



# Embracing the Waves of Change: SEAMS Conference

September 30, 2016



*Consulting and Government Affairs Practice*

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A vertical strip on the left side of the slide features a vintage map of North America. The map is detailed, showing state boundaries and geographical features. Labels include 'North Pole', 'GREEN MOUNTAINS', 'The Sea', 'N O R T H A M E R I C A', 'Equator', 'T H E R Y O R D I N A T I O N S', 'T H E R Y O R D I N A T I O N S', 'T H E R Y O R D I N A T I O N S', 'Antarctic Circle', and 'South Pole'.

**CAMPAIGN 2016**

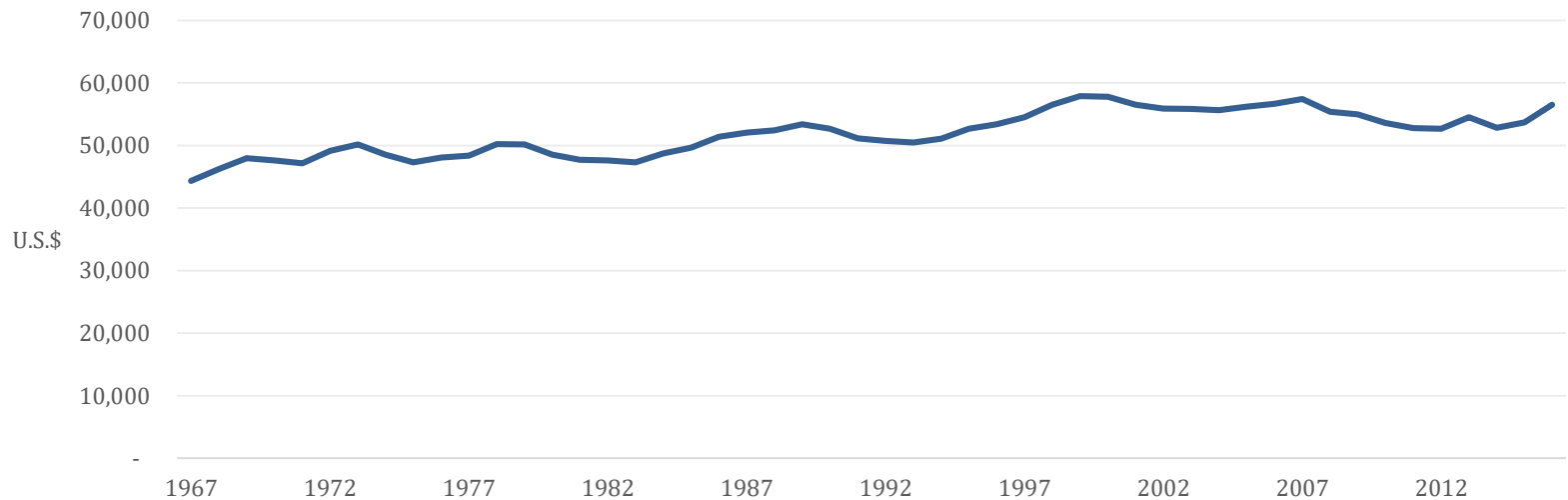
**IT'S *STILL* THE ECONOMY...  
STUPID!**



# Stagnant Household Incomes...

- 2016 Census Report: some positive news but not enough...
  - Median household income rose by 5.2% in 2015 to \$56,516 but still below pre-recession 2007 level or 1999 all-time high

