# THE CENTRAL AMERICAN CLOTHING ASSEMBLY INDUSTRY AND THE ASIAN COMPETITION

**Dale Mathews**

**Abstract (CP):**

This is a descriptive paper on the export performance of clothing assembly industries in the countries of Central American to the U.S. market. It commences with a brief summary of the history of the Central American and Caribbean Basin garment export industry in the face of evolving trade liberalization. Time series data is provided that shows how China and other Asian countries have eclipsed the region's clothing exports to the US as they made inroads into the latter's market. It is argued that China's membership in the World Trade Organization commencing in 2001, and the phasing out of quotas under the Multi-Fiber Agreement in 2005 combined to thwart any expansion that Central American clothing exporters could have achieved in the US market.

While US Harmonized Tariff System data for both knitted (HTS 61) and non-knitted (HTS 62) apparel and clothing accessory imports were examined, only the former were presented as they represent a much more significant share of Central America's overall garment exports to the US. US imports from Central America under HTS 61 are shown to have either declined or remained stagnant in value terms and in value market share throughout the period examined.

In order to zero in on specific categories that are important within the context of the Central American garment export industry, a selection, disaggregated into four digit HTS subcategories, was made of knitted or crocheted apparel and accessories from the region to ascertain its performance over the first decade of the new century. These data are reviewed in comparison with similar data corresponding to imports from China, in order to shed light on the performance of Central American exporters. Finally, the work is also placed within the context of the Free Trade Area of Central America and Dominican Republic (CAFTA-DR) in an attempt to discern its possible medium to long term impact, since specific provisions of the trade agreement aim precisely at boosting the region's garment assembly sector.

**Key Concepts**: Central American trade, apparel, garment industry, free trade agreements.

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## Introduction

For developing countries, the garment industry has traditionally been an important gateway to industrialization and the increase in manufactured exports. It continues to play important economic roles in the developing world as a source of foreign exchange, as well as in generating local employment and income. In the particular case of the Caribbean basin region, the industry is heavily influenced by the geographical proximity of the U.S. market coupled with the economic power of the latter (Tirado de Alonso 1992). It turns out to be the case that the United States, through the years, has encouraged the countries' dependence on its market through its trade policies (Hornbeck 2012). As will be discussed below, strict rules of origin governing inputs and suppliers were imposed in exchange for preferential access to the relatively large US market.

The initial launch of Caribbean basin garment exports to the U.S. market took place in the mid-1980s with the implementation of what would be a succession of preferential trade agreements and amendments to existing agreements with the United States (Mathews 2008). The first of these is known as the Caribbean Basin Initiative (CBI), and arose out of geopolitical conflicts in Central America and Caribbean at that time (Dypski 2002). In the context of the CBI, the Caribbean garment assembly sector grew in response to tariff incentives and quota access exemptions to the U.S. market beginning in 1986 (Tirado de Alonso 1992).

In 2000, the U.S. agreed to convert the preferential access regime into a duty-free regime for apparel assembled in CBI countries, provided they were sewn with US yarn and the fabric used in the production process was formed in the US from US yarn. This development encouraged some companies to shift cutting operations to the Caribbean basin where previously only the sewing process was performed. In addition, this placed the region on an equal footing with the neighboring country of Mexico, which had been granted an advantage as an export platform for the garment assembly industry with the establishment in 1994 of the North American Free Trade Area (USITC 2003).

Shortly after the arrival of the new millennium, negotiations began for what would be the Free Trade Agreement between Central American countries, the US and the Dominican Republic (CAFTA-DR). It became law in 2004, based on the precedent of prior agreements. It was considered an improvement over previous agreements, as it converted preferential access to the US market into something comprehensive, reciprocal and permanent, among other things. As for the textile and clothing trade, the latter now entered the U.S. market under a "yarn forward" rule-of-origin whereby the yarn production and all operations that make up the product value chain, from the production of the fabric to the cutting and assembly of garments, were required to be carried out in a CAFTA-DR member-country in order to qualify for duty-free entry into the U.S. market (Hornbeck 2012). These new rules of origin, while containing certain exemptions, allowed for the use of fabrics originating in Central America, an option that existed under the 2000 agreement but in limited quantities.

## The Elimination Of Quotas And The Asian Competition

During the first five years of the new millennium, two crucial events to the future of the apparel industry worldwide and particularly for garment export industry in the Caribbean basin occurred: China joined the World Trade Organization in 2001, and the last phase of the quota elimination process under the Multi-Fiber Agreement was finalized in 2005 (Mathews

2008). This led to significant changes in the global geography of textile and clothing production. The ensuing expansion of competition within the industry impacted negatively not only in the clothing sector in Central America and the Caribbean, but also apparel exporters in Mexico with respect to their shared core market: the U.S. (Gruben 2007). According to an extensive study by the World Bank, employment in the apparel industry increased between 2004 and 2008 in countries such as Bangladesh, India, Pakistan and Vietnam, while it shrank in countries like Honduras, Mexico, Morocco and Sri Lanka (López-Acevedo, Robertson 2012). This is reflected to a large extent in the US import data, corresponding to Section 61 of the Harmonized Tariff System contained in Table A-1 (appendix) and used to derive Figure 1. As for the region of the Caribbean Basin and Mexico, this was not an unexpected outcome (MacDonald, et al. 2004).

