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Québec's Clothing and Textile Industries

The Difficult Path Ahead

Summary

1. The past several years have been witnessing a global shift towards the production of clothing and textiles in countries paying lower salaries. This movement has sped up with the gradual elimination, beginning in 1995, of the quota systems imposed by Canada and other developed nations on imports of these products.
2. Clothing imports into Québec are on the rise, and ever-increasing quantities of these imports are coming from emerging and developing countries, China in particular.
3. Québec's production of clothing and textiles is decreasing for a number of reasons, including the stronger competition of foreign manufacturers on local and foreign markets, the evolution of trade rules and the development of regional trade agreements and preferential tariff agreements.
4. It is forecast that the decline of Québec's clothing and textiles industries will continue. The extent of this decline will depend on how successful Québec manufacturers are at competing on high value-added markets, particularly on just-in-time markets.

1 Québec's position in a constantly evolving trade world

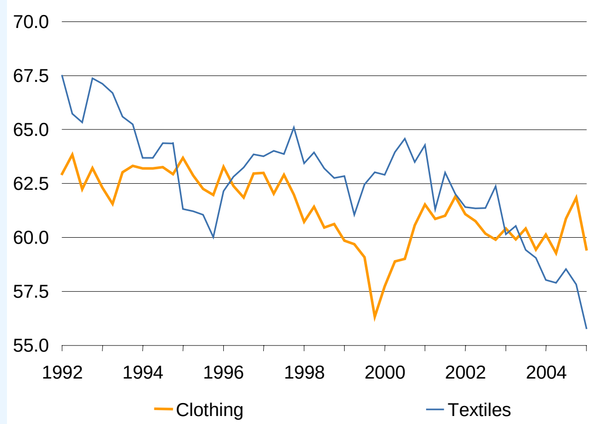
This study presents a portrait of Québec's clothing industry (representing 35,000 jobs) and textile industry (representing 14,000 jobs) and describes how these industries are adapting to changes observed on the international level.

Since the industrial revolution, Québec has been the hub of Canada's clothing and textiles industries. The majority of Canada's production remains concentrated in Québec to this day.

Québec's share of production in Canada's clothing manufacturing has remained relatively stable for the past several years (close to 60%). But Québec is losing ground in textiles. Its share of production in Canada's textiles industry fell by 10 percentage points over the past 12 years and is now situated at just over 55%. This decrease is due to the fact that Québec textile manufacturers specialize in textiles used for clothing, and the demand for these textiles is affected by the major changes taking place in the clothing industry.

In comparison, textile manufacturers in other parts of Canada base their production more on non-clothing textiles for which the demand is stronger. These textiles serve as input materials for several industries, in particular the manufacture of transportation equipment, furniture, plastics and rubber products, computer and electronic products, and medical equipment and supplies.

QUÉBEC'S SHARE IN CANADIAN PRODUCTION OF CLOTHING AND TEXTILES
(in percentages)



Source: Statistics Canada.

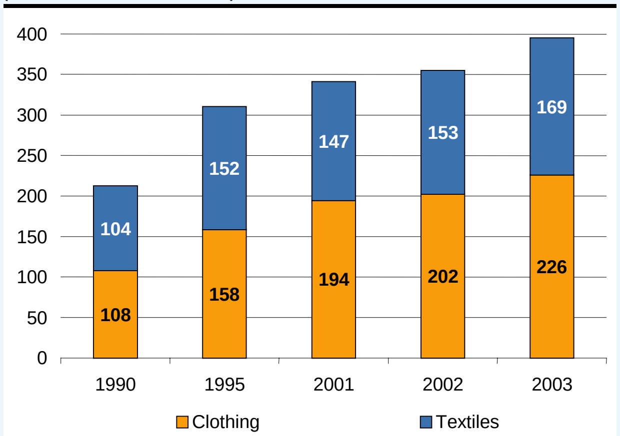
Furthermore, the contribution of these industries to Québec's Gross Domestic Product (GDP) has decreased over the past several years because the Québec economy has abandoned old forms of low value-added production in favour of new, more productive methods. Their contribution to Québec's GDP has decreased by half in the past 20 years. Today it stands at 1.2 %,[1] just over 5% of the manufacturing sector's total contribution.

This phenomenon is not unique to Québec. Indeed, we are seeing today a shift in the production of clothing and textiles from developed countries towards emerging and developing countries around the world.

