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A STUDY ON INDUSTRIAL SECTOR DEVELOPMENT IN THE KINGDOM OF THAILAND

TEXTILES & GARMENTS AND WOODEN FURNITURE

AN ADDENDUM: MARKETING RESEARCH REPORTS FOR THAI GARMENTS AND WOODEN FURNITURE

SECOND YEAR FINAL REPORT

AUGUST 1989

JAPAN INTERNATIONAL COOPERATION AGENCY

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THE GARMENT MARKET IN THE UNITED STATES

CONTENTS

Executive Summary

In 1988, the U.S. apparel market totaled approximately $140 billion in retail value. However, the market has been stagnant for the last few years. The larger trends in apparel sales indicate that the per capital spending of U.S. consumers on apparel has not increased. Since the U.S. retail market in the future is likely to make only moderate gains, the competition into the 1990s among U.S. producers and foreign exporters is expected to intensify. There are six major challenges that Thai apparel manufacturers may face in competing for a share of the U.S. apparel market.

First, foreign imports will not continue to enjoy the accelerated growth of the last two decades. This is mainly attributable to the increasingly strict apparel trade regulations under the Multi-Fiber Arrangement (MFA) and bilateral agreements with individual exporting countries. The present quota system does not allow considerable growth in imports to the U.S. Foreign imports currently account for roughly 50% of the U.S. market. In the past two decades, the import penetration ratio has been steadily rising. It appears, however, that the import share will not grow at as rapid a pace as it did in the past.

Second, U.S. domestic producers are making earnest efforts to sustain their market presence. While the U.S. textile and apparel industries continue to pressure the government to take protectionist trade policies, they are implementing new measures to increase their efficiency. One example is the Quick Response System, in which U.S. domestic textile producers, apparel manufacturers and retailers are linked together in order to achieve an efficient communications network among point of sale, fabric production and manufacturing for delivery to retailers. In addition, the industry is launching buy-American campaigns such as the "Crafted in Pride" program. Further, the U.S. government is providing assistance in restoring the competitiveness of the U.S. textile and apparel industries. The U.S. government and private sector joint effort may pose a stiff challenge to Thai manufacturers.

Third, Thailand will face competition from the 807 type of production (defined in Paragraph 807 of the Tariff Schedules). Under the 807 production, U.S. firms cut fabric into individual parts, ship these parts to a second country for assembly and re-import the assembly apparel. Under this arrangement, U.S. companies pay duties on the value added to the cut pieces, rather than on the finished product value. Moreover, the majority of 807 production takes place in Mexico, Central America and the Caribbean, primarily due to their geographical proximity. 807 production grew at a rapid pace under the Reagan administration, which endorsed it as a cornerstone of its foreign economic policy toward neighboring countries. Although imports under the 807 account for 3% to 4% of total imports, Thailand must be aware of the growth of this type of offshore assembly production.

Fourth, the recent trend in offshore production may pose an obstacle to the flourishing of the Thai apparel industry. Offshore production appears to be not as popular as it has been for the last decade. Some U.S. companies are returning their production to the U.S. There are several reasons for this counter-trend, including lack of control over production (quality control problem), long lead times, quota problems and financial problems (advanced payment required). The decline of international sourcing is a cause for Thailand's concern, especially since it is trying to expand its apparel industry by inviting U.S. firms to set up operations there and by increasing commission work contracted by U.S. firms.

Fifth, fierce competition among foreign exporters fighting over the limited size of the pie could pose the greatest challenge to Thailand. Currently, apparel imports to the U.S. are dominated by the so-called "Big Four": Hong Kong, Taiwan, South Korea and the People's Republic of China (PRC). The Big Four account for roughly 50% of total imports into the U.S. In recent years, however, their dominance has been eroded by the efforts of an array of small to medium-size exporting countries, which can be divided into two distinct groups. The first group consists of countries that have been steadily developing their production base. It includes countries such as Singapore, India, Sri Lanka, the Dominican Republic, Mexico and Malaysia. Thailand also falls under this category. The other group consists of small suppliers whose export potential has emerged only recently. This group includes Guatemala, Greece, Portugal, Turkey, Israel, the United Arab Emirates, Egypt, Chile, Morocco and Peru. Coupled with the labor-intensive nature of the apparel industry, the quota system makes the apparel trade scene highly dynamic and fluid. Thailand, which is currently ranked as the 16th largest apparel exporter to the U.S, has to compete against the Big Four, second-tier and newly emerging exporting countries.

Sixth, Thai manufacturers must be aware that cost is no longer as decisive a factor as it was in the past in contracting offshore sourcing firms. As sourcing alternatives proliferate, U.S. firms are seeking suppliers that can offer a "complete package," which features quick lead time, high quality, reliable fabric production and a problem-free quota system. Individual companies are taking measures to either expand or sustain a market presence. For example, many Hong Kong manufacturers have successfully transformed themselves from competitively-priced, large-volume suppliers to up-scale, design-conscious market leaders. These efforts have been made in order to shed off competition from other countries as well as to combat restrictive quota limits. Thailand must identify the strengths and weaknesses of its apparel industry within the global marketplace and plot a strategy to become the leading apparel supplier to the U.S. market.

Chapter I: Overview of The U.S. Garment Market

1. Introduction

A. Objective

This report is designed to provide information on the U.S. garment industry in order to help Thailand to increase its market presence in the United States.

B. Scope of the Study

This study serves as a comprehensive marketing resource. Issues covered in this study include market size, import statistics, U.S. production and export levels, changes in the distribution system, U.S. trade policy, and customs and safety regulations.

C. Methodology

The study is based upon primary and secondary source information. Numerous interviews were conducted in order to assess the current state of the U.S. industry. The following individuals were contacted in order to obtain their views and insights: Congressional staff, officials at the Office of Textile and Apparel of the Department of Commerce, corporate executives, buyers from department stores and family stores, import directors of specialty stores, marketing directors of mail catalog order houses, trade journal editors, and independent store owners. In addition, an exhaustive literature search was conducted. This study provides the most comprehensive information available on this subject.

D. Definition

The term "apparel" denotes garment merchandise and is used interchangeably throughout the report with the term "garment." Within the U.S. industry, however, the term apparel is more often used than the word garment. Apparel products are defined as clothing and accessories, excluding footwear, made of woven or knit textile fabric, which are either cut, sewn, cemented or fused.

2. Categorization

A. Quota Category

Depending upon the purpose, there are several different ways to categorize apparel products. For the purpose of administering the quota system, a three-digit number classification is used. This three-digit number is sometimes referred to as the "quota category."

This system contains a total of 86 apparel types of which 22 are cotton, 17 wool, 25 man-made fiber, 20 silk and vegetables, and 2 other fibers not elsewhere classified. Table I-2-a lists 86 categories. The head number of each three-digit represents the type of fiber, either cotton, wool, man-made fiber, or silk blends. For example, the cotton category is designated by #3; thus, all the three-digit numbers which begin with #3 represent cotton-made apparel products. Likewise, the wool category is designated by #4; man-made fiber by #6; and silk by #8. The last two digits represent specific product types. For example, gloves are designated by 31. Therefore, depending upon the material used in the glove, a pair of gloves can be categorized as #331 (cotton gloves), #431 (wool gloves), and #631 (man-made fiber gloves).

B. Tariff Category

Each three-digit number is further divided into more specific groupings. Under each three-digit number, there are an average of 20 sub-categories. These sub-categories are called "statistical line items" and used for tariff purposes. Thus there are 86 three-digit numbers (for quota purposes) and more than 3,000 statistical line items (for tariff purposes). Table I-2-b shows examples of the statistical line items.

C. SIC Category

For the purpose of collecting data, the Standard Industrial Category (SIC) codes are used. Under the SIC 2-digit categorization, apparel products are classified as SIC 23 entitled Apparel & Other Finished Products Made From Fabrics and Similar Materials. Textile products are classified under SIC 22 Textile Mill Products. Table I-2-c gives a list of SIC Codes for Textiles and Apparel.

D. AAMA Category

The American Apparel Manufacturers Association (AAMA), a Washington, D.C. -based trade organization for the U.S. apparel industry, uses its own categorization. This system contains twelve garment lines, which represents a large percentage of U.S. apparel production. The twelve lines are:

1) All Sweaters
2) Men's & Boys' Woven Shirts
3) All Coats
4) Women's, Children's and Infants' (WC&I) Blouses
5) All Knit Shirts
6) Trousers Slacks & Shirts (Except Jeans)
7) Jeans
8) Shirts
9) All Suits
10) Nightwear
11) Dresses
12) Underwear

Table I-2-a. Three-Digit Categorization (Quota Category)

Others	237	Playsuits
(2 items)	239	Babies' garments
Cotton	330	Handkerchiefs
(22 items)	331	Gloves and mittens
	332	Hosiery
	333	M & B suite-type coats
	334	Other M & B coats
	335	W & G coats
	336	Dresses
	338	W & G knit shirts & blouses
	340	M & B shirts not knit
	341	W & G shirts & blouses not knit
	342	Skirts
	345	Sweaters
	347	M & B trousers
	348	W & G trousers
	349	Brassieres
	350	Robes, dressing gowns
	351	Nightwear
	352	Underwear
	353	M & B down-filled coats
	354	W & G down-filled coats
	359	Other cotton apparel
Wool	431	Gloves and mittens
(17 items)	432	Hosiery
	433	M & B suit-type coats
	434	Other M & B coats
	435	W & G coats
	436	Dresses
	438	Knit shirts & blouses
	439	Babies' garments
	440	Skirts & blouses not knit
	442	Skirts
	443	M & B suits
	444	W & G suits
	445	M & B sweaters
	446	W & G sweaters
	447	M & B trousers
	448	W & G trousers
	459	Other wool apparel
Man-Made Fiber	630	Handkerchiefs
(25 items)	631	Gloves and mittens
	632	Hosiery
	633	M & B suit-type coats
	634	Other M & B coats
	635	W & G coats
	636	Dresses
	638	M & B knit shirts
	639	W & G knit shirts & blouses

	640	M & B shirts not knit
	641	W & G shirts & blouses not knit
	642	Skirts
	643	M & B suits
	644	W & G suits
	645	M & B sweaters
	646	W & G sweaters
	647	M & B trousers
	648	W & G trousers
	649	Brassieres
	650	Robes, dressing gowns
	651	Nightwear
	652	Underwear
	653	M & B down-filled coats
	654	W & g down-filled coats
	659	Other man-made fiber apparel
Silk & Vegetables (20 items)	831	Gloves and mittens
	832	Hosiery
	833	M & B suit-type coats
	834	Other M & B coats
	835	W & G coats
	836	Dresses
	838	Knit shirts & blouses
	839	Babies' garments
	840	Skirts & blouses not knit
	8421	Skirts
	843	M & B suits
	844	W & G suits
	845	Sweaters of non-cotton vegetable fibers
	846	Sweaters of silk blends
	847	Trousers
	850	Robes
	851	Nightwear
	852	Underwear
	858	Neckwear
	859	Other Apparel

Table I-2-b.

CATE-GORY	HTS NUMBER	DESCRIPTION	m2of	UNIT
237	Page 4			
	6205.30.20.55	boys' shirts with two or more colors in warp/filling, of man-made fibers, parts of playsuits	19.2	doz
	6205.30.20.75	boys' other shirts of man-made fibers imported as parts of playsuits	19.2	doz
	6206.30.30.20	girls' blouses/shirts of cotton, with two or more colors warp/filling, parts of playsuits	19.2	doz
	6206.30.30.50	girls' other blouses/shirts of cotton imported as parts of playsuits	19.2	doz
	6206.40.30.20	girls' blouses/shirts of mmf, with two or more colors warp/filling, parts of playsuits	19.2	doz
	6206.40.30.40	girls' other blouses/shirts of man-made fibers, imported as parts of playsuits	19.2	doz
	6211.32.00.20	boys' coveralls, jumpsuits & similar apparel, of cotton	19.2	doz
	6211.32.00.30	boys' washsuits, sunsuits, one-piece playsuits & similar apparel of cotton	19.2	doz
	6211.33.00.20	boys' coveralls, jumpsuits, & similar apparel of man-made fibers	19.2	doz
	6211.33.00.25	boys' washsuits, sunsuits, one-piece playsuits & similar apparel of man-made fibers	19.2	doz
	6211.42.00.20	girls' coveralls, jumpsuits, & similar apparel of cotton	19.2	doz
	6211.42.00.25	women's girls' washsuits, sunsuits, one-piece playsuits & similar apparel of cotton	19.2	doz
	6211.43.00.20	girls' coveralls, jumpsuits, & similar apparel of man-made fibers	19.2	doz
	6211.43.00.30	women's girls' washsuits, sunsuits, one-piece playsuits & similar apparel of man-made fibers	19.2	doz
239	Page 1			
	6111.20.10.00	blouses and shirts, except those imported as parts of sets, for babies, knit/crochet, of cotton	6.3	kg.
	6111.20.20.00	T-shirts, singlets, and similar garments, except those imported as parts of sets for babies, of cotton	6.3	kg.
	6111.20.30.00	sweaters/pullovers/sweatshirts/vests, and similar articles, except parts of sets, for babies, of cotton	6.3	kg.
	6111.20.40.00	dresses for babies, knitted or crocheted, of cotton	6.3	kg.
	6111.20.50.00	trousers, breeches and shorts, except those imported as parts of sets, for babies, of cotton	6.3	kg.
	6111.20.60.10	sunsuits, washsuits & similar apparel for babies, knitted or crocheted of cotton	6.3	kg.
	6111.20.60.20	baby sets of cotton, knitted or crocheted	6.3	kg.
	6111.20.60.40	other babies' garments of cotton, knitted or crocheted	6.3	kg.

Table I-2-c. SIC Codes for Textiles and Apparel

No.	SIC	Description	No.	SIC	Description
		SIC 22 Textile Mill Products	35.	2327	Men's, youths' & boys' separate trousers
1.	2211	Broad woven labric mills, cotton	36.	2328	Men's youths' & boys' work clothing
2.	2221	Broad woven fabric mills, man-made fiber & silk	37.	2329	Men's, youths, & boys' clothing, not elsewhere classified
3.	2231	Broad woven labric mills (including dyeing & finishing)			
4.	2241	Narrow fabrics & other smallwares mills: cotton, wool, silk, and man-made fiber	38.	2331	Women's, misses', & juniors' blouses, waists & shirts
5.	2251	Women's full length & knee length hosiery	39.	2335	Women's, misses', & juniors' dresses
6.	2252	Hosiery, except women's full length & knee length hosiery	40.	2337	Women's, misses', & juniors' suits, skirts, & coats
			41.	2339	Women's, misses', & juniors' outerwear, not elsewhere classified
7.	2253	Knit outerwear mills			
8.	2254	Knit underwear mills	42.	2341	Women's, misses, children's, & infants' underwear & nightwear
9.	2257	Circular knit fabric mills			
10.	2258	Warp knit fabric mills	43.	2342	Brassieres, girdles, & allied garments
11.	2259	Knitting mills, not elsewhere classified	44.	2351	Millinery
12.	2261	Finishers of broad woven fabrics of cotton	45.	2352	Hats & caps, except millinery
13.	2262	Finishers of broad woven fabrics of man-made fiber & silk	46.	2361	Girls', children's, & infants' dresses, blouses, waists, & shirts
14.	2269	Finishers of textiles, not elsewhere classified			
15.	2271	Woven carpels & rugs	47.	2363	Girls', children's, & infants' coats & suits
16.	2272	Tufted carpets & rugs	48.	2369	Girls', children's, & infants' outerwear, not elsewhere classified
17.	2279	Carpets & rugs, not elsewhere classified			
18.	2281	Yarn spinning mills: cotton, man-made fibers & silk	49.	2371	Fur goods

19. 2282 Yarn texturizing, throwing, twisting & winding mills: cotton, man-made fibers & silk
20. 2283 Yarn mills, wool, including carpet & rug yarn
21. 2284 Thread mills
22. 2291 Felt goods, except woven felts & hats
23. 2292 Lace goods
24. 2293 Paddings & upholstery filling
25. 2294 Processed waste & recovered fibers & flock
26 2295 Coaled fabrics, not rubberized
27. 2296 Tire cord & fabric
28. 2297 Nonwoven fabrics
29. 2298 Cordage & twine
30. 2299 Textile goods, not elsewhere classified

SIC 23 Apparel & Other Finished Products Made From Fabrics &Similar Materials

31. 2311 Men's youths', & boys' suits, coats, & overcoats
32. 2321 Men's youths', & boys' shirts (except work shirts) & nightwear
33. 2322 Men's, youths', & boys' underwear
34. 2323 Men's, youths', & boys' neckwear
50. 2381 Dress & work gloves, except knit & all-leather
51. 2384 Robes & dressing gowns
52. 2385 Raincoats & other waterproof outer garments
53. 2386 Leather & sheep lined clothing
54. 2387 Apparel belts
55. 2389 Apparel & accessories, not elsewhere classified
56. 2391 Curtains & draperies
57. 2392 Housefurnishings, except curtains & draperies
58. 2393 Textile bags
59. 2394 Canvas & related products
60. 2395 Pleating, decorative & novelty stitching, & tucking for the trade
61. 2396 Automotive trimmings, apparel findings, & related products
62. 2397 Schiffll machine embrolderles
63. 2399 Fabricated textile products, not elsewhere classified

Others

64. 2823 Synthetic fibers
65. 2824 Organic fibers, noncellulosic
66. 3552 Textile machinery

3. Market Size by Product

According to the AAMA, American consumers spent approximately $137 billion on apparel products in 1987. Chart I-3-a shows the composition of the U.S. retail market. U.S. domestic production accounted for roughly 50% ($69 billion) of the U.S. retail market while imports ($68 billion) made up the rest. The import penetration ratio in the U.S. market has been steadily climbing up in the past decades, from 40% in 1984 and 20% in 1976.

There is little data available as to the market size by product. However, estimated figures can be obtained. The U.S. Industrial Outlook gives, by product, the value of domestic shipment (which represents the sales value of U.S. apparel firms) and the value of imports. The approximate size of the market for a certain product can be calculated by adding the value of shipment and that of imports. However, there is a flaw in this calculation; the value of shipment most likely includes the sales derived from imports (since many U.S. firms resell imported goods). Thus, import items are counted twice. The actual size of the market should be smaller than the total figures. Nonetheless, these figures would give a good idea as to the market size for different product types. Table I-3-b shows the market size of nine different products in 1987.