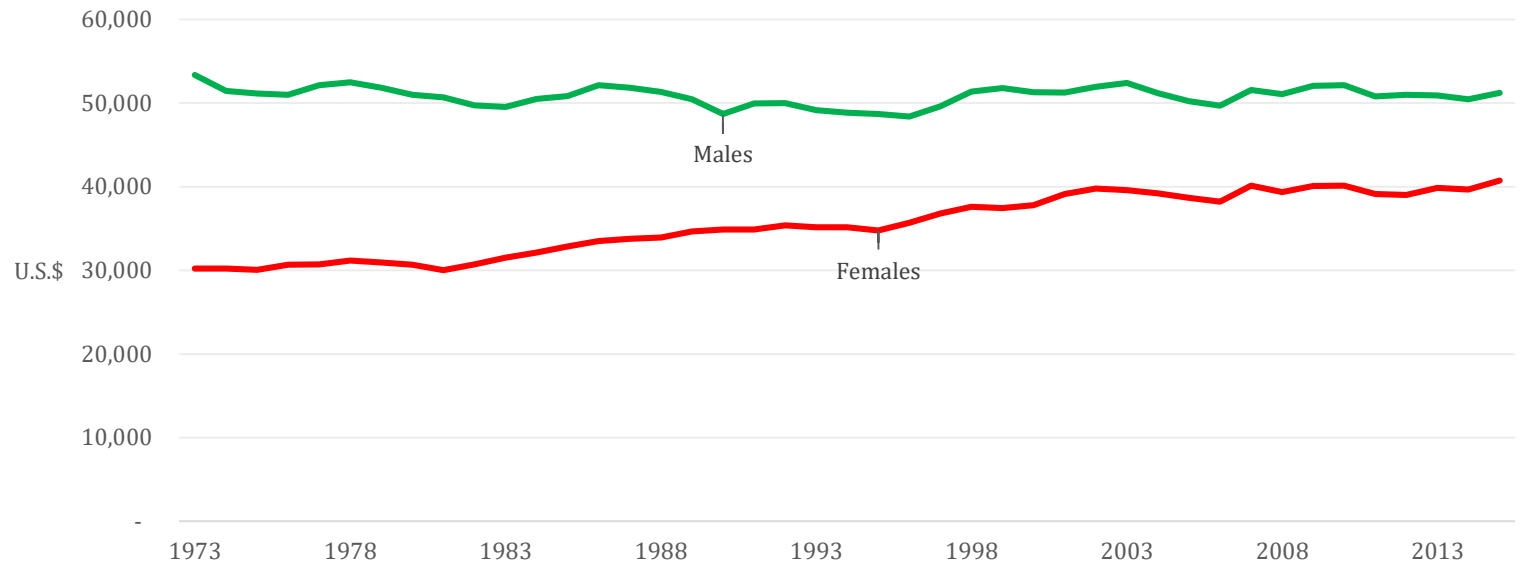
## Median Household Income 1967-2015



Source: U.S. Census Bureau

# ...reflect stagnant worker earnings

## Male and Female Full-Time Workers Real Median Earnings 1973-2016



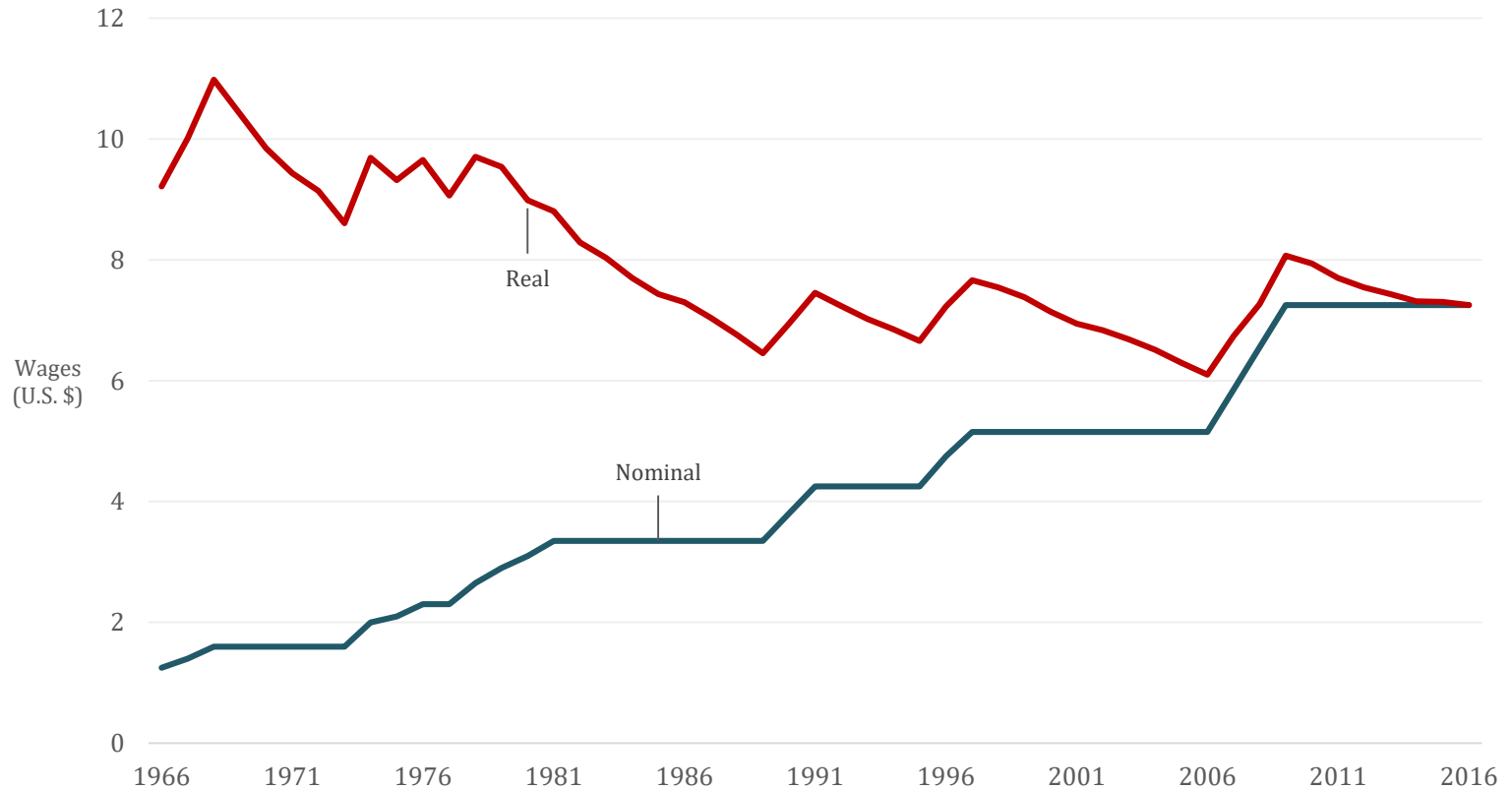
Source: U.S. Census Bureau

- Real median earnings for males peaked at \$53,356 in 1973; has stagnated since then to \$51,212 in 2015
- Female earnings steadily rose to 2001, relatively flat since then, and peaked at \$40,742 in 2015; previous high was \$40,126 in 2007 before recession

# A declining minimum wage...

## Real and Nominal Minimum wage (Federal) 1966-2016

*Real wages are in constant 2016 dollars*



Source: U.S. Department of Labor, Wage & Hour Division



A vintage-style map of the Americas, showing the continents of North and South America with various geographical labels and a grid of latitude and longitude lines. The map is positioned on the left side of the slide, partially overlapping the text area.

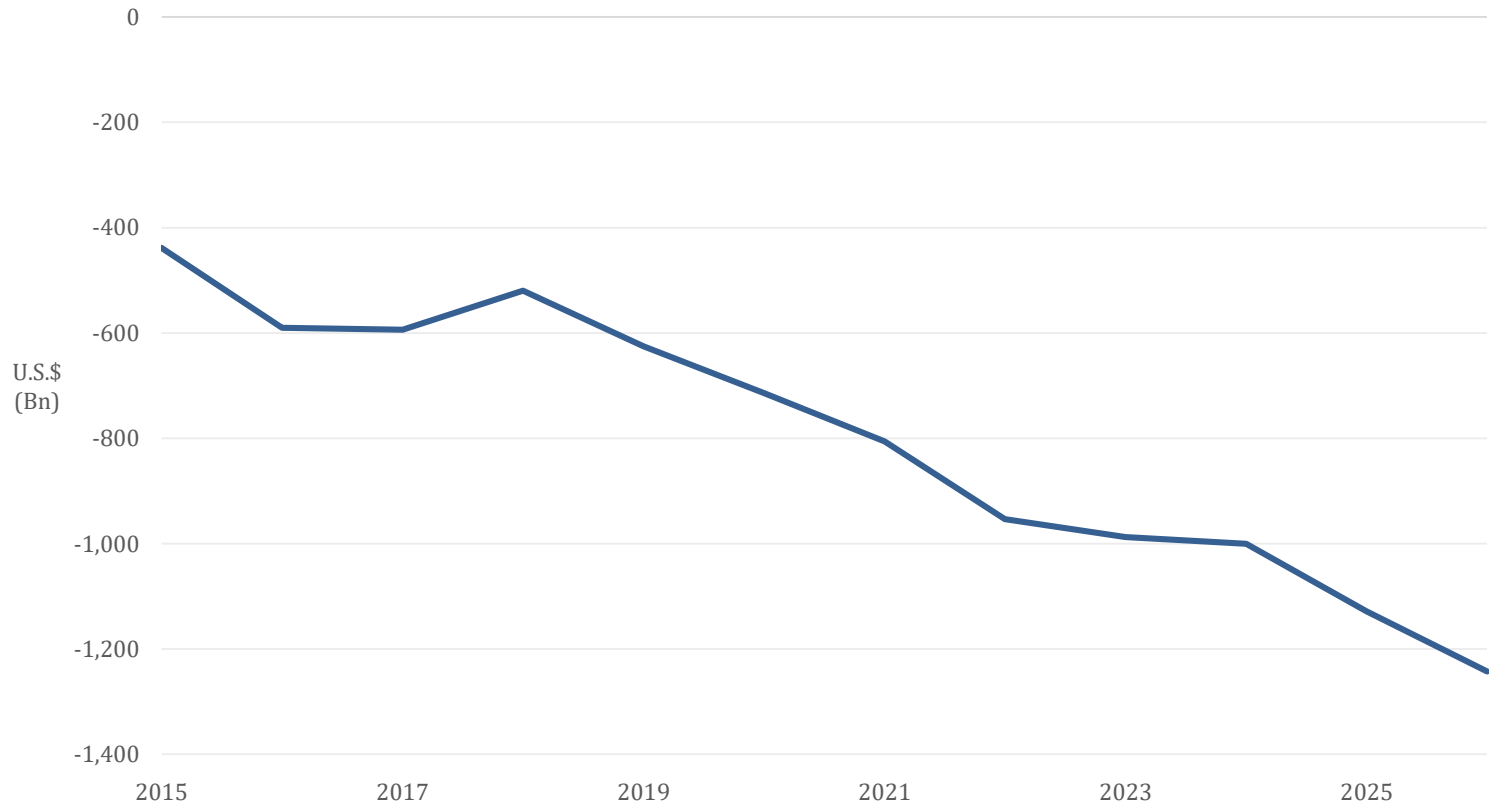
## ...with declining U.S. competitiveness

- 2016 [Harvard Report](#) on the state of U.S. competitiveness
  - **Productivity growth** (<1%) from 2013-16 below historical levels (2-4%) from 1960-2007
  - **Job creation** (<1%) from 2011-16 below historical levels (~2%) from 1975-2007
  - **Labor force participation** only at 1982 levels (73%) below 1997 peak of 78%
  - Small and medium size businesses being hurt most
  - **Major weaknesses:** Corporate tax code, education, infrastructure, healthcare, and political paralysis

