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Helping Rural Manufacturers Adjust to New Trade Rules:

Developing State Strategies for the Rural Apparel Industry

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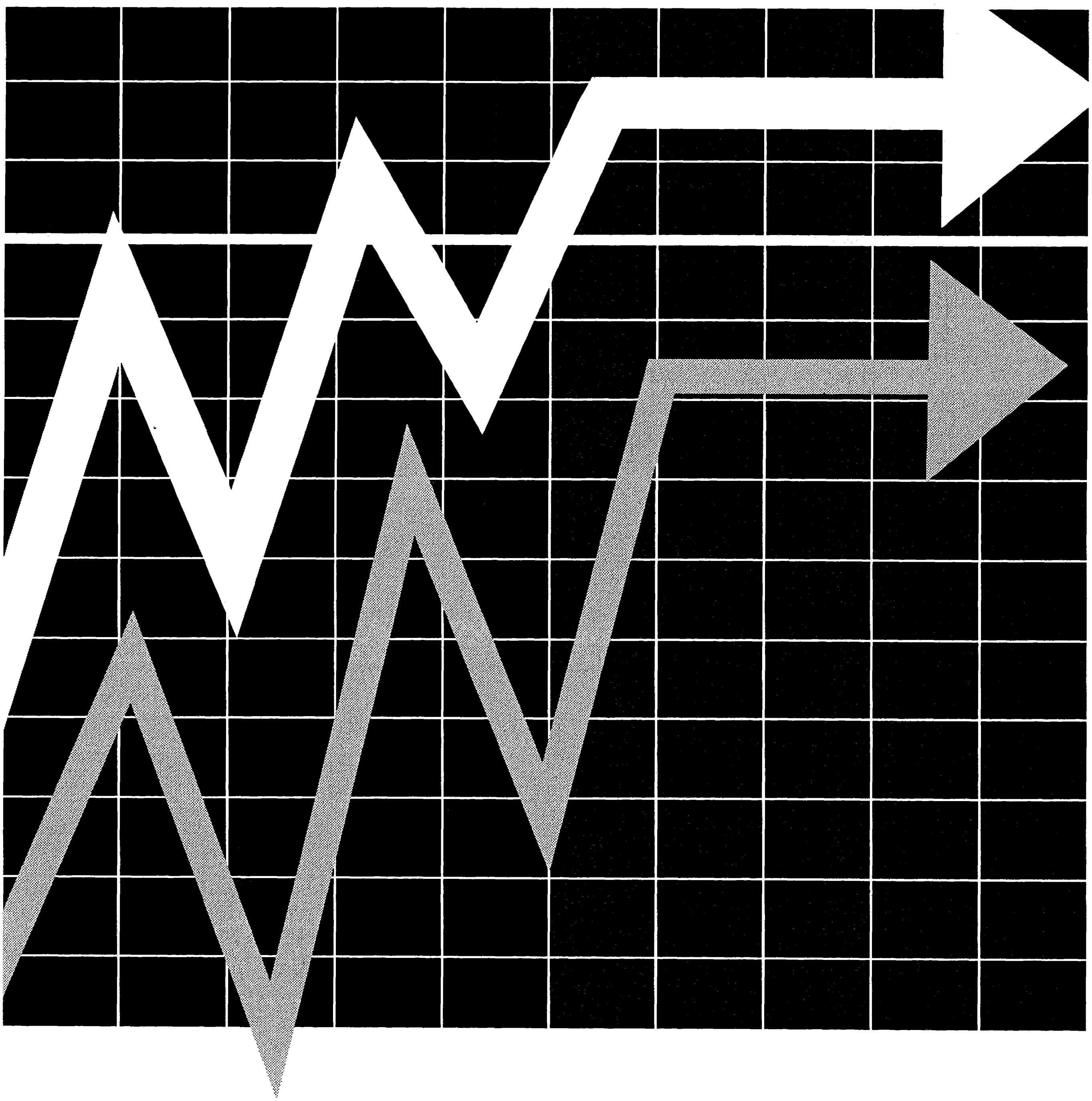

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Abstract

During the 1990's, apparel industry adjustment to foreign competition and technological change will likely accelerate as the new North American Free Trade Agreement (NAFTA) and the recently concluded General Agreement on Tariffs and Trade (GATT) significantly expand foreign access to the U.S. apparel market. To better cope with this adjustment, a State may wish to form "apparel action teams" to review State economic development options vis a vis the apparel industry. This report discusses 12 key questions a State might usefully address in assembling such a team and defining the team's agenda. The 12 questions fall into 3 major categories: (1) putting together the policy team; (2) setting the ground rules for planning; and (3) setting the ground rules for implementation. The "action team" approach suggested here should be widely applicable for use in many States' key manufacturing sectors.

Keywords: Economic development, rural manufacturing, State policy, action team

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Preface

This report has its roots in two different but parallel experiences. First, the authors had the good fortune of participating in two recent (1990 and 1992) Rural Development Policy Academies conducted by the Council of Governors' Policy Advisors, an affiliate of the National Governors' Association. The Academies were structured strategic planning exercises to assist States in grappling with the vexing problem of how to improve individual and community well-being in rural parts of their States. We were thus privileged to watch—close-up, warts and all—teams from all over the country strive to define and address organizational and substantive issues spanning the very broad area of "rural development policy."

The second major activity was the primary author's research over the last 2 years on the U.S. textile and apparel industry. Two factors motivated this research.

First, it appeared probable that significant trade liberalization would occur over the next few years through either a North American Free Trade Agreement (NAFTA), a General Agreement on Tariffs and Trade (GATT), or both. The United States, Canada, and Mexico did, in fact, agree to a NAFTA during 1993. The Clinton administration has also "signed off" on a new GATT agreement, and this new accord appears likely to receive final Congressional approval in 1994 or 1995. The effects of these agreements, coupled with inexorable technological shifts over the next several years, will shape the relatively labor-intensive apparel industry beyond the year 2000.

Second, the apparel industry is the mainstay of many Southeastern rural communities' economic base. Liberalizing trade could thus exert a strong effect on these rural areas, many among the poorest in the Nation. As liberalization became more certain, then, it seemed likely that many States would begin to consider how State policy could better help workers, firms, and communities adapt to the change.

We offer this report as a framework within which State personnel might think about what industry issues are important to address. It combines the insights gained through our Academy experiences with our industry research. We do not intend to be prescriptive but to help State officials focus on the core issues they will address, explicitly or implicitly, when designing an apparel action strategy.

This report will also be of interest to governmental or nonprofit officials working in the field of economic development, policy analysts, and private individuals or firms with an interest and/or stake in how well apparel-dependent areas adjust. State policy teams developing programs to cope with change in other industries will also find this report germane because their efforts will confront many of the same key issues.

Summary

Many States, especially in the Southeast, have significant rural employment in the apparel industry. In these States, as part of the process of reviewing economic development options for the State's rural regions, policymakers may wish to form an "apparel action team" to investigate the policy implications of what is certain to be several years of continued, and probably accelerating, apparel industry adjustment to foreign competition and technological change.

This report spells out 12 key questions a State will address in assembling an apparel action team and defining the team's agenda. If the State does not explicitly answer each of these 12 questions, it will answer them implicitly.

We have divided these 12 questions into 3 major categories: (1) putting together the policy team; (2) setting the ground rules for planning; and (3) setting the ground rules for implementation. Each question falls under one of these three categories. A final decision never has to be made on any of these 12 choices. Each choice is subject to later reevaluation. Over time, it is likely that a number of the choices made will be modified--some once, and some several times.

For purposes of this study, we have defined the apparel sector broadly to include: (1) the yarn, fabric, and machinery sectors supplying the clothing sector, (2) the clothing manufacturing sector, (3) the apparel distribution network, most importantly the retail sector, and (4) the labor from households, educational institutions, and training programs employed in all these sectors. We use the term "apparel" to refer to these sectors collectively. We use the term "clothing" to refer only to those activities that (1) cut whole fabric into pieces, (2) assemble these pieces into a final garment, or (3) form yarn directly into a completed garment (e.g., hosiery) without first cutting pieces from fabric. We use the term "textile" to refer collectively to yarn production, fabric production, and fabric finishing.

Helping Rural Manufacturers Adjust to New Trade Rules

Developing State Strategies for the Rural Apparel Industry

John M. Redman
David W. Sears

Putting Together the Apparel Action Team

The first general area a State will address is who, specifically, it will actively involve in its effort to develop an apparel strategy. Purely political considerations will, of course, heavily influence this choice. State "team builders" will invite some important public and private sector opinion leaders, and representatives of key organizations, to join the team in an effort to obtain the support of critical constituencies for the team's policy package.

There are at least four other, more substantive, questions that bear on whom to involve. At some point, a State will have to answer each of these four questions, either explicitly (through active, straightforward consideration) or implicitly (by default).

The selection of team members is perhaps the most critical decision a State must make. Without a strong team, solid results are unlikely. Team builders should therefore consider this activity with the greatest care.

1. Should a Team Include Members of Substate Public Organizations?

For several reasons, State officials may determine that a critical piece of their strategy is soliciting and utilizing the input of local, regional, and tribal governments and other substate public organizations (private industry councils, community development corporations, community colleges). A State may feel that, within the public sector, useful information on local industry and conditions resides at the local level. Local or regional organizations might provide particularly valuable input if they routinely work with industry firms or employees. Substate organizations also may have substantial resources to help implement an apparel initiative and perhaps expand its scope.

While many States will see active local participation as beneficial, in some States the time, cost, and logistical difficulty of involving many more players may offset that advantage. State government itself may have regional or local staff that can provide much of the same information as local people. These staff include State industrial extension engineers, Extension Service specialists, university research faculty, experts at Small Business Development Centers or within the State's Economic Development or Commerce Department, State or regional employment and training program administrators, and State legislators with longstanding interest in the industry.

Despite a flurry of local capacity building activity over the last decade, many localities still lack trained leadership, have few additional resources to offer, or have both deficiencies.[1] Also, in the right political climate, the State legislature may be able to pass innovative apparel programs without explicit local support, particularly if the legislative leadership has actively participated in program development.

[1] For example, a recent study of nonmetro self-development efforts could identify, nationwide, only 103 successful local self-help projects. These results imply that the vast majority of rural communities have not put together the combination of local leadership and local resources to create a self-development project. In addition, most successful projects were not very large undertakings -- the effect of the project on overall local economic performance was trivial. See Green et al., *From the Grassroots: Results of a National Study of Rural Self-Development Projects*, U.S. Dept. Agr., Econ. Res. Serv., AGES 9325, 1993.

Developing a State Rural Apparel Strategy: 12 Key Choices

Putting Together the Apparel Action Team

1. Should a team include members of substate public organizations?

2. Should a team include private sector members?

3. Should a team work with other State governments?

4. Should relationships be established with Federal agencies?

Setting the Ground Rules for Planning

5. How specific should a statement of goals and objectives be?

6. Should the program be strictly an "apparel" program?

7. Should the program be strictly a "rural" apparel program?

8. Should the program emphasize people or places?

9. Should the program be comprehensive or sequential?

Setting the Ground Rules for Implementation

10. Should program resources be loosely or tightly targeted?

11. What type of service delivery system should be used?

12. How tightly should the State control program resources?

Extensive local participation may also dampen the breadth and vision of the State's program: State officials may so defer to local initiative/opinion that the process fails to develop broader State or regional goals to help inform and guide local actions. In the absence of a broader strategic framework, local officials may focus so heavily on the "tree" (for example, how to save jobs at the local apparel plant) that they fail to see the "forest" (how to address longer term statewide industry problems and opportunities).