Chart I-3-a. 1987 Consumer Expenditures in Apparel

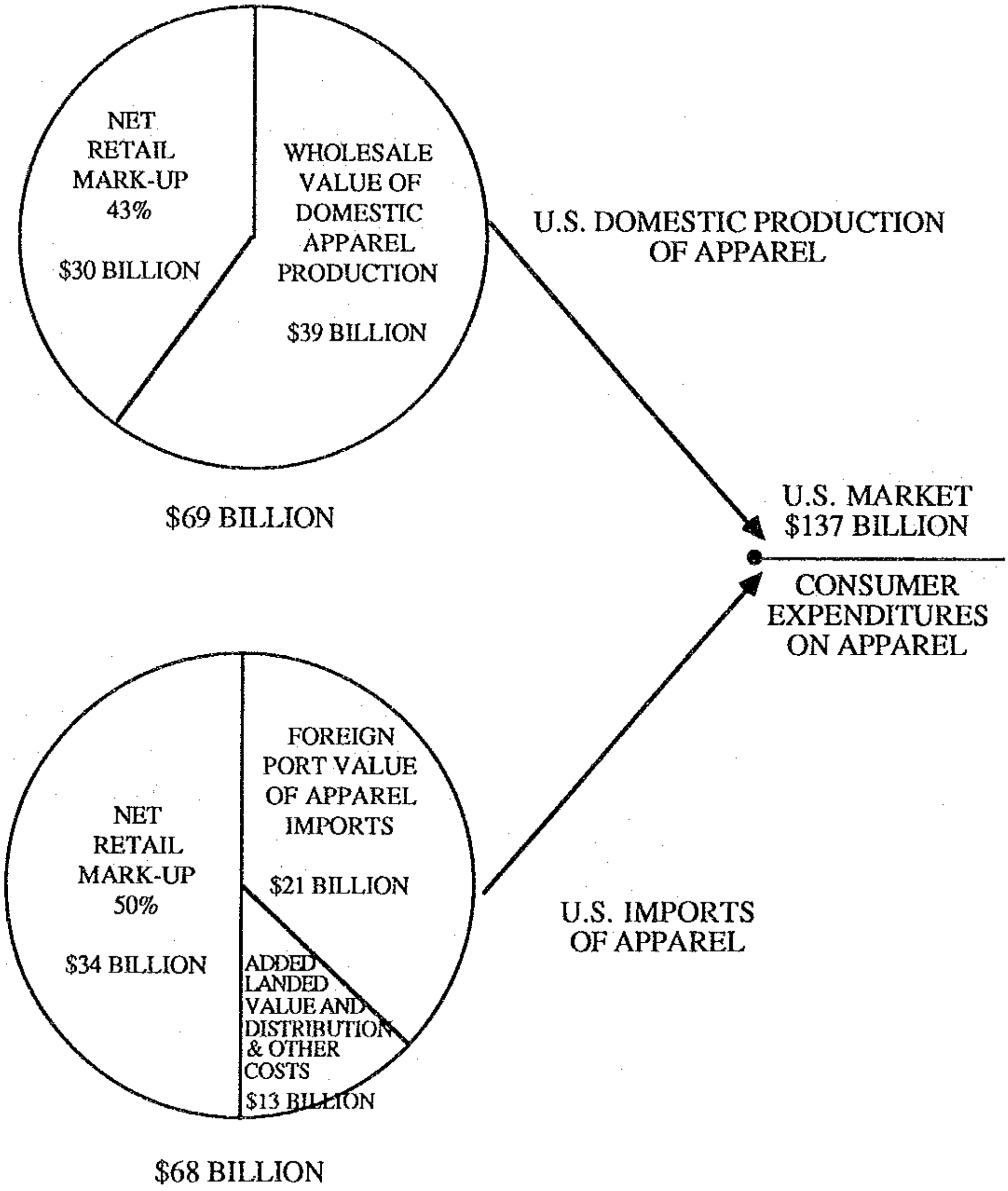


Table I-3-b. Market Size by Product (1987)
(Figures are given in $Millions)

Product Type	Domestic Sales	Imports	Total
Men's/Boys' Suits/Coats	$3,335	$1,041	$4,376
Men's Shirts/Nightwear	$4,090	$3,695	$7,785
Men's & Boys' Trousers	$2,437	$ 0	$2,437
Men's/Boys' Work Clothes	$5,184	$1,395	$6,579
Women's/Misses' Blouses	$3,863	$2,706	$6,569
Women's/Misses' Dresses	$5,768	$ 0	$5,768
Women's Suits & Coats	$4,082	$1,867	$5,949
Children's Dresses/Blouses	$1,310	N/A	—
Children's Coats/Suits	$ 133	N/A	—

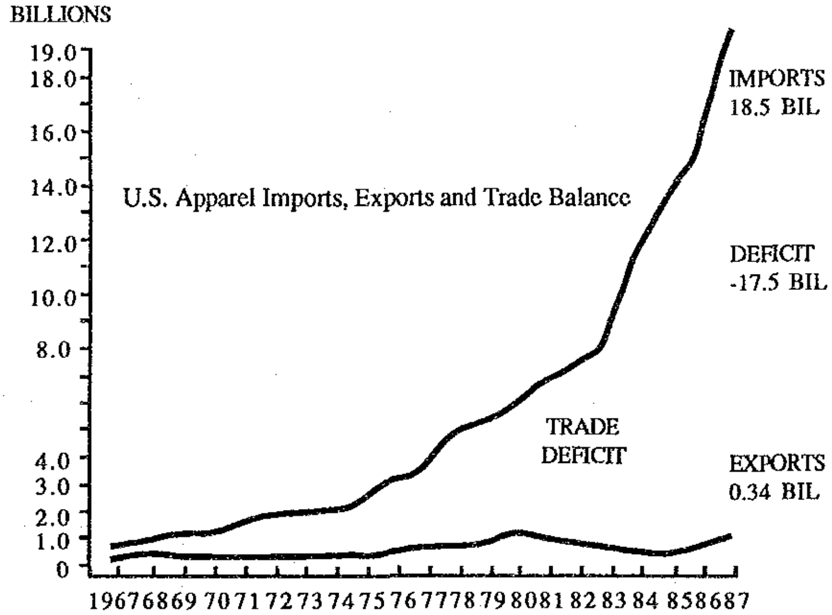
4. Import and Export Ratio

The United States imported $18.4 billion in apparel and exported $0.94 billion during 1987, according to the Office of Textiles and Apparel of the U.S. Department of Commerce. The gap between U.S. imports and exports in apparel goods has continued to widen throughout the last two decades. See Table I-4-a. With the recent decline in the value of the dollar, U.S. firms are trying to increase their exports. However, the import-dependent U.S. apparel industry is not likely to change in its nature, and the trade pattern will remain the same for the foreseeable future.

Table I-4-a. U.S. Imports, Exports, and Trade Balance of Apparel & Textile Mill Products (Millions of Dollars)

	Apparel			Textile Mill Products			Apparel Textile Trade
Year	Imports	Exports	Balance	Imports	Exports	Balance	BALANCE
1967	595	119	–476	804	509	–295	–771
1970	1,053	155	–998	1,122	578	–544	–1,542
1971	1,402	164	–1,238	1,359	607	–752	–1,990
1972	1,718	198	–1,520	1,497	745	–752	–2,272
1973	1,956	229	–1,727	1,541	1,164	–377	–2,104
1974	2,095	333	–1,762	1,597	1,704	+107	–1,655
1975	2,318	341	–1,977	1,212	1,533	+321	–1,656
1976	3,257	434	–2,823	1,626	1,855	+229	–2,594
1977	3,650	524	–3,126	1,765	1,857	+92	–3,034
1978	4,833	548	–4,285	2,212	2,073	–139	–4,424
1979	5,015	772	–4,243	2,214	3,029	+815	–3,428
1980	5,703	1,0901	–4,702	2,475	3,458	+983	–3,719
1981	6,756	1,032	–5,724	3,015	3,474	+459	–5,265
1982	7,386	775	–6,611	2,772	2,650	–122	–6,733
1983	8,649	664	–7,985	3,167	2,241	–926	–8,911
1984	12,029	638	–11,391	4,451	2,246	–2,205	–13,596
1985	13,493	593	–12,900	4,814	2,227	–2,587	–15,487
1986	15,712	721	–14,991	5,576	2,435	–3,141	–18,132
1987	18,454	943	–17,511	6,341	2,667	–3,674	–21,185

Source: Office of Textiles and Apparel, Department of Commerce



Chapter II: Supply and Demand Trends

1. Import Statistics 1970s and 1980s

A. Overall Imports

Apparel imports to the U.S. have continued to increase throughout the 1970s and 1980s. See Table I-4-a. Apparel imports to the U.S. in recent years have been dominated by the so-called "Big Four." The Big Four are Hong Kong, Taiwan, South Korea and the People's Republic of China. In 1982, the Big Four accounted for 70% of total imports to the U.S. Their dominant position, however, has been eroded since then, and their share declined to 53% in 1987. See Table II-1-a.

The Big Four's prominent position extends over a range of different product categories. For example, the Big Four accounted for 67% of total imports of sweaters. The category in which the Big Four are weakest is that of dresses. See Table II-1-b.

Top 20 exporting countries to the U.S. in approval are listed below (Table II-1-c) based strictly upon the value of apparel imports in 1987. The volume is given in millions of Square Yard Equivalent (SYE).

Table II-1-a. U.S. Imports of Cotton, Wool & Man-Made Fiber Apparel from Selected Countries 1964—1987 (Millions of SYE)

	1964	1968	1974	1978	1982	1984	1986	1987
Taiwan	36	148	422	608	748	931	1,011	942
Hong Kong	168	321	369	695	690	814	881	871
People's Republic of China	0	0	8	63	357	445	709	739
Korea	11	144	294	458	576	685	701	690
Subtotal	215	613	1,093	1,824	2,371	2,875	3,302	3,242
% of Total	38%	53%	56%	63%	70%	61%	56%	53%
Japan	197	313	164	170	76	138	121	87
% of Total	35%	27%	8%	6%	2%	3%	2%	1%
Philippines	44	43	102	158	161	234	274	304
Indonesia	—	—	—	—	38	129	168	192
Bangladesh	—	—	0	0	2	24	109	179
Dominican Republic	—	—	6	35	76	95	143	173
Singapore	—	23	90	85	82	128	182	172
Mexico	—	13	91	91	56	86	116	160
Sri Lanka	—	—	1	10	59	108	138	157
India	—	—	27	77	73	131	124	151
Haiti	—	—	41	53	54	68	96	109
Malaysia	—	—	—	—	26	64	113	108
Subtotal	—	—	358	509	627	1,067	1,463	1,705
% of Total	—	—	19%	17%	19%	23%	25%	28%
All Other Countries	—	—	322	398	308	635	973	1,082
% of Total	—	—	17%	14%	9%	13%	17%	18%
Total All Countries	561	1,153	1,937	2,901	3,382	4,715	5,859	6,116
	100%	100%	100%	100%	100%	100%	100%	100%

Source: Office of Textiles and Apparel, Department of Commerce

Button, wool and man-made fiber apparel imports totalled 6,116 million SYE in 1987. Imports of new MFA fibers-silk blends and other vegetable fibers amounted to an additional 578 million SYE bringing total apparel imports for 1967 to 6,694 million SYE.

Table II-1-b. 1987 U.S. Apparel Imports from Major Suppliers by Selected Categories (Thousands of Dozens)

	Major Suppliers							
	Hong Kong	Taiwan	Korea	PRC	Total	% of Big Four	All Other Countries	Total Imports
M&B suit-Type Coats	43	52	141	98	334	48%	361	695
M&B Other Coats	549	706	856	953	3,064	60%	2,035	5,099
WC &I Coats	1,066	784	715	1,129	3,694	51%	3,577	7,271
Total Coats	1,658	1,542	1,712	2,180	7,092	54%	5,973	13,065
WC &I Dresses	472	360	317	535	1,684	31%	3,674	5,358
ALL Play Clothes	807	508	42	1,371	2,728	56%	2,167	4,895
ALL Knit Shirts	9,937	7,380	6,410	3,780	27,507	44%	35,076	62,583
M&B Woven Shirts	3,423	3,709	6,423	2,243	15,798	58%	11,270	27,068
WC&I Woven Blouses	3,627	1,157	1,103	1,326	7,213	32%	5,677	22,890
Total	7,050	4,866	7,526	3,569	23,011	46%	26,947	49,958
WC&I Skirts	683	924	214	278	2,099	24%	6,690	8,789
All Suits	48	252	194	92	586	55%	488	1,074
All Sweaters	2,921	4,268	3,475	1,003	11,667	67%	5,769	17,436
M&B Trousers & Shorts	2,640	3,034	1,253	2,569	9,496	44%	12,084	21,580
WC&I Slacks & Shorts	5,456	3,883	552	2,503	12,394	42%	17,272	29,666
Total	8,096	6,917	1,805	5,072	21,890	43%	29,356	51,246
Brassieres, etc.	735	578	410	950	2,673	16%	13,676	16,349
Nightwear	1,176	623	140	1,164	3,103	58%	2,257	5,360
Underwear	8,745	2,263	199	3,363	14,570	57%	10,792	25,362

Source: Office of Textiles and Apparel, Department of Commerce

Table II-1-c. 1987 Top 20 Exporting Countries to The U.S.

(Millions of $ and SYE)

Rank	Country	$	SYE
1.	Hong Kong	$3,659	1,027
2.	Taiwan	$2,656	974
3.	South Korea	$2,365	840
4.	PRC	$1,889	924
5.	Italy	$ 792	75
6.	Philippines	$ 579	308
7.	Singapore	$ 472	173
8.	India	$ 436	154
9.	Indonesia	$ 372	194
10.	Dominican Republic	$ 372	174
11.	Mexico	$ 362	160
12.	Sri Lanka	$ 335	157
13.	Japan	$ 328	89
14.	Macao	$ 311	80
15.	Malaysia	$ 297	110
16.	Thailand	$ 279	87
17.	Bangladesh	$ 275	180
18.	Turkey	$ 186	76
19.	Haiti	$ 142	109
20.	Pakistan	$ 133	80

U.S. imports slowed down in 1988. The most apparent decline in imports was by the Big Four. Imports from Hong Kong, Taiwan, China, and South Korea all registered double-digit percentage declines in quantity. The value of imports from China rose more than 15% as a result of upgrading to higher value products, but import values for apparel from the other three major suppliers increased only marginally.

The value of imports grew somewhat more substantially from a number of small to medium-sized suppliers who have been steadily developing their production base. This group includes India, Sri Lanka, Bangladesh, Macao, Mexico, and several ASEAN and Caribbean countries. However, the strongest growth occurred in imports from certain very small suppliers whose export potential has emerged only recently. These include Guatemala, Greece, Portugal, Turkey, Israel, the United Arab Emirates, Egypt, Chile, Morocco, and Peru. Combined imports from these countries increased more than 40%, raising their share of the total from 3% in 1987 to approximately 4% in 1988.

B. Imports from Thailand

In 1987, Thailand was ranked 16th based upon the import levels of its products in the U.S. in dollar terms. The following (Table II-1-d) shows the import level by volume from Thailand and the Big Four of cotton, wool and man-made fiber categories in the period from 1980 to 1987:

Table II-1-d. Imports From The Big Four and Thailand
(Figures are given in millions SYE)

Cotton

Year	80	81	82	83	84	85	86	87	88
Hong Kong	383	341	417	454	455	485	483	518	N/A
Taiwan	64	68	83	107	137	146	169	166	N/A
PRC	110	141	156	205	203	175	282	309	N/A
South Korea	34	39	43	47	65	76	86	88	N/A
Thailand	12	15	16	18	27	39	29	32	31*

Wool

Year	80	81	82	83	84	85	86	87	88
Hong Kong	37	37	32	38	39	42	44	41	N/A
Taiwan	5	4	5	7	7	8	7	7	n/A
PRC	9	7	9	12	10	7	14	12	N/A
South Korea	10	10	11	14	16	15	16	16	N/A
Thailand	0.4	0.4	0.2	0.3	1.4	2.3	2.0	1.6	1.5*

Man-Made Fiber

Year	80	81	82	83	84	85	86	87	88
Hong Kong	207	227	240	268	320	298	333	312	N/A
Taiwan	596	586	660	747	786	804	831	769	N/A
PRC	47	95	192	212	232	239	407	417	N/A
South Korea	449	540	522	568	603	580	596	586	N/A
Thailand	22	25	37	46	77	88	52	41	35*

Total Thai Imports
(Cotton, Wool, Man-Made Fiber Apparel Combined)

Year	80	81	82	83	84	85	86	87	88
Thailand	34	40	53	64	105	129	83	75	68*

*Estimate figures

Apparel imports from Thailand enjoyed steady growth throughout the first half of the 1980s. In all of the three categories - cotton, wool, and man-made fiber - Thailand successfully expanded its apparel exports to the U.S. However, this situation changed in 1985. For the last three years, 1986, 1987, and 1988, imports from Thailand have steadily declined. The 1988 estimated level was less than 50% of the peak import level recorded in 1985. The decline of the last three years is attributable to Thai overshipment in 1984 and 1985.

In 1983, Thailand signed a bilateral agreement in apparel trade with the United States. The mismanagement and misunderstanding of the agreement resulted in Thai shipments in 1984 and 1985 which exceeded the level agreed to in the bilateral trade agreement. Immediately after the U.S. discovered the overshipment in mid-August of 1985, the U.S. enforced on embargo on all apparel imports from Thailand. Reconciliation was reached, and Thailand resumed its shipment in December 1985. Thailand, however, had to reduce the level of apparel exports to the U.S. for the subsequent three years in order to make up for its previous overshipments.

Meanwhile, the 1983 bilateral agreement expired in 1988 and a subsequent agreement has not yet been reached. Currently, Thailand is practising self-restraint in its shipments to the U.S. As Thailand dutifully accepted the penalties imposed by the U.S. for 3 years and now voluntarily restrains its export levels, it is expected that the country has a good chance to improve its quota level if a new agreement is reached. According to an apparel trade consultant who is well-informed about the Thai situation, if there were no quota limit, Thailand could export 10 times as much as it does now.

