TRENDS IN SELECTED INDICES OF THE CANADIAN APPAREL INDUSTRY AND THEIR RELATIONSHIP TO IMPORTS AND EXPORTS, 1961 TO 1979

A Thesis Presented to
The Faculty of Graduate Studies
University of Manitoba

In Partial Fulfillment
of the Requirements for the Degree
Master of Science

by

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1980

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ABSTRACT

The present study investigated the trends in and relationships between imports and exports and indices of the Canadian apparel industry throughout the 1961 to 1979 time period. Five indices were studied. They were value of shipments, number of employees, wage rate, wage bill, and capital investment. The total apparel industry was examined as well as the following six segments: men's and boys' apparel production, women's and girls' apparel production, children's and infants' apparel production, the industry in Quebec, the industry in Ontario, and the industry in Manitoba. In order to test for the strength of trends overtime, the lines of best fit were calculated and graphs were made for all the indices as well as imports and exports. The nature of the relationships between imports or exports and the indices was also determined by calculating correlation coefficients.

The analysis of trends indicated that shipments increased significantly in the total apparel industry and all segments. Import values significantly increased in the total industry and the men's and boys', women's and girls', and children's and infants' sectors. No significant trends were found regarding the capital investment index.

Investigation of the relationships between imports and the indices found positive relationships in all segments except the children's and infants' when shipments were considered. Imports and employment related positively in the men's and boys', women's and girls', and Quebec segments, but displayed a negative relationship in the children's

and infants' sector. No significant relationships were found regarding imports and capital investment.

Export sales and shipments related positively in the total industry and all segments. Negative relationships were found between exports and the number of employees in the children's and infants' and Ontario apparel industries. This same negative pattern of relationships was found regarding the wage bill for these two segments.

ACKNOWLEDGEMENTS

The author wishes to express sincere appreciation to her advisor, Professor M.E. Tyrchniewicz for the encouragement and guidance throughout this study. Mrs. S.C. Hayward's thorough examination of the study and helpful suggestions and Professor R. Harris's assistance with the economic analysis are also gratefully acknowledged.

The financial assistance from the Department of Clothing and Textiles and the contribution of information from the Department of Regional Economic Expansion, Western Region were greatly appreciated.

Gratitude is also expressed to the author's family and friends for their support and encouragement throughout the study. To Ron, my personal appreciation for the patience, understanding, and help during this lengthy study.

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Chapter I

INTRODUCTION

Since its inception, Canadian apparel manufacturing has contributed to the employment, the economic bases of communities, and thus the economy of Canada. The nearly 2,200 apparel producing factories are predominatly Canadian owned.[1,2] In many instances, these firms were established by a family and have been continued by successive family members.

The Canadian apparel industry is a large employer as the production of clothing products is labour intensive. In 1977, approximately 95,000 people were employed by apparel firms.[3] Within the Canadian manufacturing sector this industry is noted as being the largest single employer of women. Nearly seventy-five percent of apparel workers are female.[4] As well, the apparel industry provides employment and training for many people who do not have the necessary attributes that facilitate obtaining other types of work.[5]

The economies of some regions of Canada have been strengthened by the presence of the apparel industry which has provided employment and income for those areas. In the province of Quebec, for example, twelve percent of its labour force is employed by the clothing industry. Shipments of apparel from that province alone were slightly more than sixty-five percent of all apparel produced in Canada in 1976.[6]

Many of the apparel firms employ very few people. This has enhanced the ability of the producers to specialize in a product area.

These smaller facilities also have resulted in flexible production lines that can easily respond to fluctuations in style and fashion.[7] Yet, the apparel industry has constantly struggled to compete in an efficient manner with the world market.

