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Stretching or Shrinking? The Textile and Clothing Industries in Canada

by Diana Wyman

International Trade Division
9th Floor, Jean Talon Building, Ottawa, K1A 0T6

Telephone: 1 800 263-1136



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Diana Wyman

Review Committee: Bernie Theriault, John Flanders and Marlene Sterparn

Special contribution: Glen Muldoon

Managing Editor: Yvan Gervais

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Stretching or Shrinking? The Textile and Clothing Industries in Canada

Diana Wyman
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Summary

Runway models strike their poses in Paris, Milan, New York, in Toronto, Montreal and Vancouver. But the clothing they are wearing and the textiles on display—right down to the red carpet—are more and more likely to come from Beijing or Bombay.

Less than 20 years ago, about 70% of the textile and clothing products consumed in Canada were made right here at home. Since then, however, imports have soared, and it is now these offshore products that satisfy the majority of Canadian demand.

In 1992, imported textiles represented 43% of the Canadian market, while imported clothing represented 35%. By 2004, imported goods supplied over 60% of these markets.

Strong export demand from the United States in the 1990s delayed the impact of this increased import penetration. However, both production and employment in Canada's textile and clothing industries are now falling, and our domestic industries are in fact shrinking.

A major factor contributing to this shift has been the dismantling of barriers to multilateral trade. From the 1970s up until the mid-1990s, trade in textiles and clothing was shaped by a system of import quotas, which had been negotiated between major importers and major exporters of textiles and clothing. Canada, as a major importer, negotiated numerous arrangements with countries such as China and India. The system of quotas was called the Multi-Fibre Arrangement.

One result of the Uruguay Round of negotiations was that World Trade Organization member countries agreed to remove all of these quotas in four stages between 1995 and 2005. A calculated percentage of quotas were to be eliminated in stage 1 (by January 1, 1995), stage 2 (by January 1, 1998), stage 3 (by January 1, 2002) and major importers were to remove all remaining quotas by January 1, 2005. A commitment to reduce tariffs on trade in textile and clothing products was another outcome of the Uruguay Round.

Faced with lower tariffs and an absence of quotas in the years following 1995, Canadian companies started to shop around for global suppliers.

This article investigates trends in international trade, production and employment in the textile and clothing industries from 1992 to 2004. It also examines patterns of trade in textiles and clothing.

Textile and clothing industries

Textiles and clothing are two distinctive Canadian industries. The textile industry manufactures a wide variety of threads, filaments and fabrics. It also produces felts, carpets, blankets, diapers, hygiene products, fire hoses, ropes and parachutes. The clothing industry produces men's, women's and children's wear as well as furs, foundation garments, hosiery, gloves, sweaters and occupational clothing.

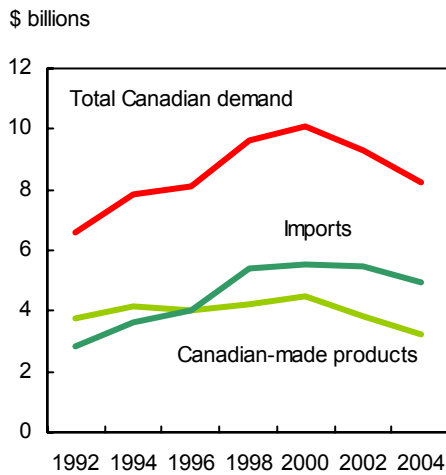
Imports capture rising share of Canadian market

Prior to the introduction of the Canada-United States Free Trade Agreement (FTA) in 1989, Canadian-made products¹ satisfied about 70% of domestic demand for textiles and clothing.

Subsequently, between 1989 and 1992, imports from the United States soared, and the share of Canadian market captured by imported products rose substantially.² By 1998, imported textiles and clothing had taken over more than half of the Canadian market from Canadian-made products.³

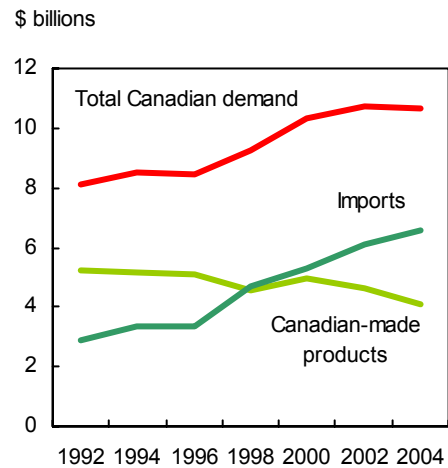
In 1992, imported products accounted for 43% of the Canadian textiles market. By 2004, this proportion had ballooned to 60%. Similarly, imported clothing accounted for 35% of the Canadian market in 1992. By 2004, this share had soared to 62%.

