to levels below post-Tokyo Round levels. In all other respects, though, the conversion to tariffs could mark the return to full application of GATT rules to this sector.

Sanitized Copy Approved for Release 2010/11/10 : CIA-RDP87M00539R002303830009-1

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Table 1 PRE-TOKYO ROUND AND POST-TOKYO ROUND TARIFFS IN EIGHT DEVELOPED AREAS
(Percentages)

	United States		Canada		Japan		EC	
	Pre	Post	Pre	Post	Pre	Post	Pre	Post
Textiles (excl. fibres) and clothing								
Weighted average	23½	19	24	21½	14	11½	15	11½
Simple average	19	16½	19½	14½	14	10½	14	10½
Manufactures (excl. petroleum)								
Weighted average	7	5	13½	8½	10	5½	8½	6
Simple average	11½	6½	13	7½	11	6½	9½	6½

	Austria		Finland		Sweden		Switzerland	
	Pre	Post	Pre	Post	Pre	Post	Pre	Post
Textiles (excl. fibres) and clothing								
Weighted average	30½	30	30	29	13	12½	10½	8½
Simple average	20½	18½	30½	30	13	12	8	6½
Manufactures (excl. petroleum)								
Weighted average	14½	12½	7½	6	6	4½	3½	2½
Simple average	12	8½	14	12	6½	5	4	3

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Sanitized Copy Approved for Release 2010/11/10 : CIA-RDP87M00539R002303830009-1

(Percentages)

		Fibres		Yarns		Fabrics		Made-up articles		Clothing	
		S	W	S	W	S	W	S	W	S	W
United States	Pre	5½	7	13½	14½	19	16	16½	13½	24	27
	Post	3	5½	8	9	11½	11½	8½	7½	12½	22½
Canada	Pre	3	4	14½	16	21	25½	18½	23	23	25½
	Post	2	3	9	13	16½	21½	14	20	20	24
Japan	Pre	4	½	9	7½	12	10½	13	14½	18	17½
	Post	3	½	7	6½	9½	9½	9½	11½	13	14
EC	Pre	3	½	7	8	13	14½	13	11½	16	16½
	Post	3	½	5	7	9½	10½	9	7½	12½	13½
Austria	Pre	4	0	8	8½	26	27	22	25½	32	37
	Post	2½	0	6½	7	21½	23½	19	22½	30½	37
Finland	Pre	3	½	10	6½	30½	29	27½	22	41	40½
	Post	1½	½	9½	6½	30	28½	26½	19	39½	39
Sweden	Pre	2	½	8½	9½	13½	14	11	8½	14½	14½
	Post	1½	½	6½	7½	13	13	10	8	14	14
Switzerland	Pre	2½	0	5	4½	8½	10½	8	4	11½	13½
	Post	2	0	4	3½	6½	8½	6½	3½	9	11

			Fibres		Yarns		Fabrics		Made-up Articles		Clothing	
			S	W	S	W	S	W	S	W	S	W
Norway	Pre		3	0	4	4	17	16½	18½	18	22½	22
	Post		2½	0	4	4	16	15½	16½	17	20	21½
Australia	Post	A	5½	½	9½	11	21½	11½	17	18½	47	50½
		B	5½	½	7	10½	14½	11	13½	16½	34½	45½
New Zealand	Post		0	0	7	8½	21	15½	22½	11	77½	96

S = simple average; W = average weighted by MFN imports.
A = all tariffs
B = excluding additional duties charged on imports above base quotas.

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Table 3 · DISPERSION OF TARIFFS ON TEXTILES AND CLOTHING IN EIGHT DEVELOPED AREAS

(Percentages)

MFN tariff level	United States			Canada		Japan			EC		
	(a)	(b)	(c)	(b)	(c)	(a)	(b)	(c)	(a)	(b)	(c)
FREE		3	4	13	26		6	6		3	4
0.1 - 5.0%	4	6½	18½	2	0	1	5	7	5	5	8
5.1 - 10.0%	8½	19½	41	7	10	11	25	44	14	17	29½
10.1 - 15.0%	9½	20½	16	6	21	27½	33	33	26½	25	58½
15.1 - 20.0%	28½	17	14½	33	12½	23½	15	9	39½	49	0
20.1 - 25.0%	19	13½	4	28	30½	24	15	1	14	1	0
Over 25%	30½	20	2	11	0	13	1	0	1	0	0

MFN tariff level	Austria		Finland		Sweden		Switzerland	
	(b)	(c)	(b)	(c)	(b)	(c)	(b)	(c)
FREE	19	19½	3	3	6½	8	1	1
0.1 - 5.0%	5	6½	2½	2½	4½	6	45	53
5.1 - 10.0%	8	12	7½	9	18	26	25	29
10.1 - 15.0%	12½	15	4	4	52½	51	18	10½
15.1 - 20.0%	11½	13	2	2	17½	10	6	4
20.1 - 25.0%	10½	16	4½	4½	½	½	2	2
Over 25%	33½	18	76	74½	½	½	3	½

(a) pre-Kennedy Round; (b) pre-Tokyo Round; (c) post-Tokyo Round. Because the calculations for the pre-Kennedy Round omitted duty free items, the figures in column (a) are not strictly comparable with the figures in columns (b) and (c).