The changes in economic structures in other countries have created one of the major difficulties experienced by the Canadian apparel industry.[8] Since the end of World War II, many Third World countries have become progressively more industrialized. The products they produce are much lower in cost than Canadian made counterparts. As apparel production is prevelant in these countries, the Canadian apparel industry has been challenged as a viable, competitive supplier for Canadians.[9]

These changes in the economies of other countries and their subsequent effect on Canadian industry has encouraged government participation in private business. Policies developed by the Canadian government as it attempts to coordinate its interests with those of industry, have included ensuring the functioning of some industries. The basis for selecting the industries to be aided and the policies for providing assistance have varied widely. In working to aid the Canadian apparel industry, the federal government has provided support through grants and trade restrictions on apparel from low cost countries who provide goods at prices uncompetitive with those of domestically manufactured clothing.[10] However, both costs and benefits to the Canadian economy have been created by choosing to protect the domestic apparel industry.[11]

Protection of the domestic apparel firms from low-cost imports helps to ensure jobs for many Canadians. As well, economic hardship is prevented in those areas, such as Quebec, that are strengthen by the presence of apparel firms. These benefits must be carefully weighed.

The many costs that would result if these apparel manufacturers were not protedted from disruptive imports and not provided financial grants are difficult to calculate. The apparel workers, the government, and the apparel manufacturers fear that increased imports would result in a decreased demand for domestically produced clothing. This reduced need for Canadian made apparel is believed to result in lower requirements for workers and "the danger of severe unemployment in textiles has therefore always weighed heavily on government".[12] While these groups can calculate the economic costs of unemployment, lowered shipments, and reduced profits, they cannot as easily arrive at costs such as those due to the social tragedy that evolved with unemployment.[13]

The above mentioned costs are not the only limitations that result from selecting an industry to protect. Imposition of trade restrictions on Canada's trading partners inhibit the ability of other Canadian producers to sell their products abroad. Potentially the Canadian economy loses some of the export revenue it could anticipate if it did not choose to protect some industries.

A report by the C.D. Howe Research Institute suggests that the Canadian apparel industry can never achieve a position of viability and competitiveness in the international marketplace. The report also states that the support by the Canadian government for the Canadian apparel producers will have to continue without a foreseeable end. This continual infusion of financial aid into the apparel industry could be used in other means that may provide a better return on investment to the economic system.[14]

Both the federal government and the Canadian apparel producers have carefully assessed changes in the economic structures of countries throughout the world and have analyzed the impact of this on the Canadian industry. The resulting papers have given detailed explanations of the effects of government policy decisions and changes in world market structures. However, there has been no attempt to quantitatively relate the factors affected by government policy decisions with indices of the apparel industry such as shipments, employees, wages, and investment. A study of this nature seems warranted at this time.

Improved knowledge of the effects of federal policies on the industry would promote better understanding of the apparel industry by producers and government as well as inform other interested groups such as retailers and consumers. This type of information could also be used by government planners in developing strategies for the apparel industry as it may provide a clearer image of the effects of policy changes. Apparel producers may also gain a better insight into the possible changes that can be anticipated by changes in federal policies and may thus be able to adjust plans and expectations accordingly.

Objectives:

The general purpose of this study is to examine the various segments (men's and boys', women's and girls', and children's and infants' apparel production, and the apparel industry in Quebec, Ontario, and Manitoba) of the apparel industry for possible trends in specific indices (shipments, employment, wages, and capital investment) Canadian apparel export and import figures will also be examined.

The specific objectives concerning this study are as follows:

1. To analyze for possible trends the indices of the apparel industry and its various segments as well as the values of imports and exports through a nineteen year period.
2. To investigate the relationships between selected indices of segments of the apparel industry and imports and exports.

Definitions:

For the purpose of this study, the following terms will be defined as indicated.

Apparel Industry: The manufacturing activity that consists of firms producing apparel by processes that include cutting, sewing, knitting, and finishing of products.[15]

Men's and Boys' Apparel Industry: That portion of the apparel industry comprised of establishments producing or contracted to produce men's and boys' apparel.[16]

Children's and Infants' Apparel Industry: That portion of the apparel industry comprised of establishments producing or contracted to produce children's and infants' apparel.[17]

Women's and Girls' Apparel Industry: That portion of the apparel industry comprised of establishments producing or contracted to produce women's and girls' apparel.[18]

Value of Shipments: The net selling value of goods made by the reporting establishments from their own materials. This includes repair and custom revenue, all exports, transfers to other firms within the same company, and consignment goods to other countries but excludes discounts, returns, allowances, sales and excise tax, duties, and charges for transportation. The term used by Statistics Canada is 'value of shipments of godds of own manufacture'.[19]

Employees: The total labour force of an establishment, including all manufacturing and non-manufacturing workers as well as working owners and partners.[20]

Wages and Salaries: The gross earnings of all employees before deductions of any kind. This includes bonuses, profits that are shared, and other taxable benefits provided by the employer for the employees.[21] In this study, wages and salaries will be referred to as the wage bill.