Canadian demand for textile products, 1992 to 2004



Sources: *Monthly Survey of Manufactures*, CANSIM Table 304-0014, and *Trade by Industry data*, International Trade Division.

Canadian demand for clothing, 1992 to 2004



Sources: *Monthly Survey of Manufactures*, CANSIM Table 304-0014, and *Trade by Industry data*, International Trade Division.

1. Both Katherine Marshall et al. in "Sizing up employment in clothing manufacturing," *Perspectives on labour and income*, Spring 1997, Statistics Canada Catalogue No. 75-001-XPE and Yasmin Sheikh in "Performance of the Textile Products Industries", *Textile Products Industries*, 2000, Statistics Canada Catalogue No. 34-251-XIE discuss the share of the Canadian market held by imports. This statistic was confirmed through an examination of trade data based on the Standard Industrial Classification and archived by the International Trade Division, Statistics Canada.

2. Marshall examines trends in clothing leading up until 1992.

3. Total textile and clothing products sold in Canada is comprised of two components: products that were produced and distributed in Canada and products that were imported from abroad. Canadian demand for textiles and clothing is often referred to as "Canadian apparent demand for textiles and clothing" or "the supply of textiles and clothing in Canada."

China incurred biggest gains

Overall, textile and clothing imports have grown rapidly since 1992. From 1992 to 1999, US imports dominated this growth. As barriers to trade in textiles and clothing faced by other countries have fallen, there has been a substantial shift away from the United States to other countries such as China and, to a lesser extent, India.

Between 1992 and 1999, the United States' share of total textile imports flowing into Canada rose from 53% to 62%. However, between 1999 and 2004, this proportion fell back to 53%.

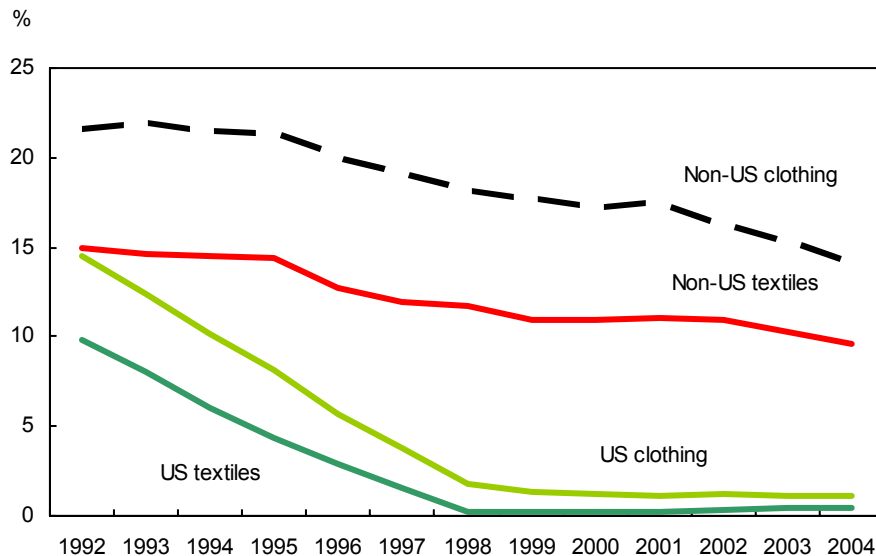
The situation with respect to clothing was a mirror image of textiles. From 1992 to 1998, the value of imported clothing products from the United States more than doubled from \$343.9 million to \$883.6 million.

However, in the six subsequent years, the value of American imports tumbled to \$583.4 million. As a result, the United States' share of total clothing imports flowing into Canada plunged from 20% to only 9%.

Trade in textiles and clothing between Canada and the United States flourished in the 1990s as a result of the Free Trade Agreement, which committed the two countries to a gradual elimination of tariffs on virtually all goods.

For most of the 1990s, US exports of textile and clothing goods to Canada faced much lower tariffs than did other countries. Tariff levels in the early 1990s on US textile products entering Canada stood at approximately 9.9%—14.5% for clothing. During that same period, tariffs on imports originating outside the United States were 15.0% for textiles and 21.5% for clothing. By 1998, tariffs on US products had dropped to almost zero while other countries still faced levels of 11.8% for textiles and 18.1% for clothing.