# The Federal Deficit is projected to increase...

## Projected U.S. Federal Deficit 2015-26

*Actual Dollars*



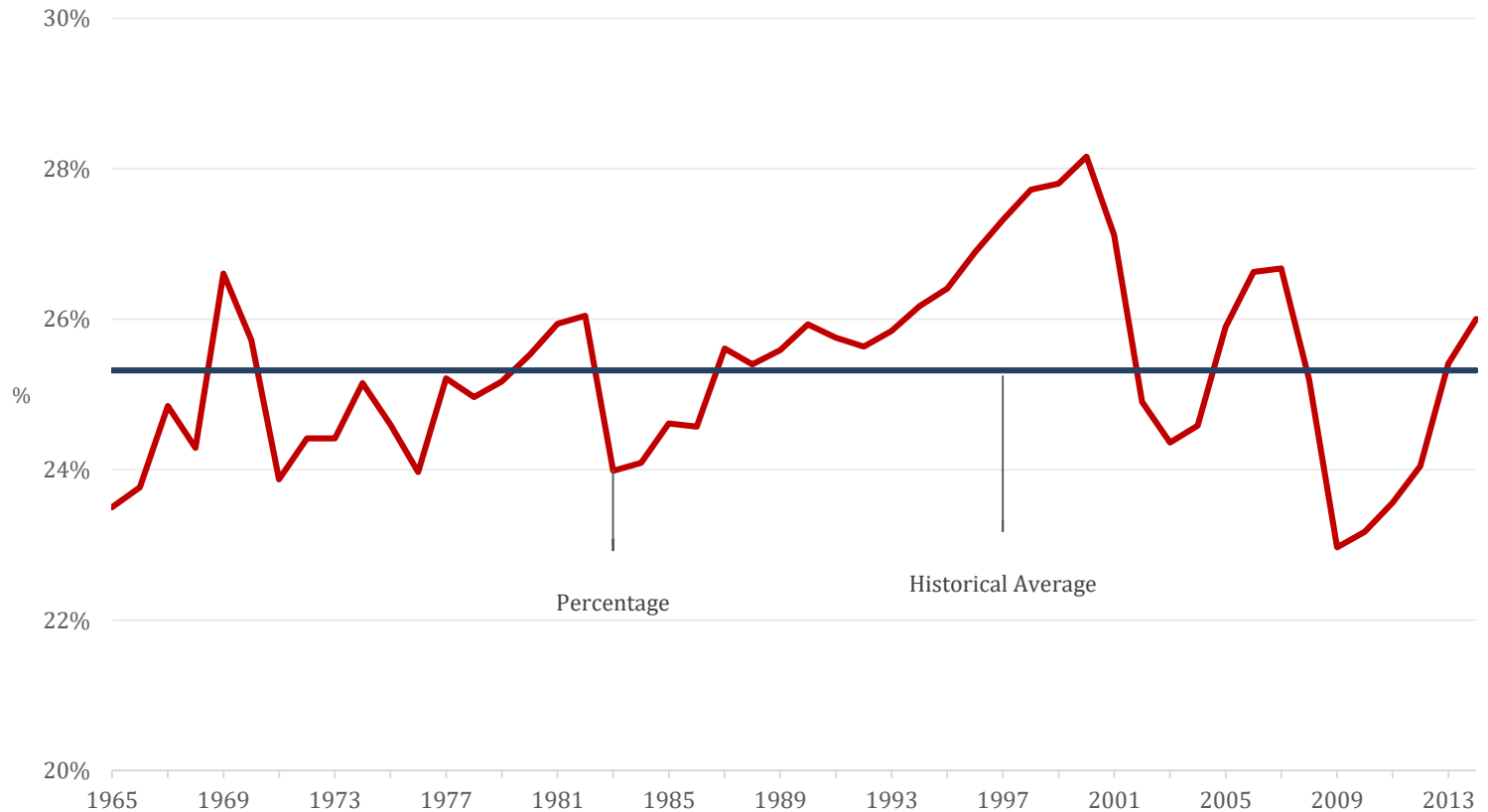
Source: United States Congressional Budget Office



# ...taxes as a percentage of GDP near historical average

## U.S. Taxes as a Percentage of GDP 1965-2014


*Taxes include taxes on income and profits, social security contributions, taxes levied on goods and services, payroll taxes, taxes on the ownership and transfer of property, etc.*



Source: Organization for Economic Co-operation and Development





A vintage map of the Americas, showing the continent of North America and parts of South America. The map is detailed with geographical features, latitude and longitude lines, and various place names. The title of the document is overlaid on the right side of the map.

# **THE GLOBAL NUMBERS FOR THE U.S. TEXTILE AND APPAREL INDUSTRY**



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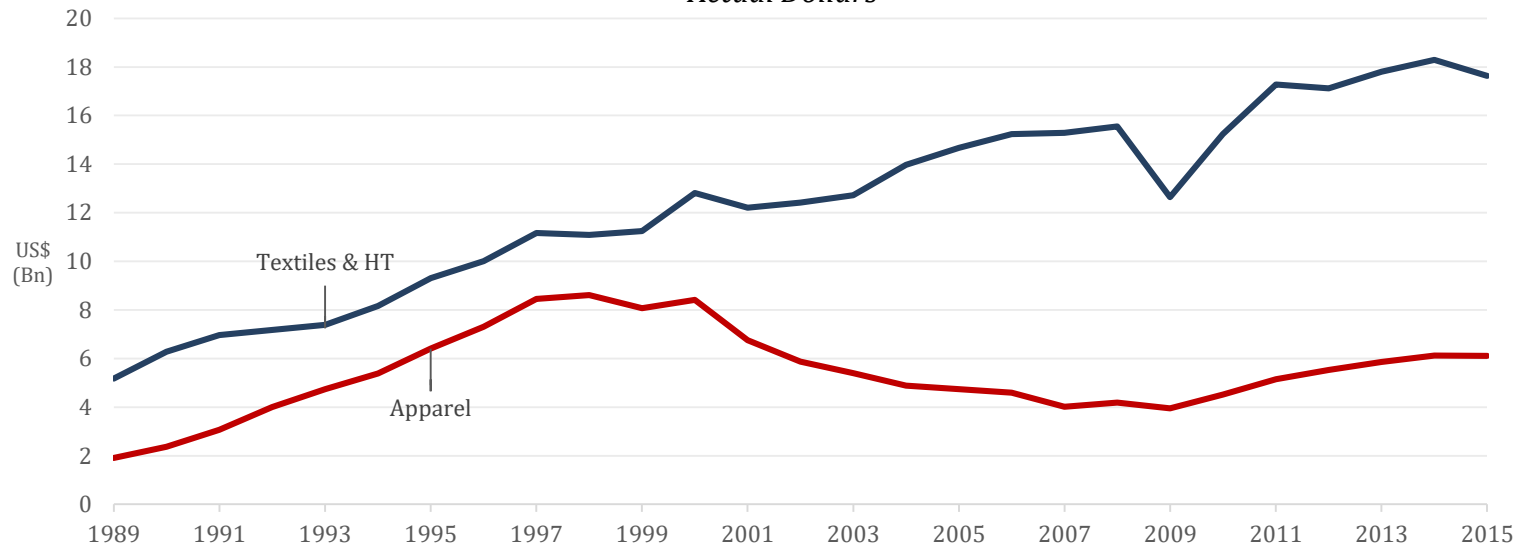
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# U.S. Exports