2. Should a Team Include Private Sector Members?

Heavy reliance on industry expertise within State government is perhaps the easiest, fastest way to create the apparel action team. Such a team might, of course, supplement its knowledge with industry analyses or with input from consultants. A different approach would include, as full team members, representatives of the private sector—most important, representatives from apparel industry firms, trade associations, and unions. A State might solicit active private sector participation for several reasons.

First, the criteria governing team member selection may screen out, even unintentionally, those public sector persons with the best knowledge of industry conditions. This may happen for political reasons, because the team builders are unaware of the full range of existing public sector expertise, or because work commitments preclude the best-informed public sector experts from participating. Under these conditions, strong participation from top private sector experts can help offset this omission of top public sector expertise.

Second, the team builders may consider "in-house" public sector expertise inadequate to the task. This would be particularly likely if State programs do not put personnel in daily contact with a wide range of apparel industry firms.

Whatever the State's "in-house" resources, a third reason to solicit private sector participation is that industry people may have more up-to-date information about their own industry. For example, it became clear during our recent (1992-93) study of the U.S. apparel industry that few, if any, State governments, even those with good instate apparel expertise, had developed sufficient information to realistically evaluate the potential effect of a North American Free Trade Agreement (NAFTA) on their apparel firms. States lacked collaborative private/public mechanisms through which to obtain systematic input from apparel company officials responsible for investment decisions, who were in a much better position to judge what NAFTA might portend. This same problem existed at the Federal level.

Finally, key private sector endorsement of an apparel team's strategy enhances the credibility of the teams's analysis and proposals. Critics will find it harder to label the team's product amateurish or otherwise unrealistic. In addition, a private sector stamp of approval is important because the private sector will be playing a critical, perhaps the most important, role in the implementation of the State's apparel strategy.

Disadvantages to pursuing private sector participation may also exist. First, as noted, few States have established institutions to promote joint public/private analysis of problems and opportunities in the apparel industry. Therefore, a State may have to spend considerable time and effort forming such a cooperative public/private group.[2]

Second, some key private sector organizations may prove difficult or impossible to get to the table. For example, many large apparel companies have a tradition of suspicion or outright animosity toward the public sector. Other large firms may decline to participate because they assume that whatever a State might do will be of little or no consequence to their own operations.

Third, many public sector officials and public interest groups may fear that the private companies that agree to serve as apparel action team members do so only to promote their own narrow, short-term, profit-maximizing interests. Any public perception that the team's recommendations promote private interests quite different from the public interest will diminish the credibility and value of the team's work.

Others would respond, however, that every industry has some companies that would view participation on a policy team as a public service, and may, in fact, feel flattered that the State places a value on their knowledge and insights. Such firms may also participate to compare their understanding of apparel industry trends with the views of other companies and informed industry observers.

Several States have worked (albeit on a temporary basis) with apparel industry representatives to develop what they believe are sound, detailed analyses of industry trends. In 1992, for example, the Lehigh Valley Industrial Resource Center, a regional office of Pennsylvania's Industrial Extension Service, coordinated a study of the northeastern Pennsylvania apparel industry. This study enjoyed the active participation of industry unions, two trade associations representing local apparel contractors, and 50 individual firms, each of which agreed to indepth interviews regarding their operations. Similarly, in 1992, the nonprofit Garment Industry Development Council (GIDC) sponsored a sector study of the New York City garment industry. The study was managed by a leading industry consulting firm and included interviews with 15 major retailers and 23 clothing manufacturers and contractors.

Appointing private sector members to the apparel action team is not, of course, the only way to get industry participation. Frequently, public organizations use public hearings, one-time reviews of draft policy documents, or both, to solicit input from the private sector. Such processes, while useful in catching gross inaccuracies or in identifying some additional themes, are often "hit or miss." In any case, these one-shot doses of input fail to develop the quality of understanding that results from long hours of focused, face-to-face interaction between public and private sector representatives.

Obtaining only occasional private sector input also precludes longer term public/private relationships useful in tracking industry changes, adjusting policy strategies, and helping ensure strong private sector cooperation when implementing the apparel team's strategy. Since the State will implement the strategy over many years, full "buy-in" to the team's strategy by key private sector actors will be critical to its success. Those on the team are the most likely to be enthusiastic supporters of the strategy.

3. Should a Team Work With Other State Governments?

When policy goals are industry-specific, there is a strong argument for actively coordinating a State's policy development effort with similar efforts in other States. Rarely will only one State have a sole interest in the health of a specific industry.[3] Commercial

[2] If selecting solid private sector team members and getting firm participation commitments from them is likely to be a time-consuming process, and the State has a considerable amount of "in-house" expertise on the apparel sector, it may wish to use a two-stage process of team formation. In stage one, public sector team members would take a "first crack" at a time- and labor-intensive review of industry conditions and trends, and the public actions that actually or potentially affect industry performance. (Strategic planning jargon labels this review the "environmental scan.") Simultaneously, the team builders would recruit private sector representation. When the stage-one team had completed a first draft of this background analysis, private sector individuals would join the team for stage two, in which all members would actively participate in both revising/updating the analysis and developing the full policy package. (This option is clearly not viable for States with limited public sector expertise.)

[3] For example, if one examines maps of counties with 1,000 or more employees in the knitting sector, substantial concentrations of employment are found in North Carolina, northeast South Carolina, and along the northern half of the Georgia/Alabama State line. In broadwoven fabric, large employer counties are found in North Carolina, South Carolina, Georgia, and Alabama. In clothing, large employer counties are found in all Southeastern States.

linkages among companies in different States will, in fact, routinely exist. These interstate commonalities and linkages suggest shared problems and opportunities. Energetic interstate cooperation is one way to identify joint actions to make policies more effective, or to permit projects that one State alone would not undertake.

For example, an effort to help establish Quick Response partnerships among various firms may be more effective if matching is done not only among companies within a given State but regionally—across several States. Or, regional cooperation may secure funding for a specific research and development project that no one State wished to fund at the scale required for effectiveness. The Southern Growth Policies Board and the Southern Technology Council are examples of ongoing cooperative interstate development efforts in the Southeast, but to our knowledge no regional effort currently works to develop multistate strategies for the apparel sector.

On the other hand, the time and energy devoted to creating active interstate partnerships may sometimes sap scarce resources and produce few benefits. Cooperation among States is particularly difficult because of frequent gubernatorial changes, and the sensitivity of State budgets to the ebb and flow of economic activity. In addition, the "coordinating partners" ultimately may not be fully committed to cooperation. In some cases, a State may believe the severity of the apparel sector's problems does not allow the lead time necessary to develop and use interstate partnerships.

For many States, the best approach might be to first "go it alone" in establishing a basic State rural apparel strategy. The State might subsequently reexamine its strategy carefully to identify one or two policy niches where interstate cooperative efforts might enhance program effectiveness.

4. Should Relationships Be Established With Federal Agencies?

Several States participating in the federally stimulated State Rural Development Council effort are hopeful this coordination will facilitate reaching the State's rural development goals. Such coordination can supplement the State's limited resources. The State can choose to focus on plugging those holes not covered by Federal resources or the State can attempt to pull (or push) Federal resources into specific areas that it cannot handle.

Under this same effort, Federal agencies are encouraged to coordinate with each other and with State agencies. Anecdotal evidence of good State-Federal cooperation from State Council activities has surfaced. In South Dakota, for example, the U.S. Army Corps of Engineers and the Governor's Office have begun a face-to-face discussion regarding the appropriate recreational use of a dam-created lake. Prior to the Council-stimulated conversations, all dialogue between the parties had taken place in an adversarial setting—the courts. Also, as an outgrowth of discussions held during Maine State Council meetings, the Maine State Housing Authority and the Farmers Home Administration are working together to improve multifamily housing affordability in rural Maine.

The pros and cons of a high degree of coordination with the Federal Government are similar to those just discussed in terms of interstate coordination. One additional drawback, however, is that the sharp reduction of active Federal involvement in economic development issues over the past decade has de-emphasized industry-specific activities. As a result, the Federal Government may have limited expertise to offer a State's apparel action team.

Setting the Ground Rules for Planning

Once a State assembles its apparel action team, the team will develop some basic ground rules to govern its planning effort. The focus of this section is on five choices relating to these rules. Again, a team will either explicitly or implicitly answer these questions during the course of its deliberations.

5. How Specific Should a Statement of Goals and Objectives Be?

Developing a coherent apparel policy requires at least four major steps: (1) an environmental scan, (2) realistic goals and objectives, (3) strategies aimed at achieving those goals and objectives, and (4) programs to implement these strategies.

A thorough and frank environmental scan will help the team quickly focus on candidate goals and objectives that are both practical and promising. In turn, the statement of goals and objectives will set the strategy's basic direction and the general bounds for discussion of programs. Ultimately, then, apparel strategies and programs tie directly back into these goals and objectives. In many cases, the detailing of strategies and programs will seem relatively

A Vision of Rural Idaho

PEOPLE—We see a rural Idaho where: Human dignity is a priority, people are the focus and youth are a particularly vital resource, services are available to meet lifelong basic human needs, and there are opportunities for all individuals to thrive regardless of physical ability, income, race, or culture.

ENVIRONMENT—We see a rural Idaho where: Idaho's rugged beautiful land molds our character and our economic and environmental needs are balanced through thoughtful, sustainable use of our national resources; we are willing and able to share Idaho's recreational opportunities and cultural treasures with visitors; and there are untouched, natural places where wildlife thrives and the human spirit is lifted.

ECONOMY—We see a rural Idaho where: The economy is vibrant and offers opportunities for agricultural, natural resource, manufacturing and service industries; entrepreneurship is encouraged; ongoing success in the global marketplace is supported by state-of-the-art communications systems and technology; there is a well-maintained, statewide transportation network; and there are meaningful jobs offering incomes to sustain a preferred standard of living and quality of life.

EDUCATION—We see a rural Idaho where: An educational system encourages and provides affordable and accessible opportunities for lifelong learning; students of all ages are prepared to succeed in a global environment; educational systems are responsive to diverse industry needs and community values; and the family is an active partner in education.

GOVERNMENT—We see a rural Idaho where: Responsive government serves its citizens; citizens are informed and passionately involved in decision making; leaders emerge from all walks of life and all segments of the community; and effective public/private partnerships flourish.

VALUES—We see a rural Idaho where: Our values are revered and passed on to our children; we use our heritage to create our future; we honor family and value cultural diversity; we encourage artistic expression; productivity is a way of life; we view adversity as a challenge; and the responsibilities of citizenship are accepted by all, and the benefits are accessible to all.

Source: State of Idaho Policy Team, Rural Competitiveness Policy Academy, May 1992.

straightforward once the team develops (through the environmental scan) a common understanding of industry problems and opportunities and agrees on a realistic set of goals and objectives.

As simple as the setting of goals and objectives might appear to be, experience indicates that policy teams can spend a great deal of time and energy trying to do so, and often not successfully. It is difficult, and at times impossible, for a diverse team to agree on a single coherent goal statement. The difficulty of reaching agreement increases as the desired specificity of the statement increases.

An important question, then, is how hard to press for a precise statement of goals and objectives. In all probability, a team cannot answer this question at the outset, but will have to address it at some point in its deliberations. The clear preference of the Council of Governors' Policy Advisors (CGPA) is that the statement of goals and objectives be very specific.[4] CGPA also believes that attaining the desired specificity requires a prodigious effort.