As authors Stacey Frederick and Gary Gereffi acknowledge, the new demands of the global apparel trade require the establishment of a capacity to deliver 'full package' services:

> "To move into full-package supply, a strong textile connection is needed. Institutional support is often required to facilitate these backward linkages. This can be in the form of liberal foreign investment policies, regional trade agreements, or government investment incentives for capital investments or employment generation. Mexico and Central America have built a very limited textile base for US market demand only, whereas countries like Turkey, India, China, South Korea and Taiwan all have strong domestic textile sectors. While having a domestic textile industry is not necessary to move into full-package (OEM) production, the ability to move beyond manufacturing to design, branding, and services (ODM or OBM) will be limited if the workforce does not have experience with textile production." (Frederick, Gereffi 2011, pp. 74 – 75).

Figure 1 is a testament to the strong competition facing the American clothing value chain in the U.S. market.

**FIGURE 1 (PLACE HERE)**

Figure 1 depicts the performance of the two competing hemispheric “blocs”, America and “Asia” (the latter roughly composed of countries of both the near and far east), within the US clothing market for articles of apparel and clothing accessories knitted or crocheted (HTS # 61). As noted previously, Figure 1 is derived from the data provided for each of the most important individual exporting countries in Table A-1, in the appendix. The bloc denoted “America” includes four of the five Central American countries: Honduras, El Salvador, Guatemala and Nicaragua, which registered an average market share of 13.5% of the total US market over the period of eight years under study. The time period commences in the final year of the phasing out of the quota system under the Multi-Fiber Agreement (MFA). The evidence is striking of how the “Asian” producers of HTS 61 garments have markedly increased the value of their exports to the US market since the demise of the MFA, from $18.3 bn to just over $30 bn, while the corresponding value of the American “bloc” has stagnated if not slightly decreased from $8 bn to $7.5 bn. A closer look at performances at the individual country level reveals which are the stronger contenders for the US market within the blocs.

Table A-1 is divided vertically into two sets with the top containing figures in millions of nominal dollars, while the corresponding percentage shares are represented in the bottom set. Of particular note in Table A-1, is the steady decline of Mexico’s share of the US HTS 61 import market from a high of 7.2% in 2005 to a low of 3.2% in 2012. While Mexico led the

American bloc in 2005, it had fallen behind two of its much smaller neighbors, Honduras from 2007, and El Salvador from 2010 onwards.

Table A-1 groups the most important countries (from the standpoint of the HTS 61 US market) in Asia, the Near and Far East in a single region. As mirrored in Figure 1, this “bloc” registered an increase in share from 55.3% in 2005 to 73.2% in 2012. Of the five major countries of the region, China has the largest stake in the U.S. market under HTS 61 over the entire eight year period, followed by Vietnam, Indonesia, Cambodia and India. The sub-group loosely denoted "other Asian" includes Pakistan, Thailand, Bangladesh, Philippines, Jordan, Sri Lanka, Taiwan, Hong Kong and Macao.

According to Table A-1, the five principle exporters from Asia and the Far East have taken leadership in the US import market for knitted or crocheted apparel and clothing accessories. This can be observed in a couple of developments: First, China, Vietnam and Indonesia have consistently increased their respective shares (in value terms) in the U.S. import market, even despite the recession. Cambodia and India have done so to a lesser extent, both suffering setbacks in 2009 but subsequently recovering, though falling again in 2012. The “US import values” subtotal for the entire region of Asia, the Near and Far East has steadily increased in all years except 2009 and 2012.

The second development is the consistent decline in the “rest of the world’s” value and share within US imports of knitted or crocheted apparel and accessories, with the exception of one year. Whereas in 2005 these countries contributed a fifth of the value of total US imports (20.5%), by 2012 they were supplying just 8.5%. Stepping in to fill the gap were mostly Asian region countries, given that the American region countries either declined or more or less maintained their participation rates over the period.

In summary, it is evident from Figure 1, and the detailed breakdown provided in Table A1 that the group of countries that accounts for the largest value share of US imports under HTS 61 is narrowing down to about six, which together accounted for 2/3 of the value of total imports for 2012. These are China, Vietnam, Indonesia, Cambodia, Honduras, and El Salvador. Standing alone, the four Central American exporters accounted for a share of 13.6% of US imports of knitted or crocheted apparel and clothing accessories in 2012.

**US Import Shares Of Asian versus Central American Countries under HTS 61**

From Table A1, the prominence of China can be appreciated throughout the period under consideration among the Asian group of exporters. What is especially salient is how China rose from just a fifth of the value of imports in 2005 to well past a third in 2010 (growing even during 2008 and 2009 despite a drop in the overall value of US imports for the HTS 61 product group category). The year 2011 evinced a slight decrease in China's share to 36.1% despite the rise in nominal value from $ 14 to $15 billion (rounded). However, China's share recovered somewhat in 2012, while the nominal value fell just under $15 billion for that year.