***Some recovery from lows of recession; but challenging environment***

U.S. Exports for Apparel, Textiles & Home Textiles 1989-2015

*Actual Dollars*



Source: Office of Textiles and Apparel, U.S. Department of Commerce

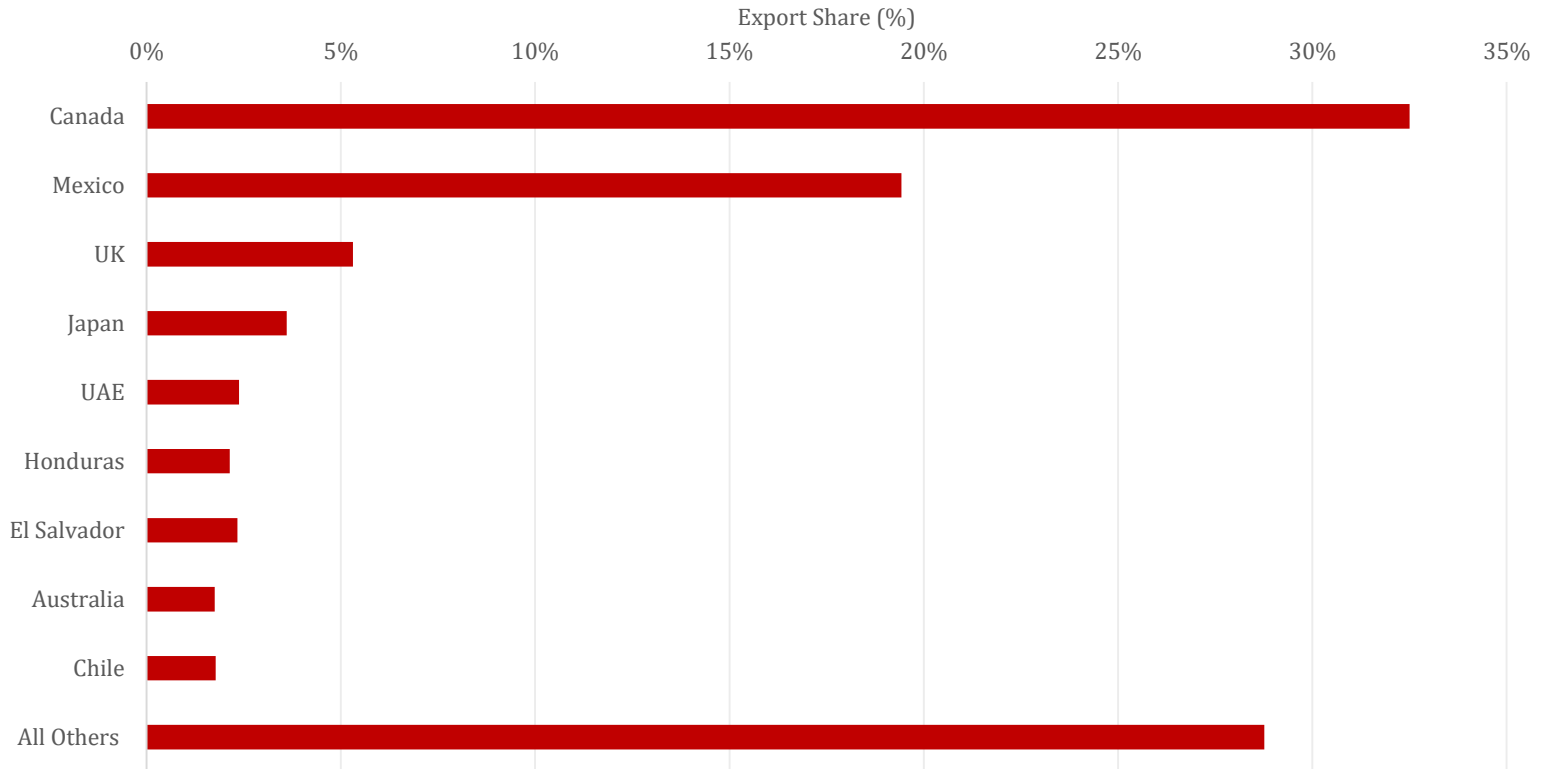
***...and 2016 so far has not been encouraging***

- Overall apparel exports are down 7.35% in 2016 (Jan to July)
- Overall textile & home textile exports are down 6.69% in 2016 (Jan to July)

# Destination for U.S. Apparel Exports

***Over half of apparel exports are to North America...AKA NAFTA***

Share of U.S. Apparel Exports in 2015



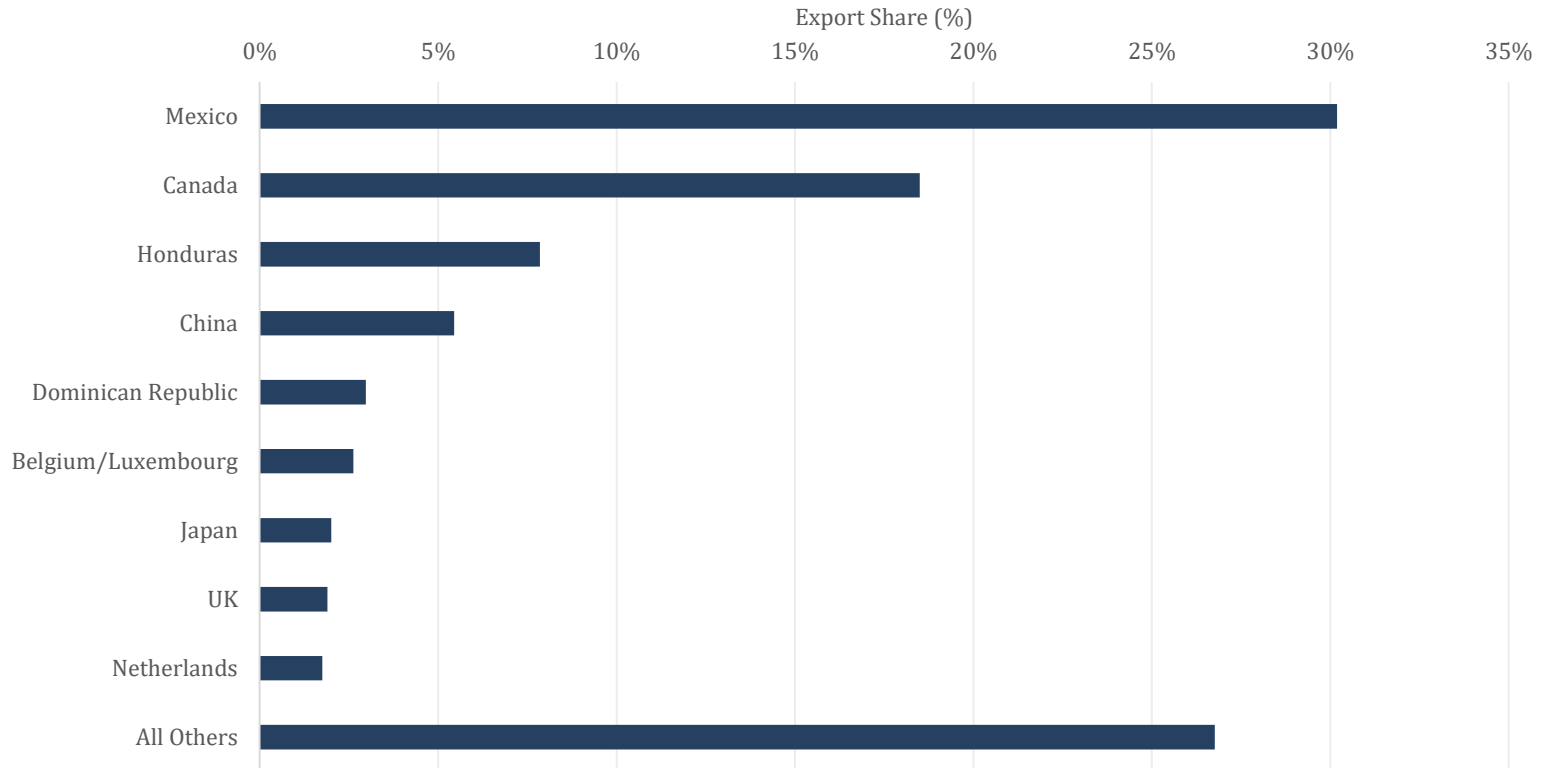
Source: Office of Textiles and Apparel, U.S. Department of Commerce



# Destination for U.S. Textile Exports

*...textile exports follow largely same pattern; AKA NAFTA...  
some success in China*