Effective duty rates on textiles and clothing imports, United States and other countries, 1992 to 2004



Source: International Trade Division.

Demand for textile and clothing products from China and India has boomed despite tariff levels that have remained quite high relative to those applied to imports from the United States. In 2004, tariffs for countries other than the United States averaged 9.6% for textile products and 14.1% for clothing products.

Exports from these countries other than the United States were also often constrained by quota agreements. As these barriers to trade in textiles and clothing fell, Canadian importers turned to suppliers from China and India.

In terms of both textiles and clothing, China has achieved the biggest gains in the Canadian import market.

China's share of textile imports was relatively steady at 6% between 1992 and 1999. Three years later, imports from China had doubled. As a result, China's share of imports into Canada rose to 11%. By 2004, China was shipping textile products worth about \$800 million into Canada, which accounted for 15% of all Canada's imported textile products and 9.2% of total Canadian demand for textile products. This was up from supplying 2.7% in 1992.

China's impact on the clothing market was even greater. In 1992, clothing imports from China stood at \$571.3 million. By 2004, these imports had increased four-fold to \$2.3 billion, resulting in a gain in import market share from 20% to 36% and a gain in total Canadian demand from 7% to 22%.

A combination of factors may explain China's expansion into foreign markets. These include its low-cost labour force, the importance of its domestic textiles such as silk and its ability to draw upon Hong Kong's well established financial and marketing expertise.⁴

Over the past decade, China had been restructuring its economy in preparation for accession to the World Trade Organization, thus allowing for increased productivity in textile and clothing manufacturing. China has been a member of the WTO since January 1, 2002, and has thus able to take advantage of liberalization efforts under the Agreement on Textiles and Clothing.

India, Mexico also make inroads

Both India and Mexico have made inroads in the Canadian market during the past 12 years.

Between 1992 and 2004, imported textile products from India more than tripled from \$52.8 million to \$213.8 million. As a result, India accounted for 4% of Canada's total textile imports in 2004, double the proportion in 1992.

Clothing imports from India also more than tripled from \$111.8 million in 1992 to over \$400 million in 2004, securing 7% of Canadian clothing imports in 2004.

Textile imports from Mexico increased five-fold by 2004, allowing Mexico's share of Canada's textile imports to increase to 3%.

Canada's clothing imports from Mexico rose at an annual average rate of 40% between 1992 and 2001. As a result, Mexico's share of the Canadian import market in clothing jumped from only 1% to

4. European Union, 2003, "Summary of Studies and Reports on the Impact of Textiles Quota Elimination," Background Paper, Textiles Conference May 5-6, 2003, Brussels, Belgium. These advantages are discussed on page 2 of this article.

5%. The growth of Canada's imports from Mexico has slowed in more recent years, but remains fairly strong.

On January 1, 2003, the Canadian government announced that textile and clothing products from the world's least developed countries would be extended quota-free, duty-free access to the Canadian market.

Canada's imports from Bangladesh, the only least developed country that currently engages in substantial textiles and clothing trade with Canada, stood at \$34.7 million in 1992. By the millennium, imports from Bangladesh had increased almost five-fold to \$165.2 million.

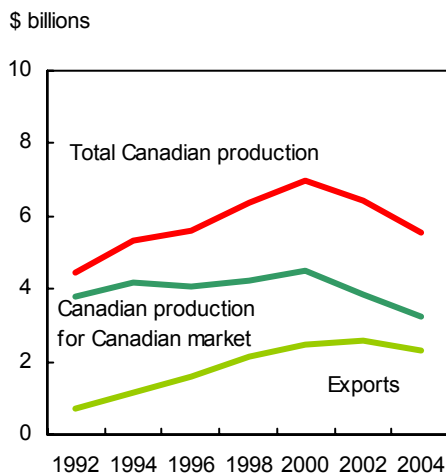
In 2004, the value of textile and clothing imports combined from Bangladesh amounted to about \$480 million, the vast majority (94%) of which was clothing.

US market also turning to China, India

Like Canada's exports as a whole, exports of textiles and clothing flow primarily to the United States. In fact, over 90% of Canada's textile and clothing exports are destined for Canada's biggest trading partner.