CGPA suggests that, following the environmental scan (a task in and of itself), the team develop a "vision" statement. An apparel action team vision statement might describe a shared image of how the team would like to see the State's rural apparel industry evolve over the next 10-20 years. A good vision statement must, of course, fully recognize the constraints imposed by current conditions, trends and problems, but will also bring to life important opportunities.[5]

[4] CGPA is an affiliate of the National Governors' Association. As part of its services to members, over the past few years it has accumulated extensive experience working with State policy teams to develop strategic plans for State action in a number of different policy areas, including economic development.

[5] During its second Rural Development Policy Academy, CGPA provided this Stanford Business School definition of "vision": Vision is the ability to see the potential in, or necessity of, opportunities right in front of you. And, just as important, it is the courage, skills, passionate conviction and relentless persistence to actually make it happen.... Vision isn't forecasting the future; it is creating the future by taking action in the present.
(CGPA Policy Academy background documents, Aug. 1992)

To illustrate what visioning might produce, "A Vision of Rural Idaho" (see box) contains one policy team's "vision" for its State's rural areas. A "vision" might often be a best case scenario. For example, the Phoenix Scenario—described in a forthcoming overview report on possibilities for the apparel industry—is a vision of what the U.S. apparel industry might become over the next 20-30 years under propitious circumstances.[6] (See Appendix for summary of the Phoenix scenario.)

Visions can be much less optimistic than the Phoenix scenario, but still foresee a positive future. For example, one team's vision of the apparel industry in the year 2005 might reflect a consensus that most of the industry will move to Mexico or Southeast Asia. In that case, the team vision might focus on the smooth movement of the State's apparel labor and capital into other, higher paying industries.

Under CGPA's approach, the team, against the backdrop of this vision, will next develop broad expressions of policy intent and priorities—in short, the team should unite around common goals. The team must believe that these goals can garner substantial popular support, and that their implementation is technically feasible.

If a team succeeds in establishing explicit goals, these goals can serve, in turn, as the basis for defining a set of more specific program objectives. Below we present a hypothetical example of what an apparel action team might choose as its goals and objectives. This example is consistent with CGPA's guidelines (see box, "CPGA Guidelines for Team Objectives").

All likely scenarios of the U.S. apparel industry foresee diminished employment due to a combination of continued/intensified foreign competition and technological change.[7] For most States, then, any statement of goals might recognize the necessity of adjusting to a persistent job loss in the State's apparel industry. Therefore, goal-setting discussions might at least consider whether a State should explicitly set a goal such as:

CPGA Guidelines for Team Objectives

CGPA succinctly describes "a good strategic policy objective" as one that:

- is logically related to a policy goal
- is as specific as possible
- specifies desired outcome(s) for people/clients, and
- is measurable.

A "good set of objectives" is one that:

- reflects relative priorities
- recognizes legitimate interests of affected parties
- is realistic about what can be achieved over the given time period, and
- is realistic about the resources that may be available.

"Each substate labor market will have the capability of adjusting to the intensifying forces of foreign competition and continued technological change with a minimum of disruption to individual families, businesses, and communities."

If a more positive, Phoenix-type scenario shapes the apparel action team's vision, its goal statement might, in addition to an adjustment goal, include other goals emphasizing modernization and innovation. For example:

"By the year 2005, the rural apparel industry will develop a strategically well-positioned, highly innovative, and flexible world-class production capability. Specific characteristics of the industry will include extensive horizontal and vertical linkages among segments of the apparel production chain, and numerous long-term partnerships with U.S., European, and Japanese retailers."

"Accompanying industry revitalization will be improved labor-management relationships, substantially higher real wages, and better working conditions for rural apparel workers."

Program objectives would follow from these goals. For instance, because high turnover characterizes most apparel plants, the team might want to focus first on rapid reemployment of dislocated workers within the same labor market area in order to minimize disruption to families and communities.

[6] See Appendix for a summary of this scenario. The companion to this report, (Redman, John M., and William Amt, *The Tsunami, Phoenix, Tequila Sunset and FEDEX Scenarios: Thinking About the Future of the Rural Apparel Industry*, Washington, DC: Aspen Institute, forthcoming 1994), contains a much fuller version of each scenario, as well as extensive descriptive material on current apparel industry structure and trends over the last 30 years. Included are data on real output, employment levels and geographic distribution, real investment, real capital stock, multifactor productivity growth, and measures of international competitive advantage.

[7] See companion report, ibid.

Thus, a primary objective under its first, adjustment-related, goal might be:

"To reemploy within 6 weeks, at apparel establishments within commuting distance of workers' current residences, 60 percent of all experienced dislocated sewers who seek immediate reemployment."

If the team expects that overall economic activity in the local economy will be expanding over the next several years, a corollary objective for the remaining group of dislocated workers might be:

"To place in other acceptable local employment within 4 months 75 percent of the dislocated workers for which placement into other area apparel jobs is not a desired or realistic alternative."

A final objective might be:

"To assist the relocation of all displaced apparel workers who wish to leave the area because jobs for which they are qualified, or for which they might be trained, are not locally available in either apparel or nonapparel occupations."

One overall thrust of adjustment assistance to businesses might be:

"To facilitate movement of 50 midsized (employment levels of 100-200) rural apparel operations into alternative product lines, either into more sheltered apparel lines or into less threatened nonapparel products."

For example, a men's jacket manufacturer might convert to the production of T-shirts; a producer of nylon outerwear might convert to the production of camping gear; or a firm producing work uniforms might turn to the production of military uniforms for the Department of Defense (which is actively seeking to strengthen domestic production capacity and promote Quick Response among its suppliers).

Given the ambitious nature of goals under a Phoenix-type scenario, a related statement of objectives might reasonably include both short/medium-term and long-term objectives. Examples of short- to medium-term objectives might be:

"To increase by tenfold within 3 years the number of State apparel firms participating in true just-in-time Quick Response networks."

"To triple within 3 years the number of small- and medium-sized enterprises (SME's) receiving public or private technical assistance in evaluating new technologies (particularly modular manufacturing and unit production systems)."

"To increase by 50 percent within 2 years the number of State SME's that can produce small-lot, high-quality apparel fabric on a short turnaround basis for both U.S. and European customers."

Longer term objectives might include:

"To double within 5 years the number of State SME's exporting at least $10 million of apparel to the EEC annually."

"To triple within 5 years the number of instate SME's that create and sell their own product line." (Such lines, including dresses or jackets of original design, are better insulated against the pressures of competition than less unique products.)

"To promote a quadrupling within 5 years of national research and development expenditure on made-to-measure technology."

"To develop within 5 years publicly accessible, instate expertise on European apparel markets/trends, including personal familiarity with buyers from each of the 20 largest European apparel retailers."

"To provide technical assistance over the next 5 years to all instate apparel SME's wishing to implement the management changes necessary to satisfy the EEC's new ISO 9000 total quality management requirements."[8]

We go into such detail to emphasize the great deal of team analysis, discussion, and cooperation needed to develop goals and objectives as specific as those listed above. Nonetheless, CGPA and others would

[8] The ISO 9000 standard is "a unified, comprehensive quality control method which is being implemented in response to the perceived need of the European Community to protect itself from substandard products and services.... All in all, the state of a company's quality control program will ultimately determine the time and expense required for certification. For some, this means a complete overhaul of their quality control program.... Since few companies are as yet certified, compliance can provide a temporary competitive advantage. In the future, companies lacking ISO 9000 certification will probably become very conspicuous indeed." (Turner, Tommy. "The Implications of ISO 9000 for Small Firms," *State International Policies*, Research Triangle Park, NC: Southern Growth Policies Board, Vol 2., No. 9, Oct./Nov. 1992)

argue that such specificity is necessary if the team is to develop sound apparel strategies and programs.

One danger of insufficiently specific goals and objectives is that it fosters an apparel program that is little more than a laundry list of team members' pet ideas, as the team, confronting time pressures, rushes to closure by hastily stringing together a great number of program proposals. These proposals may be only the noncontroversial ones, or they may reflect the preferences of the subset of team members momentarily in control. In the worst case, the team will include nearly everything suggested because most members have lost interest and intend shortly to dissociate themselves from the strategy-building process.

The resulting laundry list of proposals will have no clear sense of direction nor an explicit priority structure. Many team members are likely to feel unenthusiastic; the package will consequently lack a shared sense of ownership and energy. Its program content is also likely to extend wildly beyond that for which resources are realistically available. Politically, such packages are frequently "dead on arrival."

Many factors can contribute to a failure to agree upon specific goals and objectives. Turf considerations, concerns about the competency of a particular agency, differing ideological orientations, political and personal rivalries, and racial or ethnic divisions within the team are obvious examples.

Lack of information on a specific aspect of the apparel industry can, by itself, make it difficult to reach broad agreement on goals and objectives. Different team members may, for example, ardently believe in contradictory "common wisdoms" about the industry (for example "management is generally progressive" or "management is generally out of touch"). While empirical data may exist to objectively resolve such differences, a lack of time, resources, or knowledge of these data may preclude their use. In addition, often there may be no clear consensus about how best to measure progress toward a given objective.

An apparel action team also may disagree on whether its goals and objectives should emphasize substantive targets (for example, improving the number or quality of rural apparel jobs) or institutional targets (for example, building institutional capacity).

Under the "substantive" approach, quantitative benchmarks with which to track the effects of public programs on actual industry performance would follow from the goals statement (for example, measuring the percentage increase in apparel exports over the next 3 years). Under the institutional or "process" approach, the team might define program objectives in terms of how rapidly and how well business assistance capacity evolved, without specific reference to industry performance (for example, tracking the number of apparel apprenticeship programs initiated in State high schools over the next 3 years).

Another barrier inhibiting agreement on goals and objectives is the intrastate heterogeneity of the apparel industry itself. Some regions of the State may be heavily invested in broadwoven fabric production, others may rely on sewn clothing production, while still others may depend on knit-from-yarn clothing production (for example, hosiery, underwear). Each of these sectors will have different characteristics and needs; these differences may complicate reaching agreement on goals and objectives. Intrasector differences may arise, for example, over what types of apparel research to fund, where to focus modernization assistance, or what kinds of job training to emphasize.

The great number of barriers to developing a specific goal/objective statement, coupled with constraints on time, energy, and patience, may force an apparel action team to accept objectives that are left more general, are less tied to quantifiable milestones, and (in order to achieve consensus) address a relatively narrow range of possible program areas. There is no formula that can guide a team in making decisions on the appropriate specificity of its goals and objectives. These decisions will be shaped as much by the arts of personal interaction and leadership as by the objective standards of sound strategic planning.

We wish to stress, however, that whatever goals and objectives a team agrees upon must provide a platform upon which to build strategy and program options, and, ultimately, a credible policy package that people will take seriously. Failure to erect that platform can leave the entire effort fatally flawed.

6. Should the Program Be Strictly an "Apparel" Program?

An apparel action team can either focus specifically on the apparel sector or seek increased assistance for the apparel industry by supporting broader programs of expanded assistance (for example, modernization) to other industries as well.

Critics of a targeted apparel program possess at least three arguments. First, to the extent that increased business assistance to the apparel sector means decreased assistance to nonapparel industries, a team might well anticipate opposition to a targeted apparel program from nonapparel industry groups. Prospective budget diversion to the apparel industry from programs other than business assistance (for example, education or infrastructure programs) could provoke even wider resistance.