The increase in international trade and the migration of production

The international trade of clothing and textiles has increased by an average of 4.9% every year since 1990. In 2003, the total international trade of these products came to $395 billion US, ($226 billion for clothing and $169 billion for textiles). This amount accounts today for 5.4% of the total worldwide trade of goods.

INTERNATIONAL TRADE OF CLOTHING AND TEXTILES
(in millions of US dollars)



Source: World Trade Organization (WTO).

The United States and the countries of the European Union are the main importers of clothing. They account for more than 70% of the world's clothing imports,[2] while Canada's share comes to 1.9%.

The growth in international trade has been accompanied by the migration of certain manufacturing activities, mass manufacturing operations in particular, from developed countries to developing and emerging economies, where labour is abundant and salaries are low.

As a result, developed countries are losing their share of international exports. European Union exports dropped 11% between 1990 and 2003. On the other hand, the combined share of the Asian tigers[3] jumped from 6% to 20%. The biggest winner has been China, whose share increased from 9% to 23% over this period. In addition, the integration of the Canadian, U.S. and Mexican industries, fostered by the North American Free Trade Agreement (NAFTA), has increased trade among these three countries and has helped them to make some gains in exports.

Shares of international exports of clothing and textile products
(in percentages)

	Clothing		Textiles	
	1990	**2003**	**1990**	**2003**
European Union	37.7	26.5	48.7	34.8
China	8.9	23.0	6.9	15.9
Turkey	3.1	4.4	1.4	3.1
Hong Kong	8.6	3.6	2.1	0.4
Mexico	0.5	3.2	0.7	1.2
India	2.3	2.9	2.1	3.8
United States	2.4	2.5	4.8	6.4
South Korea	7.3	1.6	5.8	6.0
Taiwan	3.7	0.9	5.9	5.5
Canada	0.3	0.9	0.7	1.3

Source: World Trade Organization (WTO).

Textile production is also migrating to other countries. However, because this type of production requires more capital, its migration has not been as extensive as has been the case for the clothing industry. More than half of international textile exports still come from the developed countries. Nevertheless, we see that China's share of textile exports more than doubled between 1990 and 2003 to reach 16%, whereas the European Union's share dropped 14 percentage points over the same period and stood at 35% in 2003.

The gains made by developing and emerging countries have been fostered by the opening of the international market, due in particular to the gradual elimination of import quotas and tariffs beginning in 1995. In addition, China has benefited after gaining entry as a member of the World Trade Organization (WTO) in December 2001.

[1] Textile products manufacturing is included in this percentage.
[2] This figure includes trade among European countries.
[3] South Korea, Hong Kong, Singapore and Taiwan. Singapore's share dipped from 0.9% to 0.2% between 1990 and 2003.

Quotas have been gradually eliminated…

For many years, developed countries, Canada included, protected their clothing and textile industries from foreign competition, especially from developing countries. They were able to do so through the establishment of various trade barriers. A regulatory framework for the imposition of quotas on the import of clothing and textiles was created under the multilateral aegis of the GATT (1961-1994) and through the Cotton Arrangements (1961-1973) and the Multi-Fibre Arrangement (1974-1994).

When the WTO was created in 1995, its member nations signed the Agreement on Clothing and Textiles (ACT), which set out a timeframe and rules for eliminating, in four steps,[4] the quotas that were being imposed by the developing countries. On January 1, 2005, the remaining quotas still in effect were abolished.

…but customs duties remain in place

Despite these changes, *ad valorem* customs duties are still in place, although their levels were reduced during the period of application of the ACT. These tariffs, further to providing a certain level of protection for local firms, are used to establish regional trade agreements that modify the direction of trade flows and the competitive positions of foreign and local manufacturers.

For example, the United States has eliminated the duties it was imposing on the import of clothing from the majority of South American Andean, Caribbean, and sub-Saharan countries which manufacture their clothing using textiles produced in the United States. This measure works to the detriment of Québec producers by favouring U.S. producers as the source of the supplies for the clothing industry in these developing countries. It also gives clothing exporters in these countries access to the U.S. market at tariff conditions similar to those enjoyed by Québec under the NAFTA.

Furthermore, on January 1, 2003, Canada eliminated its duties and quotas on the import of clothing and textiles being manufactured in 48 developing countries.

