International Trade and Finance Association

International Trade and Finance Association 15th International Conference

Year 2004 *Paper* 14

WAR: DOES IT EFFECT U.S. TEXTILE AND APPAREL TRADE?

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Abstract

Military conflicts have historically boosted the U.S. textile and apparel industries. Beginning with the War of 1812, which helped stimulate the infant domestic industry, it has been noted that military conflicts benefit the textile and apparel industries as demand is created in support of efforts of the armed services. The purpose of this chapter was to examine the impact of select military conflicts following World War II and implementation of the General Agreement on Tariffs and Trade on bilateral textile and apparel trade flows. Analyses revealed that while countries involved in conflicts with the United States tended to be minor suppliers of textiles and apparel to the U.S. market, there were notable trends in levels of trade prior to, during, and following military conflicts. Presented at 14th International Conference, San Antonio, Texas, May 2004.

INTRODUCTION

Edwin Starr's 1970 song lyric asked the question, "War- huh, What is it good for?" and answered, "Absolutely nothing!" Contrary to Starr's lyrics, many economists believe that war can be beneficial, not only to a nation's overall economy, but also to key industrial sectors supported by traditional defense spending for weapons, national security, intelligence, and transportation, as well as expenditures for military uniforms and other textile products required during periods of military conflict. In keeping with this ideology, Robert Barro, Harvard economics professor, has proposed that the current War on Terrorism will boost the sluggish U.S. economy in the same manner that previous international conflicts have supported economic growth and expansion (Barro, 2001). Economic advisor to President George W. Bush, Laura Tyson, also has reported that military conflicts actually aid the nation's economy (Marchini, 2001).

Domestic textile and apparel demand, historically, has been fostered by world military events such as the War of 1812, which supported the infant American textile and apparel industries through increased demand for military blankets, tents, and uniforms. Prior to World War II the U.S. textile and apparel industry consistently experienced a trade deficit, primarily due to growth and competitiveness of the Japanese industry during the period between World War I and World War II. Following devastation of the textile and apparel industry in Japan and other key supply countries during World War II, U.S. producers undertook an orchestrated effort to capture the world market. Their endeavors resulted in the U.S. textile and apparel sector realizing its largest domestic trade surplus of all timein 1947 (Dickerson, 1991).

In addition to military action, political and ideological conflicts may also be dealt with through imposition of economic sanctions. Implementation of both strategies has resulted in diversion of textile and apparel trade flows. The United States Office of Foreign Assets Control (OFAC) possesses authority to impose a variety of economic sanctions, including trade embargoes, asset blocking, travel restrictions, and other constraints on trade against foreign countries. One contemporary example of this authority was U.S. imposition of the trade embargo on Vietnamese goods following conclusion of the War in 1975; this embargo effectively eliminated trade between the two countries for almost twenty years.

Conversely, the U.S. government has also used trade concessions as a reward for countries providing aid and support during military conflicts. For example, Turkey was granted more generous U.S. textile and apparel import quota allocations after it furnished the U.S. military strategic use of Turkish airbases during the Gulf War in the early 1990s. In 2001, the government of Pakistan requested similar treatment in return for its support of U.S. interests related to the War on Terrorism (Ellis, 2001).

PURPOSE

The purpose of this chapter was to examine trends in historic trade flows of textiles and apparel between the United States and countries involved in military conflicts with the United States following World War II and ratification of the General Agreement on Tariffs and Trade in 1947. It was hypothesized that significant shifts in trade flows would be evident prior to, during, or immediately following significant military conflicts, economic sanctions, or trade embargoes.

METHODOLOGY

Secondary trade data from the U.S. Department of Commerce were collected every four years and plotted to determine trends in trade volume before, during, and after select military conflicts. Standard International Trade Classifications (SITC) of textiles and apparel selected for the analysis included: Fibers (SITC 26), Yarns and Fabric (SITC 65), and Apparel (SITC 84). Production data were also collected in order to determine shifts in trade following embargoes.

Military conflicts included in the analysis were selected from a list published by The United States Department of Veteran Affairs (2001). Included in the listing are wars that occurred following creation of GATT in 1947. The following wars were included in the present study: Korean War (1950-1953), Vietnam War (1964-1975) and Persian Gulf War (1990-1991). In addition, the United States has engaged in several conflicts during this period; those selected for inclusion in the present analysis include: the Cuban Missile Crisis (1962), the Iranian hostage incident (1979-1980), and the current War on Terrorism (2001-present). These six conflicts have ranged in length from a few days for the Cuban Missile Crisis to over 11 years for the Vietnam War, with the number of active military personnel participating exceeding nine million troops worldwide during the Vietnam War (Department of Veteran Affairs, 2001).