**FIGURE 2 (PLACE HERE)**

As alluded to previously, this is coincident with the accession of China to the World Trade Organization in 2001 and the final phase-out in 2005 of the quota system under the Multi-Fibers Agreements. While China showed growth in this category during the first half of the decade, the real take-off is evident following 2004. Figure 2 shows that China gained approximately one percentage point of US import value share under HTS # 61 for each year from 2000 to 2003, beginning with 7.7% and ending up with 10.7% in 2003. This started to accelerate in 2004 with a jump to nearly 13%, followed by a sharp ascent to 19.7% in 2005, 22.6% in 2006 and 27.8% in 2007. The subdued rise to only 28.6% in 2008 is likely largely attributable to the recession. The decelerated increase in the following two years seems to be a sign that China is approaching its maximum participation in the U.S. market. However, it is noteworthy that in 2005, when the MFA quota system was eliminated, a memorandum of understanding was signed between the U.S. and China re-establishing quotas on certain Chinese textile and clothing products destined for the U.S. market. This memorandum of understanding was in force from early 2006 until late 2008, after which time the US's ability to make use of these safeguards should have expired (USITC 2011, p. TX-6).

Similarly, we can see in Table A-1 how countries like Vietnam, Cambodia and Indonesia have increased their import value share of HTS 61 over the period. Vietnam in particular has shown a spectacular rise from the beginning of the decade, when its share was miniscule, to 2008 when it garnered a 7.5% share, thereby surpassing - for the second consecutive year - both Honduras and Mexico in the Western hemisphere. It has continued to rise at a more moderate pace in later years. With regard to Indonesia, the value of its HTS 61 exports to the US grew 231% from 2005 to 2012, while Cambodia's HTS 61 exports grew 107% from 2005 to its peak in 2011.

India, despite its size has been unable to achieve a 4 % import value share, although it did increase its US import value share somewhat between 2005 and 2009. Overall, Indian apparel exports experienced a reduction in growth in 2007 and 2008, due in part to the appreciation of its currency and rising manufacturing costs (López-Acevedo, Robertson 2012, p. 314). As a whole, the Asian Far and Near Eastern bloc, which saw the value of its exports to the US market for knitted or crocheted apparel and clothing accessories increase 64% from 2005 to 2012, is clearly at an advantage when it comes to penetration of the US market for this aggregate clothing category. This contrasts with the performance of the Central, North and South American exporters to the US market which have suffered as a group, although a couple of countries do show promise.

México, as noted by Gruben (2007, p. 33), had grown its overall garment exports to the US but began suffering setbacks once China managed to join the WTO in 2001. However, U.S. dollar imports from Mexico began to grow again from 2010. According to the US International Trade Commission, overall figures for textiles and clothing exported from Mexico rose by 7% in 2010 (USITC 2011, p. TX-5). As can be gleaned from Table A1, however, this has not stemmed the country's dwindling import market share in this and subsequent years.

If short term fluctuations are ignored, El Salvador increased the value of its HTS 61 exports to the US by 18% from 2005 to 2012, while Honduras, being the major HTS 61 exporter of Central America, appears to have held a steady share of US imports throughout the period. Nicaragua is the smallest HTS 61 exporter in absolute value terms for this category, but is the only country for which said exports have grown markedly over the period (190% from 2005 to 2012). Finally, Guatemala's share throughout the decade has declined consistently after rising to peak in 2004. Ignoring short term fluctuations, the country's value of HTS 61 exports to the US declined by 25% between 2005 and 2012.

Despite the importance of these industries as sources of employment for individual Central American economies (López-Acevedo, Robertson 2012), the region's participation as a whole in the US import market for knitted or crocheted apparel and accessories is relatively small, in comparison with competitors from Asian regions, particularly China and up-and-coming exporters like Vietnam. If Central America's participation in US imports under HTS 61 is relatively small, much more so is the case for the region's share in US imports of articles of apparel and clothing accessories that are **not** knitted or crocheted (HTS 62), hence its omission from consideration here. In the following section a closer look will be taken at knitted or crocheted apparel and accessories from the region, disaggregated into four digit HTS subcategories.

## US Import Shares of China versus Central American Countries Under Four Digit Subsections of HTS 61

Table A2 (appendix) contains recent US import data of a selection of knitted or crocheted apparel under HTS 61 four-digit subheadings for Central American countries and their single biggest overseas competitor in the US market: China. The selection, which accounts for the vast majority of US imports under HTS 61 (in value terms), was made of those subcategories most important from the point of view of the Central American exporters. From these annual dollar value import data, three sub-categories were chosen for inclusion in Table 1 based on the criteria that at least one Central American country displayed 2008 export values commensurate with those of China. Following are the knitted or crocheted items contained in each of the three categories (http://clothingsourcing.com/doc/quota/HTS1.pdf):

> HTS **6103** - Men's or boys' suits, ensembles, suit-type jackets, blazers, trousers, bib and brace overalls, breeches and shorts (the most relevant of these for the exporters in question are trousers, bib and brace overalls, breeches and shorts of synthetic fibers – 610343, or cotton - 610342).
>
> HTS **6107** - Men's or boys' underpants, briefs, nightshirts, pajamas, bathrobes, dressing gowns and similar articles.
>
> HTS **6109** - T-shirts, singlets, tank tops and similar garments.