Share of U.S. Textile & Home Textile Exports in 2015



Source: Office of Textiles and Apparel, U.S. Department of Commerce

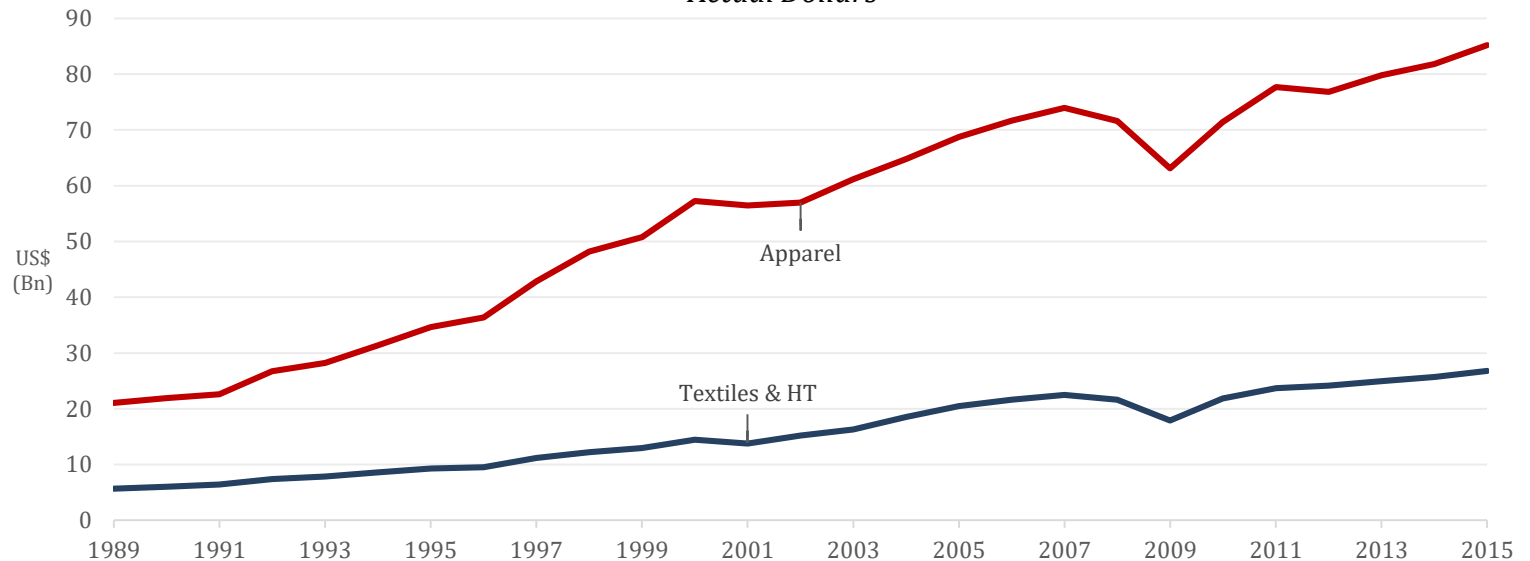


# U.S. Imports

***Imports of apparel and textiles have resumed growth from 2007-09 recession...***

U.S. Imports for Apparel, Textiles & Home Textiles 1989-2015

*Actual Dollars*



Source: Office of Textiles and Apparel, U.S. Department of Commerce

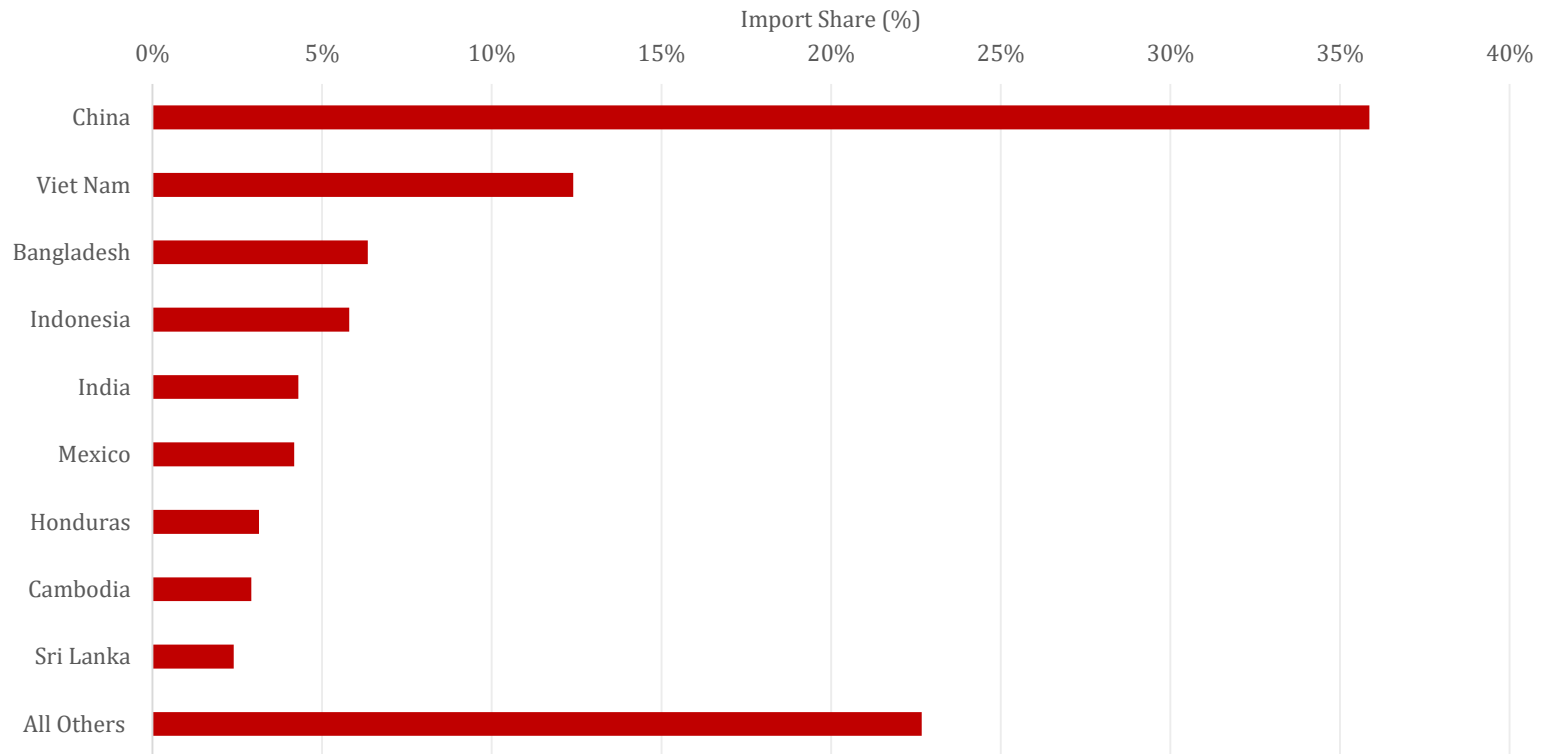
***...but imports for both have fallen in 2016***

- Apparel imports are down 3.95% in 2016 (Jan to July)
- Textile & home textile imports are down 8.07% in 2016 (Jan to July)