A more detailed account on the current status of the U.S. — Thai trade agreement is discussed in Chapter VI. Given the prospect that the Thai quota level will go up, imports to the U.S. from Thailand are expected to rise in 1989 and beyond.

2. Comparative Analysis of Domestic Goods vs. Imports

A. Domestic vs. Imports

The primary reason for the U.S. apparel industry to begin sourcing apparel products from offshore products plants was the cost advantage. In the past, as late as the early 1980s, cost considerations were the single most important reason for offshore sourcing. When that was true, there were two distinct types of imports: those imported because of the design and quality, sold at up-scale department stores or exclusive boutiques; and those imported primarily because of the cost, sold at family store chains and discount shops. The former type came from Western Europe while the latter came from Asia and the Caribbean. The latter type accounted for the majority of total U.S. imports. Apparel imports from Asia comprised the low-end of the market and were imported chiefly because they were cheaper that domestic products.

A 1983 survey conducted by the School of Business of the Philadelphia College for Textiles and Science illustrated this point. The survey questioned 75 apparel firms as to their reasons for importing apparel. They were asked to rank price, quality, availability and prestige in order of importance. The following were the results:

<u>Price:</u> 76% of the respondents ranked price as the most important reason for importing apparel; another 16% ranked it as second in importance.

<u>Quality</u> 41% of them ranked quality as second in importance; 23% ranked it the prime reason.

<u>Availability::</u> 11% of them ranked availability as second; no respondent found this factor the most important.

<u>Prestige:</u> This factor rated lowest. The majority of respondents indicated that this factor was of no importance at all to them.

While cost still serves as the major consideration for importing apparel, it is not as decisive a factor as it was 5 years ago. It fact, a group lobbying on behalf of U.S. - made apparel has recently been emphasizing the point that imported apparel products cost more than domestic products. (See Table II-2-1.) The motive behind this is to let U.S. consumers know that imports are no longer cheaper than U.S.- made goods and thus to encourage them to buy American-made apparel.

As the current U.S. industry structure and its marketplace have become more complex and dynamic, there are a variety of factors involved in making a decision to import apparel. Our interviews with U.S. apparel firm executives revealed that the cost factor is completely down-played in some cases while many still find it the most appealing factor. The vice-president of marketing of Lands End, one of the most successful mail order catalog apparel firms in the Unites State, described the company's reasons for importing as follows:

> "The only reason for sourcing our products from overseas is quality. We import 25% of our products, 50% of which come from Europe and 50% from the Orient. The needlemanship and quality in the imported goods cannot be found domestically. The quality found in the imports is far superior to that in domestic products. Also, certain products are so unique that no domestic products can take their place. I know that some of the other U.S. firms source their products mainly because of the cost advantage. But not us."

This comment indicates that some U.S. firms do not even consider the cost factor when looking for products overseas. Land Ends proudly advertises in its monthly updated mail order catalog that the craftsmanship in certain shirts sewn in Hong Kong is far superior to any products available for the same price.

In another interview with the director of the international sourcing department of GAP, a California-based casual wear chain, reveals a different story. GAP has a world-wide network of sourcing including Asia, Europe, North Africa, the Caribbean and South America.

> "We are most attracted to the countries with an established textile industry capable of fabric development. We will be drawn to the countries with a new fabric idea. We can have fabric sewn anywhere at any price. We can have it sewn here (the U.S.), in Asia, or any country."
>
> "Fabric, price, quality and delivery time are all important. It is the package of these things that counts. The cost is not the only factor."
>
> "We have a factory in Hong Kong. Unless other countries offer a substantial cost advantage...let's say more than 20% less than the Hong Kong level, we will not move our factories elsewhere. And of course, if the other country can generate excellent fabric..."

It can be concluded from these statements that individual U.S. apparel firms are importing for different reasons. Fewer and fewer companies are looking for offshore sourcing solely based on the cost advantage, while other factors such as quality, uniqueness, time and fabric availability are increasingly more important.

B. Evaluation of Thai Products

Interviews with a variety of U.S. apparel firms revealed that there are not many industry people, even those dealing with import products, who have had much experience with apparel products from Thailand. One of the few such examples was Britches which a few years ago sold Thai-made garments. Britches is an Alexandria VA-based apparel specialty store chain with 63 stores. According to the import director, Thai sweaters, knit 100%, sold well. They were reasonably priced, and the quality was good. Britches bought Thai sweaters from a N.Y. apparel manufacturer, while most of its imports are directly sourced via its Hong Kong agent. They have never sold Thai products since.

A majority of our interviewees had not encountered products from Thailand and there was a lack of recognition of Thai apparel products in general.

3. Consumption Trends

It is highly important for Thai apparel manufacturers to understand consumption trends in the U.S. market in order to make a gain in the market there.

A. Characteristics of American Consumers

One of the most important characteristics of U.S. consumers' buying habits is that they do not purchase apparel based upon where it is made. Despite U.S. government-sponsored campaigns to buy American, U.S. consumers buy apparel for reasons of price, quality and style, not nationality

Another recent phenomenon observed in the marketplace is more independent buying habits on the part of consumers. In the past when mini-skirts were "in," every woman used to wear them. Those days are gone. People no longer follow a uniform trend. Now, it is more acceptable and often more desirable to dress differently. Thus, buying habits have become more sophisticated and more compartmentalized as consumers want a more individual look. This trend indicates that there will be no single large mass national market. Instead, the market is composed of many smaller market niches. The trend of specialization, segmentation and diversification in the U.S. apparel market will continue into the 1990s.

Demographically speaking, it is important to find out what the so-called baby-boomers are doing. In the U.S., the baby-boom generation is comprised of those born during the two decades after WWII, and thus between the ages of 25 and 45. One of the greatest market challenges that manufacturers have faced has been to produce clothes that appeal to the baby-boomers. The men and women who comprise this group purchase apparel for its communicative quality, self-image satisfaction, appearance enhancement and career advancement.

Overlapping the age range of this most populous generation is a group that earns the most and spends the most on clothing. The U.S. Census Bureau reports that households headed by individuals between the ages of 35 and 54 have, on average, the highest household income and spend more on apparel as a percentage of their total expenditures than other age group.

The AAMA has identified six major demographic and qualitative trends that will influence apparel consumption in the future:

(1) A major shift to an older population; the largest market growth will be in the 35 to 54 age group, which has the most money to spend on apparel and a need for the greatest variety of apparel

(2) An increase in the number of white collar workers, and consequently an increase in the need for office attire.

(3) More single people with greater disposable income to spend on clothes.

(4) A shift to more casual and informal wear

(5) A shift to better quality clothing with a longer life span of usage.

(6) A continuing emphasis on sportswear and active wear with an increasing diversification in the style and type of sportswear. Costs will increase in the active wear area.

Thai businessmen should note that demographic figures, such as age and income, will become increasingly less reliable and will yield to market studies with focus on consumer lifestyle and preference.

An example of the consumer of the 1990s is an individual who might invest $40,000 in a luxury car, but purchase gas from a self service station. This same buyer might also wear expensive designer suits but buy his socks from a discount store.

B. Per Capita Consumption

Apparel industry experts estimate that per capita volume consumption in the U.S. will level off and slowly decline in the near term, while the dollar value per unit of apparel consumption will increase. The U.S. market has matured and reached saturation, particularly with regard to basic, non-speciality items. Predictions of consumer buying habits are for increased purchasing of higher quality, longer lasting and more expensive clothing.

C. Recent Trend in Apparel Sales

For the last few years, apparel sales in the U.S. have been stagnant. There are several reasons for what industry watchers call "a near-stranglehold on clothing purchases" by U.S. consumers.

High retail prices are probably the first cause. Shocking price tags have kept consumers out of the dressing rooms for almost two years, according to an apparel retail specialist. Second, U.S. manufacturers and designers have not been successful in developing new, unique products. The specialist said that women who traditionally play a major part in retail sales go shopping and decide not to buy anything because they think they can find similar clothes in their closets. A lack of exciting fashion thus contributes to the sales stagnation.

Thirdly, a phenomenon called "cocooning" is affecting the apparel sales in the U.S. "Cocooning" is the popular term now used by consumer analysts to describe a growing trend among Americans who stay at home and do not spend money at fine restaurants or chic theaters. Apparel buying habits have been influenced by this cocooning phenomenon; the apparel business is not doing well while home furnishing sales are soaring. Between 1984 and 1988, the number of home-related stores has grown at an annual compound rate of 10.3%. During the same period, however, that of apparel stores grew by only 5.9%, according to the Retail Marketing Report.

Finally, some analysts claim that apparel sales are not really going down. Mr. Britt Beemer, Chief Executive of America's Research Group, a consumer product market research firm, says:

"Everyone is looking at the dollars and not the units. Consumers are actually buying just as many clothes as they have in recent years. It's just that now they're getting them on sale."

He says this indicates that people are still interested in buying apparel and that they are also winning at the bargain game. According to America's Research Group's survey, 75% of all American consumers do not believe a sale is a sale unless the markdown runs between 30% and 40%.

Chapter III: Distribution System in The U.S.

1. Trends in the Distribution System

A. Integration of Production and Sales Phases

The distribution system of the textile and apparel industry involves several transactions. First, an agricultural producer makes raw materials such as cotton and wool. Second, a fabric manufacturer purchases these raw materials for textile production. The manufacturer then sells the fabric to an apparel producer. Finally, retailers sell the apparel to consumers.

Traditionally, these segments have operated separately. The apparel distribution system in the United States, however, has evolved in the last several decades into an increasingly complex chain of interrelationships. Recent changes in industry structure and marketplace have led to pressure throughout the industry for vertical integration, which involves the operation of a single firm at more than one stage of production. Under the contemporary distribution system, textile manufacturers, apparel manufacturers and retailers are increasingly susceptible to either backward or forward integration.

1) Forward Integration

In the U.S., apparel manufacturers have developed a tendency to participate more actively in retail operations. They are striving to establish themselves in the stages of production that are closest to the customers. This phenomenon is commonly known as "forward integration," whereby apparel manufacturers move into the selling phase of the industry.

Designers and manufacturers that have opened their own retail outlets have usually already captured a market niche and proven their market performance. For example, San Francisco-based Espirit, after carving out a market niche for its "funky" casual wear for younger men and women, began setting up its own retail chains throughout the world. Another example is Liz Claiborne, a successful designer/manufacturer of professional women's attire, which has recently opened its own retail outlets.

The major reason for the trend toward forward integration is that successful designers and manufacturers would like to have more control over the way their products are sold. Once they recognize that they have established a market niche and have solid financial backing, they can reap greater profits from promoting their own products on the retail level rather than from selling them wholesale.

2) Backward Integration

Traditionally, apparel retailers have been in the business of selling clothes to customers. In recent years, however, some retailers have sought a more active role in apparel sourcing. Although retailers have usually remained at the front end of the distribution system, some are now integrating backward into the design and manufacturing stages of the industry. This is called "backward integration."

Large retailers have implemented so-called "private label programs," under which contractors (domestic or foreign) produce apparel that carries the retailer's brand name. For example, JC Penney, a nationwide family store chain with a large catalog division, contracts several manufacturers to make apparel. Under the private label program, JC Penney receives garments with the JC Penney label already attached. JC Penney's staff works closely with its contractors in order to agree upon the fabric, quality and cost of the final products. JC Penney maintains a worldwide network of buying offices for international sourcing.

Another example is Britches, an up-scale specialty store. Britches does not have any manufacturing capacity, but it contracts several companies to manufacture apparel based upon its own specifications. Britches also uses its agent in Hong Kong. Department stores such as Bloomingdale's, Saks Fifth Avenue and Lords & Taylor, all practice a private label program.

The underlying cause for the trend toward backward integration is that retailers are often not satisfied with the quality, style and price of the products that they receive from manufacturers. Retailers with a solid base of customers would rather explore different sourcing options to acquire fashions tailored to their targeted customers.

B. Quick Response

As a result of sophisticated individual buyer preferences, the apparel market of the 1990s will become increasingly fragmented. The apparel market of the future will be characterized by quick change and uncertainty. Such elements as quick delivery, highly focused target marketing and knowledge of the appropriate market for each type of product will become increasingly important in the 1990s.

In order to respond to these market changes and to challenge intensifying foreign competition, U.S. industry has recently implemented the "Quick Response" (QR) system, which combines more effective management techniques with modern production and communication technologies. The primary purpose of the QR system is to integrate the distribution systems of the textile and apparel industries and to link communications and production strategy among manufacturers and retailers. The complete QR program promises progress in three critical phases of textile production and apparel marketing. First, it will report current, vital market information to designers, fabric suppliers and manufacturers. Second, it will allow manufacturers to produce garments on the basis of this information. Third, it will enable distributors to move merchandise to consumers quickly.

The QR system is still in the experimental stage. Eventually, U.S. firms hope to make the QR the cornerstone of the production and distribution system in the U.S. Initial QR pilot programs with J.C. Penney and Wal-Mart helped to boost sales by 25 to 59%. Increases in inventory turnover ranged from 31 to 67%. In this experiment, the short-cycle and flexible manufacturing methods of QR helped to reduce inventory costs, create warehouse space, improve quality and enhance profits by as much as 25% on basic apparel.

Since the QR system is a large-scale operation, it requires large capital spending. There are several investments involved in the implementation of QR:

* Electronic data interchange with textile producers and their major customers
* Centralized on-line data network from point of sale at store premises to the headquarters
* Bar coding and laser scanning
* Sophisticated conveyor and/or automated guided vehicle (AGV) systems
* Automated invoicing
* Automatic carton-sealing equipment
* Computerized traffic and routing management (to reduce freight cost)
* Distribution site selection based on market (site selection based on convenience for different modes of transportation: road, rail, water or air. Proximity to a labor pool is another consideration)

C. Trends in Apparel Retailing

Background

The retail end of the apparel business has changed its structure over the last several decades in order meet changing consumer needs. During the 1950s, the mainline downtown department stores were the major conduit for apparel sales. These large stores dominated downtown shopping with specialty stores situated nearby.

Large population shifts to the suburbs in the late 1950s prompted the creation of large shopping malls. The major department stores of the downtown areas relocated to the suburban shopping malls along with chain stores. Eventually, this shift was the demise of downtown shopping areas.

The energy crisis of the 1970s retarded the growth of suburban shopping malls. As a result, a major area of growth from the mid 70s onward has been smaller specialized stores.

This particular growth trend in specialty stores has forced major retailers to establish smaller boutique areas inside their larger stores to capture individual market segments. Further, larger stores have expanded their apparel offerings to appeal to a broader range of consumers. Another trend that had its start in the late 1970s and continues today is the popularity of the outlet store.

The outlet stores were first established to appeal to consumers whose real purchasing power was reduced by rising prices. The concept was that well-known brand name merchandise offered at discount prices would lure consumers to the outlets.

Initially, the majority of the outlet and off-price stores were located in areas well outside the major markets. However, as off-price retailing expanded, this type of retailing moved closer to the major markets. Another function of the outlet trend has been the building of mini- and medium-size malls for conglomeration of outlet stores. These smaller malls have been developed solely for off-price retailing. While this type of mall is farther from the major market than the larger malls, consumers are willing to travel greater distances for discount name brand products.

Recent Trends and the Near Future

The present retail market consists of seven major players:

(1) Department Stores
(2) JC Penney & Sears
(3) Specialty Stores
(4) Discounters
(5) Off-Price Apparel
(6) Catalog/Mail Order
(7) All Other Apparel Outlets

The apparel retailing business of the 1990s will continue to be dominated by the traditional retailers. Specialist retailers will decline in share, and shopping mall stores will be required to change because of demographic shifts. The non-mall stores will show strong gains.

The general merchandisers, such as department stores, should gain market share depending on their individual financial viability. Within the department stores, compartmentalized specialty stores will do particularly well. Discount stores are expected to maintain a share. Industry experts expect such individual stores as Sears to lose some of their shares, while Wards will maintain its share and JC Penney will improve its share.

The non-traditional retailers, including catalog houses, are expected to experience steady growth with technological changes such as electronic retailing, which will have a profound impact upon the industry toward the end of the 1990s.

In terms of geographic structure, national chains will dominate international markets on the basis of their economies of scale. It is predicted that successful local chains will grow into regional chains. Smaller local chains will suffer dramatic losses in market share.

The competitive environment of the retail business will become increasingly tough, aggressive and predatory. This increased competition will characterize all phases of the apparel industry.

2. Sourcing Options

As the apparel distribution system in the U.S. has become increasingly complex, its sourcing options have also become highly complicated. First, apparel firms are faced with a choice between domestic and foreign sourcing. There are three types of international sourcing: overseas commission, direct imports, and the 807 production. The first two types are wholly foreign-made imports, and 807 applies to imports assembled overseas. To further complicate the picture, many U.S. firms employ more than one of these options. Finally, sourcing options are further obscured by the recent trends toward forward and backward integration.

Nonetheless, this tangled web of apparel sourcing alternatives can be divided into three basic options:

A. Sourcing from Domestic Firms (100% U.S.-Made)

B. Sourcing from Overseas Manufacturers via Domestic Firms

C. Sourcing Directly from Overseas Manufacturers

A. Sourcing From Domestic Firms (100% U.S. - Made)

This sourcing option is the simplest and most straight-forward. Under this scenario, a U.S. manufacturer produces and assembles apparel within the U.S. The company can sell its products wholesale to sales representatives, who in turn sell them to retailers. The companies that engage in domestic sourcing exclusively are usually medium-sized, regionally-based firms. Those employing international sourcing, on the other hand, are generally large companies with a national customer base. Moreover, most domestic sources do not own retail outlets. They are strictly in the business of making apparel.

B. Sourcing from Overseas Manufacturers via Domestic Firms

With this option a U.S. manufacturer makes apparel both domestically and abroad. There are three ways to make apparel overseas. First, U.S. firms can employ the 807 type of arrangement. Second, they can contract overseas manufacturers to make the products for them. Third, they can acquire overseas factories.