Conversely, building a coalition with representatives of other State industries to seek expanded business assistance to a broad range of industries would increase the team's political chances of securing such assistance; some of this new assistance would (presumably) help accomplish the apparel team's objectives.

A second, parallel political problem is that organization of apparel contractors has proven very difficult. The vast majority of rural southeastern apparel contractors, for example, belong to no industry association, and efforts over the last 10-15 years to develop such associations have proven largely unsuccessful. Supporters of a distinct apparel program may thus lack a sizeable, vocal industry constituency to lobby for an apparel-specific program.

Third, many people believe that targeting resources on a particular sector is not a sound approach to development policy because it can interfere with the (presumably superior) market allocation of investment resources across industries. In this view, the sole objective of State intervention should be to correct market failure in *whatever* sector a failure exists. Examples of programs intended to correct market failures include programs to: (1) improve the availability of market information; (2) increase the availability of investment capital to small businesses; and (3) train economically disadvantaged persons who otherwise would have no access to training. This functional approach (as opposed to a sector-based approach) is the more traditional way of thinking about development policy. Such traditions can dampen the prospects of securing broad political support for a new development program that focuses heavily or solely on the apparel sector.

Proponents of a targeted apparel program can offer a number of counterpoints, however. First, targeted approaches, they argue, do not violate the "market failure" rule. A carefully targeted apparel strategy can (and should) have the same basic intent as that of the more traditional functional approach (that is, to correct market failure), albeit solely within the apparel sector. From this perspective, reducing the incidence of market failure within the industry is the key to helping the industry better respond to changing market conditions. For example, improving the access of an SME to good information on export markets, information it would not otherwise have the time or resources to gather, might significantly enhance the firm's growth potential even as trade liberalization intensifies foreign competition for the domestic U.S. market.

Second, a targeted approach more adequately recognizes the many technical aspects characterizing each sector, including apparel. The typical functional program, intended to address problems and opportunities across a broad range of a State's industries, simply cannot do so. For example, general-purpose State industrial extension programs may often lack staff engineers with the specific apparel industry expertise to help apparel firms increase efficiency and adjust product mix. Or, small business loan programs may lack the detailed apparel industry knowledge to judge how well-positioned strategically an apparel firm applying for assistance may be. Or, State export promotion personnel may have little detailed knowledge of specific foreign apparel markets. Traditional functional programs often attempt to be all things to all sectors, and, as a result, fail to develop the depth of industry-specific experience and information needed to make the program as credible, relevant, and effective as possible.

Third, a functional approach can make it extremely difficult for an apparel firm to identify the publicly funded business assistance that is available. Many States administer a bewildering array of functional programs, only some of which are relevant to specific apparel firms. A focus on the apparel industry will enable apparel firms to more easily find useful programs. Better coordination of relevant programs also becomes more likely, and may result in physically colocating personnel from different programs.

Fourth, attempting to expand assistance to the apparel industry through a broader program of modernization assistance to all State manufacturing runs the risk of (1) spreading available resources across too many industries to make much difference in any of them; (2) making it impossible to determine beforehand how much assistance the apparel sector might receive; and (3) making it more difficult to ensure targeting of resources to achieve the team's objectives. The extent of such risks depends on the total amount of resources available for assistance programs, the types of assistance activities those resources can fund, and the criteria for selecting which firms or workers will receive assistance. If, considering the existing State political and economic environment, the apparel action team believes a functional program will allow it to accomplish few if any of its objectives, it is left with little choice but to propose a more targeted program.

From a political perspective, resistance to a targeted approach is not likely to be as strong in States with an important apparel sector. In many States, a few large industries dominate the economy; in response, State business assistance programs frequently (and naturally) target those key industries. Many States have also explicitly promoted the growth of a few industries in which they feel they have, or can establish, a sustainable competitive advantage. In general, at least in the short run, each State plays a relatively fixed hand of strengths and weaknesses; a sectoral strategy is an attempt to play this hand as well as possible.

From this more strategic perspective, the apparel sector is clearly a key industry in many substate areas, particularly rural ones. Of 771 nonmetro counties in 10 Southeastern States, 209 (27 percent) had *20 percent or more* of their 1987 private nonfarm employment in SIC's 22 and 23[9], which consist primarily of fabric and clothing production. Almost half of the Southeastern nonmetro counties had 10 percent or more of employment in these sectors.

Within several States, the apparel employment rates were much higher. For example, 56 percent of South Carolina's nonmetro counties, 46 percent of Alabama's, 43 percent of Georgia's, and 39 percent of North Carolina's had more than 20 percent of private nonfarm employment in SIC's 22 and 23.

These high levels of employment concentration make the apparel sector critical to rural economic vitality in communities throughout the rural Southeast. The levels also indicate that a targeted apparel program might enjoy considerable political support without adding other sectors or activities. The many feverish national battles over the last decade regarding expanded protection for the apparel industry reflect, in part, a broad regional concern for the sector's future.

A targeted approach advocate might also argue that the apparel sector deserves special attention not only because of its size, but because it is much more vulnerable than most industries to shocks resulting from imminent trade liberalization. Within the next few years, the new NAFTA and GATT will produce significant new challenges and opportunities for rural apparel operations. At one extreme, many analysts argue that the great majority of industry employment will disappear in the years following trade liberalization. The rapidity and agility with which a State's industry responds to these events may thus be critical to how a sizable portion of the State's rural workers and communities fare during the late 1990's.

The apparel industry might further merit a targeted program because it is much more fragmented than most sectors subject to heavy foreign competition. Consequently, to affect a significant portion of industry output requires a much more aggressive and broad-ranging effort than might be the case in other manufacturing industries.

Finally, a targeted apparel program might better avert the discouraging post-layoff experience of clothing workers who lost their jobs during the 1980's. Recent analyses suggest that dislocated clothing workers will have a more difficult time (than the average dislocated worker) in finding a new job at a comparable level of pay, despite the fact that their wages are much lower than the average manufacturing wage.

These outcomes are undoubtedly associated to some (unknown) extent with clothing worker demographics. Compared with the average dislocated worker, dislocated clothing workers had lower educational levels, and were more likely to be older, female, and members of minority groups. These are all characteristics associated with greater labor market difficulties. Also, the skills acquired in clothing employment (sewing machine operation or fabric cutting) are less readily transferable to a variety of occupations than many other manufacturing skills.

From this human resource perspective, proponents of an "apparel" policy might therefore argue for a focused effort to: (1) minimize dislocations among this group of especially vulnerable workers by promoting apparel industry modernization, and (2) provide clothing workers adjustment assistance beyond that received by workers dislocated from other manufacturing sectors.

[9] The Standard Industrial Classification (SIC) system is used by the Census to identify and group related industries.

7. Should the Program Be Strictly a "Rural" Apparel Program?

State policymakers may choose to develop a separate rural apparel strategy or a program serving both rural and urban apparel firms and workers.

Critics of a separate rural apparel strategy can point to at least two major disadvantages of a program that operates only in rural areas. The first, and most obvious, is that, in some States, a separate rural strategy may not garner support from urban or suburban interests or legislators. Second, a unique rural strategy may less readily recognize and build upon the linkages—which may often be of prime importance—between the State's metro and nonmetro economies. Washington State, for example, has established a system of "brokers" to match rural producers and urban firms needing those products; it would be easier to strengthen these linkages under a statewide approach.

From a practical standpoint, about two-thirds of southeastern apparel employment is in rural areas. Thus, the actual difference between a "rural" and a" statewide" apparel strategy may not be large.

On the other hand, proponents of a separate rural strategy can point to at least three clear disadvantages of a program that does not differentiate between rural and urban components of the apparel industry. First, whatever the rural share of State employment, resources will still be spread more thinly across the entire State if both urban and rural areas are eligible for assistance. Second, the negative effects of industry contraction may fall most heavily on rural areas since, in many of the key apparel States, rural dependence on apparel is generally much higher than urban dependence. Resources devoted only to rural apparel firms and communities may thus have a much greater proportional effect on local economic health than devoting the same resources to metro areas.

Third, greater dependence also suggests that rural areas will have a harder time adjusting to changing competitive conditions. Unsuccessful rural adjustment and subsequent worker outmigration would, in turn, transfer unresolved problems of unemployment and job skill deficiencies to regional urban centers. Advocates of a rural focus could thus reasonably argue that a rural apparel program can help minimize future problems for urban areas.

A State could choose a compromise approach under which it integrates major pieces of the State's apparel program (for example, industrial extension) into an overall statewide program, while other selected initiatives (for example, outplacement or retraining services for dislocated workers) might focus on rural areas.

Idaho and Iowa have each employed this type of selective combination. Idaho, in its recent 1991-95 economic agenda, devotes some effort to overall State development but focuses special attention on the tourism development and economic diversification requirements of small rural towns. Iowa integrates much rural development into the State's overall development plan and service delivery system; however, the State Government also encourages the formation of "clusters" of small rural communities as alternative delivery mechanisms in sparsely populated areas. These clusters can, in a flexible manner, provide or obtain shared services—such as job development, housing, health care, child care, and education—beyond the reach of any individual member community.

8. Should the Program Emphasize People or Places?

Apparel policy can emphasize people: "The problem is that many rural families are dependent on apparel employment, and apparel employment is in jeopardy. Therefore, what can we do to improve the prospects for these families?" Or, rural development can emphasize place: "Many communities are in jeopardy because of their dependence on apparel employment. Therefore, what can we do to help save these communities?"

Sometimes a rural development strategy that attempts to improve prospects for people will also improve prospects for places, but often these objectives conflict. For example, an apparel policy that offers skill upgrading to dislocated workers through intensive retraining efforts will improve the reemployment prospects for those workers, but *as a result of* these improved prospects (that is, an ability to qualify for more highly skilled and more highly paid jobs), worker mobility, and therefore the likelihood of outmigration from rural places, may increase.

A people-oriented strategy might explicitly encourage outmigration if better job opportunities exist elsewhere. For example, a recent study of Pennsylvania's machine tool industry indicated that many highly paid, skilled machinists—most residing in urban areas—are nearing retirement age, while far fewer people are currently enrolled in apprenticeship programs. A people-oriented program could take advantage of such gross mismatches by providing retraining and relocation assistance to displaced apparel workers.

On the other hand, if a program emphasizes place, the business establishment becomes a center of attention. This is particularly true if (1) a few large establishments dominate community employment, and/or (2) a large number of local businesses depend on one or two other (local or nonlocal) establishments for markets or supplies (if, for example, local yarn, fabric, and/or trim operations sell primarily to one large clothing assembly plant two counties away).

Unfortunately, just as intensive training programs may lead to increased outmigration of people, increased assistance to businesses may lead to decreased local employment if productivity increases enough to reduce labor demand. For example, replacement of shuttle looms with shuttleless looms can increase weaving speeds three to four times; but the labor demanded by the modernizing weaving firm may well decline, absent a very large increase in the demand for its products.

Ideally, an apparel policy could be crafted that would assist *both* local people and the local community. For example, a technology extension program aimed at helping local firms increase their Quick Response capability might work hand in hand with a program that trains dislocated workers for jobs in these upgraded facilities; courses might cover modular manufacturing techniques, total quality management, or the use of computer-aided design and manufacturing (CAD/CAM) software. To complement this effort, the State might develop a job search assistance program to place dislocated sewers who wish immediate reemployment in sewing jobs at other local apparel firms, most of which suffer chronic shortages of experienced sewing operators. Local apparel industry revitalization, under this scenario, might expand local output *and* employment, and improve the status of both local people and the community.