The qualified inference is that these three categories may represent the best chances of success for the designated Central American exporter in competing with the Chinese rival in the US market. It should be noted that these do not necessarily represent the most important categories in terms of value. For example, HTS 6110, which includes knitted and crocheted sweaters, pullovers, sweatshirts, waistcoats (vests) and similar articles, has not been included despite representing a substantial export value for Central American countries. The reason for the exclusion is that China's exports in that category dwarf those of the Central American countries, taken individually.

TABLE 1

Exporters of HTS 6103, 6107 and 6109 to the U.S.

| HTS | Country | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|---|---|---|
| | | | | millions of dollars | | | | | |
| HTS 6103 | China | 46 | 47 | 54 | 50 | 105 | 166 | 233 | 216 |
| | Honduras | 29 | 33 | 54 | 79 | 85 | 97 | 86 | 98 |
| | El Salvador | 30 | 46 | 56 | 50 | 60 | 58 | 71 | 77 |
| | Nicaragua | 4 | 2 | 5 | 2 | 2 | 8 | 23 | 30 |
| | Guatemala | 16 | 13 | 8 | 7 | 8 | 11 | 14 | 18 |
| | Costa Rica | 6 | 1 | 1 | 1 | 1 | 1 | 1 | 0 |
| | Total Imp. | 776 | 805 | 858 | 796 | 792 | 911 | 1082 | 1075 |
| HTS 6107 | China | 115 | 156 | 231 | 257 | 262 | 315 | 368 | 313 |
| | El Salvador | 104 | 98 | 116 | 143 | 111 | 137 | 137 | 153 |
| | Honduras | 128 | 105 | 117 | 105 | 71 | 84 | 82 | 85 |
| | Nicaragua | 4 | 5 | 9 | 9 | 8 | 27 | 18 | 2 |
| | Costa Rica | 31 | 28 | 25 | 24 | 18 | 20 | 13 | 13 |
| | Guatemala | 2 | 5 | 3 | 0 | 2 | 2 | 2 | 4 |
| | Total Imp. | 1093 | 1038 | 1065 | 1156 | 996 | 1221 | 1329 | 1295 |
| HTS 6109 | Honduras | 745 | 650 | 574 | 704 | 420 | 613 | 775 | 758 |
| | China | 223 | 184 | 265 | 283 | 453 | 634 | 658 | 681 |
| | El Salvador | 455 | 391 | 426 | 497 | 425 | 554 | 537 | 610 |
| | Nicaragua | 36 | 103 | 118 | 177 | 200 | 238 | 326 | 296 |
| | Guatemala | 157 | 210 | 129 | 171 | 181 | 211 | 205 | 189 |
| | Costa Rica | 6 | 7 | 10 | 14 | 7 | 6 | 5 | 4 |
| | Total Imp. | 4,109 | 4,434 | 4,115 | 4,487 | 3,978 | 4,870 | 5,251 | 5,255 |

| HTS | Counrty | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|---|---|---|
| | | | | % Share in US Imports | | | | | |
| HTS 6103 | China | 5.9% | 5.8% | 6.3% | 6.3% | 13.3% | 18.2% | 21.5% | 20.1% |
| | Honduras | 3.7% | 4.1% | 6.3% | 9.9% | 10.7% | 10.6% | 7.9% | 9.1% |
| | El Salvador | 3.9% | 5.7% | 6.5% | 6.3% | 7.6% | 6.4% | 6.6% | 7.2% |
| | Nicaragua | 0.5% | 0.2% | 0.6% | 0.3% | 0.3% | 0.9% | 2.1% | 2.8% |
| | Guatemala | 2.1% | 1.6% | 0.9% | 0.9% | 1.0% | 1.2% | 1.3% | 1.7% |
| | Costa Rica | 0.8% | 0.1% | 0.1% | 0.1% | 0.1% | 0.1% | 0.1% | 0.0% |
| | Total Imp. | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |
| HTS 6107 | China | 10.5% | 15.0% | 21.7% | 22.2% | 26.3% | 25.8% | 27.7% | 24.2% |
| | El Salvador | 9.5% | 9.4% | 10.9% | 12.4% | 11.1% | 11.2% | 10.3% | 11.9% |
| | Honduras | 11.7% | 10.1% | 11.0% | 9.1% | 7.1% | 6.9% | 6.2% | 6.6% |
| | Nicaragua | 0.4% | 0.5% | 0.8% | 0.8% | 0.8% | 2.2% | 1.4% | 0.2% |
| | Costa Rica | 2.8% | 2.7% | 2.3% | 2.1% | 1.8% | 1.6% | 1.0% | 1.0% |
| | Guatemala | 0.2% | 0.5% | 0.3% | 0.0% | 0.2% | 0.2% | 0.2% | 0.3% |
| | Total Imp. | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |
| HTS 6109 | Honduras | 18.1% | 14.7% | 13.9% | 15.7% | 10.6% | 12.6% | 14.8% | 14.4% |
| | China | 5.4% | 4.1% | 6.4% | 6.3% | 11.4% | 13.0% | 12.5% | 13.0% |
| | El Salvador | 11.1% | 8.8% | 10.4% | 11.1% | 10.7% | 11.4% | 10.2% | 11.6% |
| | Nicaragua | 0.9% | 2.3% | 2.9% | 3.9% | 5.0% | 4.9% | 6.2% | 5.6% |
| | Guatemala | 3.8% | 4.7% | 3.1% | 3.8% | 4.6% | 4.3% | 3.9% | 3.6% |
| | Costa Rica | 0.1% | 0.2% | 0.2% | 0.3% | 0.2% | 0.1% | 0.1% | 0.0% |
| | Total Imp. | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |

Source: Tariff and trade data from the US Department of Commerce and the US International Trade Commission.