Under paragraph 807 in the Tariff Schedule of the U.S., manufacturers cut fabrics into different parts and ship them to a foreign country where the parts are sewn back together. When they are shipped back to the U.S., duty is charged only on the value added portion, rather than on the value of the final product. This arrangement was created so that U.S. firms could take advantage of low foreign wage levels in labor-intensive industries. Under the new Harmonized Tariff System, the 807 program remains unchanged. (A more detail account for the tariff changes is given in Chapter VI.)

The second sourcing alternative is the so-called offshore commission production, whereby U.S. firms contract foreign manufacturers to make apparel based upon their specifications. Under this arrangement, foreign producers put the brand name of their U.S. clients (for example, Liz Claiborne or Calvin Klein) on the final products. (A more detailed account for offshore commission production is given in the section of Trends in Offshore Commission Production.)

The third channel is quite simple. The U.S. firms make apparel in their own overseas factories.

In conjunction with domestic sourcing, large U.S. apparel makers may employ one or any combination of the above channels. Some of the successful U.S. manufacturers, such as Liz Claiborne, Ann Taylor, or Espirit, have established their own retail outlets.

C. Sourcing Directly from Overseas Manufacturers

With this option, U.S. retailers engage in offshore sourcing independently. The retailers employing offshore sourcing are likely to be large, established firms with a strong national market presence. There are three methods of direct overseas sourcing. First, the retailers can directly import foreign products and sell them under the importer's name. Second, they can contract foreign producers to make apparel under the private label program. Third, they can own and operate overseas factories. Retailers that import large volumes and rely heavily on overseas sourcing tend to build their own offshore factories.

For example, the GAP, which depends upon offshore sourcing, has its own factories overseas. On the other hand, LL Bean and Lands End, whose imports account for less than 25% of its entire product line, contract foreign manufacturers. (The sourcing practices of these three companies are further described in the case study section of this chapter.)

3. Role of Agents (Middlemen)

A. Services

Agents play an important role in the transaction of importing apparel. Many agents are located overseas, often in Hong Kong or Tokyo if they are in Asia. Trading companies can sometimes assume an agent's role. An agent's services will vary depending upon the contract agreed upon by the U.S. firm and the agent. The agent sometimes engages in financing. Its standard services associated with international sourcing of apparel can be described as follows:

Fabric Sourcing:

A U.S. firm sends its agent a design sample of a garment with its cost range. The agent finds the type of fabric, locates a local fabric producer and negotiates the price on behalf of its U.S. client. The agent may look for the fabric producer in various regions.

Local Manufacturer Search:

Once the fabric is sourced, the agent locates a local manufacturer to produce the apparel. The agent tries to find the manufacturer that can make the best quality goods at a reasonable price. Within the price range given by the client, the agent would negotiate with the manufacturer over the price and delivery time. As with fabric, the agent looks for a suitable manufacturer in various regions.

Quality Control Check:

The most important service that the agent offers to its U.S. client is to assure quality control The agent visits the production facilities to oversee its production processes and schedule.

Final Product Inspection:

Upon the completion of production, the agent conducts an inspection of the final products before they are shipped to the U.S.

Shipping and Customs Clearance:

On behalf of the client, the agent hires freight-forwarders for the transportation of the goods and customs brokers for customs clearance. The agent performs all the necessary paperwork involved in this process, including documenting insurance forms for apparel transportation.

Follow-up Services:

Even after the products are delivered to the client, the agent's job continues. If the client finds some problems with the goods (either having too many defects or made differently from the original specifications), the agent helps solve the problems.

B. Agent's Fee

The agent's fee arrangement varies from deal to deal. When the agent assumes the complete responsibilities of offshore production, the fee is likely more expensive than the situation in which its services are limited. Some sources indicate that 1% of the total value of the transactions is the standard commission fee. However, the fees vary depending upon the size of the total amount of the transaction. Generally, the larger the deal is, the higher the agent's fees are. For example, if one transaction amounts to $1,000,000, the agent takes $1,000, which translates into 1% of the deal. If the amount is only $10,000, the agent takes 5% of the deal, $500. This fee structure is explained by the fact that each deal usually requires the same amount of work. Thus, the agent asks a higher percentage of commission for smaller work.

C. Recent Trend

U.S. apparel firms which import a great deal of apparel products usually do not employ an agent. Instead, they directly contact offshore manufacturers and handle importation by themselves. U.S. firms whose imports account for less than 25%, on the other hand, use agents for their international sourcing.

According to Mr. Peter Wong of the Jefferson Trading Company, an L.A.-based trading company which specializes in apparel, there had been a trend for many U.S. apparel firms to bypass the agent and contact offshore manufacturers directly so that they didn't have to pay commission fee. For the last few years, however, this trend has been reversed and more and more U.S. firms are using agents. Reasons for the rise in agent popularity are that U.S. firms are finding out that maintaining overseas operations is costly and that they are experiencing difficulties in communications with overseas manufacturers.

4. Distributor's Marketing Strategy

The most conventional and still most utilized channel for wholesale distribution is the "trade show" where buyers purchase apparel merchandise for their own stores. Department stores, family store chains, discount stores and specialty boutiques all have buyers. Established department stores would have a large fashion merchandise division with a good number of buyers. In the case of small, independent stores, the store owners are usually buyers.

Garment trade shows are sometimes called "markets," and are usually held in major metropolitan cities. The two largest "markets" in the United States are located in New York and Los Angeles.

The "markets" are typically held 5 times a year in concurrence with the five fashion seasons: Fall I, Fall II, Holiday/Cruise, Spring, and Summer. (There are no major differences between the merchandise exhibited in the Fall I and Fall II "markets".) The "markets" for each season are scheduled in such a way that they precede the actual seasons by five to six months. The following is the 1989 schedule for the "market" in Los Angeles:

Five Seasons:	LAS Market Schedule (1989)	
Summer	January	13 — 17
Fall I	April	7 — 11
Fall II	June	9 — 13
Holiday/Cruise	August	25 — 29
Spring	October	27 — 31

The "market" in Los Angels is called Pacific Coast Travellers and is held in a 23-story building called LA Mart. (Appendix III-4-a includes information regarding Pacific Coast Travellers, including eligibility requirements for participation.)

The trade show at Los Angeles covers all types of clothing ranging from expensive to low-priced merchandise and a majority of the participants are local (CA-based) manufacturers. On the other hand, many of the shows held in New York carry only high-fashion merchandise. For example, one show called "New York Fashion Creators" primarily handles only couture and foreign designer clothes. Most of the showrooms in New York are maintained by U.S. firms as well as some of the European firms.

Buyers from upper-scale department stores, such as Saks Fifth Avenue and Nieman Marcos, do not attend trade shows. Rather, they go to showrooms and designer collections in New York. In addition, they conduct bi-annual buyer visits to the well-known Parisian fashion apparel shows. Finally, they usually employ international buying offices in Europe. The staff of the international buying office would visit different showrooms, view samples, and place orders on behalf of the retailers.

One which takes advantage of these trade shows is Hong Kong. Hong Kong continues to have an active presence in major international fairs and exhibitions with the constant efforts of garment manufacturers and encouragement from trade organizations such as the Hong Kong Trade Development Council. The objective is to show off the wide selection of Hong Kong-produced high-quality fashions, thereby reconfirming Hong Kong's niche in the world's garment trade. Like Hong Kong, Thailand should maximize its opportunities to expose its apparel merchandise to the world's potential buyers.

5. Trends in Overseas Commission Production

A. Share of Total: Imports from Overseas Commission Production

"Overseas commission production by U.S. firms" is defined as an arrangement under which U.S. apparel firms contract overseas manufacturers to produce apparel. This does not include situations in which U.S. firms own overseas factories.

There are two types of business relationships between U.S. firms and overseas manufacturers. The first is an arrangement under which U.S. firms have direct contact with foreign manufacturers, control their production, inspect their products and ship them to the U.S. Under another arrangement, U.S. firms may employ agents to manage the entire range of transactions involved in overseas production, from fabric sourcing and locating a manufacturer to quality control and shipping. In the second case, the U.S. firm may not even know the identity of its overseas manufacturers.

In some cases, overseas factories make apparel exclusively for one U.S. firm. In other cases, they serve several U.S. clients. The U.S. clients can be apparel manufacturers that may also make apparel in the U.S. Other clients may be apparel retailers, which are likely to have domestic apparel sources in conjunction with offshore sourcing.

Under the overseas commission production agreement, a U.S. firm may receive its merchandise with the company's brand name labels already attached. For example, the GAP (a large U.S. casual wear chain) imports a large portion of its products. However, the imported products all have the GAP label on them. A large part of overseas commission production involves this type of offshore private label production.

The above situation differs from cases in which foreign apparel manufacturers directly export their own name brand products to the U.S. Benneton (an Italian fashion merchandise conglomerate) imports exclusively from Italy and distributes Italian-made products via thousands of its own retail outlets throughout the U.S. The GAP case is a prime example of overseas commission production. The Benetton case illustrates a direct importation strategy.

However, a snapshot of the U.S. apparel industry is incomplete without mentioning re-importation under section 807, another strategy of importation that differs from both overseas commission production and direct imports. Under 807, a U.S. apparel company may export textile materials to a foreign country and contract a foreign concern to assemble them. Then, it can re-import the final products into the U.S. with duties only on the added value, rather than on the finished product value. Thus, 807 production imports are not classified as wholly foreign-made, while direct imports and overseas commission imports are wholly foreign-made. Since 807 textile production takes place exclusively in Mexico, Central America and the Caribbean. All apparel imports from the rest of the World - primarily Asia and Europe - are considered wholly foreign-made.

There is very little data available on what percentage of total apparel imports to the U.S. is accounted for by (1) overseas commission production, by (2) direct imports and by (3) the 807 imports, which are only assembled abroad, as opposed to wholly foreign-made (1) and (2) combined.

According to Commerce Department statistics, the 807 imports account for 3% to 4% of the total U.S. apparel imports. This translates into the fact that 96% to 97% of the total imports are wholly foreign-made imports.

Interviews with several informed sources reveal that a sizeable portion of Asian imports is produced under overseas commission agreements. Imports from Europe, on the other hand, usually enter the U.S. directly. Moreover, Asian products have enjoyed a steady increase in imports to the U.S. over the last 25 years.

Industry experts argue that this trend is attributable to the spread of overseas commission arrangements.

B. Counter-Trend Overseas Commission Production

Over the past two decades, international competition has forced U.S. companies to locate their production facilities abroad in search of lower production costs. Within the last couple of years, however, a counter-trend has developed. U.S. apparel firms are relocating production activities in the U.S. There are several reasons for this counter-trend.

First, U.S. firms have decided to move manufacturing back to the U.S. in order to assert greater control over production. In overseas production arrangements, U.S. companies can not effectively monitor production processes. The high costs of international travel and related logistical difficulties make it difficult for U.S. companies to maintain a constant presence in foreign facilities. For example, the president of a Los Angeles apparel firm, which recently moved all of its overseas factories in Asia back to L.A., commented, "This way, I can see all the shirts are made with two arms. With the factories in L.A., I can drive down there anytime and see how the production is done." The problem of quality control thus discourages some U.S. firms from engaging in offshore production.

Second, loss of lead time is a key factor influencing the return of manufacturing operations to the U.S. Since there are five fashion seasons in each year, merchandise for each season must be prepared at least 5—6 months in advance. For example, if the goods are produced in Hong Kong, the shipping lag time (i.e. the time elapsed between initial shipping from Hong Kong and arrival at a U.S. retail operation) will average 4—6 months. If the company uses domestic facilities, the lag time is generally 8—9 weeks. The reduced lead time is a critical factor in the fashion business. At a time when U.S. firms are emphasizing efficient distribution and production through Quick Response, offshore production may appear more of a liability than an asset.

The complex web of quotas under the MFA also acts as a deterrent to offshore production. The trade laws of most importing countries stipulate that any shipments violating quota limits or technical regulations be impounded by customs authorities. The shipment suspension is a nightmare for importers. In the past, many U.S. firms have suffered from costly quota-related troubles. Thus, problems arising from the quota system have contributed to the previously mentioned counter-trend.

Financially, offshore production can be disadvantageous to U.S. firms. International sourcing usually requires U.S. buyers to issue a Letter fo Credit (LC) upon delivering an order to overseas producers. This means that the U.S. buyer is paying for goods 5 go 6 months in advance. On the other hand, if the U.S. firm places an order from a domestic producer, it sometimes does not have to pay until 60 days after shipment of the final products. This problem, however, should not be a major reason for the counter-trend, for any U.S. firm that sources from overseas is likely to be in financially healthy.

Finally, with rising wage levels in the Far East, offshore production no longer offers U.S. firms a significant cost advantage.

One example of a company that has changed its production strategy is the Salant Corporation, a $525 million a year company based in New York. Salant owns Perry Ellis Sportswear, Manhattan Shirt Co. and other clothing companies. Previously, all items of the Perry Ellis' women's division were manufactured in Hong Kong, Taiwan and elsewhere in Asia. However, the company decided to shift some of the production back to the U.S. Currently, 40% of the Ellis women's product line is produced domestically. Salant company acquired a sewing factory in Americas, GA. that was operating at one-third of capacity and turned it around by transferring offshore capacity to a domestic location.

Another such company is Seminole Manufacturing Co., which switched production of men's casual slacks from Jamaica to the U.S. Seminole decided that although it saved $1 for each pair of slacks produced in Jamaica, the rework and travel costs of offshore production did not justify the savings. The Seminole Alabama factory, where production now takes place, can produce an order of slacks in four weeks. The Jamaica plant takes twelve weeks to complete the same task.

Foreign producers have also begun to establish manufacturing facilities in the U.S. Asian producers that were concerned about quotas, skilled labor shortages and U.S. protectionism have moved some production capacity to the U.S. By locating production operations in the U.S., foreign companies can not only circumvent MFA quotas but can also position themselves closer to U.S. customers. These firms, however, are generally large and financially stable.

One example is the Onwel Manufacturing Co. of Hong Kong. In 1987, Onwel opened a plant in Flushing, N.Y. to sidestep quota restrictions. Onwel decided to produce certain apparel lines in the U.S. after the quota price for knitted skirts, tops and pants reached $90 per dozen, which rendered exporting to the U.S. prohibitively expensive. Onwel, however, is now facing the high wages of the U.S. economy.

While the weaker dollar, closer proximity to the market and evasion of quotas will continue to attract production to the U.S., the net trend is still offshore production. One recent change in offshore production preferences favors the Caribbean Basin region. During the Reagan administration, the Caribbean and Mexico became large centers of 807 apparel production. In 1987, clothing production in the Caribbean jumped by 21% over 1986 levels. According to Commerce Department statistics, 10% of all imported apparel originates in the Caribbean.

C. U.S. Industry Foreign Sourcing Criteria

The following analysis of the apparel industry's foreign sourcing criteria is based on the comments of various apparel industry executives. Despite the various sourcing options available in the apparel industry, the decision-making process is relatively uniform for all companies. Similar considerations and factors confront all apparel companies that are evaluating their manufacturing strategies.

Offshore sourcing of apparel is evaluated on the basis of estimated cost and risk to the company that is considering overseas commission production. The decision to directly source from outside the U.S. or to import a product produced under tariff provision 807 must also be judged on the basis of its effect on the company's domestic production capabilities. It is possible that the relocation of production facilities to offshore sites will cause an unfavorable cost variance, increasing the total production overhead. The following list enumerates some of the cost and management considerations in moving offshore:

(1) Inventory — Will moving offshore lead to longer transport time leading to either overstocking or understocking due to lack of market responsiveness?

(2) Overhead — Will in-house operations costs rise with less production taking place domestically after moving abroad?

(3) Purchasing — Will the long distances, monetary fluctuations and language difficulties make the cost of purchasing products offshore exceed the cost of domestic purchasing?

(4) Quality — Will offshore production result in less control of product quality?

(5) Control — Will a company lose control over future costs of production after it exports its technology?

D. U.S. Company Case Studies

This section gives a detailed account of three companies: JC Penney, Liz Claiborne and Oxford Industries. The first company, JC Penney is a modern retailer that is also active in manufacturing (an example of backward integration). JC Penney should be of particular interest to Thai businessmen for it recently opened a Bangkok buying office. The second company, Liz Claiborne, is an apparel firm that also operates a retailing business (an example of forward integration). The third company, Oxford Industries, is a traditional, large multinational apparel manufacturing firm.

In addition, this section discusses five other companies and their foreign sourcing strategies. The companies are Britches, Lands End, the GAP, LL Bean and K-Mart.

J.C. Penney Company, Inc.

JC Penney (JCP), which has recently moved its headquarters office from New York City to Dallas, Tex., is one of America's major retailers, with stores in all 50 states. The company primarily sells family apparel, home furnishings and drug store merchandise.

JCP had record sales of $15.3 billion in 1987. The highest growth was registered in its catalog business, where sales levels increased by 11% in 1987. The company recently repositioned itself in the U.S. market by placing greater emphasis on apparel in its merchandise offerings. This decision reflected JCP's management's view that the greatest potential for profit lies in the area of upper-scale apparel sales.

JCP has discontinued its line of home electronics, hard sporting goods and photographic equipment to free resources for a more intense apparel marketing campaign. In particular, company executives have targeted the marketing of women's apparel as a strategic priority. JCP is also trying to promote its reputation and image as a retailer of upper-scale apparel.

A large volume of JCP's apparel merchandise is produced under private label arrangement with both U.S. and foreign contractors. In conjunction with its private label production, it imports directly from offshore sourcing.

JCP's principal criterion for product sourcing — either private label contract production or direct imports — involves contracting with manufacturers that can offer the optimal trade off between price and value. Customarily, JCP will present a product idea to a manufacturer that will comply with JCP's requirements concerning cost, type of fabric and production methods.

JCP's contractors are completely responsible for all stages of production, ranging from fabric purchasing to the assembly of the finished garment. JCP's fashion merchandise staff, along with design and product development personnel, works closely with its manufacturers in order to maintain quality control. JCP's quality control personnel often visit both domestic and foreign production facilities for visual quality audits (VQA).

The company has established a global sourcing network. For example, one recently implemented production program utilizes fabric of Indian origin (e.g. 100% Matka silk) that is turned into finished apparel in Colombia and then sold in the U.S.

JCP maintains a number of buying offices in Asia, including offices in Taiwan, Hong Kong and a recently opened office in Bangkok. The JCP buying office is composed of regional area experts who evaluate potential local manufacturers and negotiate prices, fabric quality and product delivery.