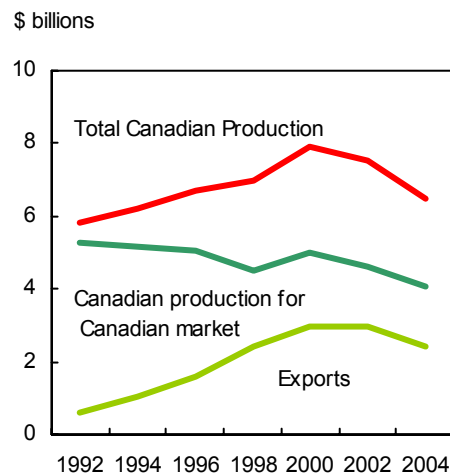
Throughout the 1990s, overall textile and clothing production expanded in Canada, thanks to rapidly rising exports to the United States.⁵ Canada's exports of textiles and clothing south of the border grew from \$1.0 billion in 1992 to a peak of around \$5.2 billion in 2000, 2001 and 2002.

Canadian textile production, 1992 to 2004



Sources: *Monthly Survey of Manufactures, CANSIM Table 304-0014, and Trade by Industry data, International Trade Division.*

Canadian clothing production, 1992 to 2004



Sources: *Monthly Survey of Manufactures, CANSIM Table 304-0014, and Trade by Industry data, International Trade Division.*

5. Textiles and clothing produced in Canada are not only produced for Canadian consumption but also for foreign consumption (exports).

In recent years, however, textile and clothing exports to the United States have fallen. That is because US companies, not unlike their Canadian counterparts, have been shifting to textile and clothing suppliers from countries, such as China and India.

China's exports to the United States, in particular, have grown at a tremendous rate. In 1997, for example, China exported textile goods worth \$1.5 billion to the United States. By 2004, this had more than tripled to \$5 billion. At the same time, China's exports of clothing to the United States rose from \$7 billion to \$13 billion. India's textile and clothing exports to the United States have been growing at double-digit rates each year.

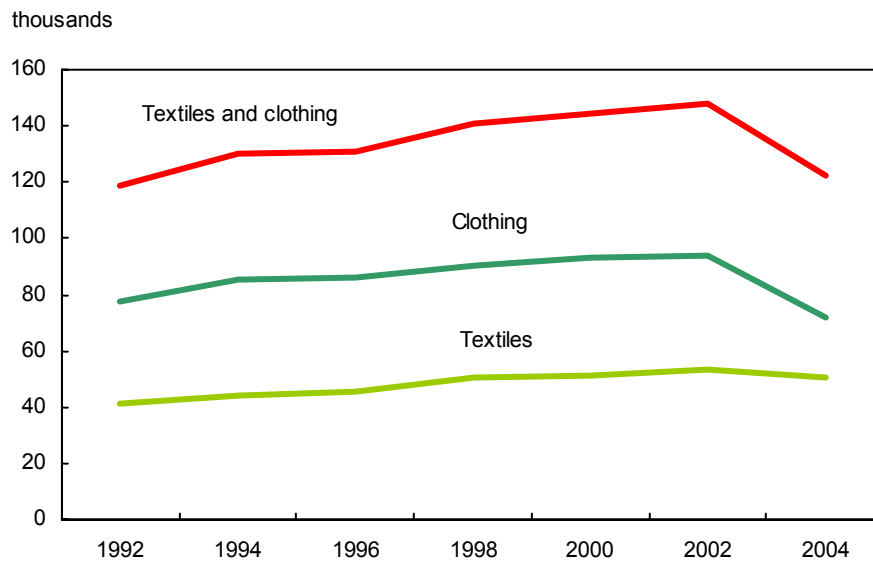
This drop in exports to the United States, as a result of US importers entertaining a global array of suppliers, meant an overall drop in production in Canada. This in turn impacted employment levels in the textile and clothing industries.

Employment on the decline

Between 1989 and 1992, the textile and clothing industries in Canada underwent considerable rationalization, resulting in a large drop in overall employment.⁶

Over the next decade, however, employment in textile and clothing firms increased by more than 25,000, peaking in 2002 at 148,000 for the two combined. This steady growth was a result of the rapid gains in exports to the United States. And it offset any employment loss that could have resulted from increased import penetration.

Employment in the textile and clothing industries in Canada, 1992 to 2004



Source: Survey of Employment, Payrolls and Hours, CANSIM Table 281-0024.