The Korean War

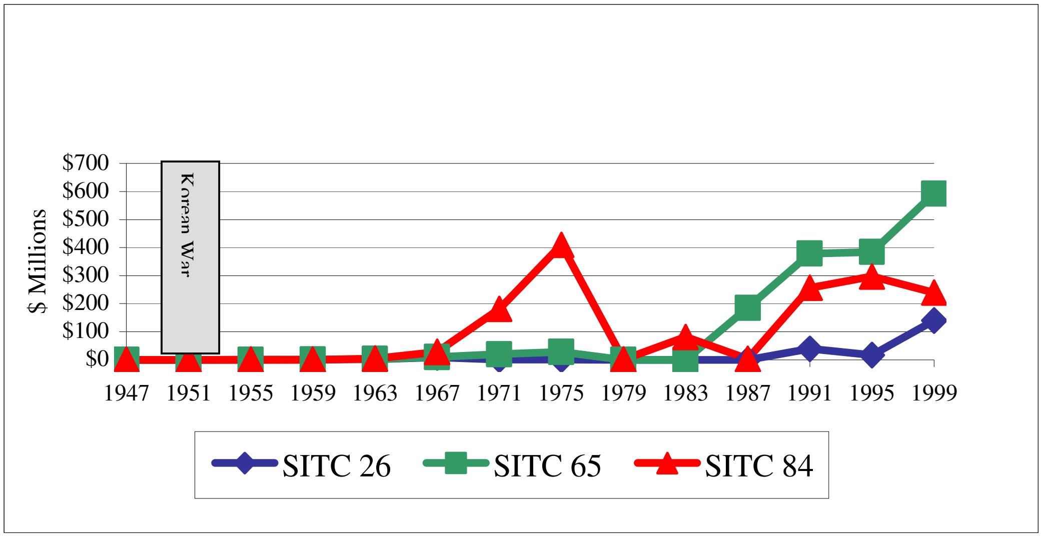
To better understand the impact of military conflicts on U.S. textile and apparel trade, background knowledge of each conflict is warranted. The Atlantic Charter of 1941 mandated that Korea, with the cooperative aid of the United States, Great Britain, China and the Soviet Union, was to become free and independent (Wagner, 2001). Following Japan’s surrender at the end of World War II, the United States proposed that it would take responsibility for monitoring the portion of the country south of the 38° parallel of north latitude, while the Soviet Union monitored that portion of the country north of the 38° parallel. Both countries sent troops to secure their areas, polarizing the country into two distinct territories. As tension increased along the demarcation line, skirmishes ensued. The United States referred the problem to the United Nations, and elections were held in both Koreas. North Korea held Soviet-style elections, creating a Soviet-style government, while South Korea held democratic elections and drafted a constitution to serve as a foundation for governing the country. With this action completed, U.S. military troops began to withdraw from South Korea.

In 1950, North Korean forces launched a full-scale invasion into South Korea in an attempt to force unification of the north and south, and the United States again intervened to defend South Korea's territory. A demilitarization zone was established near the 38° parallel, and the United States imposed economic sanctions on North Korea. During the next forty years, North Korea continued to operate under a state run economy. The North Korean economy remained relatively stable in the 1990s; however, in 1997 North Korea appealed to the international community for humanitarian assistance. Economic sanctions imposed by the United States continued until 1999, when they were lifted by the Clinton Administration in an effort to improve U.S.-North Korean relations. Today, attempts by U.S. retailers to purchase goods from North Korea remain hampered, as all importers must receive permission from the Office of Foreign Assets Control in order to purchase goods originating in this country (Office of Foreign Assets Control, 2000). Consequently, there continues to be virtually no measurable trade existing between the United States and North Korea in textiles and apparel.

In contrast, during the 1960s, South Korea's President Park began to establish an economic agenda focused on reestablishment of productive manufacturing sectors and engagement in international trade. Although President Park was assassinated in 1979, the South Korean government has continued to pursue strategic goals laid out during his administration. South Korea joined the United Nations in 1991, and today the nation continues to improve its position within the global economy. South Korean total export volume has risen from $32 million in 1960 to $150.4 billion in 2000. In addition, the country's gross national product (GNP) rose from $1.4 million in 1950 to $2.7 billion in 1963 and finally to $413.5 billion in 2000 (Worldbank, 2002).

Part of South Korea's economic growth and increased participation in international trade was based on the establishment and growth of key industrial sectors, including textiles and apparel. Textile and apparel production had been a traditional manufacturing industry in Korea prior to the separation, and it continues to be an important industrial sector in South Korea's economy today. Census data revealed a sharp rise in exports of leather apparel, sweaters and shirts (SITC 84) to the U.S. market during the late 1960's, continuing throughout the 1970's. In addition, the data showed significant increases in exports of yarns and fabrics (SITC 65) in more recent years.

