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POTENTIAL IMPACTS OF CAFTA ON U.S. TEXTILE & APPAREL SOURCING

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Abstract

This paper examines the impact of CAFTA on textile and apparel sourcing.

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With implementation on January 1, 2005 of the final phase of elimination of quotas imposed on textile and apparel imports, significant uncertainty exists regarding sourcing decisions of U.S. producers, importers, and retailers, as well as the impact of these decisions on foreign suppliers to the U.S. market. It has been suggested that China, the world's largest exporter of textiles and apparel, will garner the lion's share of U.S. imports, gaining as much as 70 to 90 percent share and, thus, drive many less competitive suppliers from the market. Others have suggested that while China will remain a formidable competitor, unquestionably possessing notable competitive advantages, it will likely emerge with as much as 50 percent share of the U.S. market, leaving room for foreign suppliers that are innovative, agile, efficient, cost competitive, and able to supply basic and fashion goods to the domestic market within an abbreviated time frame. The latter scenario describes the hopes of five Central American countries (Costa Rica, El Salvador, Guatemala, Honduras, and, Nicaragua) and the Dominican Republic within the framework of the Central American Free Trade Agreement (CAFTA).

The CAFTA countries have an established presence as both significant suppliers of apparel to the U.S. market and primary importers of U.S. textiles. The apparel industries in these countries were established under terms of 807 / 9802 production sharing and gained further preferential access to the U.S. market through Title II of the Trade Act of 2000 (The United States-Caribbean Basin Trade Partnership Act, or CBTPA) and modifications contained within the Trade Act of 2002. Through these provisions, the industry in this region has become closely aligned with U.S. textile suppliers, domestic apparel manufacturers employing foreign contractors, and retailers developing private label programs. In the past decade, CAFTA countries have typically accounted for 90 – 95 percent of apparel imports entering the United States from the Caribbean Basin (Office of Textiles and Apparel, 2005). Collectively, the six CAFTA countries supplied $9.2 billion worth of apparel to the U.S. market in 2004, giving these countries in excess of 14 percent share of U.S. apparel imports. This placed the CAFTA block second to China in terms of value of textile and apparel imports entering the United States (Office of Textiles and Apparel, 2005; Ramey, 2004). Historically, CAFTA countries also have been important importers of U.S. textiles, receiving some $4 billion in domesically produced textiles and accounting for 26 percent of total U.S. textile exports (Malone & Ramey, 2005).

Apparel producers within CAFTA countries have benefited not only from preferential access, but also from geographic proximity to the U.S. market. While the major force underlying outsourcing strategies traditionally has been access to low cost labor, American manufacturers and retailers currently seek and require accelerated delivery, increased number and availability of suppliers, production sharing arrangements, access to higher quality goods, and integration of worldwide technology in their outsourcing activities (Birou & Fawcett, 1993).

The mantra within the industry has become “speed to market”. This is particularly important for suppliers of fashion goods that have a relatively brief shelf life, as well as suppliers of basic goods to retailers who desire to work with producers capable of implementing quick response and automatic replenishment strategies. Full-package manufacturers within CAFTA countries may be able to conform to these expectations, especially if they are able to be innovative and flexible in production, capable in providing rapid replenishment and emergency reorders, become more highly integrated within the supply chain, and improve both quality and turnaround times for higher-end fashion goods. Koramsa, an apparel producer in Guatemala, serves as a case study for building a globally competitive, fully integrated export production business poised to experience even greater success with implementation of CAFTA (Speer, 2004).

Negotiations for CAFTA were completed in December 2003. The agreement was finally ratified by the U.S. Congress in July 2005, and signed by President Bush in early August 2005. Under terms of the agreement, textile and apparel imports will be granted duty-free and quota-free market access, provided the goods meet established rules of origin. The basic rule of origin included in CAFTA is a yarn-forward rule similar to the rule of origin included in the North American Free Trade Agreement, with exceptions. Examples of exceptions to the yarn-forward rule negotiated within the CAFTA agreement include: 200 square meters equivalent (SME) of fabric originating in Mexico and Canada which can be used by any of the six CAFTA countries in production of apparel, 100 million SMEs of fabric imported from any non-CAFTA country to be used in Nicaraguan production of apparel, and allowances for foreign origin for pocket and lining fabrics (Ellis, 2005; Malone & Ramey, 2005).

Proponents suggest that enactment of the Central American Free Trade Agreement will support economic growth and development within CAFTA countries by stimulating foreign investment, creating high-quality jobs in export-oriented industries, and providing a measure of competitiveness against formidable suppliers such as China, while enhancing hemispheric trade. It also has been suggested that, with such economic development, democratization and institutional transformation will be bolstered within CAFTA countries (Callejas, 2004). In contrast, opponents to the agreement propose that it will result in erosion of environmental and labor standards, loss of domestic jobs in key sectors, and escalation of undocumented immigrants entering the United States (Chmela, 2005).

The purpose of this paper is to evaluate CAFTA suppliers as potential sourcing partners of U.S. companies given benefits accrued through implementation of the Central American Free Trade Agreement. The paper will address: (a.) the status of the textile and apparel industry in the six CAFTA countries; (b.) terms of the CAFTA agreement related to the textile and apparel industry; (c.) sources of competitiveness, as well as the lack thereof, among CAFTA suppliers of apparel to the U.S. market; (d.) strategies developed by producers within CAFTA countries in support of creating and retaining competitive advantages in the post quota period; and (d.) impacts of the proposed CAFTA agreement on U.S. sourcing decisions.

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