According to the director of JCP's corporate import office, future sourcing from Thailand appears promising. He stated that rising operation costs in Hong Kong, Taiwan and South Korea have forced JCP to examine sourcing opportunities in Thailand, India and Malaysia. He also emphasized that the craftsmanship of Thai workers, particularly the remarkable needle skills of many Thai workers, would help to produce high quality apparel merchandise. The merchandise under JCP's current sourcing plan from Thailand includes raincoats, cold weather padded jackets, lightweight jackets, woven blouses, sports shirts and shorts. Finally, he added that while some U.S. apparel concerns prefer to source from the PRC, JCP finds it difficult to maintain good communications and a reliable product delivery schedule in that country.

The one major concern regarding sourcing from Thailand, according to the import director, is its quota status. He was wary because of the 1984/1985 overshipment problems, which were largely attributable to the restrictive bilateral agreement of 1983. He would like to see a more liberal bilateral agreement that would help to guarantee a consistent level of imports from Thailand.

Liz Claiborne Inc.

The Liz Claiborne Company, headquartered in Bergen, N.J., is one of the most successful apparel firms in the U.S. The company plays the triple role of designer, producer, and retailer of women's business apparel. In 1987, Liz Claiborne reported sales of $10.5 billion, a hefty 29.5% higher than 1986 sales levels.

Liz Claiborne was founded in 1976 with the objective of meeting the needs of modern working women. Since then, the company has steadily grown and presently employs 3,400 people world-wide. Since its founding, the company has expanded its selection of apparel products. In addition to producing business attire, Liz Claiborne is the largest women's sportswear manufacturer in the U.S.

The company has targeted the special size market as an area of potential market opportunity. For example, through close cooperation with its retailers, Liz Claiborne's Petite (small size) Division has enjoyed phenomenal growth since its inception in 1987. Based on its success in supplying smaller sizes to the consumer, Liz Claiborne is currently planning the introduction of a sportswear and dress collection in larger sizes. The company's entry into the men's sportswear market two years ago has been profitable, boasting sales of $75 million in 1987, an increase of 79% over $42 million in 1986. Liz Claiborne also manufactures a line of fragrances.

In 1986 the company announced forward integration plans to enter the retail market. Both the stores and the merchandise label are called "First Issue" and the first store opened in the Northeastern U.S. in early 1988. Liz Claiborne has embraced the tactic of locating its small specialty stores within large stores and has implemented this strategy with the cooperation of the Jordan Marsh department store in Boston.

Liz Claiborne introduced a retail program called "Project Consumer" to deepen the brand name loyalty of the company's target consumers. As part of this program, the company trains in-store product specialists who work with Claiborne's traveling retail consultants. The traveling company consultants train retail sales personnel in both merchandising techniques and effective display of Claiborne products. The company believes that strong marketing of its merchandise at the point of sale by trained retailers will assist in increasing sales to consumers.

The long-term goal of "Project Consumer" is to open company-owned Liz Claiborne specialty shops in key markets around the U.S. These shops will be separate from the "First Issue" stores that were opened recently. Opening its own stores will enable the Claiborne company to closely track sales rates of various merchandise and further focus its consumer targeting with regard to styles, colors and sizes.

Liz Claiborne does not actually own any production facilities, but it hires so-called "associate manufacturers," which are either U.S. or foreign contractors. However, a substantial portion of Liz Claiborne products is manufactured by foreign suppliers. The Claiborne company makes manufacturing decisions on the basis of an in-depth cost analysis for production. For example, one executive outlined the basic cost analysis formula used for shirt production. The planned U.S. production for shirts would cost the company $2.52 per shirt. By examining the various cost considerations involved in offshore production, Claiborne concluded that it would be cost-effective to produce shirts outside the U.S.

	Offshore Production Cost (Per Shirt)
F.O.B Cost	$1.333
Overseas Buying Commission	.032
Duty	.216
User Fees	.028
Ocean Freight	.203
Insurance	.007
Broker Charge	.031
Subtotal (Landed U.S.)	$1.850
Inland Freight	.040
Total Offshore Production Cost	$1.890
Total Domestic Production Cost	$2.520
Difference	$0.630

In this particular instance, the company saved $.37 on each shirt manufactured offshore. The estimated total savings for the projected production volume of shirts (2 million) was $1,260,000 ($0.63 x 2,000,000). The Claiborne company did not disclose specific offshore production country preferences, but it maintains a positive business attitude toward foreign production of Claiborne merchandise. Like JC Penney, Liz Claiborne maintains a buying office in Thailand. Since the company does not have production capacity, Liz Claiborne could be a prospective client for Thai manufacturers that perform large volume commission work.

Oxford Industries, Inc.

Oxford Industries Inc., headquartered in Atlanta, Georgia, is in the business of developing, manufacturing, marketing and distributing a broad range of apparel products and related services to retailers. In addition to its substantial U.S. manufacturing interest, Oxford industries maintains production facilities in the Dominican Republic and Mexico and sources apparel from Hong Kong, the PRC, South America and the Caribbean region.

Oxford is a diversified and financially sound company that is presently confronting many dynamic market forces. In 1988, the company suffered its first loss in its 28 years of operation. Oxford's recent losses are attributable to such factors as consolidation by retailers, direct importing by retailers and a worldwide apparel oversupply. Further, the declined dollar value raised the price for imported fabric, and the company could not afford to pass on higher prices to the consumers on account of the sluggishness of the retail industry.

In 1988, Oxford Slacks Division expanded its plant in the Dominican Republic. Also, Lanier Clothing, a subsidiary of Oxford, supplemented its sourcing operations in the Far East and in Mexico. Lanier clothing works with two large Chinese-owned apparel factories that exclusively produce tailored clothing for Lanier. As Oxford's Executive Vice-President for Planning and Development, Ben Blout, stated,

> "At the present time China continues to offer one of the best price-value relationships of any of our manufacturing."

In the last year Lanier purchased a new coat assembly plant in Mexico's Yucatan Peninsula region. Oxford Shirtings and the Oxford private label women's sportswear operations have expanded their sourcing in the Caribbean.

Mr. Blout described the company's reason for using offshore sourcing as follows,

> "Sourcing alternatives, particularly foreign production under 807 or on commission, should not be evaluated only on the basis of cost. Determinations must be made in advance regarding the overall impact of any type of foreign sourcing on the company's business interests. In many instances, Oxford found it cost-effective and good for our entire business to source apparel from abroad."

The above statements echo the comments of other apparel industry executives regarding the future of foreign sourcing. Mr. Blout also outlined the criteria used for evaluating investments in offshore production:

> "Evaluating a foreign sourcing strategy is quite complicated and requires qualified financial and legal advice. There are several factors that must be examined: the structure of the offshore entity, capitalization of the foreign corporation, repatriating earnings, currency evaluation, taxes and pricing. With all these factors to consider, plus the impact of offshore production on domestic capacity, it is obvious that any sourcing strategy must be part of a company's overall strategic plan."

Britches

Britches, based in Alexandria, Virginia, is a specialty clothing chain with 63 stores dispersed throughout Washington, D.C., Chicago, Atlanta, and other major East Coast cities. Britches has three major lines of stores: Britches for Men, Britches for Women and Britches Outdoor Stores. The first two are relatively up-scale stores, while the third carries more moderately priced items. The company uses both U.S. and foreign contractors that perform private label production for Britches.

The company has an agency in Hong Kong that oversees production throughout Asia — from Taiwan and Singapore to South Korea and India. For ten years the company has assigned the Hong Kong agent the task of contracting Asian manufacturers for Britches. The company does not contract a Thai manufacturer at present, but it sold Thai-made sweaters that it bought from a N.Y. manufacturer/

According to Mr. Jack Turner, import director, problems with international sourcing involve the quota system, rising prices in Hong Kong and quality control On the other hand, its advantages are numerous: cost reduction, continuity and overall quality.

Lands End

Lands End, based in Dodgeville, Wisconsin, is one of the largest mail order catalog apparel firms in the U.S. Its main product lines feature casual clothing and sportswear for men, women and children. Lands End has been operating for 25 years.

Vice President of Marketing, Mr. Joseph Saliani, explained that the company imports 25% of the total merchandise, half from Europe and the other half from the Orient. According to Mr.Saliani, the only reason why the company sources its products overseas is the quality and uniqueness of the imported goods, something which can not be easily achieved through domestic production. He stressed that Lands End's foreign sourcing decisions are not based entirely upon cost considerations.

The company uses two agents: Mitsubishi Trading Company for sourcing in Asia and British Isles Inc. for sourcing in Europe.

The agents find offshore manufacturers, monitor quality and handle final inspections for Lands End, which has limited contact with overseas manufacturers. Mr. Saliani stated that the company has a long-standing relationship with its agents and trusts their ability to maintain high quality standards.

The Gap, Inc.

The Gap, Inc., based in San Bruno, California, is a nation-wide casual wear retailer/producer. The Gap maintains several offshore factories, the largest of which is located in Hong Kong and has 107 employees. The company has buying offices in the Far East, Portugal, Italy, Morocco, Turkey, the Caribbean, Mexico, Columbia and other countries. Its international offices engage in fabric development.

According to Mr. Spainhour, vice-president of the import division, the most important factor in international sourcing is how attractive a package a country can offer when all the factors such as fabric, price, time, quality, and quota are combined. He stressed that the GAP will be drawn into a country with an established textile industry capable of fabric development. When asked how to find fabric to be developed, his answer was simple: seek out and see it at the market. He added that unless a substantial cost saving can be achieved, the company is not likely to change its existing manufacturing location in Hong Kong.

LL Bean

LL Bean, based in Freeport, Maine, sells products that are very characteristically American in origin. Established at the turn of the century in New England for the purpose of selling hunting clothes, Bean is one of the most successful and long-lasting catalog businesses in the U.S.

LL Bean has over 12,000 different products, and the buying is performed by many different staff buyers. Each buyer is responsible for purchasing the products that fall within his/her area of expertise. Quality and price are the two main factors influencing the company's buying decisions.

The buying strategies at LL Bean include attendance at apparel trade shows, showroom visits and meetings with sales representatives at the LL Bean headquarters. LL Bean derives 84% of its product line from U.S. firms and the other 16% is sourced from foreign suppliers. The entire buying staff is based at the headquarters in Maine and the company does not maintain any international buying offices. LL Bean conducts international sourcing by employing an agent that acts as the company's international buying office.

K-Mart

K-Mart is a major family discount store based in Troy, Michigan. According to Mr. David Green, director of imports of fashion merchandise, a division based in North Bergandie, New Jersey, a large portion of K-Mark clothes are imports. K-Mart maintains eight buying offices in Asia: Taiwan, South Korea, Japan (Osaka and Tokyo), Singapore, Hong Kong, the Philippines, and the PRC. In addition, the company has three European offices. K-Mart sometimes works with agents, but it usually deals directly with its overseas producers.

Sales representatives of apparel firms usually approach K-Mark with product ideas and innovations. K-Mart's product development staff has close relations with its manufacturers in order to monitor the style and fabric of the products.

According to Mr. Green, offshore sourcing offers several advantages: lower prices, better quality (needlework and tailoring that U.S. firms can no longer perform), improved fabrics (some of which are not available in the U.S.), and sophisticated fabrication techniques. Moreover, it also involves various drawbacks: long lead time, lack of control over quality, financial restraint (the company has to make payments 5 to 6 months in advance to overseas producers before seeing actual products and it sometimes doesn't have to pay to domestic producers until 60 days after shipping) and quota management difficulties. In the past, K-Mart has experienced quota problems with exporters that lacked the proper visas for shipping its products. Nevertheless, the interviewee stressed that the company prefers international sourcing to domestic sourcing.

Chapter IV: Trends in U.S. Domestic Production & Exports

1. U.S. Production and Exports

A. U.S. Domestic Production

Despite the growing dominance of imports in the U.S. market, U.S. apparel production enjoyed steady growth throughout the 1970s. Its growth, however, slowed down in the early 1980s. See Table IV-1-a below.

Table IV-a-a. U.S. Domestic Production

	Net U.S. Production ($Millions)
1970	$20,594
1971	$19,910
1972	$21,807
1973	$22,498
1974	$24,014
1975	$24,839
1976	$27,654
1977	$29,226
1978	$32,772
1979	$34,889
1980	$37,994
1981	$40,953
1982	$41,417
1983	$43,126
1984	$42,748
1985	$41,218
1986	$40,464
1987	$40,264

Source: MRCA Report (Market Research Corp. of America)

Net U.S. Production refers to pure domestic production obtained by subtracting the wholesale value of 807 imports from total domestic production.

Table IV-1-b and Table IV-1-c show the historical trend of U.S. production in selected garment lines in 1967 and in the period from 1970 to 1986. Of a total of 35 selected lines given in the two tables, a drastic decline or stagnation was observed in the 24 lines, with some growth in the rest of the lines. Those which enjoyed growth were:

Men's Apparel

- *Jeans
- *Knit Sports Shirts

Boys' Apparel

*Knit Sports Shirts

Men's and Boys' Underwear and Nightwear

*Knit Shorts and Briefs

Women's, Misses' and Juniors' Apparel

*Slacks

*Jeans

*Blouses

*Knit Shirts

Girls', Children's and Infants' Apparel

*Blouses

*Knit Shirts

Women's, Men's and Juniors Underwear and Nightwear

*Slips and 1/2 Slips

Table IV-1-d shows the historical trend of capital expenditures on new plants and equipment in the U.S. apparel and textile industry. According to this data, the only areas which showed major growth in capital expenditures are women's, men's and juniors' outerwear. The lack of a significant increase in capital expenditures reflects the declining state of the U.S. apparel and textile industry in general.

B. U.S. Exports

Historical Trends

Table II-1-a shows the data on the U.S. export of apparel in 1967 and the period from 1970 to 1987. Chart IVC-1-a shows the trend in graph form, based upon the data from Table II-1-a. The U.S. exported $155 million in 1970. Throughout the 1970s, its export level enjoyed steady growth and peaked at $1,032 million in 1981. Since 1981, export levels had consistently declined until 1985. In most recent years, however, U.S. exports show a sign of comeback. The 1988 export figures are estimated to exceed the peak level of 1981. Table IV-1-e gives the top 40 countries to which the U.S. exported apparel from 1985 to 1987.

1988 U.S. Exports

Much of the 30% increase demonstrated in the 1988 U.S. apparel exports was related to 807 trade i.e. products to be assembled mainly in Mexico, Central America or the Caribbean and re-imported into the U.S. However, substantial gains were also recorded in exports to other markets. Shipments increased about 27% in value to Canada, the number one destination for non-807 exports, reaching an estimated $180 million. Exports to Japan showed the sharpest gain, soaring about 75% to more than $150 million in response to declines in the value of the dollar vis-a-vis the yen and to ever-increasing demand for American-style clothing in Japan. The weaker dollar also aided U.S. apparel exports to the European Community, where an increase of more than 30% was led by larger sales to the United Kingdom, France, Italy, and West Germany.

Chart IV-1-a

U.S. Apparel Exports
1970 to 1987

Source: Office of Textiles and Apparel

Table IV-1-b.
U.S. Apparel Production in Selected Garment Lines
(Figures in millions of units)

	Men's apparel								
Year	Suits	Dress & Sport Jackets	Non-Tailored Jackets	Trousers & Slacks	Jeans & Dungarees	Dress Shirts	Woven Sport Shirts	Knit Sport Shirts	Sweaters
1967	19.5	13.2	30.8	146.0	89.2	123.4	150.6	77.3	39.9
1970	17.7	11.8	33.5	173.6	135.3	145.3	104.2	94.3	38.6
1971	16.5	14.4	32.2	183.7	148.5	145.8	103.8	120.0	42.2
1972	18.7	21.3	37.7	166.6	177.3	158.3	105.7	159.0	45.5
1973	16.7	21.3	44.2	171.1	186.7	137.8	113.4	171.2	53.1
1974	16.8	18.6	48.6	156.6	181.6	125.1	112.3	200.6	55.5
1975	13.7	11.5	47.0	118.9	163.0	95.4	113.7	182.7	39.9
1976	15.7	12.7	45.3	127.0	198.1	110.4	124.5	243.6	36.6
1977	17.3	16.6	44.5	128.8	213.3	110.7	107.8	293.4	39.4
1978	17.5	15.0	37.1	122.7	209.6	97.5	82.6	305.4	37.5
1979	16.2	15.7	41.5	125.6	231.8	95.0	84.5	291.5	33.7
1980	13.9	16.8	39.2	125.1	224.8	88.6	69.0	320.3	33.4
1981	13.9	17.1	40.9	118.2	191.9	93.5	63.5	374.3	39.3
1982	11.5	18.0	44.6	115.1	179.9	89.8	50.0	372.1	38.8
1983	10.9	19.2	37.2	113.0	183.5	86.2	39.1	365.5	36.8
1984	12.5	19.2	36.5	123.0	179.5	81.6	42.5	354.8	30.5
1985	10.8	19.6	33.5	116.5	188.3	90.6	46.8	350.4	27.6
1986	10.8	19.7	35.7	113.9	186.6	97.9	47.0	360.4	27.1

	Boys' Apparel					Men's & Boys' Underwear & Nightwear		
Year	Trousers & Slacks	Jeans & Dungarees	Woven Shirts	Knit Sports Shirts	Non-Tailored Jackets	Knit Under-Shirts	Knit Shorts & Briefs	Pajamas
1967	56.0	67.2	87.6	69.2	14.8	357.0	257.9	50.3
1970	53.5	72.9	64.6	56.4	14.5	314.5	246.3	43.5
1971	50.6	80.4	60.9	56.4	14.2	338.5	252.2	40.8
1972	46.5	89.8	67.8	88.4	14.1	397.1	323.0	45.9
1973	43.8	83.1	59.7	92.9	14.1	418.2	344.5	41.0
1974	39.7	83.1	52.4	110.7	14.9	401.6	339.7	38.7
1975	34.7	74.4	55.8	107.2	13.8	370.3	288.2	40.1
1976	33.7	89.6	59.0	132.2	13.4	388.4	377.3	37.2
1977	24.9	74.1	42.5	146.1	14.7	378.4	330.0	37.9
1978	27.5	80.9	35.0	148.1	13.7	361.6	348.4	33.5
1979	20.3	80.9	40.1	139.9	10.7	358.9	376.6	37.4
1980	17.2	107.0	34.6	152.5	9.6	293.3	338.6	32.8
1981	17.1	93.8	24.7	171.0	10.7	289.5	354.5	25.9
1982	14.9	84.5	26.6	141.7	8.9	262.8	393.4	31.0
1983	15.3	89.3	16.8	147.2	8.0	210.3	462.6	27.3
1984	12.9	75.5	12.7	135.2	6.8	254.6	427.8	28.1
1985	12.0	71.8	15.3	121.1	5.3	244.8	427.5	27.7
1986	12.4	74.9	19.8	120.2	6.7	249.3	418.1	29.1

SOURCE: Current Industrial Reports MA23a and others in the MA23 series

Table IV-1-c.