Figure 1. Textile and Apparel Trade between South Korea and the United States, 1947-1999



The Vietnam War

Following World War II, the French government was designated as colonial administrator for Vietnam, Cambodia, and Laos. France's leadership, however, was challenged by Communist-led Vietnamese nationalists seeking independence. In an effort to deter the spread of communism, the United States officially recognized and supported the three French-associated states and supplied humanitarian and military aid to combat the Communist-led nationalists (Vietnam War, 2002).

In 1954, an international conference in Geneva, Switzerland produced an armistice temporarily dividing Vietnam into North Vietnam, led by Ho Chi Minh, and South Vietnam, led by Ngo Dinh Diem. In addition, the armistice declared that national elections were to be held in 1956 in order to reunify the country. It was anticipated that Ho Chi Minh, with Communist political support, would win the elections. In an effort to block the elections, Ngo Hinh Diem, with U.S. support, intervened using U.S. and South Vietnamese troops (Vietnam War, 2002). U.S. involvement was under the leadership of President Dwight Eisenhower, who stated that U.S. motives for involvement in the conflict included the need "to protect all of Southeast Asia whose countries would presumably 'topple like a row of dominoes' were the Communist to take over Vietnam" (Karnow, 1983, p. 20).

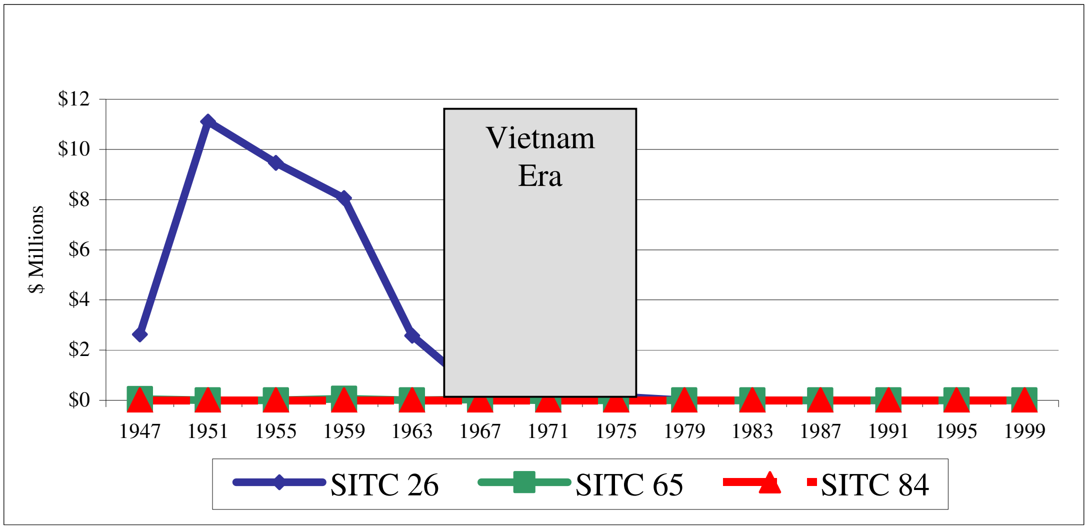
Over the course of the next sixteen years, more than four million North and South Vietnamese soldiers and civilians were killed or wounded in the conflict. During this time, the United States lost domestic support for the Vietnam War and de-escalation efforts were initiated when the United States ended the bombing and President Lyndon Johnson announced in 1963 that he would not seek re-election. South Vietnam resumed military leadership as U.S. military forces were gradually withdrawn, and in 1975 the South Vietnamese government surrendered to Communist North Vietnam (Karnow, 1983).

After the conflict, both North and South Vietnam were devastated, and neither could provide fully for its population. The South Vietnamese Ambassador to the United Sates was disappointed that the United States was unwilling to fight indefinitely, and Vietnam forfeited U.S. aid and accepted, instead, a $1 billion aid package from the Soviet Union. This aid was tightly managed by the Soviet regime, and little was used to build industry or re-establish the domestic economy. Slowly, however, a few traditional industries attempted to begin operation, often finding raw materials unavailable. Vietnam's participation in the international arena was also hampered by the country's lack of hard currency (Karnow, 1983).

The effects of engagement in a protracted war, as well as lack of support to re-build, plus imposition of a trade embargo on Vietnamese goods entering the U.S. market, extracted a toll on the Vietnamese economy, from which it has only recently begun to emerge. While the country's GNP was only .087 billion Dong in 1960, it rose to 4.9 billion Dong in 1980, and increased to 30.5 billion Dong in 2002. Vietnam's engagement in international trade has also produced impressive gains. In the 1960s, total annual export volume of Vietnamese goods to the U.S. market was approximately $85 million. However, following dissolution of the U.S. trade embargo in 1995 and establishment of normal trade relations between the United States and Vietnam in 2000, trade volume has escalated to almost $15.1 billion (Worldbank, 2002).

