



Exchange Rates and Patterns of Cotton Textile Trade

Paper Prepared for: TAM 483: Textiles and Apparel in International Trade

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ABSTRACT

The surge in imported textiles and apparel, specifically cotton textiles and apparel, has been attributed in large part to the increased appreciation of the dollar and the resulting relative price decline of foreign goods imported into the United States. The objective of this paper was to study exchange rate patterns relative to the U.S. dollar of countries that are major cotton textile and apparel trading partners with the United States and to determine the impact and strength of correlation between exchange rates and the rate of growth in cotton textile and apparel imports from these countries into the United States. Findings suggest that although changes in exchange rates are a significant factor, changes in the growth rate of the gross domestic product (GDP) may be more important for explaining the variation in import volume.

KEYWORDS: cotton, exchange rate, trade, GDP, textile, apparel

Introduction

Over the past twelve years, imports of textiles and apparel into the United States have almost tripled and cotton products, accounting for approximately 60% of the market for all textiles and apparel sold at retail in the U.S., have seen a similar three-fold increase in imports over this period. Reflecting this trend, imports of apparel sold at retail in the early 1990s accounted for 30% market share, while domestically produced goods accounted for the remaining 70%. Yet by 2000, imported goods represented 70% market share, while domestics accounted for only 30%.ⁱⁱ

Since the dissolution of the Bretton Woods Agreement in the early 1970's,

several countries around the world ceased fixing their currencies to the U.S. dollar and began a "managed float" system, where currencies may rise and fall in value relative to one another depending on each one's available supply and demand, but also where central banks may intervene to stabilize volatile exchange rate fluctuations. This type of system causes the relative prices of imports and exports around the world to fluctuate, affecting quantities supplied and demanded. International trade in cotton textiles and apparel is no exception.

Several previous studies evaluated the effects of exchange rate valuation on foreign trade, and many different variations of dollar indices have been employed to monitor the foreign exchange value of the U.S. dollar. In a 1987 study prepared by