The extent to which such complementarity exists will depend, of course, on specific local conditions. If no action is taken until a crisis is full blown, there may be little choice but to emphasize assistance to people, because firms will have little chance to adjust overnight to the enormously changed environment. The earlier assistance is initiated, then, the better the chance of helping places.

9. Should the Program Be Comprehensive or Sequential?

A State might choose what we will term a "comprehensive approach" to apparel policy. Under a comprehensive approach, the apparel action team would consider all State programs that might be called upon to contribute to upgrading the State's apparel industry. Such programs might cover a broad array of areas including health care, education and training, infrastructure, business financing, technology diffusion, research and development, and marketing assistance. The team would then meld activities from these disparate programs into a single coherent apparel industry strategy.

The alternative, "sequential" approach develops separate pieces of an apparel policy independently over time in response to emerging problems and opportunities. The State might first design a worker adjustment program in response to NAFTA and GATT. In the following year, it might craft an export marketing strategy to help firms develop markets in the EEC. The State might, however, find no reason to develop programs aimed at upgrading business financing for the apparel sector or at expanding applied apparel research.

One shortcoming of this sequential approach is that it may miss opportunities for resource pooling and coordination across programs. For instance, a worker adjustment strategy may miss an opportunity to mesh total quality management (TQM) training for dislocated workers with a State export promotion program that encourages firm attainment of ISO 9000 requirements. Or, efforts to upgrade the productivity of smaller textile firms may miss an opportunity to develop high school apprenticeship programs to address the rising skill requirements of new textile technologies. Or, efforts to incubate new business startups may fail to consider working with trade adjustment and other job training programs in developing new specialty apparel businesses owned and operated by dislocated apparel workers. Under the comprehensive approach, a team can work through these types of interrelationships in a systematic fashion, and thus more easily consider a variety of ways to achieve policy objectives.

A focus on the comprehensive approach may even suggest new and more appropriate institutional arrangements. One option would be to unite program personnel from various State agencies under one roof to operate apparel-specific variants of more generalized State efforts. Such an office might contain, for instance, an expert in loans to apparel firms; educational personnel charged with developing high school or community college apparel apprenticeship programs; industrial extension personnel specializing in engineering services for apparel firms; export assistance personnel who specialize in finding markets for traditional and new apparel products; training specialists who provide services to both employed and dislocated apparel workers; university faculty engaged in applied apparel research; an apparel demonstration or testing facility; and a studio providing local designers access to computer-aided design software. Much as the Honda Corporation fosters better coordination and cross-fertilization of ideas through assignment of all upper-level management to desks in the same large, open office area, such State apparel centers might greatly enhance communication among program personnel and, ultimately, the creativeness and effectiveness of State service delivery to the industry.

Others might oppose this comprehensive approach, however. They might argue that, for various reasons, States often diffuse decisionmaking power across many fairly autonomous fiefdoms. This dispersion can make the comprehensive approach intellectually satisfying, but politically frustrating and/or irrelevant. For instance, some State agency heads report to an independent board rather than to the governor, and some agencies receive funding from a dedicated revenue source that is outside the normal budget process; the governor will have some difficulty in directing such agencies to modify their activities so that they mesh into a comprehensive industry strategy. These types of problems compound the normal bureaucratic barriers to coordination, making crosscutting approaches to program development even more difficult.

The specific political environment may make it more difficult to enact a comprehensive program than a sequential one. For example, it might be easier to sell a majority of legislators on an adjustment program in response to NAFTA/GATT and then, in the next legislative session, an export promotion program to take advantage of EEC unification, than it would be to sell both programs as components of a comprehensive apparel package. The pitch might be difficult when the cost of the comprehensive program is clearly higher; it is usually easier for legislators to allocate small sums for small endeavors.

Even politically, however, the sequential approach may not always be preferred. At times, the political winds push a problem much higher up everyone's list of priorities. In this case, a more comprehensive package may not only be politically viable, but, in fact, demanded. In this environment, opportunities for far-reaching change exist. The apparel action team should study the State's political environment carefully to see if such an opportunity is at hand.

Setting the Ground Rules for Implementation

A third set of guidelines governs how and to whom program resources are allocated.

10. Should Program Resources Be Loosely or Tightly Targeted?

Targeting involves allocating resources according to a set of explicit priorities that favors certain localities, types of recipients, or activities over others. Loosely targeted approaches have relatively broad, more inclusive criteria, both for allocating resources across substate areas and for determining whether an individual, firm, or region is eligible for assistance. Tighter targeting is more exclusive and restrictive.

Many public programs loosely target a substantial portion of program resources to communities, businesses, or individuals on the basis of such demographic or economic characteristics as population size, per capita income, or unemployment rate. The needs of individuals or firms can be compared along similar lines.[10]

Within the context of a State apparel industry program, a loosely targeted approach might, for example, distribute resources for apparel modernization to local areas in proportion to the number of full-time apparel employees. Within a given area, all firms with less than 500 employees might be eligible for assistance on a "first come, first served" basis. The size criterion, used in many State programs, would serve to screen out larger firms, which, as a class, are much less likely to suffer the effects of market failure (for example, poor access to up-to-date information, or an inability to finance otherwise "bankable" projects) than are smaller ones. Such a loosely targeted approach would provide some resources to all substate regions and make the vast majority of apparel firms eligible for assistance.

A loosely targeted approach, its advocates might argue, has several advantages over a more tightly

[10] Resources can be distributed to individuals, firms, or communities with strong opportunities as well as to those with strong needs. The opportunity basis for allocation of resources is discussed later.

targeted one. The first is a general appearance of fairness, which helps insulate the program from political criticism. For instance, if a State makes all apparel SME's eligible for assistance on a "first come, first served" basis, no SME could argue the program is unfair, even if, due to limits on program resources, some SME's desiring assistance receive it while others do not.

A loosely targeted approach employing broad eligibility criteria also may have the salutary effect of bringing into the program only those apparel firms interested in actively working with program personnel. In contrast, tighter targeting might require more proactive recruitment of eligible firms, some of which might lack the enthusiasm of firms voluntarily seeking assistance.

Another argument against tighter targeting is that program designers would ultimately base more restrictive eligibility criteria on informed speculation or anecdotal evidence rather than on solid empirical evidence of what works and what doesn't. In fact, there has been so little rigorous evaluation of public programs that we cannot even estimate the gross effect of most public initiatives, much less the differential effect of pursuing alternative targeting approaches. Simply put, one can argue that we do not know with a high degree of confidence how to target the right firms, places, or persons.

Finally, tighter targeting often requires a greater up-front effort than looser targeting to differentiate between those firms that meet the targeting criteria and those that do not. For example, targeting criteria that require the attainment of specific performance benchmarks by a firm prior to receiving assistance may necessitate substantial efforts to determine whether a given firm meets those benchmarks.

Advocates of more finely tuned targeting possess some strong counterpoints. Most importantly, it may be hard to justify the effort of designing a detailed industry strategy without employing tight targeting. By definition, a strategy sets priorities for action. If implementation does not tightly tie resource use to these priority activities, developing the strategy becomes merely an academic exercise. From this perspective, the targeting decision is not a choice between targeting or not targeting, or even a choice between loose and tight targeting. It is, rather, a choice as to which set of detailed targeting criteria will most tightly bind resource allocation to program goals and objectives.

While a loosely targeted approach may, by chance, mesh with the priorities established by the apparel action team, it is much more likely to divert some (or many) resources from higher priority activities. For example, if the team has set export promotion as a high priority, a loosely targeted, "first come, first served" approach to eligibility is likely to divert assistance from some export-ready apparel manufacturers to firms with considerably less export potential. At the extreme, a loosely targeted approach could obscure a "de facto" targeting of financially weak, poorly managed firms because these firms most aggressively sought assistance. Many people, including members of an apparel action team hoping to promote faster export growth, would surely object to any program that *explicitly* targeted assistance to near-bankrupt operations.

Despite scant evidence of the effectiveness of targeting, a team may reasonably believe that tighter targeting increases the program's chances of enhancing State industry performance. For example, one targeting option would be to work with small and medium-size firms who met, or were very close to meeting, a set of demanding performance benchmarks (for example, very high quality, very quick turnaround times, and independent design capability). Since apparel wages in the EEC are now substantially higher than in the United States, a State's better firms may have great potential to grow through increased clothing exports to Europe.[11] Appropriate State assistance to these firms, such as help in identifying export opportunities, might so increase their export growth that local employment prospects would markedly improve.

These same firms would also be particularly well positioned to increase their domestic market share, and would be less likely to move offshore than would branch plants of multinational firms located within the State. And, from a political viewpoint, program participation by the State's stronger SME's enhances the chances that the program will produce significant positive results.

Such an approach stands in stark contrast to a "first come, first served" strategy, which might ultimately enroll some world-class participants in the State program, but is just as likely to enroll many firms with much less growth potential (including some with

[11] For a review of the extensive system of publicly funded export assistance programs available to European SME's, see Nothdurft, William E., *Going Global: How Europe Helps Small Firms Export*, Washington, DC: The German Marshall Fund, 1992.

poor management, some with desperate financial problems, and some with both). Thus, when a team compares loosely targeted approaches with more finely targeted ones, the more carefully targeted approach may prove intuitively more compelling, despite the lack of strong empirical justification.

Some would argue that an approach that targets resources on strong firms is wrongheaded. Rather, a much different, yet still tightly targeted, approach would focus on borderline firms whose survival may well depend on the quality of their next few major management decisions. One might term this approach a "triage" strategy, so named after the battlefield practice of attending first to those for whom immediate intervention could make a great difference, and only later turning to those with either minor wounds or with wounds very likely to prove fatal.

Another type of tighter targeting would be differential targeting—in which different types of products and firms are the targets for different apparel programs. For example, the State may wish to involve its best producers of small-lot, high-quality apparel fabric in cooperative R&D activities or demonstration projects. These better managed, more innovative firms might be more likely both to participate in such projects, and to more readily incorporate the knowledge so gained into their operations. Their participation is also likely to improve the projects' prospects of success. In contrast, the State might target industrial engineering and worker training assistance to borderline firms, to help them remain competitive through increased productivity. Finally, firms considered "highly vulnerable" might only be eligible for adjustment assistance.

In sum, we have identified several arguments in favor of tighter targeting, and three of its many possible variants: (1) the "strong is best" approach, (2) the triage approach (focusing resources on "borderline" firms, individuals, or regions), and (3) differential targeting.

Even if substantive and political factors preclude the broad application of a tightly targeted approach, an apparel action team might usefully strive to identify certain key program areas in which tighter targeting would be both substantively important and politically acceptable. For example, a program to work with a group of SME's to provide Quick Response to a major retailer would necessarily require limiting participation to the State's best firms, since poor initial performance would undoubtedly provoke the retailer's withdrawal from the project.

11. What Type of Service Delivery System Should Be Used?

Another key issue confronting an apparel action team is how to best structure the delivery of services to the apparel sector. A growing number of service delivery models are emanating from the States. We present four basic models here.

Most public programs rely on the first model—direct service delivery by a single designated public agency (for example, job training by the State's employment and training agency, onsite industrial engineering assistance from the State's industrial extension service). Under this model, the public sector maintains direct control over the quantity and quality of services delivered, whether it delivers services with its own personnel or oversees the work of private contractors. A second advantage of this direct service model is clear accountability—clients of programs understand that the State government should receive the credit for good service or the blame for poor service.