Figure 2 illustrates textile and apparel trade between the United States and Vietnam between 1947 and 1999, based on Census Bureau trade data (U.S Department of Commerce, various years). Trade flows in yarns and fabrics (SITC 65) and apparel (SITC 84) were flat prior to the Vietnam War and continue to be relatively flat today. Fibers (SITC 26) reached more than $10 billion in the early 1950s but became non-existent during the Vietnam War and has failed to increase subsequently. Following normalization of trade relations between the United States and Vietnam, there have, however, been increases in the volume of textile and apparel exports originating in Vietnam. Exports of some items, including man-made fiber women's suits and other items, plus yarns have increased to the extent that quota restraints for these categories may need to be imposed by the United States.

Figure 2. Textile and Apparel Trade between Vietnam and the United States, 1947-1999



Iran Hostage Conflict, The Iran-Iraq War and the Persian Gulf War

With vast expansion of oil and gas powered machinery and transportation following World War II, oil-rich countries in the Persian Gulf region increasingly gained importance to the United States. The natural oil and gas reserves of the region have also played a significant role in the world economy. As a result of wealth gained through production and trade of oil and gas, the region quickly modernized, and population growth in the Middle East exploded.

Established relations between Iran and the United States deteriorated after an Islamic revolutionary group overthrew Shah Pahlevi. In response to the exiled Shah Pahlevi's admission to the United States for medical treatment, more than 500 Iranian students seized the American embassy on November 4, 1979, taking fifty-two diplomatic personnel hostage. In response to the hostage crisis, President Carter placed economic sanctions on Iran, froze Iranian assets in the United States, and terminated oil imports from Iran. Military efforts to rescue the hostages failed, and President Carter lost his bid for re-election to Ronald Reagan in 1981. The hostages were released on January 20, 1981, but only after the United States agreed to release Iranian assets totaling $8 billion. It was not until 2000, however, that the U.S. embargoes imposed on specific items, including carpets and textile floor coverings, were lifted ("Iran Hostage Crisis," 2001).

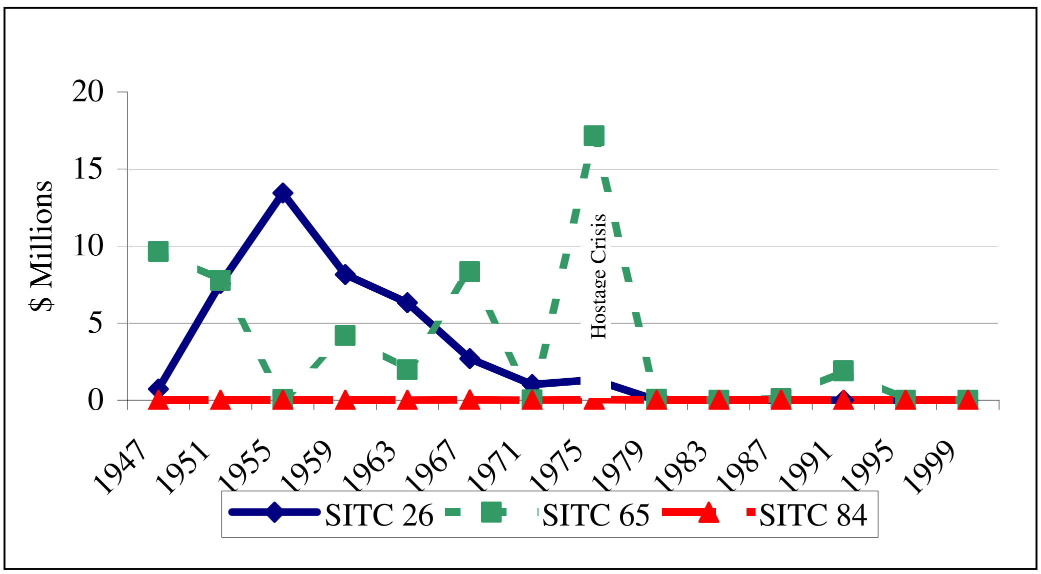
In addition to the Iranian hostage crisis including U.S. citizens, two major wars involving Iran and Iraq have erupted since World War II: the Iraq-Iran War (1980-1988) and the Persian Gulf War (1990-1991). The impetus for the Iraq-Iran War was the Iranian revolution lead by Ayatollah Khomaini in the late 1970s. Iraq's Saddam Hussein attempted to oust Khomaini's new regime and control the oil rich region. After two years of military actions, Iraq announced that it would accept a "binding arbitration to settle the conflict" (Potter, 1989, p. 27). Iran refused the offer and demanded that Saddam Hussein be relieved of his power, yet neither country could declare victory. Casualties for both countries were high with

370,000 killed and more than 700,000 wounded (Potter, 1989). In addition, both countries' infrastructures were demolished.