Sanitized Copy Approved for Release 2010/11/10 : CIA-RDP87M00539R002303830009-1

Sanitized Copy Approved for Release 2010/11/10 : CIA-RDP87M00539R002303830009-1

Table 4 [illegible] CLOTHING BY SELECTED [illegible] EXPORTING COUNTRIES[a] FOR FIVE IMPORTING COUNTRIES, 1979-1982

(Percentages)

	1979	1980	1981	1982
Hong Kong				
United States	83.4	86.1	90.1	90.8
Canada	76.9	66.4	67.7	75.8
EC	68.2	65.8	59.6	52.6
Finland	93.4	73.0	78.0	75.2
Sweden		85.8	69.4	94.8
Korea, Rep. of				
United States	77.1	85.0	95.3	87.3
Canada	62.2	42.9	57.6	71.2
EC	75.0	69.5	70.0	61.7
Finland		38.7	45.0	54.6
Sweden		84.5	85.0	71.6
Macao				
United States	88.7	79.7	84.7	81.4
Canada	73.3	58.1	56.8	53.1
EC	74.0	67.4	61.1	66.8
Finland	51.8	73.1	80.3	65.8
Sweden	89.6	93.0	89.2	87.0
Singapore				
United States	54.6	53.4	61.3	66.1
Canada	35.3	39.9	33.7	43.8
EC	69.9	63.2	52.6	40.2
Finland	24.9	16.8	0.0	
Sweden		101.8	92.3	83.6
Sri Lanka				
United States		81.2	80.6	83.3
EC	44.6	69.2	56.3	41.8
Finland				69.7
Sweden		89.5	89.8	85.8
Thailand				
United States	70.2	73.4	82.0	77.3
Canada	127.8	65.3	48.0	33.3
EC	81.6	107.4	74.6	74.6
Finland	79.9	95.4	82.7	55.0
Sweden		107.4	98.4	89.6
Indonesia				
United States				100.0
EC			74.1	72.5
Malaysia				
United States	73.5	74.9	79.7	87.5
Canada		43.0	50.7	82.0
EC	65.6	63.3	56.9	51.0
Finland	70.2	56.9	98.5	
Sweden		83.5	93.7	79.8
India				
United States	70.9	78.1	87.0	80.9
Canada		61.6	65.5	45.0
EC	66.8	71.4	62.0	51.6
Finland	72.9	56.1	38.6	49.7
Sweden	97.0	91.9	93.3	85.8

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Table 4- SIMPLE AVERAGE QUOTA UTILIZATION RATES IN TEXTILES AND CLOTHING BY SELECTED SUPPLYING COUNTRIES[a] FOR FIVE IMPORTING COUNTRIES, 1979-1982 (continued)

(Percentages)

	1979	1980	1981	1982
Pakistan				
United States	97.4	60.2	78.9	59.7
Canada	105.3	102.7	97.5	106.0
EC	53.6	77.9	60.0	68.5
Sweden		51.8	70.8	79.0
Philippines				
United States	37.3	39.6	45.9	45.6
Canada	69.3	50.6	47.5	47.1
EC	73.4	86.7	74.3	66.2
Sweden		91.1	59.4	79.3
Brazil				
United States	23.1	17.4	39.5	39.8
EC	61.7	56.3	47.2	43.3
Sweden			54.1	49.1
Colombia				
United States	56.2	56.0	71.9	46.9
EC	64.7	75.4	35.3	35.4
Mexico				
United States	56.9	71.6	56.0	33.9
EC	35.1	30.4	5.1	6.0
Bulgaria				
Canada	46.1	23.8	11.4	33.0
EC	42.3	45.3	35.6	32.7
Czechoslovakia				
Canada	102.0	70.5	60.5	69.5
EC			62.4	64.2
Hungary				
Canada	168.8	57.0	5.0	75.0
EC	54.7	55.4	39.5	32.5
Poland				
United States	20.2	32.8	28.4	24.2
Canada	78.4	52.6	51.2	54.3
EC	68.2	58.9	45.5	32.9
Romania				
United States	68.3	39.7	78.3	64.4
Canada	89.6	134.6	37.9	33.0
EC	57.0	46.5	39.7	50.0
Yugoslavia				
United States	16.1	0.8	0.4	1.9
Sweden	82.8	68.7	75.8	73.5
China				
United States		87.1	91.3	77.7
Canada	169.8	99.1	115.1	64.2

[a] Supplying countries have been included in this table when they have a restraint with more than one of the five importing areas for which quota utilization data have been received. The above data are of limited comparability in terms of quota definitions, product categories and time periods covered. They should be taken therefore as only rough indications of the relative performance of supplying countries in the five import markets.

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