# Origin of U.S. Imports

***Apparel imports dominated by Asia, particularly China...and Viet Nam***

Share of U.S. Apparel Imports in 2015



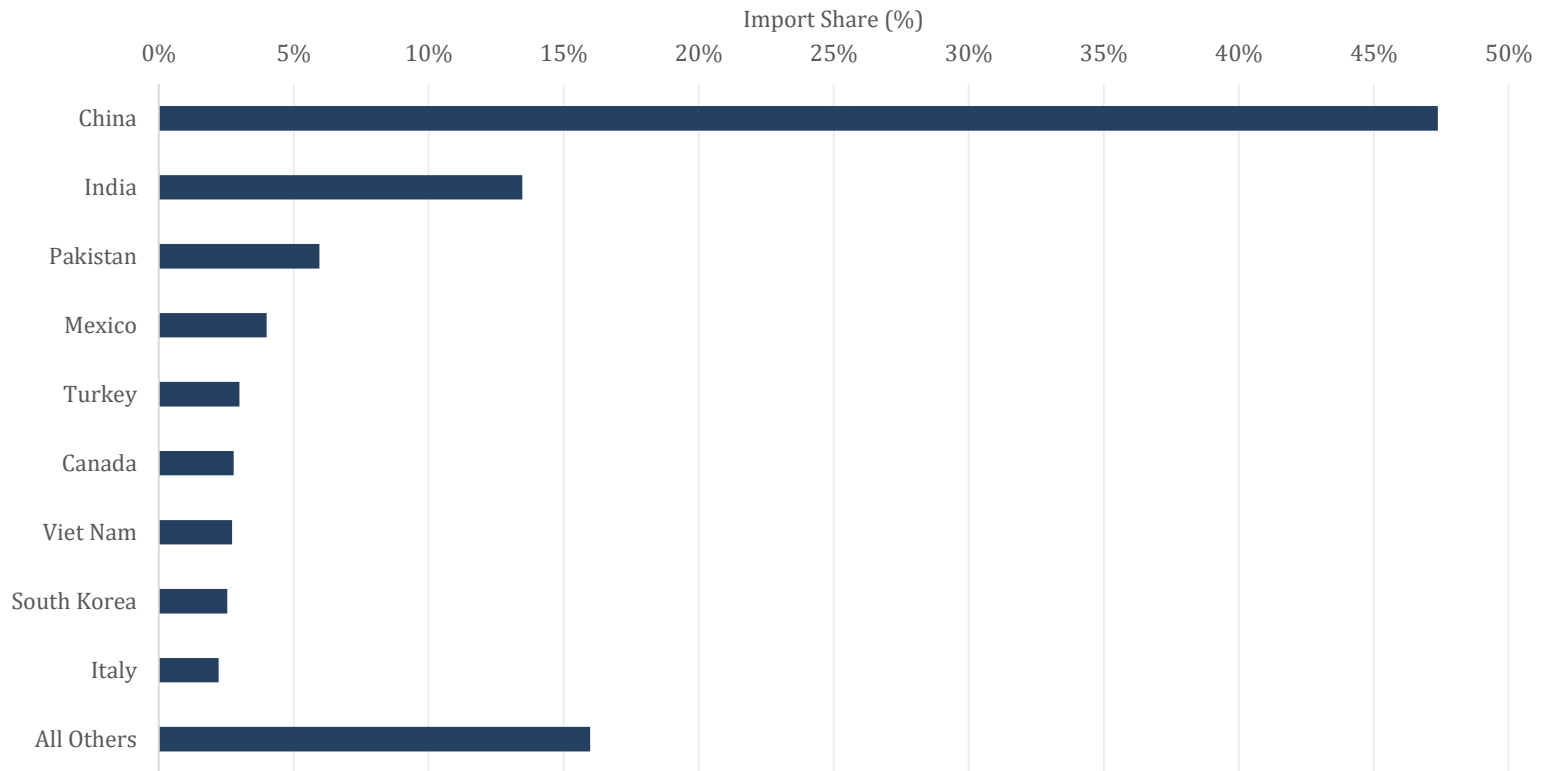
Source: Office of Textiles and Apparel, U.S. Department of Commerce



# Origin of U.S. Imports

*...textile imports also largely come from Asia, but other than China, different mix of countries*

Share of U.S. Textile & Home Textile Imports in 2015



Source: Office of Textiles and Apparel, U.S. Department of Commerce






# TRADE: THE 2016 CAMPAIGN



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# Trade, never popular, is decidedly now even more unpopular... and look with who...

- New [Politico-Harvard poll](#)
  - 85% of Republicans & 54% of Democrats believe free trade costs the U.S. jobs
  - 18% of Republicans & 33% of Democrats believe free trade helps their communities
- Anti-trade movements and protests in Europe
  - Led by NGOs, environmentalists, and labor unions focused primarily on investor state protection rights and regulatory independence
  - Brexit
- WTO 2016 [Global Trade Forecast](#): Trade will expand only 1.7% in 2016 - slowest pace since 2008
  - Doha Round pending since 2001
  - Uruguay Round 1986-1994



# Washington Trade Elites Upended

- Globalization Consensus Unraveling
  - Think Tank Frenzy on “Future of Trade”
  - Traditional Responses Rolled Out
    - Technology
    - Retraining and Education
    - Adjustment Assistance and Wage Insurance
    - Sell Trade Better
    - Better Trade Agreement Enforcement
    - It’s the Unions -- “They just Don’t Get it”
- More Extreme Proposals Pose a Real
  - Smoot-Hawley Invoked
  - Tariff / Trade Missteps
- Transitional Thinking on Key Issues
  - Currency Issues
  - Structural Trade Issues with Handful of Countries
  - Thoughtful Revisions to Global Framework Needed



# Party Platforms

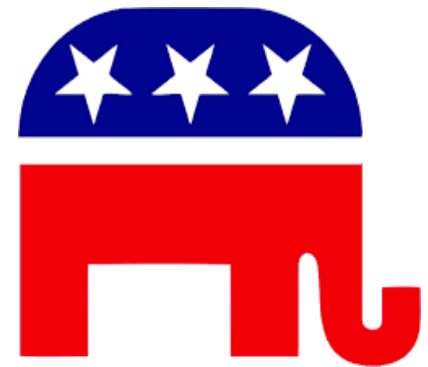
## *International Trade*

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- “Review agreements negotiated years ago” to ensure no “shortcuts on labor policy or the environment”
  - “Strong and enforceable labor and environmental standards” in the core text of FTAs
  - “Significantly strengthen enforcement of existing trade rules” and “hold countries accountable on currency manipulation”
- 

- “Better negotiated trade agreements that put America first”
- “Envision a worldwide multilateral agreement among nations committed to the principles of open markets”
- “Significant trade agreements should not be rushed or undertaken in a Lame Duck Congress”



# The Trans-Pacific Partnership (TPP) Ratification in the United States



- “I believe that we’ll get it done but it’s always going to be hard... Nothing is easy in the U.S. Congress right now.”  
- September 8, 2016 (News Conference in Vientiane, Laos)



- “If we don’t act, it will create a vacuum. These economies aren’t going to stand still. Beijing will step in to fill the void.”  
- September 20, 2016 (Remarks in Dallas, Texas)

- “We are down a significant amount [of votes]...and so this agreement needs to be improved and fixed, and that’s not going to happen in the next couple of months as far as I can tell.”  
- September 28, 2016 (Remarks in Washington, DC)
- “The current agreement...which has some serious flaws, will not be acted upon this year...It can be massaged, changed, worked on during the next administration.”  
- August 25, 2016 (Remarks in Louisville, Kentucky)



# The Trans-Pacific Partnership (TPP) Ratification in the United States



On November 15, 2012 (Remarks at Techport Australia):

- “TPP sets the gold standard in trade agreements to open, free transparent, fair trade, the kind of environment that has the rule of law and a level playing field.”

On August 11, 2016 (Campaign Stop in Michigan):

- “I oppose it now, I’ll oppose it after the election, and I’ll oppose it as President.”

On November 10, 2015 (Republican Primary Debate):

- “The TPP is a horrible deal...It’s 5,600 pages long, so complex that nobody’s read it.”

On June 28, 2016 (Campaign Speech):

- “The TPP would be the death blow for American manufacturing... It would make it easier for our trading competitors to ship cheap subsidized goods into U.S. markets.”





# The Trans-Pacific Partnership (TPP) Ratification in Other Countries

Country	Status
Canada	<ul style="list-style-type: none"><li>• Ongoing deliberations &amp; public consultations in Parliament's Standing Committee on International Trade; Parliamentary debate expected but no timeline indicated</li><li>• Ruling Liberal Party has not taken a position on a vote; Opposition Conservatives are in support</li></ul>
Japan	<ul style="list-style-type: none"><li>• Currently being debated (and expected to be voted upon) at extraordinary Diet Session from Sep – Dec 2016</li><li>• Ruling Liberal Democrat-led coalition in support</li><li>• Opposition Democratic Party and Communist Party against TPP</li></ul>
Viet Nam	<ul style="list-style-type: none"><li>• Not included in agenda for next session of Vietnamese Parliament from Oct – Nov 2016; delay due to uncertainty over TPP in the United States</li><li>• Possible consideration in Parliament session in "early 2017"</li><li>• Ruling Communist Party is in support</li></ul>



# The Trans-Pacific Partnership (TPP)

## Ratification in Other Countries

Country	Status
Malaysia	<ul style="list-style-type: none"><li>• TPP endorsed by Malaysian Parliament in February 2016</li><li>• Legal amendments still required before TPP comes into force</li><li>• Amendments expected to be ratified by Parliament by mid-2017</li></ul>
Australia	<ul style="list-style-type: none"><li>• No timeline indicated on when a vote may happen</li><li>• Ruling Liberal Party in support but does not have enough votes</li><li>• Opposition Labor Party still to take a position on TPP</li></ul>
New Zealand	<ul style="list-style-type: none"><li>• Under review by Parliament's Foreign Affairs, Defense, and Trade Committee</li><li>• Committee must submit recommendations to Parliament by November 12, 2016</li><li>• Both government and opposition parties in support of TPP</li><li>• PM John Key on Sep 20, 2016: "There is no point in signing up to the TPP if the United States is not included."</li></ul>