Although it is noteworthy that both Honduras and El Salvador surpassed China in their exports (in value terms) of T-shirts, singlets, tank tops and similar garments (HTS 6109) to the US market for much of the decade, China tops both in at least two of the final four years in Table 1. Honduras might continue to prevail in this line, as the fall in exports, recorded during 2009, was presumably due to the coup against Honduran President Zelaya. It is important to note also that Nicaragua's participation in the 6109 HTS market has grown consistently (except for the year 2012), surpassing Guatemalan participation from 2008.

Also expanding is China’s share of men's and boys' underpants, briefs, nightshirts, pajamas, bathrobes, dressing gowns and similar articles (HTS 6107) particularly since 2005, the year of the final phase-out of the quota system under the Multi-Fibers Agreements. In this category, China’s exports to the US market have overtaken in value terms both those of El Salvador and Honduras, rising to a quarter of all US imports of HTS 6107 from a 1% market share at the beginning of the millennium. With regard to this category, it is worth noting that Chinese exports are much more diversified than those of its Central American rivals. The Central American exporters are heavily concentrated in men’s or boys underpants and briefs of cotton (HTS 610711) and manmade fiber (HTS 610712), while China exports these, and men’s or boy’s nightshirts, pajamas, bathrobes and dressing gowns.

Finally, China has also managed to expand its US import market share of (mostly) men's and boys' trousers, bib and brace overalls, breeches and shorts of both synthetic and cotton fiber (HTS 6103) throughout the period under consideration. Although Honduras seemed to pull away from China in 2008, it has since lost the advantage. On the other hand, Guatemala may be staging a comeback after seeing its share slowly dwindle up to 2008. Exports from

Honduras and El Salvador have failed to reach $100 million in this category, much less pose a serious competitive threat to the Chinese.

While perhaps not an extraordinarily negative scenario for the Central American exporters, Tables 1 and A-2 nevertheless place in evidence the highly concentrated, and at the same time dwindling variety of knit and crocheted items these countries are able to offer the US market. Such a mix, as exemplified by the products mentioned under HTS 6103, 6107 & 6109, represents the least desirable basis for an export strategy. They are standardized mass produced low quality items not subject to fashion changes and hence represent the lowest common denominator in terms of value added.

This presents a stark contrast to the diversified Asian export platform, which combines high levels of public investment in infrastructure and the development of the workforce in countries like China with a paradigm of regional integration based on the complementary capabilities of several Asian economies. This has allowed for a highly successful export strategy aimed at a diversity of markets (Frederick, Gereffi 2011).

The shortcomings of the Central American export platform have their origins in a lack of a well developed garment commodity chain as well as the industry's submission to the US preferential trade agreements discussed previously, particularly with regard to their restrictive rules of origin. These have hindered countries like Honduras from modernizing their infrastructure in order to focus on higher value-added activities. Many Central American clothing firms are linked to U.S. brand manufacturers, which in turn have delegated limited functional capabilities to their partners in the region (López-Acevedo, Robertson 2012, p.

274).  Nevertheless, this scenario appears to be changing slowly with the inauguration of the Free Trade Agreement with Central America and the Dominican Republic (CAFTA-DR).

## CAFTA - DR

CAFTA - DR, with the participation of the United States, Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras and Nicaragua was enacted in 2006. Among its provisions is the immediate elimination of tariffs on textiles and clothing that adhere to the rules of origin specified in the agreement. The CAFTA-DR rules of origin were modeled largely on previous US free trade agreements such as the North American Free Trade Area (NAFTA) and continued the practice, described previously, of tying Caribbean and Central American regional garment assemblers to North American fiber and yarn suppliers:

> "…the rules of origin in the CAFTA-DR require that imports of most apparel and woven fabrics from CAFTA-DR countries be assembled from inputs made in the United States or the CAFTA-DR region from the yarn stage forward ('yarn-forward rule') to qualify for CAFTA-DR preferences. (…) A 'fiber-forward rule' applies to knit fabrics of cotton and man-made fibers and to most yarns. A 'fabric-forward' rule of origin applies to wool apparel." (USITC 2007, p. 2-26)

However, this was the first legislation that encouraged Central American companies to source certain inputs locally and acquire certain production techniques that allow them to venture into original equipment manufacturing and full-package production models according to the new requirements of world trade in clothing (López-Acevedo, Robertson 2012: p. 274). Although the countries of Central America and the Caribbean lack the capacity to commercially produce fiber or spin yarn, they have managed to attract investments in the textile industry. This may enable a future rebound in exports from Central America to the United States, thereby enabling the region to once again take advantage of its geographical proximity to the US market.