While the United States officially remained neutral during the Iran-Iraq War, U.S. sanctions imposed on Iran following the hostage crisis significantly affected bilateral trade in textiles and apparel. Carpets have been a traditional industry in Iran, and the country has long been internationally renowned for its finely handcrafted Persian rugs. Prior to the hostage crisis, total Iranian exports to the United States were $12.5 billion (1981). Currently, with the lifting of the U.S. ban on carpets and textile floor coverings, U.S. imports from Iran have increased to $26 billion (Worldbank, 2002).

Examination of data collected for this study indicate that textile and apparel trade flows between the United States and Iran experienced significant fluctuations prior to the Iranian Hostage Crisis, as shown in Figure 3. Peaks in U.S. imports of wool and other fiber carpets are especially notable. However, since the early 1980's, virtually no trade, except for yarns and fibers (SITC 65) in 1991, is evident due to U.S. imposed sanctions.

Figure 3. Textile and Apparel Trade between Iran and United States, 1947-1999



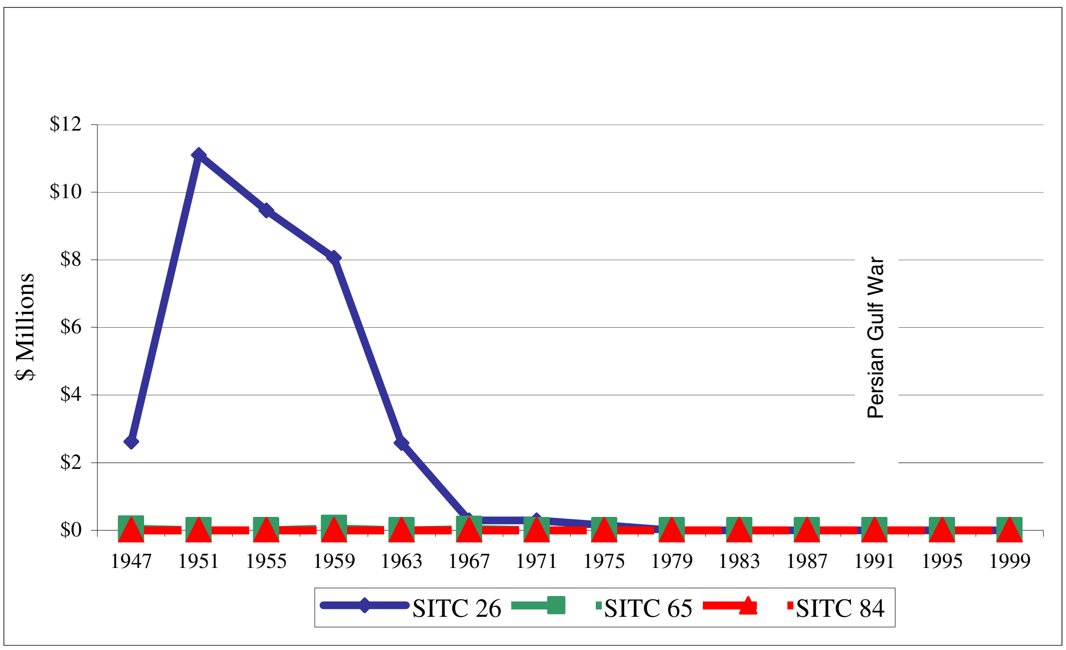
In 1990, Iraq invaded Kuwait with an army of one million men outnumbering Kuwait's army of twenty thousand to control the oil reserves. Iraq expected neither super power intervention, nor its impact. The United States did not approve of acquisition of territory by force and believed that if Hussein won, the existing world order would be endangered. Therefore, Operation Desert Shield quickly responded, accompanied by U.S. economic sanctions.

As it became evident that military action would be required, American, British, and French troops joined Arab forces in Saudi Arabia (Operation Desert Storm) to liberate Kuwait in 1991. The results of the war further devastated Iraq. Water and sewer systems were in ruins, food production fell 30 percent, and refugees died of hunger. A United Nations resolution of April 1991 required both the disclosure of Iraq's possession of weapons of mass destruction, and the continued monitoring of Iraq until the United Nations confirms that Iraq has not rearmed (Council of Foreign Relations, 2002).