Wage Rate: The annual gross earnings of a single employee before deductions of any kind. This value is derived by dividing the annual wages and salaries values by the number of employees for that same year.

Capital Investment: The expenditures that cover the cost of procuring, constructing, and installing new, durable plant and machinery but excluding the aquisition of used, domestic equipment and land. These capital expenditures are normally divided into construction and machinery or equipment.[22]

Imports: Those products purchased from foreign persons or countries as recorded for custom duty purposes. The value of these items generally does not include transportation costs.[23]

Exports: Those products purchased by foreign persons or countries as recorded on export documents. The value of these domestically produced goods is usually the selling price at the point of initial shipment.[24]

Chapter II

REVIEW OF LITERATURE

In order to understand the potential relationships that may exist between governmental policies and apparel production indices, it is necessary to examine the actual government decisions and their intended outcome as well as the factors of the apparel industry that may be affected by these decisions. Hence, this chapter has been divided into two sections; the first discusses government policies and the second examines selected indices of the apparel industry.

Government Policies Regarding the Canadian Apparel Industry

Governmental policy decisions aimed at altering domestic industrial situations are not new. Over one hundred years ago the government of John A. MacDonald introduced the 'National Policy' on tariffs with the intent of aiding manufacturing in Canada. This policy was established to protect Canada's new, struggling industries, through the use of high customs rates, from excessive competition by foreign countries where production was well established.[25] The 'National Policy' became a cornerstone in Canadian economic thinking. While no longer 'infant industries', domestic manufacturers have been able to count on tariff protection from competition since that time.[26]

Apparel manufacturing was one of the industries that received protection by the 'National Policy'. A report by the Government of Canada suggests that this "industry did not begin to prosper ... until ...

tariff protection was adopted".[27]

Tariff rates remained high until the Canadian government joined other countries in the 1940's to promote freer trade.[28] Part of the resulting agreements, known as the General Agreement on Tariffs and Trade, lowered customs taxes. However, most manufactured goods continued to receive some protection from foreign competitors.[29]

Until the time of World War II, Canadians had imported many apparel products, but these goods had not detracted from domestic production as they "were mainly from other industrialized countries and generally complemented Canadian production".[30] After World War II this same group of countries that promoted freer trade also began work to promote economic development in underdeveloped countries of the world.[31] These underdeveloped areas did not have the background knowledge and skills necessary for many technical industries, but they did have a large labour supply that could be taught the necessary skills for production of apparel. The wages in these countries were low and the countries quickly became important exporters of clothing at a low cost.[32] Thus, during the 1950's imported apparel sold in Canada increased. Now, however, domestic producers could not compete with its low cost.[33]

Appeals to the Canadian government by the domestic textile and apparel producers for assistance in dealing with these increasing levels of imports resulted in voluntary restraint agreements that were initiated in 1956 and formalized in 1960.[34] These restraints were renegotiated annually, but often the negotaitions were not completed until late in the current year. This was met with opposition from the domestic apparel producers who felt that the agreements were being made without the guidance of an established government policy as to the products that should be protected.[35] The textile and apparel industry also believed there was inadequate consideration of substituable fibres, fabrics, and end products,[36] and negotiations were made with no official means for communication between apparel producers and the government.[37] Apparel industry dissatisfaction with this form of assistance heightened as they believed too few countries and products were covered by the agreements and enforcement remained ineffective, as it was controlled by the exporting countries.[38,39]

Thus, while the government had intended to limit imports while maintaining as positive an export relationship with trade partners as possible, the domestic apparel industry was trying to exist in a climate of uncertainty with regard to their marketplace. The Canadian clothing manufacturers purported that this "uncertainty and disruption undermined the further investment in expansion, modernization, or restructuring necessary to deal with the increasing import penetration.[40]

As a result of their feelings of uncertainty due to the piecemeal nature of government assistance, a combined group from management and labour in the textile industry approached the Federal Cabinet in October of 1968. Their purpose was to request formally a government policy that would control imports from low cost areas throughout the world and, hence aid the industry in establishing guidelines for future investment, planning, and development.[41,42]