## Conclusions

Clothing assembly, among other production sharing industries, has been an important economic and export activity for several countries of Central America and the wider Caribbean Basin throughout recent history. This article has demonstrated that the region's clothing export industry in general has survived and to some degree prospered during the previous century and into the beginning years of the current one due largely to a series of preferential trade programs enacted by the region's chief market destination for such exports: the United States. These include such programs as the Caribbean Basin Initiative, Sections of the US tariff system and (most recently) the Central American–Dominican Republic Free Trade Agreement (CAFTA-DR). The overall effect of these programs has been the promotion of production sharing via the integration of the Central American and wider Caribbean Basin garment assembly industry into the North American clothing commodity chain.

The end of the Multi-fiber Agreements on January 1, 2005, however, signaled the elimination of the quota system which had conditioned the development and expansion of the region's clothing exports under Sections of the US Harmonized Tariff System. This event signaled the greatest challenge to Central American and Caribbean Basin exporters given that it empowered an extra regional rival exporter, China, whose exports to the US market had been constrained for years by that mechanism. China (among other Asian exporters) was now poised to expand its presence in the US clothing and textile market as a consequence of having joined the WTO three years prior to the final stage elimination of MFA quotas.

These two events combined to thwart any expansion that Central American clothing exporters could have achieved in the US market. Both knitted (HTS 61) and non-knitted (HTS 62) apparel and clothing accessory exports to the US have either declined or remained stagnant in value terms and value market share. Although Central American exports of knitted apparel and clothing accessories (HTS 61) are perhaps better positioned to compete with rival Chinese exports for dominance in the US market, a closer examination of their product make-up indicates these are the least desirable prospects in terms of value added. The unshakable conclusion that can be drawn from the data presented is that the already limited variety of exports that Central American countries were sending to the US market have been further reduced to an even smaller number of apparently standardized low quality mass produced items that are the least subject to changes in fashion. This situation is likely to be further exacerbated by the ascent of other Asian rivals such as Viet Nam that stand to supplant China in the low value added range of garment production as the latter's wages rise.

However, some considerations must be weighed in forecasting future trends regarding garment exports from Central America and the Caribbean basin to the U.S. market. Due to increased production costs, China is no longer the most cost-competitive country in the clothing export industry. Furthermore, with the rise in fuel prices, some manufacturers are changing transnational orders to countries closer to their target markets. As far as Central America and the Caribbean basin are concerned, the approval of CAFTA - DR may have the effect of prolonging the life of the Central American garment assembly sector within the US apparel supply chain. New developments such as the expansion of the textile sector should be closely monitored in the future.

Finally, it is incumbent on Central American and Caribbean Basin exporters to do what is possible to ascend the ladder of value added. An export industry focused on selling T-shirts, underwear and men's clothing does not form the basis of an economically sustainable model. Producers must try to expand away from mere assembly and (where possible) into design and marketing. The US preferential trade programs mentioned permit a limited incursion into the production of cloth, cut, make and trim and even full package production. If the clothing export industry has a future in the region, it must develop its capacity in these areas to its fullest.

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TABLE A-1

Twenty Major Exporters Under HTS # 61

(United States Imports for Consumption)

| Region | Country | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|---|---|---|
| | | | | HTS 61 in millions of dollars | | | | | |
| I. Asia - Far and | China | 6,545 | 8,013 | 10,554 | 10,673 | 11,443 | 14,013 | 15,070 | 14,948 |
| Near East | Vietnam | 1,124 | 1,384 | 2,155 | 2,808 | 2,885 | 3,348 | 3,779 | 4,141 |
| | Indonesia | 856 | 1,414 | 1,751 | 2,009 | 2,136 | 2,501 | 2,840 | 2,832 |
| | Cambodia | 875 | 1,297 | 1,584 | 1,584 | 1,281 | 1,517 | 1,807 | 1,788 |
| | India | 938 | 1,160 | 1,315 | 1,326 | 1,233 | 1,412 | 1,458 | 1,249 |
| | Other Asian | 8034 | 8279 | 7749 | 6981 | 4805 | 5119 | 5412 | 5,104 |
| | Subtotal | 18,372 | 21,547 | 25,108 | 25,381 | 23,783 | 27,910 | 30,366 | 30,061 |
| II. America | Honduras | 2,016 | 1,919 | 1,985 | 2,134 | 1,694 | 2,039 | 2,222 | 2,147 |
| | El Salvador | 1,352 | 1,195 | 1,249 | 1,318 | 1,112 | 1,428 | 1,505 | 1,591 |
| | Mexico | 2,389 | 2,211 | 1,816 | 1,596 | 1,274 | 1,344 | 1,421 | 1,316 |
| | Guatemala | 1,215 | 1,262 | 1,089 | 1,025 | 897 | 881 | 991 | 914 |
| | Nicaragua | 327 | 453 | 565 | 598 | 647 | 722 | 978 | 947 |
| | Peru | 747 | 791 | 764 | 749 | 567 | 636 | 680 | 581 |
| | Subtotal | 8,046 | 7,831 | 7,468 | 7,420 | 6,191 | 7,050 | 7,797 | 7496 |
| Subtotal I & II | | 26,418 | 29,378 | 32,576 | 32,801 | 29,974 | 34,960 | 38,163 | 37557 |
| Rest of World | | 6,818 | 6,116 | 5,347 | 4,525 | 3,359 | 3,263 | 3,603 | 3499 |
| Total US Imports | | 33,236 | 35,494 | 37,923 | 37,326 | 33,333 | 38,223 | 41,766 | 41056 |