Involvement in the Iran-Iraq War had a negative impact on Iran's economy. Prior to the war, Iraq's gross national product was $20 million (1981), and it subsequently declined to $18 million in 1983. By 1991, the country's economy had experienced significant recovery, with gross domestic product reaching $46.1 billion. Currently, Iran's GDP has reached a high of $59 billion (World Factbook, 2002). Deterioration of relations between the United States and Iraq was also reflected in volume of trade. In 1968, the value of Iraq's exports to the United States was $1.03 billion.

Following initial implementation of GATT, Iraq was, at least, a notable supplier of fibers and fabrics (SITC 26) to the United States. As shown in Figure 4, imports of textile products from Iraq declined from the early 1950s through the mid 1960s as Japan, other Asian, and European producers emerged as primary suppliers of the U.S. market. As the United States continues to impose economic sanctions, imports of textile and apparel goods from Iraq remain flat.

Figure 4. Textile and Apparel Trade with Iraq: 1947-1999

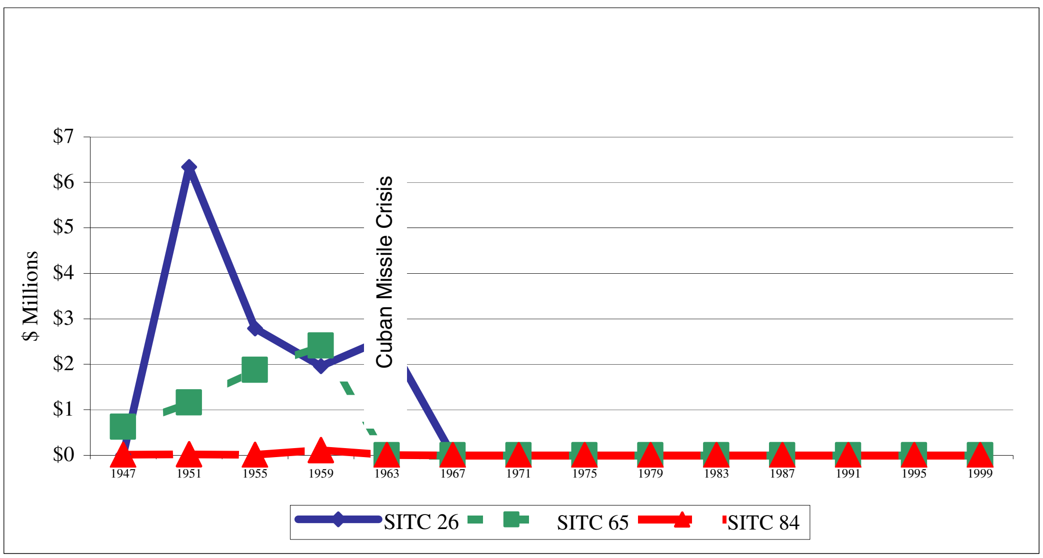


Cuban Missile Crisis

After Fidel Castro assumed power in 1959, the relationship between the United States and Cuba became tense. As the Castro regime confiscated U.S. property interests and formed an alliance with the Soviet Union, U.S.-Cuban relations deteriorated. Nikita Khrushchev, Soviet Union Premier, sought to supply medium and long-range missiles to Cuba to both defend the new Communist state from the United States and shift the balance of nuclear power away from the United States (Crassweller, 1971). After American reconnaissance planes photographed Soviet ships unloading the missiles, President John F. Kennedy threatened a full U.S. invasion of Cuba. Following United Nations negotiations and diplomatic measures with Khruschchiev, Kennedy established a naval blockade to ensure that no more missiles would be delivered. After thirteen days, the Soviet ships withdrew, and the United States decided not to invade Cuba. Castro, however, refused to grant U.N. weapons inspectors access to Cuban sites to ensure the nuclear threat was over (Cuban Missile[a], 2002; Cuban Missile[b], 2002; Crassweller, 1971), and the United States established a total embargo on all trade with Cuba.

Figure 5 illustrates trends in U.S. imports of Cuban textiles and apparel, including the impact of the trade embargo on Cuba following the Cuban Missile Crisis. Prior to the crisis, there was a significant volume of trade in fibers (SITC 26) and yarns and fabrics (SITC 65). As with imports of fibers and fabrics from Iraq, U.S. imports of textile fibers from Cuba experienced rapid growth during the late 1940s and early 1950s, with significant decline thereafter. This country enjoyed a more modest, but steady, growth in exports of yarns and fabrics to the U.S. market between 1947 and 1960. Following the Cuban Missile Crisis and imposition of the U.S. trade embargo, all Cuban exports to the United States have remained flat.