The result of this appeal to the government was the national 'Textile Policy' introduced in May, 1970.[43] The government had, of necessity, compromised between allowing imports to flood the domestic market and restricting all imports and thus, the ability to export other Canadian produced items. It intended "to provide a sense of direction, a framework and conditions within which the textile and clothing industries can plan, invest, and develop with a greater degree of confidence".[44] Control of imports was only part of the policy's objectives. Guidelines were offered for aiding development of local industries but there was also the caution that the manufacturers must plan "progressively to phase-out the least competitive lines and to move into those with the highest competitive potential for the future."[45] The 'Textile Policy' was an attempt to co-ordinate the forces of government and industry for the developing and promoting of a Canadian business.[46]

The 'Textile Policy' included three elements: Commercial Policy, Financial Support, and Promotional and Technical Support. Under the Commercial Policy, the government expressed its intent to consider rationalizing the tariffs on textiles and apparel and removing anomalities that existed. As well, improved means of accounting for import products were proposed and a means for dealing with injury to the domestic industry due to imports from low cost areas was established. Should the threat of injury be present, those manufacturers affected were to present formally to the newly formed Textile and Clothing Board their report of harm and their plans for restructuring of manufacturing activities to avoid future injury. The report would then be analyzed and the Textile and Clothing Board would make recommendations to the government as to required actions. It was then up to the government to act upon these recommendations as they saw fit.[47]

Financial Support measures proposed by the 'Textile Policy' were to ensure more financial aid could be provided to firms that were attempting to restructure their production lines in such a way that further injury by low cost imports would be reduced. The Canadian Manpower services would also be involved in consulting with employers and employees who were affected due to injury by imports.[48]

Through the Promotional and Technical Support aspect of the new policy the government expressed its intent to establish productivity centres aimed at assisting industry members in deriving full benefits from new technology. Fashion promotion and design assistance was to be partially financed by the government with the purpose of stimulating sales and knowledge of Canadian apparel products and designers.[49]

In spite of the 'Textile Policy', 1975 imports of apparel had risen to one hundred seventeen percent of 1970 inports in constant dollars.[50,51] Throughout the years the low cost countries had improved the quality and styling of their clothing and had become better at initiating export contracts.[52,53] This improved product plus a recession from 1974 to 1975 are believed by the Canadian government to be the reasons for the increase in clothing imports.[54] The level of imports continued to increase in 1976 to the extent that 1976 import levels were one hundred seventy-one percent of 1970 levels in real dollar terms.[55,56]

Apparel producers and the government viewed these increases as a serious problem. After a series of reports and studies by both government and industry the Canadian government imposed global quotas on clothing in November, 1976 that limited the quantity of imports for 1977 and 1978 to the level of imports in 1975.[57]

This new policy of global quotas covered all countries, whether or not they were low cost clothing suppliers, and extended beyond the normal one year agreements that had previously been negotiated. While jeopardizing Canada's position as an exporter of goods, the government strongly expressed its stance on limitation of apparel imports.[58]

Canada's trading partners did not consider global quotas an acceptable form of providing the apparel industry with assistance on a long term basis. While they were imposed as an emergency measure under the General Agreement on Tariffs and Trade, there were countries, such as the United States, who had to be compensated. Thus it was necessary to find a new form of protection for the Canadian apparel industry.[59]

During the period of global quotas the federal government embarked on a new policy of negotiating bilateral agreements for a three year term with seven low cost countries which supplied eighty percent of imports in 1977.[60] The countries initially restricted were Hong Kong, Korea, China, Poland, Romania, the Philippines, and Taiwan. These restrictions allowed for annual increases of imports. All other countries were to be monitored for import levels and additional negotiations would evolve if the threat of low cost apparel imports made it necessary. The bilateral agreements came into effect in January of 1979 and are to conclude in December 1981. Since their inception Macao, Thailand, India, Malaysia, Sri Lanka, and Bulgaria have been included in the agreements.[61] This latest policy of the Canadian government appears to be an attempt to maintain a respectable position as a trading partner while limiting the amount of apparel imports into the Canadian market.

Government aid to the Canadian apparel industry was not limited to imports. They had also established procedures to assist companies