Problems with this direct service delivery approach include bureaucratic inflexibility and inefficiency. Such problems plague all large organizations, but often are much more visible when they occur in public agencies.

Some States have pursued a second model—placing control of resources in the hands of those receiving the service, while introducing greater competition among service providers. For example, Michigan developed the concept of a State-funded educational "credit card," which can be used by the recipient for training at a variety of both public and private institutions. Several years ago, Minnesota began a choice program for its K-12 schools. Under this effort, educational funding travels with the student to the public school he or she chooses.

The major assumption underlying this second ("competitive") model is that efficiency and user satisfaction can be enhanced by making providers more demand-responsive because of the need to compete. Further, if the service delivery mechanisms appropriate for rural areas are different from those commonly used in urban areas, the competitive model may be more likely to respond to such differences. For example, an industrial extension service may hire engineers with backgrounds in industries important to the State's metro areas, with lower priority assigned to the needs of rural business. If, instead, vouchers to pay for private services were issued, rural businesses would have more freedom to acquire carefully tailored expertise.

Because States have only recently introduced these competitive efforts, little empirical evidence exists regarding their effectiveness. The competitive model may also be particularly weak in rural areas, where low population density reduces the intensity of service demand (relative to metro areas). Consequently, very few contractors may be on hand to provide services in rural settings. In the absence of local providers, rural apparel firms must identify, evaluate, and work with out-of-town providers.

During the 1970's, a third service delivery model emerged. This model stretches public resources by requiring matching private funds. For example, the State might establish an apparel modernization revolving loan fund that requires recipient apparel firms to match State dollars. Michigan instituted a sophisticated variant of this matching model with its Capital Access program, creating an incentive for commercial banks to undertake higher risk loans. Under this program, not only was service delivery undertaken by private organizations (the banks), but public support became available only after private actors had committed resources.

Strong arguments favoring this approach are (1) it leverages private money to help achieve public goals; (2) program managers have greater confidence that the public activity is responding to private market signals; and (3) the participating private sector actors can provide political support for the service. On the other hand, this approach is hampered by resource constraints (though the problem is not as severe as with the first two models); thus, many eligible and interested clients (for example, of job training) may not receive the service.

A fourth model removes the State from direct service delivery after an initial effort to build self-sustaining private institutional capacity. Probably the most frequently cited state-level example of this model involves the creation of flexible manufacturing networks. Here, the State orchestrates the founding of a network of several small and medium-sized firms within an industry; the intent of this network is to permit and encourage cooperative activities no firm could undertake by itself (for example, joint product development and manufacturing, joint bids on large contracts that no one firm would be able to handle itself, joint equipment purchasing/sharing, joint marketing efforts). After such a network is established, the State withdraws its involvement and the network functions independently. Membership in a flexible manufacturing network is likely to be especially advantageous to a rural firm, which may be physically remote from similar firms, from its suppliers and customers, and from sources of technical information or financing.

A flexible manufacturing network of apparel SME's is a particularly interesting idea for several reasons. First, the marketplace will increasingly demand use of automated CAD/CAM systems because of both the higher quality and greater flexibility these systems provide. These CAD/CAM systems, however, are extremely expensive and demand around-the-clock utilization in order to be efficiently employed. A network of small fabric and clothing firms centered around a shared CAD/CAM facility might overcome this cost obstacle.

The network could also enable apparel firms to cooperatively enter into long-term Quick Response partnerships with major retail accounts that no small firm could service alone. Collectively, the network could also allow small apparel firms to offer retailers total packaging capability, which few small firms can easily provide for a single item and which no small firm can provide for a full line of garments.

Washington, Michigan, Ohio, and Iowa have created flexible manufacturing networks in a number of industries. Others are under development in Oregon and in several Southeastern States.

Manufacturing networks are not the only "institution building" activity that States have undertaken. Other examples include Washington's recent creation of a secondary financial market for small business equity issues; the establishment of the Southern Development Bancorporation in Arkansas; and traditional Extension Service support for grower cooperatives, home-based business associations, farm management clubs, and marketing associations. All of these models might suggest apparel-specific variants.

Building effective, self-sustaining, private or quasi-private institutions to accomplish public goals (for example, the creation of flexible manufacturing networks to enhance the competitiveness of a State's apparel industry) is an appealing solution to the service delivery dilemma. This approach can, if so chosen, limit public assistance to initial institution building while ultimately affecting many more firms than the State could directly assist "one on one" for the same amount of resources. It is yet unclear, however, how difficult it is to build such institutions, and how their effectiveness might vary from situation to situation.

The four service delivery models should not be viewed as mutually exclusive options. Many hybrid possibilities exist. For example, an apparel network would offer a single point of entry for providing a group of firms state-delivered training in modular manufacturing techniques. Or, the State could finance a market research voucher, which could be used by members of a flexible manufacturing network to obtain expert but privately held information on international apparel market conditions and trends.

12. How Tightly Should the State Control Program Resources?

The State government will have a variety of resources available to promote whatever apparel strategy it develops. These resources will include some financial resources to purchase goods and services, as well as some expert assistance.

The State government can maintain tight or loose control over these resources. Under tight control, the State will make detailed decisions about how resources will be allocated. For example, job training activities supportive of an apparel strategy might be implemented through the State's statutory authority to define local training agendas under the Job Training Partnership Act (JTPA). Or, the State may have sufficient institutional capacity to deliver industry services to apparel firms with no local involvement (for example, Georgia's direct delivery of modernization services by the State's industrial extension regional program offices).

Under loose control, the State would permit local entities (for example, communities or consortia of apparel manufacturing firms) considerable discretion in allocating resources within general guidelines set by the State's strategic plan for the apparel industry. In many States, the JTPA training program employs such a structure; multicounty, Private Industry Councils (PIC's) define the mix of training activities they believe most appropriate to local conditions.

A middle-of-the-road compromise is the "smorgasbord" approach, where the State designs an array of apparel programs, each of which is useful to some firms or communities. Then, each firm or locality chooses from this menu of programs, probably limited by a State-determined cap on the total amount of State resources available to the firms/localities. Canada uses this smorgasbord approach in its Community Futures Program, which enables rural regions to create economic development plans and then offers them a menu of five different programs.

For a State that knows what's needed for upgrading the apparel industry, tight control minimizes the potential for firm or local action inconsistent with State priorities. The benefit of loose control is that those closest to the action--the firms or localities--will have much broader discretion to meet program priorities in ways they believe most appropriate to local circumstances. This, in turn, can give them greater incentive to actively participate in the program.

The smorgasbord approach confers all wisdom on neither the State nor the firm/locality, but permits both to offer useful insights on the best way to implement the apparel action team's strategy.

A disadvantage of the smorgasbord approach is that the relative demand for the various apparel programs that are made available to firms and localities may be both difficult to predict and subject to substantial year-to-year shifts. Such uncertainties in demand can make program planning difficult. A second disadvantage is that the program options made available by the State may not mesh well with a given firm's or locality's strategy.

Conclusions

We hope that this report will prove useful to an apparel action team as it begins to develop its action plan and weigh alternative answers to questions of strategy and implementation. We also hope that any State wishing to focus greater energy on improving the prospects of *any* key rural industry will come away from this discussion with something useful.

However, a far more important resource to team members is a seasoned understanding of industry conditions and the State's political environment. Even talented teams will find it challenging to understand the technology and trade-related transformations underway, much less devise effective ways to address the problems and opportunities they present. Nonetheless, the program produced by a hard-working and thoughtful industry-specific action team can ultimately have an enormous positive effect on the lives of many very vulnerable rural families and communities.

Appendix: The U.S. Apparel Industry—Four Scenarios of the Future

The United States, Canada, and Mexico agreed to a NAFTA during 1993. The Clinton administration has also "signed off" on a new GATT agreement, and this new accord appears likely to receive final Congressional approval in 1994 or 1995. The effects of these agreements, coupled with inexorable technological shifts over the next several years, will shape the relatively labor-intensive apparel industry beyond the year 2000.

We have suggested that any State apparel action team will want to conduct an environmental scan, a detailed look at the State's apparel sector. As an aid to developing an environmental scan, Redman and Amt (1994)[12] present two types of background analysis. The first is descriptive material on current apparel industry structure and trends over the last 30 years. Included are data on real output, employment levels and geographic distribution, real investment, real capital stock, and multifactor productivity growth.

The second type of background analysis is a set of four scenarios of how the apparel sector might evolve over the next 10-20 years. These scenarios are composites of (1) statements and positions published by industry groups, trade journalists, government agencies and academics; (2) interviews with knowledgeable personnel inside and outside the industry; and (3) information developed from our own data analysis.

We have titled these scenarios: (1) the Tsunami (or Great Asian Tidal Wave) scenario, (2) the Phoenix scenario, (3) the Tequila Sunset scenario, and (4) the FEDEX scenario. Under each scenario, we have assumed some degree of trade liberalization in light of NAFTA and GATT. Either agreement will substantially reduce the level of protection currently enjoyed by the U.S. apparel sector.

We offer these scenarios as an entry point for engaging in the work of identifying key apparel industry problems and opportunities, and, ultimately, policy goals, objectives, strategies, and programs. The most appropriate working scenario for the apparel action team may include elements from each of these scenarios, as well as elements not treated here.

Within each scenario, important uncertainties exist, including their state-specific application. For example, many Southeastern rural areas have persistent shortages of (and therefore opportunities for) sewing operators; however, national evidence suggests dislocated garment workers suffer particularly difficult post-displacement experiences. Possible answers to this seeming contradiction include (1) shortages in the rural Southeast are not as widespread as they appear from the available evidence; (2) displacement outcomes vary substantially between the rural Southeast and elsewhere; and (3) connections between displaced Southeastern rural workers and labor-short firms are not being made.

Similarly, the lure of Mexican-based operation will vary from firm to firm and product to product. Gross generalities regarding how NAFTA will affect a State's industry should thus be treated with skepticism.

In brief, the sectorwide scenarios should be thought-provoking for the State's apparel action team, but these scenarios do not reflect the specific detail that a team can—and should—put together about the State's apparel industry. Consequently, the gathering of state-specific information on supply/demand balances in local labor markets, and on how firms operating within the State expect to respond strategically to NAFTA, is important to adequately profile industry problems and opportunities. Without a solid profile, intuition and common wisdom, rather than hard fact and informed, up-to-date opinion, will shape policy discussions and greatly increase the risk that policy proposals will prove either irrelevant or counterproductive.

The Tsunami (Great Asian Tidal Wave) Scenario

The scenario in brief: A GATT agreement is concluded that eliminates quotas under the Multifiber Agreement (MFA) and reduces tariffs on apparel imported into the United States. In response, an array of competitors (particularly Asian) move strongly into the U.S. market, forcing many U.S. apparel firms to downsize or close domestic operations.

Discussion: The prospects for the post-MFA U.S. apparel industry are at best gloomy; at worst, terminal. A number of competitors enjoy wages a fraction of U.S. levels, produce a quality (often higher quality) product at a much lower price, and routinely offer a fuller package of services to customers than do most U.S. producers. Only an extensive set of quotas and tariffs limits these lower-wage competitors' penetration of the U.S. market. Even with this system

[12] See companion report, ibid.

in place, the apparel trade deficit rose dramatically during the 1980's. On a quantity basis, imports now account for half or more of U.S. consumption in many product areas.