6. Both Katherine Marshall (1997) and Yasmin Sheikh (2000) suggest that employment fell during this period, and that this drop may have been affected by liberalization and the recession (see footnote 1 for references). Russell Kowaluk in "Stability Prevails in Canadian Clothing Industry," *Clothing Industries*, Statistics Canada Catalogue No. 34-252-XIE, 1998, also refers to substantial rationalization having occurred during this period.

Employment in the Canadian textile industry continued to grow in 2003, reaching 54,800, up from 53,500 in 2002. But in 2004, the workforce in textiles fell to 50,400, closer to 1999 levels.

The situation was worse in the clothing industry, where employment has declined steeply, falling from 94,000 in 2002 to 84,000 in 2003 and to 71,000 in 2004.

Why was employment relatively stable in the textile industry, as opposed to the clothing industry, throughout this period of liberalization? One answer could be technology.

The textile industry is known to be capital-intensive, having adopted complex machinery for weaving and other processes in recent years. On the other hand, clothing manufacturing continues to be labour-intensive and adopting technology has proven to be a challenge.

The textile industry in Canada, as well as those in other developed countries, has turned to specializing in 'technical textiles'.⁷ These are advanced materials that offer, for example, thermal protection, improved comfort for athletic activities or more durable upholstery, all of which require extensive technology and highly skilled workers.

The future: Impact of liberalization process ongoing

This article examines the period leading up to January 1, 2005. While all of the quotas on textile and clothing products were removed under the Agreement on Textiles and Clothing before this date, a portion of these quotas were removed in the final months of 2004.

As the impact of those quotas being removed would not be felt immediately, the liberalization process is still ongoing in 2005.

As a result, it will be important to monitor the state of the two industries in Canada. It will also be important to re-examine Canada's changing trade patterns and China's share of Canada's market, now that its exports are not constrained by quotas.⁸

7. For a discussion on technical textiles, refer to Organisation for Economic Co-operation and Development, "A New World Map in Textiles and Clothing: Adjusting to Change," *OECD Observer*, October 2004, available at <http://www.oecd.org/dataoecd/43/14/33824605.pdf>. This policy brief notes that developed countries are using technologically-advanced equipment and skilled workers to produce non-clothing applications of textiles, such as thermal protection, upholstery materials, etc.

8. Interestingly, China has imposed export restraints upon itself, in the form of an export tax. It has been suggested that this policy was implemented as an effort to temper protectionist sentiment in North America and Europe.

Data Sources and Methods

In this examination of the textile and clothing industries in Canada, trends in international trade, production and employment are examined. The data source for employment is the Survey of Employment, Payrolls and Hours (SEPH), Canadian Socio-Economic Information Management System or CANSIM Table 281-0024. Manufacturing shipments data from the Monthly Survey of Manufactures (MSM), CANSIM Table 304-0014, is used to measure domestic production. This monthly data is summed to reach an annual figure. The international trade data that will be examined is Trade by Industry data, which was secured from the International Trade Division at Statistics Canada. The data pertaining to the US market was extracted using the USITC Interactive Tariff and Trade DataWeb, which can be accessed at http://dataweb.usitc.gov/scripts/user_set.asp.

In 1997, the North American Industrial Classification System (NAICS) was developed by statistical agencies in Canada, the United States, and Mexico in order to facilitate analysis of the three economies. This classification system has since been adopted in Canada, replacing the Standard Industrial Classification 1980 (SIC 80). Textile industries are defined as NAICS codes 313 and 314, Textile Mills and Textile Products. Clothing industries are defined as NAICS code 315, Clothing Manufacturing. NAICS-based data is available for all three variables (employment, production, and trade) from 1992 to 2004. As a result, this paper will be focusing on data for this 12-year period. Industry-based trade data for the United States was available from 1997 to 2004 and thus, this period was utilized to analyze the US market situation.

It should be noted that there are difficulties associated with comparing domestic data (manufacturing shipments), which are classified by industry, and international trade data (exports, imports), which are classified by the commodity exchanged between countries. That being said, given the absence of a superior method, Statistics Canada's practice of matching commodity codes (Harmonized System commodity classification) with a NAICS code using internal concordances is utilized in this paper to estimate industrial trade. For additional information, refer to Carlo Rupnik, 2000, "Data integration - International trade data and manufacturing shipments data", Statistics Canada Catalogue No. 65F0020XIE.