# The Trans-Pacific Partnership (TPP) Ratification in Other Countries

Country	Status
Mexico	<ul style="list-style-type: none"><li>• Formally submitted by Government to Mexican Senate in April 2016 for discussion and eventual ratification</li><li>• Currently being debated by eight separate committees in Senate</li><li>• Expected to be voted by the end of 2016</li></ul>
Peru	<ul style="list-style-type: none"><li>• Submitted by Government to Peruvian Senate for a vote in July 2016; currently being debated in the Senate</li><li>• No timeline on when a vote will take place</li></ul>
Chile	<ul style="list-style-type: none"><li>• Expected to be sent by President Michele Bachelet to Chilean Congress by the end of 2016</li><li>• No indications on when approval will take place</li></ul>



# Presidential Candidates

## *NAFTA*

On September 26, 2016 (First Presidential Debate)”

- NAFTA is “the single worst trade deal ever approved in this country” and “one of the worst things that ever happened to the manufacturing industry.”
- “We have to renegotiate our trade deals and stop these countries from stealing our companies and our jobs.”



On September 26, 2016 (First Presidential Debate):

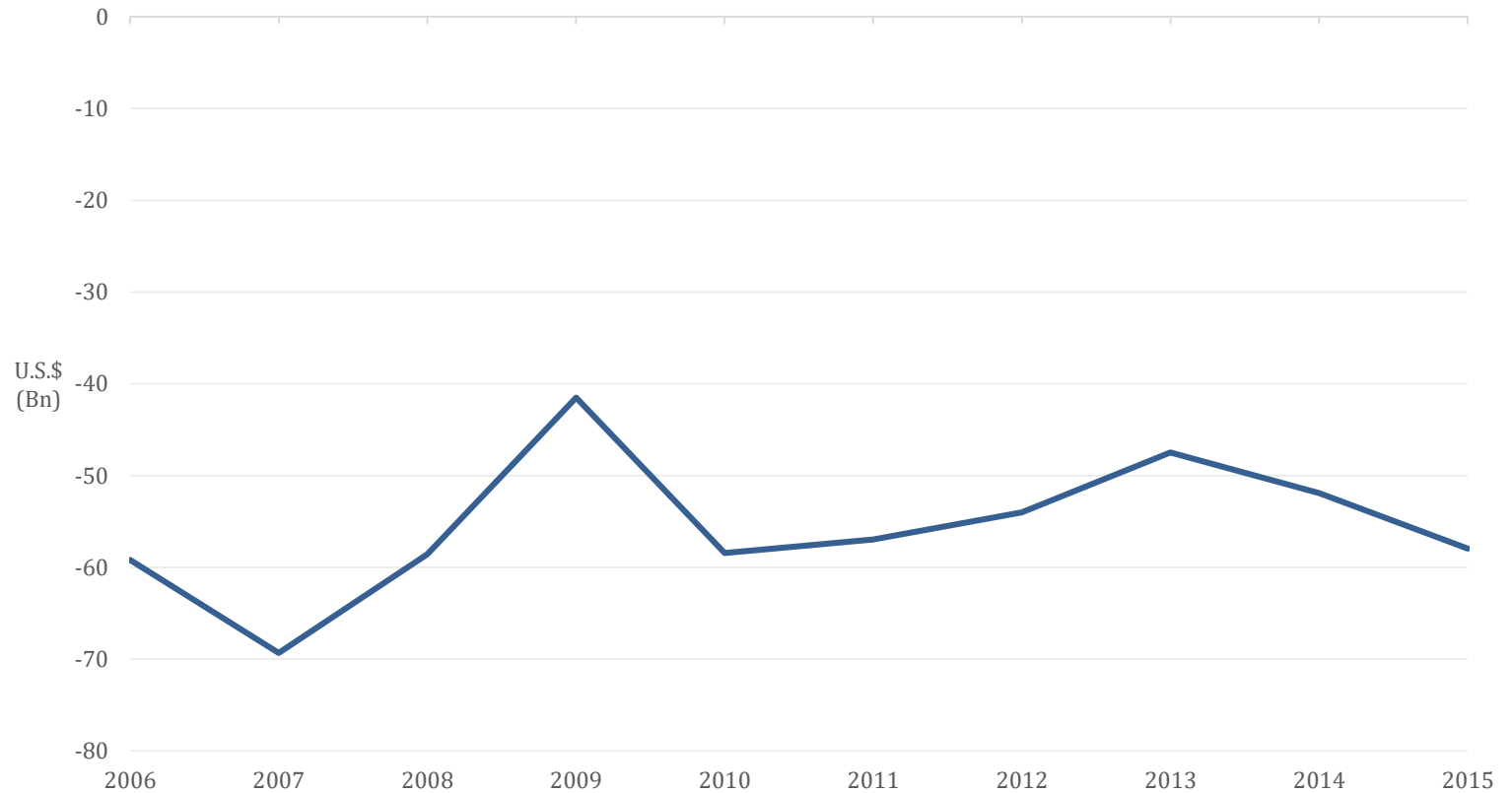
- “Well, I think trade is an important issue...We are 5 percent of the world’s population. We have to trade with the other 95 percent. And we need to have smart, fair trade deals.”
- NAFTA: “I think my husband did a pretty good job in the 1990s.”



# U.S.-Mexico Trade Balance

***A largely constant U.S. Mexico trade deficit ...***

U.S.-Mexico Trade Balance 2006-15 (Trade in Goods & Services)  
*Actual Dollars*



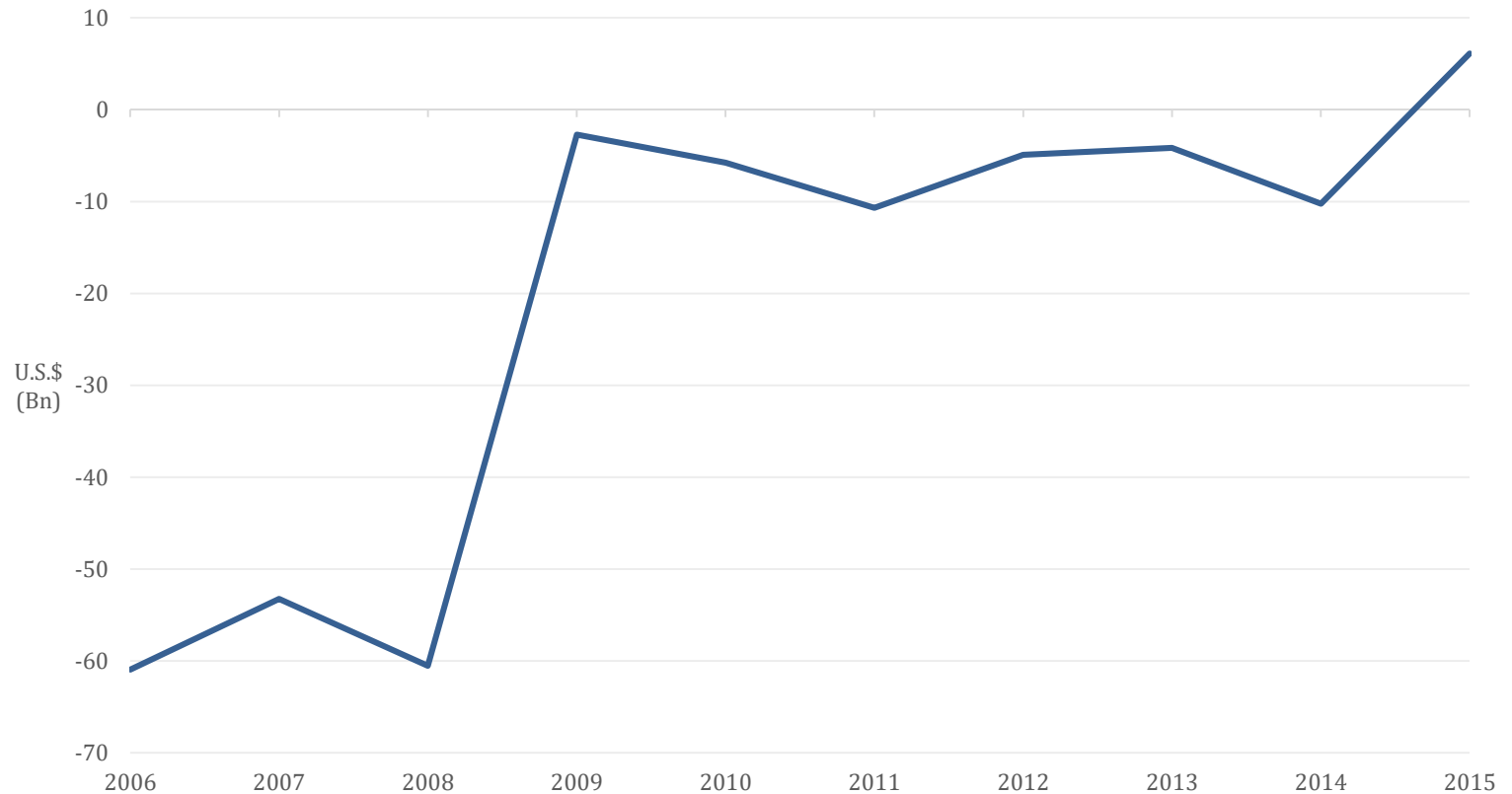
Source: Bureau of Economic Analysis, U.S. Department of Commerce