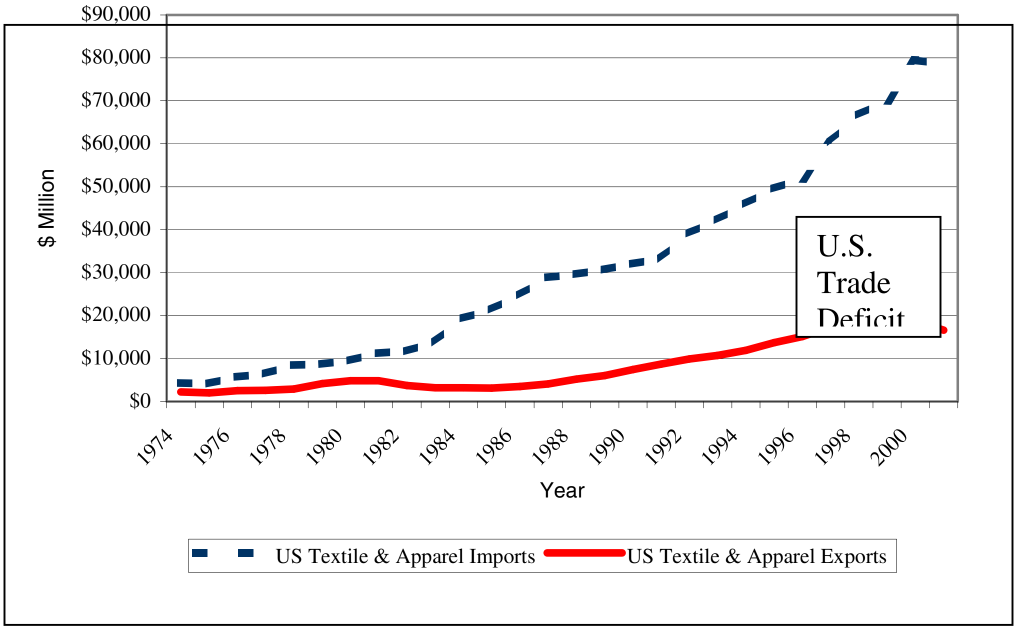
Figure 5. Textile and Apparel Trade with Cuba, 1947-1999



TEXTILE AND APPAREL TRADE BETWEEN REST OF THE WORLD AND UNITED STATES

While the U.S. textile and apparel industry enjoyed a trade surplus in 1947, in recent decades the industry has suffered serious trade deficits. As illustrated in Figure 6, imports have surged since the mid-1970s. With rapid growth in imports of textiles and apparel, accompanied by less vigorous gains in domestic exports, the U.S. textile and apparel trade deficit has increased from a rather modest $2.074 billion in 1974 to a record high of $61.964 billion in 2001.

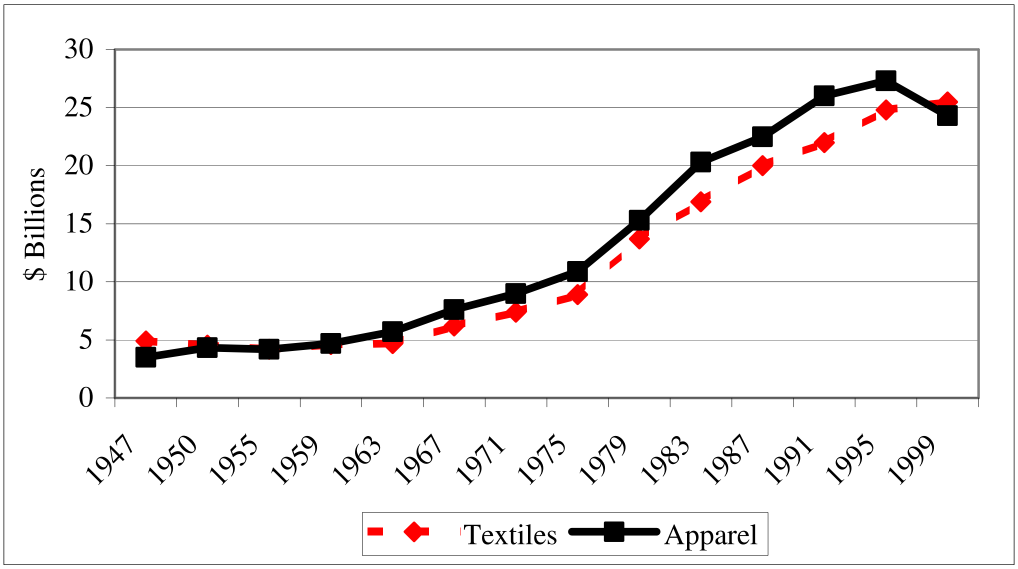
Figure 6. U.S. Textile and Apparel Imports and Exports, 1974-2000



Great concern has been expressed regarding the impact of ever increasing levels of imports entering the U.S. market and the disruptive effect of this on the domestic industry, even though domestic textile and apparel production steadily increased from the mid-1960s and ultimately peaked in 1995 (see Figure 7). Increased production within the domestic textile and apparel industry has primarily been due to increased technology and automation, which provided competitive products to Asian and Mediterranean imports, and implementation of demand-activated and quick-response strategies to support and foster procurement of domestic goods over imports. Declines in production, more notable for the labor intense apparel sector, have largely resulted from lack of domestic competitiveness against low-wage developing country producers.