| Region | Country | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|---|---|---|
| | | | | HTS 61 % Share in US Imports | | | | | |
| I. Asia - Far and | China | 19.7% | 22.6% | 27.8% | 28.6% | 34.3% | 36.7% | 36.1% | 36.4% |
| Near East | Vietnam | 3.4% | 3.9% | 5.7% | 7.5% | 8.7% | 8.8% | 9.0% | 10.1% |
| | Indonesia | 2.6% | 4.0% | 4.6% | 5.4% | 6.4% | 6.5% | 6.8% | 6.9% |
| | Cambodia | 2.6% | 3.7% | 4.2% | 4.2% | 3.8% | 4.0% | 4.3% | 4.3% |
| | India | 2.8% | 3.3% | 3.5% | 3.6% | 3.7% | 3.7% | 3.5% | 3.0% |
| | Other Asian | 24.2% | 23.3% | 20.4% | 18.7% | 14.4% | 13.4% | 13.0% | 12.4% |
| | Subtotal | 55.3% | 60.7% | 66.2% | 68.0% | 71.3% | 73.0% | 72.7% | 73.2% |
| II. América | Honduras | 6.1% | 5.4% | 5.2% | 5.7% | 5.1% | 5.3% | 5.3% | 5.2% |
| | El Salvador | 4.1% | 3.4% | 3.3% | 3.5% | 3.3% | 3.7% | 3.6% | 3.9% |
| | Mexico | 7.2% | 6.2% | 4.8% | 4.3% | 3.8% | 3.5% | 3.4% | 3.2% |
| | Guatemala | 3.7% | 3.6% | 2.9% | 2.7% | 2.7% | 2.3% | 2.4% | 2.2% |
| | Nicaragua | 1.0% | 1.3% | 1.5% | 1.6% | 1.9% | 1.9% | 2.3% | 2.3% |
| | Peru | 2.2% | 2.2% | 2.0% | 2.0% | 1.7% | 1.7% | 1.6% | 1.4% |
| | Subtotal | 24.2% | 22.1% | 19.7% | 19.9% | 18.6% | 18.4% | 18.7% | 18.3% |
| Subtotal I & II | | 79.5% | 82.8% | 85.9% | 87.9% | 89.9% | 91.5% | 91.4% | 91.5% |
| Rest of World | | 20.5% | 17.2% | 14.1% | 12.1% | 10.1% | 8.5% | 8.6% | 8.5% |
| Total US Imports | | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |

Source: Tariff and trade data from the U.S. Department of Commerce and the U.S. International Trade Commission.