	Women's, Misses' & Juniors' Apparel								
Year	Coats	Suits	Dresses	Skirts	Slacks	Jeans	Blouses	Knit Shirts	Sweaters
1967	22.3	—	282.2	101.5	82.9	16.4	174.3	45.2	79.9
1970	21.8	28.0	251.5	83.1	84.8	28.3	159.0	47.5	63.0
1971	20.7	21.0	233.9	71.1	98.5	39.7	151.7	55.1	61.8
1972	23.7	27.9	244.7	62.7	137.7	63.3	190.5	79.0	77.6
1973	22.9	27.7	227.1	59.9	149.4	65.6	204.0	77.0	83.7
1974	20.5	30.5	190.3	52.4	156.7	66.1	206.2	88.9	75.7
1975	20.9	34.5	174.7	56.3	159.1	60.8	207.7	93.8	78.9
1976	19.7	33.6	163.0	56.1	156.6	63.4	236.7	100.3	73.6
1977	19.0	36.5	193.1	65.2	152.8	70.0	197.0	140.9	78.8
1978	18.9	32.1	189.7	69.7	149.3	52.6	307.1	132.0	71.0
1979	18.4	24.9	183.4	67.0	156.4	66.5	330.1	128.5	58.8
1980	17.0	17.6	175.7	69.3	155.8	68.5	307.0	119.4	50.8
1981	14.5	13.3	162.6	98.9	159.8	98.2	314.7	102.6	70.5
1982	12.4	13.8	171.7	105.0	169.0	87.1	344.6	146.2	72.6
1983	12.0	13.4	163.5	101.5	173.2	94.4	302.4	162.8	73.5
1984	12.2	11.4	159.0	97.5	163.2	87.3	263.9	143.3	79.3
1985	10.7	12.3	151.4	95.4	160.1	90.1	255.7	114.8	90.8
1986	10.6	10.8	135.0	97.0	132.8	92.0	246.5	104.3	75.3

	Girls', Children's & Infants' Apparel					WM & Underwear & Nightwear			
Year	Dresses	Blouses	Knit Shirts	Slacks & Jeans	Play-Clothes & Shorts	Bras	Slips & 1/2 Slips	Night wear	GC & I Nightwear
1967	104.3	26.4	79.0	104.6	113.4	252.0	135.0	120.8	87.1
1970	101.9	26.7	71.0	91.0	90.2	225.0	119.2	136.9	85.4
1971	103.0	34.8	88.1	94.0	80.7	230.0	98.7	159.6	86.8
1972	103.3	33.3	106.6	95.7	89.9	240.0	101.5	166.7	95.8
1973	96.2	30.5	18.1	95.4	87.1	225.0	89.4	160.8	90.5
1974	85.6	29.9	118.9	96.8	105.7	198.0	77.1	152.8	93.0
1975	76.8	33.6	127.2	92.3	95.6	183.9	65.1	140.6	84.9
1976	71.7	38.0	140.9	92.4	96.6	203.1	72.9	140.7	77.3
1977	72.3	42.4	139.3	92.0	115.3	205.5	77.8	157.3	85.9
1978	70.1	48.2	138.1	71.9	119.2	202.5	80.0	163.0	92.1
1979	70.2	45.4	133.0	76.5	127.7	211.9	81.8	147.6	81.9
1980	71.5	45.6	134.0	83.7	123.1	212.3	71.7	145.3	83.8
1981	70.7	45.2	134.6	90.0	120.8	212.9	66.8	154.9	85.9
1982	70.7	56.6	141.3	82.8	121.0	199.5	65.5	152.9	82.5
1983	76.5	39.4	153.5	85.7	119.0	214.6	67.7	154.9	91.9
1984	80.1	33.3	152.1	91.7	118.4	197.3	67.5	140.4	87.1
1985	72.4	33.8	157.5	87.6	113.0	195.2	60.5	128.8	83.7
1986	73.0	46.4	152.2	93.4	116.7	205.6	53.9	122.3	76.4

Table IV-1-d.
Capital Expenditures on New Plant and Equipment
(Figures in millions of dollars)

SIC Code	Industry Description	1974	1976	1978	1980	1984	1985
23	Apparel & Related Products	391	423	514	608	742	697
231	M&B Suits & Coats	28	25	26	30	38	24
232	M7B Furnishings	107	100	138	180	176	161
2321	Shirts & Nightwear	27	82	43	43	60	46
2327	Separate Trousers	29	28	27	21	30	32
2328	Work Clothing	35	26	41	87	60	55
2329	Other Clothing NEC	11	10	24	15	22	25
233	WMJ Outerwear	97	281	130	166	211	163
2331	Blouses	14	18	27	34	73	34
2335	Dresses	44	60	38	51	53	58
2337	Suits, Coats & Skirts	19	28	22	29	35	23
2339	Other Outerwear NEC	21	23	43	52	50	47
234	W&C Underwear	18	21	28	35	43	47
2341	W&C Underwear	14	15	22	29	35	35
2342	Corsets & Allied Garments	4	6	6	6	8	12
236	C&I Outerwear	14	14	14	21	22	—
2361	Dresses & Blouses	5	8	7	7	121	13
2363	Coats & Suits	1	2	1	2	—	—
2369	Other Outerwear NEC	8	4	6	12	11	13
2384	Robes & Dressing Gowns	2	2	10	6	2	2
22	Textile Mill Products	1,170	1,087	1,356	1,495	2,002	1,863
225	Knit Apparel Mills Only	78	73	104	120	348	318
2251	Women's Hosiery ex. Socks	14	13	23	28	27	36
2252	Hosiery NEC	12	15	15	22	35	31
2253	Knit Outerwear Mills	42	35	44	49	117	87
2254	Knit Underwear Mills	10	10	22	21	24	23

Source: 1985 Annual Survey of Manufacturers and Earlier Years

Table IV-1-e.
Top 40 U.S. Textile and Apparel Exports
(F.A.S. Value in thousands of dollars)

	1985	1986	19087
Canada	499,933	484,841	545,735
Mexico	301,895	347,160	423,919
Dominican Republic	156,167	208,127	251,747
Belgium and Luxembourg	96,786	148,539	157,905
Japan	108,232	134,415	197,984
United Kingdom	116,565	131,466	180,344
Italy	64,928	115,726	123,489
West Germany	84,739	109,166	108,815
Saudi Arabia	108,909	102,935	117,900
Costa Rica	81,114	102,351	119,367
Haiti	70,671	82,348	102,286
Australia	68,708	73,156	66,652
France	43,721	67,857	66,496
China	140,700	62,315	50,628
Venezuela	59,111	61,479	64,764
Jamaica	42,254	59,487	104,139
Hong Kong	140,700	62,315	62,295
South Korea	26,436	39,450	43,690
Philippines	35,483	37,150	40,507
Colombia	29,419	35,687	36,547
Panama	33,530	35,155	32,406
Taiwan	33,261	32,008	35,286
Israel	21,563	31,821	37,458
Honduras	25,631	30,960	35,639
Turkey	30,141	29,984	32,299
Kuwait	27,921	27,021	23,317
Netherlands	17,637	25,650	27,671
United Arab Emirates	31,166	25,406	24,406
Barbados	15,431	21,406	
Chile	13,474	21,130	28,520
Ireland	18,103	20,489	13,883
El Salvador	22,112	18,710	16,194
Switzerland	13,696	17,384	17,769
New Zealand	16,559	17,014	22020
Guatemala	17,191	16,763	30,960
Singapore	15,994	16,292	27,639
Leeward & Windward Isles	17,849	16,162	17,321
Sweden	12,491	15,576	23,549
Bahamas	12,990	15,339	17,555
Brazil	10,973	18,322	16,056
Other	224,558	249,271	250,434
TOTAL	8,819,821	3,156,026	3,609,650

2. U.S. Export Marketing Strategy

A. Exporting Channels

There are four major channels through which U.S. firms pursue the expansion of their presence in the international apparel market:

1) Direct Exports

The most straight-forward method is direct exporting of U.S. goods. Since U.S. apparel is usually not price-competitive in the international market, this channel is limited to those products with a recognized brand. Foreign retailers would directly import U.S. brand goods, which they consider as another avenue for business expansion.

2) Exports under Private Label Program

U.S. companies can serve as manufacturers for foreign firms under a private label program. They can produce apparel with the brand name of foreign firms attached on the products. Foreign firms are typically branded companies, either a major foreign retailer or foreign brand manufacturer. For example, Kayer-Roth, a major exporter of sports and active socks, provides private sourcing to major foreign retailers such as Horten in Europe.

3) Licensing

U.S. firms license trade-marks and provide U.S. manufacturing know-how to foreign manufacturers. In this case, there is no transport of goods involved as products are manufactured and sold in the foreign countries under the U.S. brand name. In some cases, U.S. firms have a very limited relationship with their foreign licensee; they receive royalty fees for allowing foreign firms to use their names, but have no role in fabric sourcing, production, or marketing. Licensing has been the favored strategy employed by U.S. apparel firms attempting to penetrate foreign markets. For example, in 1988, the Cherokee Group, a U.S. jeans and western look casual clothing manufacturer, reached a licensing agreement with Suzuya, one of the oldest Japanese specialty retailers. Under the agreement, Cherokee allows Suzuya to use its trademarks in its five stores. This was Cherokee's first attempt to enter the international retail market. The company plan is to extend this arrangement to Hong Kong, Singapore, Taiwan and the Philippines.

4) Joint Venture and U.S. Wholly-owned Subsidiaries

The final channel employed by U.S. firms is to engage in a joint venture with local firms or to set up wholly-owned subsidiaries in foreign countries. There are not many U.S. apparel firms which use this channel.

One example of those who do is Levi Strauss, Co., (Levis) the world's most well-known jeans manufacturer. Levis, which sells jeans in almost every country in the world, including the PRC and the Soviet Union, employs three methods: licensing, joint ventures, and wholly owned subsidiaries. No matter where fabric is sourced or where production is done, all products are manufactured according to Levis' material and product quality specifications.

Levis chooses a market entry method based upon costs, regulations and the political situation of each country. In most of the European countries, Levis has wholly-owned subsidiaries, while it tends to employ the licensing method in Asia. Levis' products sold in any countries bear the Levis label. The only exception to this is in Brazil, where trade regulations allow only wholly-Brazilian apparel products. In Brazil, Levis thus maintains a subsidiary which sells jeans without the Levis name. The vice-president of marketing of Levis commented that the company does not want to establish a licensing arrangement in India because the country has a reputation of having copyright problems.

B. Exporting U.S. Products via Offshore Production Sites

No single case was identified in which U.S. firms export their products manufactured in offshore producing countries to a third country. An apparel marketing consultant explained that U.S. firms have established global sourcing structures. However, they have not prepared for global marketing, which requires a comprehensive strategy to incorporate political, regulatory, technological, financial and logistical considerations.

3. U.S. Product Development (domestic vs. export market)

On the whole, U.S. apparel manufacturers do not develop products specifically tailored for foreign markets. Instead, they try to sell their so-called "American image" and it appears that little product development based upon local need is done by U.S. firms. For example, Levis' flagship product, 501 button fly jeans, are sold world-wide. However, the company makes adjustment for sizing requirements for local consumers. It appears that major U.S. exporters such as Osh-Kosh (Children's clothing maker), Fruit of the Loom (underwear) and Jockey International (underwear) are all selling the same products overseas as they are domestically.

Chapter V: Protectionist Policies of the U.S. Textile Industry

1. U.S. Trade Policy

Ever since it negotiated a bilateral agreement with Japan to control the trade of cotton products in 1957, the U.S. has adopted a protectionist policy in apparel trade. U.S. import restriction has been implemented under both the Multi-Fiber Arrangement (MFA) and bilateral agreements with individual exporting countries.

First implemented in 1972, the MFA governs international trade in textiles and apparel. Furthermore, apparel trading countries have signed a series of multilateral agreements under the broader auspices of the General Agreement on Tariffs and Trade (GATT).

The stated purpose of the MFA is to balance the interests of the developed and developing countries. It aims to facilitate the economic and social development of developing countries and to prevent the disruptive effect of low-cost imports in developed countries. The MFA, in trying to reconcile two opposing interests, allows its signatories to resolve certain disputes on a bilateral basis.

A new Protocol of Extension, signed on July 31, 1986, has renewed the MFA until July 31, 1991. The new protocol contains several important provisions:

It expands product coverage from cotton, wool and man-made fibers to all negotiable fibers and silk blends (linen and ramie);

It allows the U.S. to unilaterally control imports for two successive years instead of just one year;

It broadens the definition of "circumvention" to include both transshipments and false declaration;

It tightens cooperation requirements to detect and prove circumvention.

Within the context of the MFA, the U.S. has negotiated bilateral restraint agreements with 26 countries. The U.S. also has bilateral agreements with 14 MFA non-signatories. (See Table V-1-a for the list of the countries and expiration dates.) These agreements controlled 57% of U.S. textile and apparel imports in 1986. Some of these agreements set an "aggregate" ceiling on total textile and apparel exports, or on total cotton, wool, or man-made fiber textile and apparel exports. Other ceilings may be set for groups of products or specific categories of sensitive products. These are called "specific limits." Between 70% and 80% of apparel exports from the Big Four countries are subject to specific limits. Bilateral agreements are usually valid for a period of three to four years.

The import level is established for a 12 month period, and a different quota level is set every year.

Article 3 of the MFA allows an importing country to unilaterally control imports from countries with which it does not have bilateral agreements.

Table V-1-a. MFA Signatories with which the U.S. has Bilateral Agreements (as of December 21, 1987)

A. With Specific Restraints:	Expiration Date
*Bangladesh	01-31-89
*Brazil	03-31-88
*China	12-31-87
*Czechoslovakia	05-31-89
*Hong Kong	12-31-91
*Hungary	12-31-91
*India	12-31-91
*Indonesia	06-30-88
*Jamaica	12-31-89
*Japan	12-31-89
*Korea	12-31-89
*Malaysia	12-31-91
*Mexico	12-31-88
*Pakistan	12-31-91
*Peru	04-30-89
*Poland	12-31-89
*Philippines	12-31-91
*Rumania (Cotton)	12-31-87
*Rumania (Wool and Man-Made Fiber)	12-31-89
*Singapore	12-31-90
*Sri Lanka	05-31-88
*Thailand	12-31-88
*Turkey	06-30-88
*Uruguay	06-30-91
*Yugoslavia	12-31-89

MFA Non-Signatories with which the U.S. has Bilateral Agreements

A. With Specific Restraints:	
Bulgaria	04-30-89
Burma	12-31-90
Costa Rica	12-31-87
Dominican Republic	05-31-88
East Germany	12-31-89
El Salvador	12-31-89
Guatemala	12-31-88
Haiti	12-31-89
Maldives	09-28-88
Mauritius	09-30-90
Nepal	12-31-90
Panama	03-31-90
Taiwan	12-31-89
Trinidad & Tobago	12-31-89

Negotiated but not Signed (MOU):
*Egypt
*Country has signed 1986 MFA Protocol of Extension

Table V-1-a. (Continued) MFA Membership (10 November 1987)

Country	MFA I	MFA II	MFA III	MFA IV	
				STR	Final
Argentina	26 Mar. 74NR	22 Oct. 80	27 April 82STR*		5 May
Australia	9 Apr. 74				
Austria	22 Aug. 74	23 Jun. 76	24 Aug. 52	4/14/87	4 Sep
Bangladesh	3 Dec. 76	7 Apr. 78	16 Sep. 82		5 Jan.
Bolivia		26 Jul. 76STR*			
Brazil	5 Dec. 74	26 Sep. 79	9 Feb. 82STR*	9/30/86	
Canada	14 Mar. 74	24 Oct. 78	12 Jul. 82		11 Nov.
China			18 Jan. 84		30 Apr.
Colombia	7 Feb. 77	23 Dec. 77	27 Apr. 82		18 Nov.
Czechoslovakia.		1 Jul. 80	30 Sep. 82		12 Jan.
Dom. Rep.		14 Mar. 79	9 Feb. 84		
EEC	25 Mar. 74	29 Dec. 77	15 Mar. 82		2 Dec.
Egypt	6 Jan. 76	1 Sep. 80	22 Feb. 82STR*		10 Apr.
El Salvador	22 Nov. 74	21 Mar. 79	2 Jul. 82STR*		
Finland	19 Jul 74	16 May. 78	23 Aug. 82	9/17/86	11 Feb.
Ghana	5 Jun. 74	8 May. 78			
Guatemala	19 May 76	30 Oct.. 79	6 Oct. 82		
Haiti	24 Jul. 74	5 May. 76	9 Aug. 83		
Hong Kong	25 Feb. 74	30 Dec. 77	21 Jan. 82		8 Sep.
Hungary	26 May 74	6 May. 76	10 Feb. 82		26 Nov.
India	20 May 74	30 Dec. 77	31 Dec. 81		5 Dec.
Indonesia		5 May 78	19 May. 82		30 Sep.
Israel	14 May 74	22 Feb. 78	16 Sep. 82		
Jamaica	17 Sep. 75	10 Feb. 76	22 Jun 82		26 Feb.
Japan	15 Mar. 74	27 Dec. 77	25 Dec. 81		2 Sep
Korea	18 Mar. 74	16 Feb. 76	12 Mar. 82		9 Oct.
Macao	1 Dec. 75	16 Nov. 78	9 Jun. 82		28 Jan.
Malaysia	1 May 74	19 Feb. 79	28 Apr. 82		29 Oct.
Maldives			19 Apr. 83		
Mexico	11 Jul 75	30 Dec. 77	4 Mar. 82		25 Aug.
Nicaragua	30 Jul. 74				
Norway	28 Feb. 74		1 Jul. 84		27 Oct.
Pakistan	5 Mar. 74	25 Jan. 78	29 Dec. 81		27 Oct.
Panama			15 Jan. 85		
Paraguay	17 May 76NR*				
Peru	7 Nov. 77	9 Mar. 76	5 Jan. 83		1 Dec.
Philippines	12 Aug. 74	21 Feb. 76	16 Feb. 82		29 Dec.
Poland	17 Dec. 74	6 Feb. 78	10 Mar. 82		3 Mar.
Rumania	22 Jan. 75	6 Jan. 76	12 Jul. 82		16 Apr.
Singapore	31 Mar. 74	5 Jan. 78	20 Apr. 82		14 Nov.
Spain	27 Feb. 76				
Sri Lanka	17 Jan 74	4 Jan. 76	29 Dec. 81		8 Aug.
Switzerland	10 Oct. 74	25 Oct. 78	8 Nov. 82	1/22/87	21 Jul.
Thailand	4 Feb. 76	21 Dec. 77	15 Apr. 82		16 Oct.
Trinidad & T	10 Dec. 75	13 Apr. 78	5 Apr. 82		16 Oct.
Turkey	27 Feb. 75	13 Apr. 78	5 Apr. 82	11/19/86	
United States	2 Jan. 74	29 Dec. 77	29 Dec. 81		5 Aug.
Uruguay	11 May 76	20 Apr. 76	13 Jun. 83		8 Sep.
Yugoslavia	3 Feb. 75	22 Mar. 78	26 Sep. 83	2/23/87	4 Jun.
Total	43(-2)	42	43		