Significant measures to protect the domestic textile and apparel sectors from disruptive foreign competition were created through a system of bilaterally negotiated quota restraints instituted under the auspices of the General Agreement on Tariffs and Trade in 1974 as the Arrangement Regarding International Trade in Textiles (MFA). The original MFA was extended three times and subsequently replaced by the Agreement on Textiles and Clothing (ATC) during the Uruguay Round Agreement. Another significant result of this round of negotiations was the agreement to phaseout the quota system established under the MFA, with return of trade in textiles and apparel to normal rules of the World Trade Organization, i.e., trade regulated by imposition of tariffs.

Figure 7. U.S. Textile and Apparel Production, 1947-1999



Additional measures and agreements have been implemented to support production of the U.S. textile and apparel industry. To enhance trade with its neighbors, the United States ratified the North American Free Trade Agreement in 1993. This agreement was supported by the industry, especially with the inclusion of a yarn forward rule of origin for most apparel products, because it was anticipated this would create increased demand for U.S. fibers and fabrics. The Trade Act of 2000, including both the African Growth and Opportunity Act and the United States-Caribbean Basin Trade Partnership Act, should provide opportunities not only for industrial growth and economic development of the developing countries involved, but also U.S. textile producers, due to inclusion of rules of origin that encourage use of U.S. goods by Sub-Saharan and Caribbean manufacturers.

CONCLUSION

The countries included in this analysis currently provide only a minor percentage of aggregate U.S. textile and apparel imports. Goods from Iran, Iraq, and Cuba currently remain under import restrictions (Office of the Treasury, 2000), and the embargo imposed on goods entering the U.S. market following the conclusion of the Vietnam War was lifted in 2000. South Korea continues to be a major exporter of textiles and apparel, representing 4 percent of U.S. imports, while exportation of goods from North Korea to the United States remains restricted. Even with restrictions imposed on goods produced within these Asian and Middle Eastern countries, the U.S. textile and apparel sectors continue to experience a significant trade deficit.

South Korea continues to be among the world’s top exporting countries of textiles and apparel, ranking as the fourth largest exporter in 2001. While this country has enjoyed success in textile and apparel production, it has recently begun to experience moderate decline, primarily due to the increased competitiveness of Chinese and Taiwanese apparel exports. Weaving segments have been the hardest hit. Production of spun yarns fell 10.5 percent, while fabric output was down by 21.5 percent in 2001. As the South Korean industry matures, the government's strategy to combat the losses it has recently experienced is to refocus efforts away from production within the more labor intense apparel sector and toward the more technology and capital intense industrial textile sector (Textiles Intelligence Limited, 2001).

In July 2000, the United States and Vietnam signed a bilateral trade agreement that was the initial step in establishing Normal Trade Relations (NTR) between the two countries. Vietnam has agreed to lower its average tariff rate from 40 percent, to an average of less than 3 percent (Fact Sheet, 2001). In addition, the country agreed to improve working and safety conditions to gain Social Accountability 8000 (Vietnam, 2002). Vietnam received NTR effective December 10, 2001. With this new status, apparel imports from Vietnam have increased ten times compared with the same period last year (Executive Director, 2001).

The United States has begun lifting economic sanctions against Iran. Products such as carpets, caviar and pistachios are now allowable imports. This development has pleased U.S. consumers since they can now purchase authentic Persian rugs (Lillo, 2000).

The majority of U.S. trading partners have Normal Trade Relations (NTR) status. Cuba, Iraq and North Korea, however, neither possess Normal Trade Relations nor maintain diplomatic relationships with Washington (Well-Dang, 2001).

Currently the United States is involved in the War on Terrorism that began in Afghanistan and could possibly spread to other countries. It will be difficult to determine the length of the conflict and its effect on many U.S. industries. With firms in the apparel and textile industry failing at an alarming rate, it remains to be seen if domestic production will rebound. The Defense Department has a "buy domestic" policy mandated by the U.S. Congress (Morrissey, 1999). Perhaps this will have a positive effect on the textile and apparel industry with increased demand for domestically produced military apparel and textiles and the reduction in imports as a result of trade embargoes. Does war have a positive side? The United States economy holds the answer.

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