TABLE A-2

US Imports Under HTS 61 Subcategories

| HTS | Country | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | millions of dollars | | | | | | | | | | | |
| 6103 | China | 9 | 12 | 27 | 23 | 20 | 46 | 47 | 54 | 50 | 105 | 166 | 233 |
| | Honduras | 30 | 31 | 24 | 36 | 33 | 29 | 33 | 54 | 79 | 85 | 97 | 86 |
| | El Salvador | 21 | 29 | 24 | 18 | 23 | 30 | 46 | 56 | 50 | 60 | 58 | 71 |
| | Nicaragua | 0 | 1 | 1 | 2 | 2 | 4 | 2 | 5 | 2 | 2 | 8 | 23 |
| | Guatemala | 18 | 19 | 29 | 17 | 16 | 16 | 13 | 8 | 7 | 8 | 11 | 14 |
| | Costa Rica | 0 | 3 | 7 | 9 | 7 | 6 | 1 | 1 | 1 | 1 | 1 | 1 |
| 6104 | China | 41 | 46 | 61 | 63 | 86 | 262 | 402 | 763 | 894 | 1,023 | 1,389 | 1,601 |
| | El Salvador | 64 | 70 | 84 | 95 | 85 | 60 | 54 | 47 | 36 | 57 | 84 | 76 |
| | Guatemala | 52 | 69 | 81 | 96 | 101 | 105 | 101 | 96 | 76 | 54 | 49 | 64 |
| | Nicaragua | 4 | 13 | 15 | 28 | 56 | 67 | 71 | 50 | 39 | 51 | 51 | 60 |
| | Honduras | 49 | 55 | 61 | 69 | 81 | 74 | 65 | 85 | 73 | 43 | 35 | 40 |
| | Costa Rica | 4 | 2 | 1 | 1 | 4 | 2 | 1 | 1 | 1 | 1 | 1 | 1 |
| 6105 | China | 49 | 44 | 51 | 51 | 63 | 106 | 151 | 263 | 224 | 243 | 310 | 356 |
| | El Salvador | 103 | 103 | 88 | 77 | 43 | 39 | 26 | 29 | 33 | 21 | 28 | 45 |
| | Honduras | 140 | 125 | 111 | 117 | 75 | 57 | 60 | 43 | 36 | 37 | 36 | 37 |
| | Guatemala | 63 | 82 | 72 | 73 | 57 | 45 | 60 | 64 | 67 | 51 | 32 | 31 |
| | Nicaragua | 5 | 8 | 8 | 5 | 9 | 3 | 10 | 12 | 8 | 17 | 14 | 28 |
| | Costa Rica | 32 | 18 | 2 | 1 | 1 | 0 | 0 | 0 | 1 | 0 | 0 | 1 |
| 6107 | China | 11 | 21 | 21 | 29 | 31 | 115 | 156 | 231 | 257 | 262 | 315 | 368 |
| | El Salvador | 100 | 99 | 106 | 92 | 84 | 104 | 98 | 116 | 143 | 111 | 137 | 137 |
| | Honduras | 138 | 136 | 143 | 127 | 123 | 128 | 105 | 117 | 105 | 71 | 84 | 82 |
| | Nicaragua | 0 | 0 | 0 | 1 | 3 | 4 | 5 | 9 | 9 | 8 | 27 | 18 |
| | Costa Rica | 33 | 48 | 58 | 55 | 36 | 31 | 28 | 25 | 24 | 18 | 20 | 13 |
| | Guatemala | 2 | 5 | 4 | 2 | 6 | 2 | 5 | 3 | 0 | 2 | 2 | 2 |
| 6108 | China | 69 | 87 | 140 | 223 | 269 | 535 | 666 | 987 | 993 | 980 | 1,194 | 1,166 |
| | Honduras | 128 | 115 | 132 | 137 | 137 | 128 | 106 | 109 | 141 | 137 | 157 | 119 |
| | El Salvador | 143 | 140 | 140 | 126 | 145 | 98 | 92 | 95 | 81 | 29 | 30 | 28 |
| | Nicaragua | 0 | 0 | 1 | 1 | 5 | 0 | 0 | 3 | 5 | 5 | 6 | 15 |
| | Guatemala | 27 | 29 | 42 | 30 | 42 | 33 | 21 | 14 | 16 | 5 | 7 | 15 |
| | Costa Rica | 167 | 147 | 140 | 103 | 98 | 105 | 103 | 104 | 57 | 27 | 19 | 11 |
| 6109 | Honduras | 622 | 630 | 688 | 679 | 746 | 745 | 650 | 574 | 704 | 420 | 613 | 775 |
| | China | 47 | 56 | 60 | 56 | 76 | 223 | 184 | 265 | 283 | 453 | 634 | 658 |
| | El Salvador | 372 | 337 | 346 | 370 | 402 | 455 | 391 | 426 | 497 | 425 | 554 | 537 |
| | Nicaragua | 6 | 11 | 24 | 23 | 24 | 36 | 103 | 118 | 177 | 200 | 238 | 326 |
| | Guatemala | 68 | 88 | 88 | 111 | 131 | 157 | 210 | 129 | 171 | 181 | 211 | 205 |
| | Costa Rica | 6 | 6 | 6 | 7 | 7 | 6 | 7 | 10 | 14 | 7 | 6 | 5 |
| 6110 | China | 1,355 | 1,518 | 1,415 | 1,393 | 1,611 | 2,711 | 3,490 | 4,348 | 4,259 | 4,802 | 5,706 | 5,969 |
| | Honduras | 504 | 546 | 523 | 592 | 676 | 714 | 755 | 809 | 757 | 612 | 649 | 747 |
| | Guatemala | 376 | 405 | 512 | 557 | 707 | 692 | 661 | 617 | 543 | 477 | 462 | 533 |
| | Nicaragua | 56 | 53 | 67 | 61 | 102 | 185 | 229 | 330 | 305 | 315 | 325 | 434 |
| | El Salvador | 227 | 271 | 301 | 353 | 381 | 377 | 308 | 339 | 335 | 241 | 287 | 299 |
| | Costa Rica | 13 | 18 | 12 | 10 | 11 | 8 | 6 | 7 | 7 | 6 | 4 | 5 |
| 6115 | China | 5 | 9 | 34 | 104 | 251 | 232 | 277 | 415 | 480 | 571 | 753 | 865 |
| | Honduras | 13 | 19 | 42 | 46 | 61 | 46 | 62 | 124 | 142 | 190 | 244 | 231 |
| | El Salvador | 94 | 90 | 120 | 117 | 121 | 108 | 98 | 59 | 53 | 79 | 160 | 207 |
| | Costa Rica | 54 | 83 | 85 | 72 | 76 | 72 | 75 | 71 | 75 | 55 | 26 | 9 |
| | Guatemala | 0 | 0 | 1 | 3 | 10 | 10 | 5 | 2 | 3 | 3 | 2 | 1 |
| | Nicaragua | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

Source: Tariff and trade data from the U.S. Department of Commerce and the U.S. International Trade Commi