*STR = Subject to Retaliation
*NR = not ratified (no actual membership)

2. Administration of U.S. Trade Policy

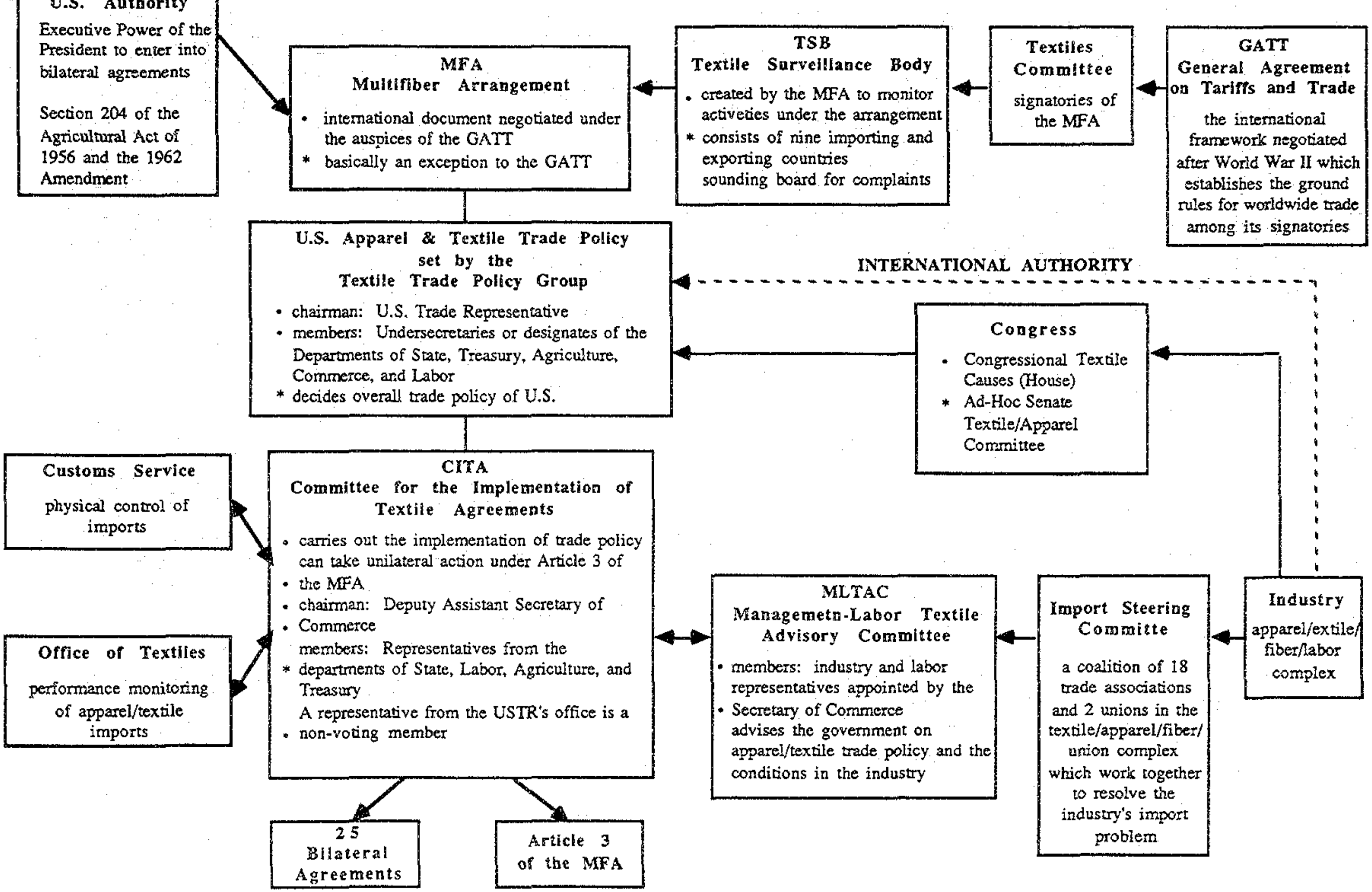
There are many players involved in U.S. apparel trade policy. The Textile Trade Policy Group, chaired by the U.S. Trade Representative (USTR), is the body that determines the overall apparel and textile trade policy of the United States. The other members include undersecretaries from the Departments of State, Treasury, Agriculture, Commerce and Labor. The chief textile negotiator, who is responsible for negotiating bilateral agreements, works directly with the USTR.

The implementation of trade policy is carried out by the Committee for Implementation of Trade Agreement (CITA). The Deputy Assistant Secretary of Commerce is the chairman of this committee. CITA oversees implementation of bilateral agreements and can also take unilateral action under Article 3 of the MFA.

The U.S. Customs Service handles the physical control of imports. It is Customs that controls the entry of apparel and textile products under the program. The Office of Textiles in the Department of Commerce monitors trade under all bilateral agreements and maintains performance reports called "Major Shipper's Reports" that quantify imports of each controlled category.

The industry, which is composed of apparel textiles manufacturers, fiber producers and the labor unions, acts as a united entity in presenting its position on the implementation of trade policy. The industry has formed an Import Steering Committee which consists of the representatives of 18 trade associations and two unions. See Chart V-2-a for the dynamics of apparel trade policy decision making in the U.S.

Chart V-2-a


U.S. Authority
Executive Power of the President to enter into bilateral agreements
Section 204 of the Agricultural Act of 1956 and the 1962 Amendment
MFA
Multifiber Arrangement
• international document negotiated under the auspices of the GATT
* basically an exception to the GATT
TSB
Textile Surveillance Body
• created by the MFA to monitor activeties under the arrangement
* consists of nine importing and exporting countries
sounding board for complaints
Textiles Committee
signatories of the MFA
GATT
General Agreement on Tariffs and Trade
the international framework negotiated after World War II which establishes the ground rules for worldwide trade among its signatories
U.S. Apparel & Textile Trade Policy set by the Textile Trade Policy Group
• chairman: U.S. Trade Representative
• members: Undersecretaries or designates of the Departments of State, Treasury, Agriculture, Commerce, and Labor
* decides overall trade policy of U.S.
INTERNATIONAL AUTHORITY
Congress
• Congressional Textile Causes (House)
* Ad-Hoc Senate Textile/Apparel Committee
Customs Service
physical control of imports
Office of Textiles
performance monitoring of apparel/textile imports
CITA
Committee for the Implementation of Textile Agreements
• carries out the implementation of trade policy can take unilateral action under Article 3 of
• the MFA
• chairman: Deputy Assistant Secretary of
• Commerce
members: Representatives from the
* departments of State, Labor, Agriculture, and Treasury
A representative from the USTR's office is a
• non-voting member
MLTAC
Managemetn-Labor Textile Advisory Committee
• members: industry and labor representatives appointed by the
• Secretary of Commerce
advises the government on apparel/textile trade policy and the conditions in the industry
Import Steering Committe
a coalition of 18 trade associations and 2 unions in the textile/apparel/fiber/union complex which work together to resolve the industry's import problem
Industry
apparel/extile/fiber/labor complex
25 Bilateral Agreements
Article 3 of the MFA

3. U.S. Quota Apparel Imports from Thailand

In 1984 and 1985, Thailand overshipped its apparel products to the U.S., exceeding the level under the 1983 bilateral agreement by 500% to 600%. Thailand had to reduce the level of apparel exports to the U.S. over the subsequent three years in order to compensate for the overshipment. Consequently, its 1988 import level declined to one-half of its peak level of 1985. (See Imports from Thailand in Chapter II.)

Meanwhile, the 1983 bilateral agreement expired in December 1988 and a new accord has not yet been signed. According to an apparel trade consultant in Washington, D.C., the 1983 bilateral agreement was extremely unfavorable to Thailand. Moreover, the 1984/1985 overshipment occurred because both the U.S. and Thailand misinterpreted and mismanaged the agreement. For the last three years, nevertheless, Thailand has suffered the consequences. Now that the 1983 agreement has expired, Thailand is in a position to negotiate a more advantageous deal with the U.S.

Article 3 of the MFA allows major importing countries such as the U.S. to negotiate a ceiling with importing countries with which the U.S. does not have bilateral agreements. Since the U.S. has not concluded an agreement with Thailand, it has issued several requests to consult with the Thai government. Thus, tough negotiations are being conducted over the new bilateral agreement between the U.S. and Thai governments.

U.S. negotiators want to maintain a conservative level of Thai imports. From the Thai perspective, however, it is imperative that the new agreement grant a higher level, especially in light of the liberal levels that the U.S. has negotiated with other countries such as Indonesia, Sri Lanka, Bangladesh and Costa Rica. Since it faces intense competition from these countries, Thailand feels that it is being subject to discriminatory quota levels that do not reflect its production capacity.

Representatives of both governments are vigorously negotiating over mutually acceptable quota levels and they are hoping to reach a new agreement by the end of 1989. The interests of both countries would be served by a prompt agreement. While the U.S. does not welcome uncontrolled imports, the Thai industry suffers from uncertainties that discourage U.S. firms from buying Thai products.

In the absence of a bilateral agreement, Thailand could legally ship a large volume of textiles to the United States as long as the shipments do not violate the MFA. However, Thailand is practicing self-restraint in its exportation of apparel to the U.S. According to an apparel quota consultant, the government of Thailand is voluntarily restraining its shipment level in order to prepare for the new bilateral agreement.

4. Quota Management

It is essential that Thailand establish a well-organized quota system. In the past, there were incidents in which importing countries tried to circumvent the rules of the quota system. Some countries attempted to transship their products to the U.S. via third countries. For example, a South Korean exporter claimed that his products had originated in Japan, which usually does not use its entire quota allocation. The exporter then tried to ship them through Canada, a country with which the U.S. maintains relatively open trade relations.

In other instances, exporters falsely label the products so that the products fall under categories for which quota levels are not filled. For example, once the quota for ladies' blouses is filled, the exporter may try to ship them under the baby wear category. Also, some exporters attempt to put a higher price value than the actual value in order to get higher profit margins. This happens because exporters prefer to ship higher unit value items within the quota limit. A Department of Commerce official indicated that these exporters tried to declare higher values without even having the capability to manufacture or sell such high-priced items.

Another example of quota circumvention is the attachment of false visas/tickets to the products. In 1987, nearly 1,000 counterfeit visas were issued from the PRC. The false visas, which translated into nearly $20 million of apparel from PRC, cost U.S. importers millions of dollars and left them with misgivings about doing business with the PRC. For example, Sears, Roebuck & Co.'s $84,000 shipment of girls' corduroy jackets was delayed for three months as customs tried to verify its PRC-originated visas. Eventually, Sears confirmed the legitimacy of the visa by having a telex sent from the Chinese province in which the visa originated. Mr. Subash Agarwal, Sears' director of customs and import procedures, commented, "It cost us a lot in storage... and we didn't sell those goods at the profit we'd projected." Unfortunately, these isolated incidents have created an atmosphere of doubt and mistrust among various trading nations.

In apparel trade, the importance of a well-managed system of quota compliance can not be overestimated. A Washington, D.C.-based consulting firm that specializes in U.S. apparel quotas explained the significance of the quota in apparel trade:

> "Hong Kong is an extremely busy, bustling city. The only time the city becomes quiet is 3:00 in the morning. At 3:00 in the morning, the city falls into a complete silence. Then, if someone whispered a word, "quota," the entire city would go crazy, and everyone would start talking about what's happening to the quota.

Though this tale may be somewhat exaggerated, the point is well expressed. The quota is the key to apparel trade for Asian countries. The governments of exporting countries issue so-called "visas" to each exporter. The visa is sometimes called a "ticket" since it is literally a ticket for exportation. Without the ticket, a firm cannot export apparel products. The number of tickets that the government can issue is limited according to the quota level assigned to that country. Therefore, it is important for U.S. apparel firms to know which countries have tickets for which products and how many they have.

The governments of exporting countries stamp the visa on a commercial paper attached to the shipment. At U.S. customs, officials check the validity of the attached visa.

Hong Kong has successfully built the reputation of having the most advanced and professionally-monitored quota system in the world. In Hong Kong, according to an informed source, there is a "quota price," which is the value attached to the ownership of the ticket/visa. The Hong Kong quota system is so sophisticated that the quota price reflects market demand in the U.S. In other words, the quota price goes up and down, depending upon which product is selling well in the U.S. market. If demand for a certain product is up, the price of the ticket/visa for that product rises accordingly.

Since the system is so organized in Hong Kong, offshore production there is more expensive than in other countries. The quota price is already incorporated into the final product cost as premium charge. A U.S. firm has two options. First, it can choose Hong Kong for its offshore sourcing. If it chooses this option, it could insure that the products will clear U.S. customs. Also, delivery time would be short on account of Hong Kong's efficient port and transportation facilities. However, it would be more expensive. Second, the U.S. firm can choose such countries as Indonesia. This alternative involves longer shipping times and potential problems with quota management, but it would be cheaper.

While Hong Kong offers an efficient quota system, the quota rules in other Asian countries are less structured and more informal. It is rumored that there are backdoor dealings over the quota tickets in some countries. U.S. firms are aware of the importance of the quota system and sensitive about how it is managed. As a result, it is essential that Thailand establish a highly regimented quota system.

Chapter VI: U.S. Garment Regulations

1. Quality & Safety Standards

There are two main agencies within the U.S. government which are assigned the task of formulating and enforcing regulations with regard to apparel quality and safety standards. These two agencies are the Consumer Product Safety Commission and the Federal Trade Commission.

A. The Consumer Product Safety Commission

The Consumer Product Safety Commission (CPSC) is an independent federal regulatory agency that was established by the Consumer Product Safety Act. The purpose of the CPSC is the protection of the American public against injury from consumer products. The CPSC evaluates the comparative safety of consumer products, develops uniform safety standards and conducts research and investigation into the cause of consumer product related injuries. With regard to consumer safety from potentially dangerous textiles and apparel, the CPSC, along with the Federal Trade Commission, has responsibility for implementing provisions of the Flammable Fabric Act.

This act prohibits the transportation or sale of apparel and fabrics which are flammable enough to be dangerous when worn by the consumer.

Sec. 9 of the Flammable Fabric Act specifies that any party who has exported or attempted to export apparel, from any foreign country, that was deemed dangerously flammable may be banned from participating in the exporting of any apparel.

The full text of the Flammable Fabrics Act, covering prohibited transactions, flammability standards, testing methods, shipments from foreign countries, administration and enforcement, is given in Appendix VI-1-a.

B. The Federal Trade Commission

Principal functions of the Federal Trade Commission (FTC) include safeguarding the public from deceptive trade or business practices such as false advertising or the mislabeling of products. Within the scope of its activities the FTC reviews complaints by consumer or industry plaintiffs challenging alleged unfair or deceptive trade practices. The FTC investigates complaints, and if necessary, the FTC can issue a formal complaint for hearing by an administrative law judge. Individual cases are often ended by informal settlement and the acceptance of a consent order to cease the challenged business practice.

The FTC is authorized to promulgate and issue trade regulations. The specific procedures for drafting regulations involves the participation of any interested parties including oral hearings and comments.

To protect the American consumer against improperly produced apparel, the U.S. government requires strict labeling of apparel products. The FTC is the chief agency involved in the enforcement of labeling regulations. The various acts, enforced by the FTC through its Bureau of Textiles and Furs, are:

* The Wool Products Labeling Act.
* The Fur Products Labeling Act
* The Textile Fiber Products Identification Act (including country of origin)
* The Flammable Products Act

Another key area of responsibility for the FTC is the administration of the Textile Products Indemnification Act. This set of regulations is of importance to foreign exporters because the Identification Act requires the disclosure of country of origin on labels. This became effective May 17, 1985. The regulations state that all textile and apparel including fur products sold in the U.S. must carry labels identifying their country of origin.

Rule 33 of the Identification Act includes the following points:

(1) Each imported product must be labeled with the name of the country where it was processed or manufactured, e.g., "Made in (foreign country)."

(2) Each product made in the United States from U.S.-made materials must be labeled "Made in the U.S. A"

(3) Each product made in the United States but not totally from U.S.-made materials must be labeled accordingly, e.g., "Made in U.S.A. of imported fabric."

(4) Each product made partially in the U.S. and partially in a foreign country must be labeled to disclose the manufacturing process for each country, e.g., "Made in (foreign country) finished in U.S.A."

Rule 34 rule states that mail order catalogues advertising textiles must include the country of origin information in the description of each item. Such descriptions must state whether an item was imported or made in the U.S., or whether it is a combination of domestic and foreign-made materials.