Most firms in the U.S. clothing industry operate well below "best-practice" levels, in part because the rate of technology diffusion within the clothing industry is slow, and domestic R&D is almost nonexistent. Firm managers are most frequently members of the family that owns the firm. They generally lack any formal training; expect a very short payback period on any new investment; and have little access to capital or to sources of good, objective information on technology, markets, and management practices.

Only a small percentage of firms operate internationally, and most SME's have no direct channels to either export or domestic markets. They thus lack the flexibility needed to successfully adjust to changing market conditions.

The industry is unlikely to benefit anytime soon from a breakthrough in technology to automate the labor-intensive garment assembly process. Even if one did occur, the rate of technology diffusion in the industry would be so slow, or the breakthrough so capital-intensive, or both, that the vast majority of the industry's firms could still not survive the rapid growth of imports following liberalization.

Domestic clothing operations also suffer from the U.S. fabric industry's reluctance to produce a wide variety of apparel fabric in small lot sizes. This compromises the ability of domestic clothing producers to meet the requirements of an increasingly fragmented clothing market. The quality of both fabric and finished garments is also spotty.

Severe human resource problems plague the industry; these will become worse during the 1990's. In the rural Southeast, for example, the typical annual labor turnover in clothing plants is 40-50 percent, with many firms experiencing much higher levels. Reasons for this problem include low and declining real wages; relatively meager or nonexistent benefit packages; poor, often hostile, labor/management relations; an almost total lack of formal training; austere working environments; and work tasks that are repetitive yet demanding.

On a different but directly related note, a cultural taboo in many rural areas keeps men from working as sewing operators. Thus, high unemployment among men within a given labor market can coexist with large, persistent shortages of sewing operators.

The public sector has few programs in place to address these issues. At best, it provides a fraction of the support received by SME's in other industrialized competitor nations.

In short, the apparel industry is very vulnerable to an opening of trade. Most U.S. firms will not survive if they attempt to remain in the United States.

However, appropriate adjustment strategies can substantially reduce the costs of industry downsizing to dislocated workers. Ultimately, workers could pursue, with public sector cooperation and support, higher paying, more personally satisfying work under better working conditions in other sectors. This benefits not only the individual worker, but also the Nation, because it moves resources into higher value activities. It would also save consumers billions of dollars in apparel costs now associated with tariff and quota costs. This would particularly benefit lower income families who must spend a higher percentage of their budgets on basics such as apparel.

The Phoenix Scenario

The scenario in brief: A GATT agreement is concluded that eliminates quotas under the Multifiber Agreement (MFA) and reduces tariffs on apparel imported into the United States. In response to this new competitive challenge, the U.S. apparel industry revitalizes itself through major technological and organizational advances and reemerges as a vibrant industrial sector.

Discussion: The black-and-white Tsunami scenario is grossly oversimplified and dangerously misleading. Although the industry clearly suffers important shortcomings, and will face both intensified foreign competition and continued technological change, apparel prospects are not nearly as bleak as that scenario portrays.

In fact, apparel markets and technology are changing in ways that portend well for the post-MFA viability of a large U.S. industry. These forces could, in fact, produce vigorous renewal if necessary industry changes occur. If the Tsunami scenario insists on depicting a U.S. industry in ashes, the Phoenix scenario postulates its reemergence from those ashes in revitalized form over the next 20 years.

Proponents of the Tsunami scenario greatly exaggerate the degree of protection provided the industry by the MFA. For example, the latest published estimates by the U.S. International Trade Commission indicate that eliminating *all* quotas and *all* tariffs from *all* countries would produce a loss of U.S. textile and clothing employment of just 13-16 percent.

While the clothing trade deficit did increase dramatically during the 1980's, trade deficits in many other manufacturing sectors also hit record levels as well. This is because the dollar appreciated to unsustainably high levels during the mid-1980's. Since then, however, the dollar has devalued significantly, and the apparel trade deficit over the 1987-91 period has been very stable.

Also contributing to the apparel import surge was a shifting of U.S. imports from Hong Kong, Taiwan, and South Korea to other low-wage nations, as producers evaded the effect of quota constraints by shifting production to countries not constrained by quotas. Experienced producers can accomplish these shifts rapidly because garment operations are extremely mobile, and can be established from scratch within a few months, if not weeks.

Foreign producers also upgraded product quality to obtain higher unit prices (for example, they moved from simple cotton dresses to designer fashion dresses) or shifted to product lines for which no quotas yet existed.

In short, the MFA system is *not* blocking a tidal wave of imports from inundating domestic producers. In this regard, the Tsunami scenario is much too alarmist.

Use of quantity-based measures to gauge import penetration also sends overly alarmist signals. While import penetration based on quantity runs 50 percent or more in many product lines, import penetration falls to less than 30 percent in clothing and about 11 percent in textiles if defined in terms of *dollar value*. One important reason is that imports are still generally more "lower end" than the products U. S. firms produce.

Labor content is relatively low in many product lines, and, overall, has decreased substantially over the last 20 years. Several components of the apparel complex, including yarnmaking, fabric production, clothing design/patternmaking, and fabric cutting are now highly automated. Overall productivity growth in clothing (relative to other manufacturing industries) has also been better than common wisdom would hold.

Wage trends during the 1980's have favored U.S. producers over those in East Asia, Europe, and Japan. This trend has reinforced the positive effect on U.S. competitiveness of declining labor content, and enhances the prospects of significantly increasing U.S. exports to other industrialized countries.

U.S. producers can also compete in many markets where better quality and styling can offset moderate cost disadvantages (for example, in markets for fashion or otherwise unique goods). In these types of product lines, overall value, rather than price, is the key determinant of competitiveness.

Furthermore, the recently concluded GATT agreement maintains substantial tariff protection for U.S. producers. These tariffs go a long way toward offsetting the U.S. wage disadvantage.

Tsunami proponents also ignore the industry's exciting long-term prospects. First, the "new economics" of just-in-time Quick Response production will dramatically increase the competitive strength of the U.S. apparel industry by making physical proximity to domestic retailers much more important. Recent consolidation in the retail sector has greatly increased the dominance of a very small number of retail firms; this consolidation means Quick Response can rapidly affect a significant portion of U.S. sales.

In addition, in 10-15 years if not sooner, the U.S. industry will make clothing customized to fit an individual's precise body measurements at "off the rack" prices with a 48-hour turnaround time between the initial (electronic) body measurement and delivery to the customer's home. This new capability will open huge new market opportunities for domestic producers.

Microelectronics is likely to revolutionize the industry within the next decade or two by also permitting automated assembly. This development will round out what will be a highly automated production chain, and dramatically reshuffle competitive advantage among nations.

In sum, the industry will not inevitably "sunset." Particularly with continued tariff protection, U.S. producers are competitive in many product lines, and future changes in market conditions and technologies promise to strengthen future competitiveness.

From a policy standpoint, a broad array of options can help accelerate improvement in the U.S. competitive position. For example, a basic State/Federal public program composed of research, development, demonstration, and diffusion activities already exists. With more aggressive public support and more active cooperation with the private sector, this structure could serve as a powerful tool for increasing the rate of innovation and the quality of U.S.-based production. Another option is to build networks of U.S.-based SME's so they can collectively provide a full line of world-class products and services to major retailers on a true Quick Response basis.

While increasing productivity and increased trade liberalization will continue to exert downward pressure on employment, downsizing will be circumscribed by improved competitiveness. Real apparel wages would be expected to rise with the general U.S wage level, as apparel industry skill requirements, productivity, and competitiveness all increase. Thus, for those who, for whatever reason, have difficulty competing for better paying employment, an apparel job, though still relatively low paid by manufacturing standards, will provide a considerably higher *absolute* standard of living than many service jobs they might otherwise obtain.

The Tequila Sunset Scenario

The scenario in brief: Mexico and the United States conclude a NAFTA that eliminates both quotas and tariffs on apparel imported into the United States from Mexico. In response, the Mexican apparel industry booms and many U.S. firms must close or reduce domestic operations. An indirect consequence of NAFTA will be political pressure that leads to comparable agreements with other countries in the Western Hemisphere; thus, while Mexico will lead the way, intensified competition from many other Latin American and Caribbean nations will result in rapid contraction of the U.S. industry over the next 10-15 years.

Discussion: Under a quota-free trade regime, an optimist might concede that U.S. industry could compete against overseas (most importantly East Asian) competitors in (1) Quick Response rapid replenishment functions for both seasonal and standardized goods; (2) less price-sensitive product lines such as mid- to upper-range fashion goods; (3) made-to-measure or, in some other way, unique goods. This assumes the U.S. industry develops extensive, true Quick Response networks, improves domestic quality and styling, progressively automates, and ameliorates its human resource problems. These are challenging objectives, but ones that are (arguably) attainable.

However, a NAFTA with Mexico extinguishes any competitive advantages U.S. producers might develop under the Phoenix scenario. Not only will this accord open trade with Mexico but, in short order, with other Central and South American countries as well. States should thus prepare for significant and potentially rapid industry dislocations.

In the short to medium term, NAFTA will stimulate massive new apparel investment in Mexico by U.S. multinational operations. A confluence of factors will produce this outcome.

Most fundamentally, NAFTA will alter the investment paradigm U.S. companies use in assessing Mexican investment opportunities by codifying in treaty form the new, free market "rules of the game" that the Mexican Government has been putting in place over the last several years. These new rules enhance investment safeguards, and facilitate commercial transactions both within Mexico, and between Mexico and the United States.

New rules of the game would have much less effect were not Mexican wages much lower than those prevailing in the United States and in Hong Kong, Taiwan, and South Korea. Recent estimates place 1991 wages in the Mexican clothing industry at $1.17 an hour, about one-fifth current U.S. levels, and about one-third to one-half levels in the three East Asian nations. At the same time, workers in Mexican plants managed by U.S. multinationals routinely achieve productivity levels comparable to those in U.S. plants.

From a labor force perspective, labor availability will not be as constraining a factor in Mexico as it is in many U.S. and East Asian areas. Beyond the tremendous potential labor pool of unemployed or underemployed labor already in Mexico, the majority of the country's population has yet to enter prime childbearing age.

NAFTA will also eliminate the uncertainty associated with U.S. quota policy, as well as all U.S. duties on imports from Mexico. These tariff reductions will make an important difference at the margin in many clothing lines.

NAFTA is, in addition, a publicity bonanza for Mexico. Thousands of media quotes referring to the "competitive threat" from Mexico, coupled with intensified coverage of U.S. investments in Mexico, have created, and will continue to foster, a climate that encourages producers to examine (or re-examine) this option.

Mexican sourcing can also reduce the difficulty U.S. retailers face in obtaining reliable just-in-time Quick Response from low-wage overseas producers. Overland transit by truck or rail from Mexico will supplant the 2-3 month sea voyage now routinely used to ship garments to U.S. markets from Asian locations. Mexican operations would also be more convenient to monitor than those in more distant parts of the world.

NAFTA will further stimulate a shifting of U.S. production southward by improving the access of U.S. firms to the Mexican apparel market. If U.S. firms wish to be cost-competitive in the Mexican market, they will have to utilize the much lower cost Mexican labor. If they must consequently establish operations in Mexico, there would be little reason to maintain most of their higher cost U.S. operations. To do so would deny the company not only the advantage of lower Mexican wages, but the economies of scale from consolidating production in Mexico.