# U.S.-Canada Trade Deficit

*... the U.S.-Canada trade deficit which is now a trade surplus*

U.S.-Canada Trade Deficit 2006-15 (Trade in Goods & Services)

*Actual Dollars*



Source: Bureau of Economic Analysis, U.S. Department of Commerce



A vertical strip on the left side of the slide features a vintage map of the Americas. The map is detailed, showing the outlines of North and South America with various geographical labels such as 'North Pole', 'Greenland', 'The Sea', 'Equator', 'Terra del Fogo', and 'Antarctic Circle'. The map is rendered in a sepia or aged tone.

# **THE 2016 CAMPAIGN: HOW ELSE WILL THEY HELP?!**

# Party Platforms

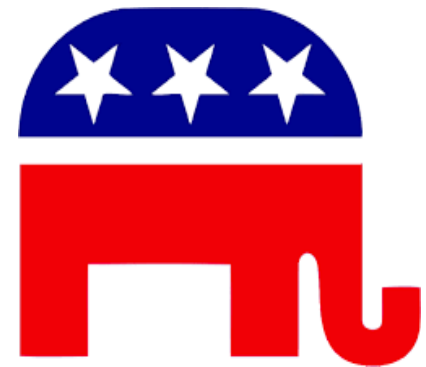
## *Domestic Manufacturing and Minimum Wage*

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- “Claw back tax breaks for companies that ship jobs overseas”
  - “Make more in America” and “revitalize hard-hit manufacturing communities”
  - “Make it easier for workers to join unions”
  - “Labor laws that bring companies to the negotiating table”
  - “Raise federal minimum wage to \$15 an hour”
- 

- “Lower corporate tax to be on par with, or below, the rate of other industrial nations”
- “Switch to a territorial system of taxation” so that “profits earned and taxed abroad may be repatriated”
- “All workers must be free to accept raises and rewards without veto power from unions”
- Minimum wage “should be handled at the state and local level”



# Presidential Candidates

## *Domestic Manufacturing*



On September 26, 2016 (First Presidential Debate):

- “I want us to invest in your future. That means jobs in infrastructure, in advanced manufacturing... and small business, because most of the new jobs will come from small business.”

Campaign Website:

- “Strengthen American manufacturing through a \$10 billion investment in ‘Make it in America’ partnership”

On September 26, 2016 (First Presidential Debate):

- “I’m going to cut regulations. I’m going to cut taxes big league.”
- “I’ll be reducing taxes tremendously, from 35 percent to 15 percent for companies, small and big businesses.”

Campaign Website:

- “Make our corporate tax globally competitive”
- “Temporary pause on new regulations and a review of previous regulations to see which need to be scrapped”



# Presidential Candidates

## *Minimum Wage*

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On April 16, 2016 (Democratic Primary Debate):

- “Have supported the fight for 15...I will work as hard as I can to raise the minimum wage”

Campaign Website:

- “Hillary will work to raise the federal minimum wage to \$12, and support state and local efforts to go even higher – including the ‘Fight for 15’”
- 

On November 10, 2015 (Republican Primary Debate):

- “Wages too high, we’re not going to be able to compete”

On May 8, 2016 (ABC Interview):

- “Let the states decide”

On July 27, 2016 (News Conference):

- “The minimum wage has to go up...at least \$10... states should really call the shot”



A vintage map of the Americas, showing the continent of North America and parts of South America. The map is detailed with latitude and longitude lines, and various geographical features. The title "New Overtime Rule" is overlaid on the map.

# New Overtime Rule

- May 18, 2016: DOL publishes final rule updating U.S. overtime regulations – to take effect from December 1, 2016
  - Anyone earning up to \$47,476 annually (\$913 a week) will now be entitled to overtime pay
  - Previous cutoff level for mandatory overtime pay is \$23,660 annually
  - Extends overtime to 4.2 million workers across the country
  - Automatically updates salary threshold every three years
- Opposition to new rule
  - September 28, 2016: House of Representatives passes bill delaying implementation of new rule by six months to May 1, 2017
  - September 28, 2016: Overtime delay bill introduced in the Senate
  - President Obama promises veto
- Living Wage: <http://livingwage.mit.edu/>



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# THE GLOBAL SUPPLY CHAIN CHALLENGE



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A vintage-style map of the Americas, showing North and South America with various geographical labels and a grid of latitude and longitude lines. The map is positioned on the left side of the slide, partially overlapping the text area.

# Rising Blue & Green Expectations

- Brand and Retailer Codes
  - Living Wage
- Forced Labor
  - Federal procurement rules
  - California Transparency in Supply Chains Act
  - European Laws
  - ILO/OECD Mechanisms



A vintage map of the Americas, showing the continent of North America and parts of South America. The map is detailed with geographical features, latitude and longitude lines, and various place names. The title "Rising Blue & Green Expectations" is overlaid on the map in a blue, serif font.

# Rising Blue & Green Expectations

- Sustainability
  - Higg Index
  - Better Cotton Initiative
  - Textile Exchange Standards
- Transparency and Traceability
  - Supply chain certifications
  - Cotton and Wool





## Bring It On..... Or...

- September 2016: 18 Los Angeles garment manufacturers fined more than \$600,000 for no workers' compensation insurance; wage theft allegations being investigated
- February 2016: U.S. retailer ordered to pay \$212,000 in back wages to employees of its garment subcontractors in Southern California for minimum wage and overtime violations
- 2015: UCLA Labor Center publishes report alleging immigrant garment workers in Los Angeles are “routinely exploited, underpaid, and work under sweatshop conditions.”
- 2014: Verite Report on undocumented workers in the U.S. garment sector and the prevalence of labor brokers; potential issues of forced labor, and other wage and working hour violations
- November 2011: U.S. Department of Labor finds widespread wage violations in Mississippi cotton ginning industry and expresses concern about *severity of noncompliance*



## The **Final** Irony:

# Prison Labor and the Sewn Products Sector

- Federal prisons industries UNICOR makes sewn products and other items:
  - Total UNICOR textile, apparel, and home furnishing sales from Oct 2014 – Sept 2015 were \$110 million (23% of total sales)
- When is prison labor more than a commercial frustration:
  - International labor standards
  - Low to negligible wages (eg: 12 cents/hr) and poor working conditions
  - Ongoing prisoner strike (since September 9, 2016) across more than 10 states and 24,000 prisoners
- AAFA letter to all Presidential candidates in August 2016
  - No response...where are Hillary and Donald?



# Q&A



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