2. Tariff Schedules (Changes under the Harmonized System)

Three major changes took place when U.S. tariff schedules changed from the old system called Tariff Schedules of United States (TSUS) to the new system termed Harmonized Tariff System (HTS), effective January 1, 1989.

First, under the HTS, both textile and apparel are classified on the basis of so-called "chief weight" of contents of a product, as opposed to "chief value" used under the TSUS. For example, a sweater comprising 75% polyester and 25% wool is now classified as a man-made fiber product, while under the old system, it was classified as a wool product since even at 25% content level, wool had the higher value than polyester. This shift was implemented primarily because the "chief value" system is subject to change due to the fluctuation of exchange rates, while the "chief weight" system is stable due to the constant nature of the weight factor.

Tariff rates are assigned based on the type of fiber used in an apparel product. Generally, tariffs for man-made fiber and wool products tend to be high, while that for cotton and vegetable fiber products including linen and ramie tend to be low. Tariffs for silk products are lowest. Some apparel products, the classification of which has changed under the HTS, now have a higher or lower tariff rate imposed on them than they had under TSUS. For example, a man's tie, made of 13% silk and 87% man-made fiber, used to be classified as a silk product because silk was a dominant component under the "chief value" system. Consequently, the tie could take advantage of the low tariff rate as a silk product. However, under "the chief weight" system, the tie is no longer categorized as silk, but as a man-made fiber product. Under the HTS, higher duties are imposed on the tie than before.

The second important change is that the HTS system stopped categorizing apparel products based on whether they are ornamented or non-ornamented. Ornamentation in apparel includes the use of embroidery, applique, or emblems for decoration and adornment purposes rather than functional purposes. Tariffs on ornamented products were substantially higher than that on non-ornamented. For example, alligator shirts used to be imported to the U.S. without an alligator mark on the shirts so that they could be classified as non-ornamented and enjoy a lower tariff. Under the old system, more than 80% of the apparel products were shipped as non-ornamented products. In order to mitigate a major disagreement between U.S. customs and foreign exporters over how to determine whether a garment is ornamented or non-ornamented, the HTS eliminated this classification. The third major change is that under the HTS, a new category is created for infant and baby clothes. Under the old system, baby clothes are incorporated into women's clothes. Under the HTS, there are thus five new groups: men's, boys', women's, girls' and children's. Major baby clothes exporting countries, such as the Philippines, would be affected greatly by this change.

The product classification changes associated with the HTS led to a phenomenon called "trade migration" or "product migration." Certain products have migrated from one category to another category under the HTS. When the U.S. government negotiates with foreign governments over bilateral agreements, it is taking into account this trade migration, increasing the quota level for certain products while decreasing it for other products.

The HTS was implemented on the basis of the "duty neutral" principle, which meant that the HTS should not cause an overall increase in the tariff level. However, in actuality, under the HTS, some products end up with a higher tariff than before, while others with a lower tariff.

Chapter VII: Recommendations

In order to increase its presence in the U.S. market, the Thai apparel industry may consider the factors which are described below.

Bilateral Agreement

It is important for Thailand to reach a bilateral agreement with the U.S. on quota levels as soon as possible. The absence of a bilateral agreement means that there is not an officially established quota level. As a result, U.S. buyers fear that Thai goods may not clear U.S. Customs and thus are reluctant to contract Thai companies. Although Thailand is currently practicing self-restraint with regard to its export volumes, a voluntary restraint practice is not an advisable long-term policy for Thailand. It must resolve the quota issue in an official forum. The U.S. government has been pressuring Thailand by issuing unilateral control requests since January 1989. Although it is essential to attain an improved quota level under the new agreement, a stable, bilaterally-recognized accord would boost the credibility of Thai apparel manufacturers.

Quota System Management

U.S. companies may have several Asian countries to choose from as their offshore sourcing options. One of the most important considerations in selecting a country is the quota management system. Over the past few years, there has been an increasing number of quota fraud cases that have raised the awareness of U.S. importers about the importance of choosing trade partners. For example, in 1987, $20 million in merchandise was impounded by U.S. Customs due to counterfeit visas from the PRC, and U.S. companies suffered tremendous losses. This incident left U.S. importers wary of doing business with the PRC in the future. In addition, trans-shipment and fraudulent labelling would damage the reputation of the country. It is essential that Thailand maintain a well-managed quota system and earn its reputation as a problem-free quota operation.

Copyright Compliance

It is also critical to establish solid copyright management, especially since Thailand is making important advances in the international business arena. U.S. brand companies are particularly sensitive about trademark issues and are reluctant to conduct business with companies that do not respect intellectual property rights. For example, the international director of Levi Strauss Co. commented that the company does not wish to explore opportunities in India on account of its copyright problem. Like India, if Thailand did not comply with internationally accepted rules, the country may become isolated.

Trade Regulations

Thailand may need to relax its internal trade regulations to attract foreign companies to the Thai market. For example, the import apparel director of K-Mart explained that in the past K-Mart was trying to manufacture apparel under a private label program in Thailand. However, domestic regulations prohibited the entry of K-Mart's fabric into the country. Although this restriction was created to protect the Thai domestic textile and apparel industries, this type of restriction may have a negative long-term effect upon the vitality of domestic industry.

Fabric Development

To enhance its competitiveness in international markets, Thailand may need to promote both its textile and apparel manufacturing industries. As an international sourcing manager of the GAP indicates, U.S. manufacturers are drawn to countries that discover innovative ways of producing fabric and apparel. Thailand could bolster its international appeal if it could offer the joint capabilities of fabric production and apparel manufacturing instead of specializing in one area alone.

Needlemanship

Asian countries other than the Big Four, the Caribbean nations and other countries such as Turkey and Morocco are all making strides in the U.S. apparel market. The competition is expected to further intensify among non-major exporting countries. In this highly competitive business environment, how can Thailand successfully increase its apparel exports to the U.S.? This question invariably seems to get the same response: improve quality. After all, a reputation for quality apparel attracts foreign sources. The quality factor is particularly important in light of the recent trend among U.S. firms toward relocating production facilities in the domestic market. In order to lure U.S. firms to its market, Thailand may need to continue to emphasize its unique, dependable craftsmanship and needlemanship. A strong reputation for quality work can be built on this basis.

Specialization and Diversification

In order to meet intensifying competition, Thailand may need to establish a reputation for quality by specializing in one line of apparel products. For example, India is renowned for its Madras cotton. Since Thailand already has an excellent reputation for silk, it should focus its efforts on the production of quality, affordable silk apparel products. While pursuing specialization, Thai manufacturers may also explore the possibilities of diversifying their production capabilities. Thailand should be able to cater to different markets around the world and to produce apparel and accessories such as bright-colored casuals, active sportswear, coordinates, leisure daywear, swimwear, classic suits, evening ensembles, underwear and lingerie, fur and leather apparel and top designer-labelled collections. Through product diversification, Thailand can gain valuable experience in using a wide variety of textile fibers, yarns and fabrics.

Package Deals

Although the cost factor remains one of the chief considerations for U.S. firms choosing their offshore manufacturers, other factors have become increasingly important. Thailand should continue to strive for an improved package that it can offer to U.S. retailers as an offshore sourcing alternative. The package may feature such assets as short lead time, excellent quality, a problem-free quota arrangement, great fabric sourcing, and, finally, reasonable cost. By presenting a well-balanced, comprehensive package, Thailand will heighten its appeal to U.S. firms.

Dependability

Thailand must continue to strive to build a solid reputation as a reliable supply country. International buyers would come to trust Thai providers as orders would be delivered on schedule and quality would meet retailer specifications. Although a reputation as a reliable supply country cannot be built instantly, Thailand can earn the confidence of the international business community by showcasing its abundant raw materials and its motivated, well-educated labor force.

Trade Show Participation

As apparel trade shows continue to be the most popular means of wholesale apparel promotion, Thai manufacturers should establish a greater presence at such events. Thai makers should take advantage of any opportunity to expose their products to potential U.S. customers. Thai apparel firms can derive various benefits from attending trade shows. First, they can market their products and generate business. Second, they can make important business contacts. Third, they can study current fashion trends. In addition to the constant efforts of garment manufacturers, the encouragement of trade organizations and government sponsorship can help Thai manufacturers participate in major international fairs and exhibitions.

Private Label Program

Since the trend toward private label production is expected to continue, Thai manufacturers may want to aggressively seek business opportunities in this area. Thai apparel makers may explore opportunities with three groups of U.S. companies:

(1) Retailers (family store chains, department stores, and specialty retail chains),
(2) Mail order catalog houses, and
(3) Manufacturers.

The above companies, which contract private label production, are always eager to find reliable international manufacturers, and they are likely to give large volume commission work. By establishing links with these U.S. clients, the Thai apparel industry could easily expand its market presence in the U.S.

Buying Offices in Bangkok

The best way to get exposure is to encourage U.S. firms to set up buying offices in Bangkok. JC Penney has recently opened an office in Bangkok, which indicates that it is seriously considering Thailand as an offshore sourcing location. Most of the major U.S. firms currently have buying offices in Hong Kong. In order to promote U.S. buying offices in Bangkok, Thailand may want to provide potential U.S. firms with attractive incentives, such as tax-free zones and rent discounts.

Upper-Scale U.S. Buyers

Thailand should eventually transform itself from a competitively-priced, large-scale garment producer into an upper-market exporter of quality clothing. One of the principal steps toward this transformation involves gradually up-scaling its clientele. Family retail stores such as JC Penney and Sears as well as mail catalog houses have already begun considering Thailand as one of their sourcing options. Thailand, however, may want to eventually cater to the upper-scale customers such as established department stores like Bloomingdale's, Lord and Taylor and Saks Fifth Avenue. While the quality requirements for such designers and brand name collections would be stringent, profitability would be high. Moving up-scale will become particularly important if the quota restriction tightens. If the restrictive quota prohibits growth in export volumes, Thailand must move toward higher per-unit-value items.

Sales Pitch to Agents

Thai apparel manufacturers should identify agents for U.S. firms and maintain close contacts with the agents who may contract them for manufacturing. Many U.S. brand name companies do not have direct contact with offshore manufacturers and allow agents to handle all liaison work with foreign manufacturers. If agents cover the Asian region, they usually have offices in Hong Kong or Tokyo. The agents in Hong Kong and Tokyo routinely search for fabric makers and manufacturers throughout Asia. Therefore, Thai manufactures need to approach Asian agents and promote their production capabilities for contracting work.

Direct Exports

In addition to performing commission work for U.S. firms, Thai manufacturers may also want to aspire to export their products directly to U.S. retailers. For various reasons, however, this strategy could be more difficult than commission work. First, direct exportation requires direct contact with U.S. retailers. It takes a long time to build such a relationship. Second, direct exportation entails a costly financial commitment. Thai manufacturers have to invent designs and make samples. Their sales representatives then have to visit U.S. offices in order to sell their merchandise. Once U.S. firms are interested in their merchandise, the logistical details of the deal must be negotiated. Also, Thai manufactures have to administer all the paperwork involved in the exportation of merchandise. Finally, Thai manufacturers have to keep abreast of all U.S. regulations relevant to apparel importation to the U.S. Although it may be demanding, direct exporting should be encouraged because it would be much more profitable than commission work.

Design Capability

Thailand may need to continue to improve its design capability, which will help to attract more international buyers and contribute to the vitality of the industry. For example, a pool of talented young fashion designers has emerged in Hong Kong over the last several years. These designers now sell their collections in major chain department stores and specialty boutiques around the world. They also sell their fashions on the domestic market.

Thai manufacturers' efforts to cultivate brand-name products should also be encouraged. However, Thai makers should be aware that brand development can be a long-term investment and that it requires more than just manufacturing. For example, James Tien, deputy managing director of Manhattan Garments, a Hong Kong jeans maker that sells almost exclusively to U.S. retailers, contributed the following insight into the difficulties of "branding":

> "Many Hong Kong producers are moving into branding, but not all have been successful... I am primarily a manufacturer, not a wholesaler, and I don't want to have to go into the 'showbiz' side of the garment trade with expensive brand promotion — my company's strength is in making jeans."

Although it may be a daunting challenge, Thai manufacturers may want to actively pursue brand-name development. If they follow this course, Thai companies can manufacture their own brand-name products instead of making apparel for U.S. brand-name companies. This would bolster the autonomy and status of the Thai apparel industry on the world apparel scene. Eventually, Thai manufacturers could emulate the business strategy of the Italian company Benneton by opening their own retail outlets throughout the U.S. Such an arrangement would allow Thai concerns to control not only production, but also the marketing, distribution and retailing of their own products.

Bangkok: The Next Hong Kong

Finally, Thailand may need to attempt to take the place of Hong Kong as the Asian apparel center after 1997. Hong Kong's garment industry, with 300,000 employees working for 10,000 manufacturers, accounts for 34% of the country's total apparel exports. In the past decade, Hong Kong has emerged as one of the major fashion centers of the world and has successfully sustained a competitive edge over other suppliers in the region. However, in less than a decade, the PRC will regain possession of the colony. Currently, there are few signs of a mass exodus of capital from Hong Kong. Investment remains high and most business people publicly profess that the business environment will not deteriorate when the PRC assumes control. Regardless of any post-1997 change, Bangkok should aspire to become one of the Asian apparel centers. However, the attainment of this goal depends in large part upon the nation's ability to modernize its infrastructure.

THE GARMENT MARKET IN THE UNITED KINGDOM

CONTENTS

1. Introduction

1.1 Objectives and Background

This survey was carried out by P-E Inbucon Limited for the Japan External Trade Organization (JETRO) and is related to other studies undertaken to promote and assist Thailand in the development of export markets.

The objective of the project was to determine, by means of a market research program, which sectors of the U.K. market have potential for garments manufactured in Thailand. It is one of a series of reports which cover the subject in a number of different countries.

1.2 Methodology

The market research was carried out through a combination of desk research and interviews. A list of respondents is included in Appendix A.

The interviews covered retailers, distributors and trade sources. We determined early in the research program that small and medium-size retailers are seldom involved in country-sourcing decisions. Instead they buy from importers and wholesalers who themselves have direct relations with foreign manufacturers. Therefore, a number of wholesalers and importers were included in the program to ensure that the buying policies of the small and medium retailers were covered.

The project was managed by Fiona Bolus and the P-E Inbucon team included Joanne Bedford, Frances Bovill and Ros Bradshaw as research executives.

2. Summary and Recommendations

2.1 Summary

The results of the survey show that there are opportunities for Thai manufactured goods in the U.K. garment and textile market. The U.K. market for textile garments is growing and imports are growing faster than domestic production.

U.K. buyers are very flexible in their sourcing policies and they will select the manufacturer (and thus country) who can meet their design and quality specifications at the best price.

Distribution in the U.K. garment industry is mainly through importers/wholesalers though some retailers undertake their own sourcing directly from Thailand.

For lower priced garments, designers and buyers already source from Thailand. For higher quality goods or where quality specifications are very tight, manufacturers in the newly industrialized countries such as Hong Kong tend to be chosen.

Imports in the U.K. from Thailand are, however, severely hampered by a lack of visibility. Many U.K. garment buyers are not aware of Thailand as a potential manufacturing source. Those that are do not know how to make contact with potential manufacturing partners in Thailand. Furthermore respondents stated that Thai garments are suitable for the cheaper end of the market. They are considered to be of inferior quality to those of newly industrialized Far Eastern countries.

It is apparent from the research that Thailand has not yet made up for its tardiness in exploiting its exports. This was largely due to a protectionist policy being imposed by the Thai Government in the 70s which prevented the Thai manufacturers from importing yarn from abroad if it could be supplied locally. Production was therefore limited. Since these restrictions have been eased somewhat, Thailand's textile industry has advanced considerably.

Thailand, respondents say, still has far to go before it can provide a comprehensive range of textiles and thus garments to suit all export markets. Investment and joint ventures in Thailand by foreign countries such as Hong Kong and Japan have improved production facilities dramatically in recent years and factory sites are achieving new standards of cleanliness expected of them by Western buyers.

Thailand's fiercest competitor for supply contracts in Western Europe is India. India's exports are already strong and aspects of its manufacturing process, for example finishing, are considered superior to Thailand's. Indian representation in the U.K. is also well-established.

The imposition of quotas and ceilings also restricts Thailand's export efforts considerably. Several kinds of garments such as jeans and certain jackets are prohibited. The ceilings are discretionary in that they allow entry but can be withdrawn arbitrarily without notice.

To conclude, this market research reveals significant opportunities for Thai imports into the U.K. despite a number of hurdles. We anticipate that these opportunities will become even greater in the future as technology and manufacturing standards in Thailand improve.

The decision to source from Thailand will depend on a number of factors, few of which are controllable, and these must be borne in mind by both potential importers and exporters.

These are:

1. The exchange rate.
2. Commodity prices and the availability of raw materials.
3. Distribution costs and producer prices.
4. The on-going competitiveness and quality of Thai production.
5. Bilateral agreements between the U.K. and Thailand on ceilings, MFA restrictions on quotas and the possible fluctuation of tariff rates.

2.2 Recommendations

To penetrate the U.K. market, we advise a concerted effort by the Thai textile and garment industry to publicize their presence, their manufacturing strengths and their willingness to work in co-operation with U.K. manufacturers. The Thai producers must make themselves more visible in the U.K. and if they are successful, we are confident they will find U.K. partners eager to work with them. We recommend that the Thai manufacturers concentrate on garments for the mass market, and the most promising textile and garment groups are the following:

Textile groups:

- Cottons and polycottons
- Linen
- Silk

Products:

- Women's wear - especially lingerie and all types of light-weight outerwear.
- Men's wear — Shirts, underwear, other light-weight garments excluding jackets.
- Household Textiles — bedwear, linens, household products.

Quotas, ceilings and tariffs are fixed according to the detailed garment type and fabric content, so each individual product must be examined carefully with reference to H.M. Customs and Excise.

Generally, Thai manufacturers must improve their current bad reputation for late delivery and produce garments to higher quality specifications. We suggest that the manufacturers aim first to produce for short-run orders in order to dispel the poor reputation they have with the U.K. buyers.

We recommend that a number of selected garment manufacturers exhibit at a Thai government-sponsored trade show in the U.K.. U.K. importers, wholesalers and