A final, and critical, factor that makes NAFTA extremely timely is GATT. U.S.-based producers now recognize that continued quota protection through congressional action is most unlikely, and that they will have to adjust to a quota-less operating environment. NAFTA provides a U.S. firm a perfect opportunity not only to improve competitive position vis a vis other U.S. rivals, but to respond strategically to this change. It offers, in fact, the best opportunity U.S. producers have ever had to win back production from East Asian competitors, competitors who, under the new GATT, will still pay substantial U.S. tariff duties if they produce in their home countries.

Displacement of U.S. production will be rapid. U.S. multinationals have been operating in Latin America for a decade under the 807 program of the Caribbean Basin Initiative. This accumulated experience will permit rapid expansion of production. Furthermore, those companies moving quickly will be in a better position to capture "early mover" advantages than will their less aggressive U.S. competitors.

Given lower Mexican wages, greater Mexican labor availability, an elimination of U.S. quotas and tariffs, easy overland access to the U.S. market, improved access to the Mexican market, and major new investment by U.S. firms, NAFTA will also trigger significant capital movements into Mexico from East Asian and European nations. The experience of many East Asian firms both in producing high-quality fabric and in providing total packaging will further facilitate a sourcing shift to Mexico. Significant amounts of both East Asian and European capital have moved into the Caribbean area over the last 10 years. Investments in Mexico would simply continue this trend.

NAFTA will also create great pressure on the U.S. Government to permit other Caribbean and Latin American nations to cosign the treaty. Extension of cosignatory status would completely open the U.S. market to an array of low-wage producers, many with wages even lower than those in Mexico.

The loss of U.S. employment will be much more rapid than that directly attributable to a change in investment patterns by U.S.-based multinationals. Many small and medium-sized U.S. firms are heavily dependent on one or two larger multinationals for survival. This work will instead be done in the Caribbean or Latin America, either in company-owned establishments or in plants owned by local contractors.

For reasons detailed under the Tsunami scenario, most of these SME's simply cannot compete on their own. They will succumb to withering competition from a legion of sophisticated multinational firms with the financial resources to make extensive investment in new plants, capital equipment, and worker training, and with the expertise to employ the most up-to-date production systems—all while paying wages a fraction of what remaining U.S. SME's must pay.

In short, the Phoenix scenario cannot survive a NAFTA. Even if the U.S. Congress fails to approve the new GATT (a very remote possibility), and, consequently, MFA quotas continue to constrain low-wage producers outside the Americas, much of the U.S. apparel industry will be lost over the next 10-20 years. Substantial dislocations will occur within 3-10 years.

The FEDEX Scenario

The scenario in brief: The United States and other nations conclude a GATT agreement. U.S.-based producers rapidly establish true Quick Response partnerships and accelerate development of made-to-measure capabilities. To counter this competitive threat, East Asian and other foreign producers make increasing use of telecommunications and air freight to provide almost as rapid a turnaround as U.S. producers in all but the most standardized product lines. The United States consequently loses many of its "last, great hope" market niches, and three-quarters of its domestic industry employment within 15 years of a new GATT accord.

Discussion: Industry conditions are constantly in flux, and one rapidly changing factor is the feasibility of Quick Response by overseas producers through utilization of CAD/CAM technology and air freight. These advances further erode faith in the Phoenix scenario's presumption that market proximity will greatly benefit domestic producers.

An ironic twist of increased automation in design and cutting, which would seem at first to favor industrialized countries, is that it facilitates offshore sourcing of production. CAD systems permit cooperative development of precise design specifications by designers, garment producers, and fabric producers. These specifications can then drive the same software and production equipment available to the U.S. industry for pattern making, grading, and automated cutting. The ability of foreign apparel firms to produce high-quality merchandise that precisely matches the specifications of U.S. manufacturers and retailers is greatly enhanced through the use of such CAD/CAM systems.

The Quick Response demands of major U.S. retailers call, however, for both consistently high-quality goods and the delivery of those goods within a few days. Shipments to the United States from Asia by sea would clearly not meet these requirements. But such a sea voyage is no longer necessary given the improved economics of air freight. Already, such large U.S.-based companies as Liz Claiborne, The Gap, and M.A.S.T. Industries routinely use air freight from the Far East. Overall, air freight now accounts for almost a third of total apparel imports.

Telecommunication of body measurements, application of CAD/CAM technologies, and use of air freight could also combine to meet the hyper-quick turnaround requirements of the "made-to-measure" vision. For example, information from Federal Express on shipping times and rates indicates that a producer in Hong Kong could obtain express delivery of a finished garment from the plant's back door to a U.S. retail outlet or an individual's home about as fast and as cheaply as a producer in Georgia.

Shipment of apparel via air often makes sense because the weight and bulk of many garments are low relative to the final value. This is true even of relatively low-value, standardized commodities such as blue jeans, which The Gap routinely brings into the United States by air from Hong Kong.

Ultimately, however, CAD/CAM and air freight may best serve apparel firms in the Caribbean and South America which, under a NAFTA, would be able to couple tariff-free and quota-free access to the U.S. market with much shorter (than from Asia) flight times.

U.S. Department of Agriculture
Economic Research Service

SUMMARY OF REPORT SB-882

Scaled-Back Farm Credit System Rebounds From 1980's Farm Crisis

May 1994

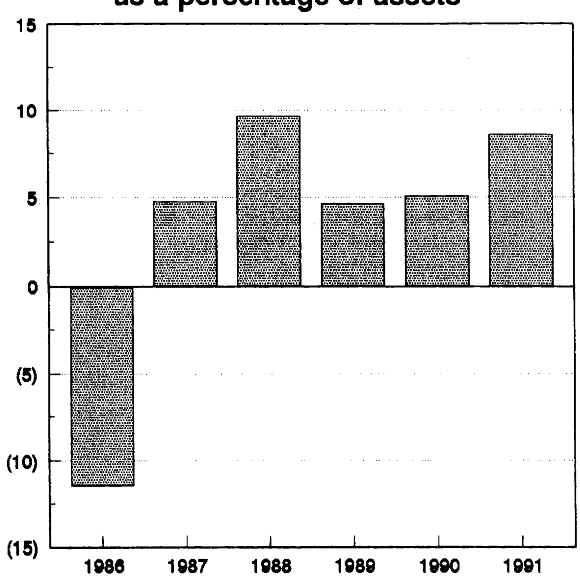
Contact: Bob Collender/Audrae Erickson, 202-219-0893

The U.S. Farm Credit System sustained some of the largest losses, during the 1980's, among institutions lending to agriculture. But it has now regained financial strength because of rebounding land values, wider net interest margins, and a significant decline in nonaccrual loan rates (*net interest margins* are the difference between interest paid to account holders and interest collected on loans; *nonaccrual loans* are loans for which payment is uncertain because of lapses in payments or loan security).

The Farm Credit System is an important lender to agriculture, providing over a fourth of total farm debt and a third of farm real estate debt in 1991. The system's recovery to financial health is documented in a series of financial statistics compiled in *Farm Credit System Bank and Association Operating Statistics, 1986-91,* recently published by the U.S. Department of Agriculture's Economic Research Service. The statistics also reveal differences in financial stress and recovery by geographic area and by type of institution.

Total lending through the Farm Credit Banks and their related associations (excluding the Banks for Cooperatives) dropped from $50.5 billion in 1986 to $40 billion in 1988 (and stabilized at that level through 1991), while nonaccrual loans shrank as a percent of loans outstanding from 13.9 percent in 1986 to 5.5 percent in 1991. Short and intermediate-term loans made up 26.6 percent of total FCS loans in 1991, up from 20.5 percent in 1986. Short-term or production loans are made for periods up to one year and are generally used to finance a crop or livestock production cycle. Intermediate-term loans have maturities up to 10 years and are used to finance machinery, equipment, some buildings, and breeding stock. The share of long-term farm mortgages, traditionally the mainstay of the FCS portfolio, by contrast, declined from 68.9 percent to 66.7 percent of total FCS loans. The Farm Credit System's rate of return on equity improved from -11.5 percent in 1986 (weighted average for direct-lending associations, that is, those that make loans) to 8.6 percent in 1991.

FCS Weighted-average return on equity as a percentage of assets



To Order This Report...

The information presented here is excerpted from ***Farm Credit System Bank and Association Operating Statistics, 1986-91,*** SB-882, by Robert N. Collender, Audrae Erickson, and Mark A. Adams.The cost is $12.00 ($15 for foreign addresses, including Canada).

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SUMMARY OF REPORT #RDRR-86

Nonmetro elderly report poorer health, but use fewer health care services

September 1993

Contact: Carolyn Rogers, 202/219-0536

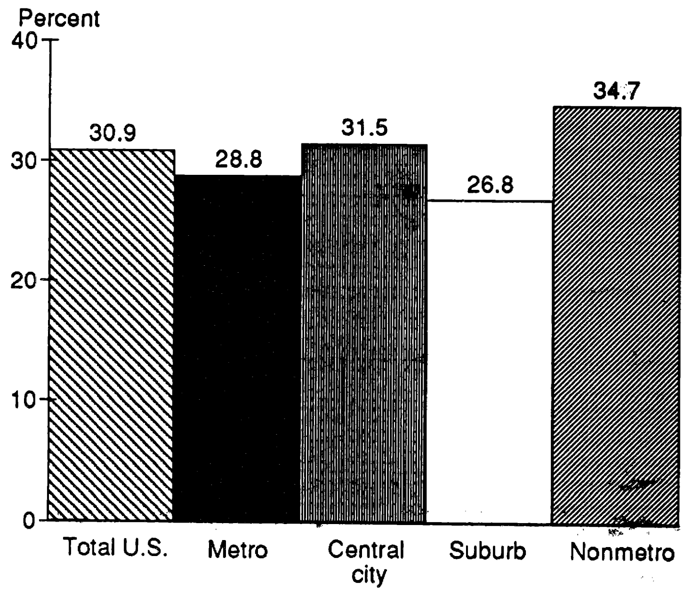
The majority of Americans aged 60 years and older are, and perceive themselves to be, in good health. Health status differs by place of residence, with a higher proportion of nonmetro elders reporting their health as fair or poor (35 percent) than metro elders (29 percent). The nonmetro elderly are also more likely to have certain chronic conditions, such as arthritis, that are clearly associated with poorer physical functioning. Differences in elders' self-assessments of health and physical functioning remain evident by residence when other factors, such as age, race, social support networks, income, and education are held constant.

Health Status and Use of Health Care Services by the Older Population: A Residential Comparison, from USDA's Economic Research Service, uses data from the 1984 Supplement on Aging to the National Health Interview Survey by the National Center for Health Statistics. This data set is the latest available and the most appropriate because it provides a large enough sample size to study differences in the elderly's health and other characteristics separately by residence. The report describes the nature and magnitude of differences in health status and use of health care services by the elderly, by place of residence.

Socioeconomic status, as measured by education and income, is important to the health status of the elderly, with higher socioeconomic status associated with better health. This effect is magnified in nonmetro areas, where the elderly are generally less educated and more financially disadvantaged. Social support networks are strong in nonmetro areas, but their beneficial effect on health status is not enough to overcome the effects of the nonmetro elderly's lower socioeconomic status.

The nonmetro elderly are less likely to use formal health care services, defined as physician visits, hospital stays, and nursing home care. The nonmetro elderly's poorer health and lower socioeconomic status, combined with lower use of services, suggests that a gap exists between the nonmetro elderly's need for care and the availability of services to meet this need.

Elderly persons reporting fair or poor health



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