China joins the WTO

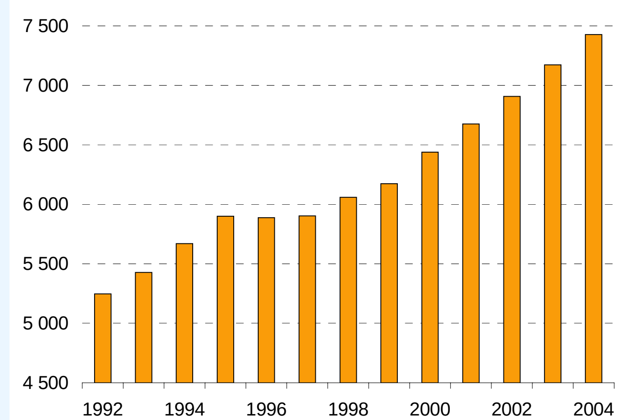
In another development, China joined the WTO in December 2001. It has therefore benefited from the gradual elimination of quotas and tariffs. However, its entry into the WTO was accompanied by certain conditions, in particular one that gave member nations the possibility of introducing safeguard measures, for example in the form of a return to quotas for a three year period following the end of the ACT on January 1, 2005, if an increase in imports from China endangers certain segments of local industries.

2 More imports to Québec mean increased consumption

Strong growth in clothing imports…

Consumer purchases of clothing in Québec increased an average of 2.9% per year between 1992 and 2004, reaching a total of $7.5 billion in 2004.[5] Per capita consumption increased 2.4% over the same period, standing at $994 in 2004.[6] These increases are explained by the growth in the standard of living and the drop in the relative price of clothing.

CONSUMPTION OF CLOTHING IN QUÉBEC
(in millions of constant dollars)



Source: Statistics Canada.

The import of clothing products into Québec more than doubled between 1992 and 2004 to reach $1.6 billion in 2004. The share of imports on the Canadian market increased from 35% to 60% over the same period.[7]

[4] Elimination of quotas on January 1 in 1995, 1998, 2002 and 2005 for certain categories representing a pre-established import volume.

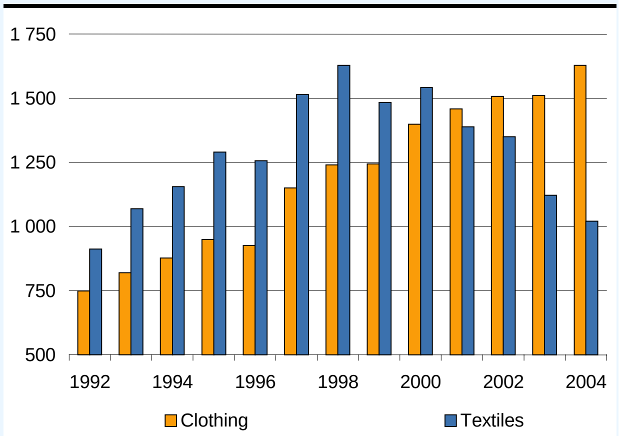
[5] In constant 1997 dollars.

[6] In constant 1997 dollars.

[7] Source: Diana Wyman, *Stretching or Shrinking? The Textile and Clothing Industries in Canada*, Statistics Canada, March 2005, Catalogue no. 11-621-MIE2005022.

The increasing openness of the Canadian market to imports has enabled Québec retailers to obtain goods from foreign suppliers more easily and in greater quantities. This increased access stems from China's entry into the WTO, the gradual elimination of the ACT quotas, and the abolition of duties and quotas imposed by Canada on 48 countries.

IMPORTS OF CLOTHING AND TEXTILES INTO QUÉBEC
(in millions of dollars)



Source: Statistics Canada.

Québec is today importing more clothing from emerging or developing countries than it is from developed countries. Between 1992 and 2004, the share of all clothing imports to Québec coming from China, India and Bangladesh increased from 25% to 49%, while the share of imports coming from South Korea, Hong Kong and Taiwan decreased from 33% to 9%. China alone now accounts for 36% of the Québec import market.

Share of clothing imports into Québec
(in percentages)

	1992	2004
China	19.9	35.7
United States	12.0	8.9
Bangladesh	1.2	6.9
India	3.9	6.2
Mexico	0.5	5.4
Hong Kong	17.4	4.5
Italy	4.1	3.3
South Korea	9.5	2.3
Taiwan	6.2	1.6

Source: Statistics Canada.

…but textile imports are decreasing

The decline in the production of clothing in Québec has affected the demand for textiles. As a result, textile imports into Québec fell by one-third between 2000 and 2004, standing at $1 billion in 2004.

In 2004, the United States accounted for 37% of Québec's textile imports. This amount has changed little over the past 12 years. But China has doubled its share since 1992, which now stands at 12%, making China the second biggest textile importer into Québec.

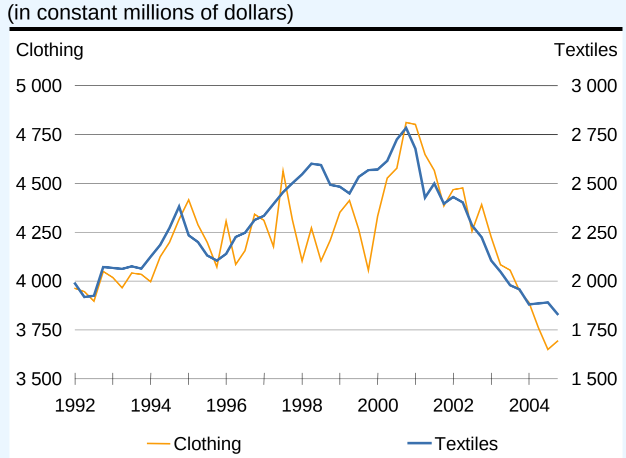
3 Decline in Québec's production of clothing and textiles

Shipments are shrinking…

The production of clothing and textiles in Québec has decreased significantly during the past several years. The amount of clothing products shipped has gone down by 23%, in comparison to the peak amount reached in the fourth quarter of 2000. The decline has been even greater in the textile industry, where shipments have decreased by 34%.

The decline in Québec's clothing production coincides with the stagnation of sales to the United States, which is the destination of more than 90% of Québec clothing exports. Before 2001, Québec manufacturers were able to offset the losses on the local market with a significant increase of exports to the U.S. market. Since 2001, this has no longer been the case.

CLOTHING AND TEXTILES DELIVERIES BY QUÉBEC MANUFACTURERS
(in constant millions of dollars)



Source: Statistics Canada.

This stagnation in exports is explained by the combined effect of the recession of 2001, which slowed the demand for clothing in the United States, the increased presence of foreign manufacturers on the U.S. market, the entry of China into the WTO in December 2001 and the elimination of quotas in the third phase of the ACT in 2002.

In addition, NAFTA rules limit the trade of clothing benefiting from the elimination of tariffs when it is manufactured using textiles imported from outside of North America.

The decline of clothing production in Québec, Canada and the United States has reduced the demand for Québec textiles, which are used mostly for clothing production. In addition, the trade agreement between the United States and Caribbean countries prevents Québec from taking advantage of the expanding Caribbean clothing industry, which would enable it to offset the loss of its exports to the United States.

QUÉBEC EXPORTS OF CLOTHING AND TEXTILES
(in millions of dollars)

Source: Statistics Canada.

…and employment is down

The decrease in Québec's production of clothing and textiles has led to a spectacular drop in the number of jobs in these industries. Clothing manufacturing lost one-third of its labour force between the summer of 2002 and the winter of 2005 (nearly 18,000 workers). The clothing industry today employs just over 35,000 persons.

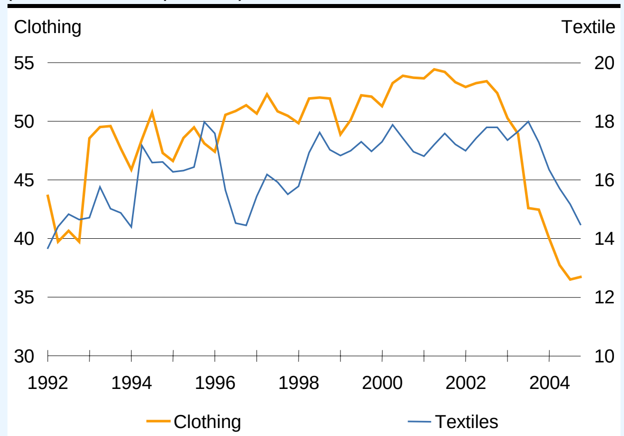
The drop in employment in the textile industry began in 2003 and was proportionately less severe than in clothing. The textile industry lost a little over one-fifth of its workers between the summer of 2003 and the winter of 2005, going down from 17,986 to 13,811.

As a result of these job losses, the proportion of clothing and textile workers in Québec's manufacturing sector has decreased from 12% to 9% since the summer of 2002.

These two industries are characterized by the presence of a high proportion of small and medium-sized enterprises, most of which are in the Montréal area. The textile industry is composed of larger firms and is more regionally dispersed.

We also note that the labour force in textile manufacturing is ageing and that the industry is having trouble recruiting qualified young workers, due to the perception of decline and loss of status of manufacturing employment.

NUMBER OF EMPLOYEES IN QUÉBEC'S CLOTHING AND TEXTILE INDUSTRIES
(in thousands of persons)



Source: Statistics Canada.

4 Uneven prospects: winners and losers

The decline of mass production appears to be inevitable…

The decline in mass production of clothing and textiles in Québec is expected to last.

First, Québec clothing manufacturers are expected to continue losing their share of the Québec market because of the anticipated increase of imports. The elimination of the remaining ACT quotas on January 1, 2005 has resulted in a 12% increase in clothing imports to Québec since the start of the year.

These manufacturers must also contend with stronger competition provided by foreign exports to the United States, where Chinese exports have grown strongly since the start of 2005. Despite the decision by the United States to reintroduce quotas on the import of certain Chinese products, these are only stopgap measures and they will not protect Québec manufacturers over the medium and long terms.

Furthermore, the U.S. trade agreement with the Caribbean countries could lead to new outsourcing of textile manufacturing to the United States.

Finally, we note that the distribution sector is now controlled by large retailers, which exert strong pressure on prices. This in turn promotes the outsourcing and closing of manufacturing plants.

Even though the mass production of clothing in Québec appears to be doomed, Québec firms can still preserve high value-added design activities for products to be manufactured elsewhere. They can also develop their own brands to increase the value of their products. Textile businesses, for their part, should turn towards making products which are intended for technical or scientific uses, e.g., insulation, fireproof, elastic and anti-bacterial fabrics, etc.

Consequently, the drop in clothing and textiles shipments is expected to continue. Its extent will depend on the success of Québec manufacturers in producing high value-added items, their capacity for innovation and the size of the just-in-time market.

…but the future is promising for just-in-time production

The large retailers want to minimize the risks due to write-offs, discounting, high management costs and the loss of sales in an environment where clothing types are multiplying and have a reduced life-span. They are also looking for suppliers with short and fixed turnaround times who can produce small batches more frequently.

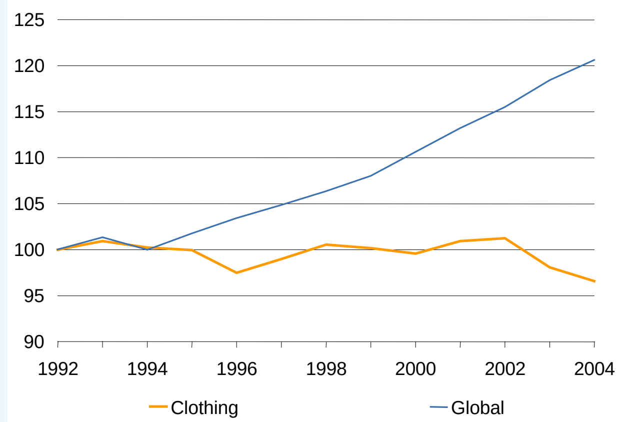
Just-in-time production is the approach that meets this need. It involves producing the requested quantities in real time, that is, at the moment when the demand is actual. To ensure that supply and demand are in balance, just-in-time production relies on information technology.

In this market niche, Québec has an advantage over many competitors because of its proximity to the U.S. market. The production of small batches at a higher frequency could be an interesting outlet for Québec producers.

Consumers are benefiting from lower prices

The relative price of clothing has been going down for the past several years. It was relatively stable between 1992 and 2002 and began dropping outright in 2003, while the price of other consumer goods and services has increased an average of 1.9% annually since 1995.

CANADIAN PRICE INDICES
(1992 = 100)



Source: Statistics Canada.

Consumers are benefiting from this decline in the relative cost of clothing. It creates an income effect that increases their spending power and enables them to use savings made on clothing purchases to buy other goods and services or to buy more clothing, which they otherwise could not do. Their overall well-being is thus significantly enhanced. Finally, consumer spending that is fostered by this income effect creates economic activity and jobs in other sectors.

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