APPENDIX I
CARIBBEAN BASIN

Overview[1]

U.S. imports of textiles and apparel from beneficiary countries under the 1983 Caribbean Basin Economic Recovery Act (CBERA) have grown sixfold since 1986, when the United States liberalized apparel quotas for the region, reaching 3.7 billion square meters equivalent (SMEs) valued at $9.5 billion in 2002 (table I-1). The growth in such imports, which consisted almost entirely of apparel, largely reflected the expanded use of production-sharing operations in the region by U.S. apparel producers. In addition, firms based in Korea and Taiwan have made significant investments in CBERA apparel production. Although apparel is excluded from the CBERA duty-free program that applies to most other CBERA goods,[2] it is still the largest import from the region, representing 45 percent of total CBERA shipments in 2002. Legislation enacted in May 2000 extended, for the first time, duty-free benefits to imports of cotton, wool, and manmade-fiber apparel made in CBERA countries. In October 2002, the United States announced its intent to enter into negotiations on a proposed free-trade agreement with Central America. A summary of these issues as well as recent trends in U.S.-CBERA apparel trade and competitive conditions in the CBERA apparel industry appears below. The appendix also includes profiles of the textile and apparel sectors of the major CBERA suppliers–Costa Rica, the Dominican Republic, El Salvador, Guatemala, Haiti, Honduras, Jamaica, and Nicaragua.

U.S. Production-Sharing Measures

U.S. apparel trade with CBERA countries historically involved production sharing (table I-2), whereby U.S. firms shipped cut garment parts to the region for assembly and re-imported the assembled garments under heading 9802.00.80 of the Harmonized Tariff Schedule of the United States (HTS) and, prior to 1989, item 807.00 of the former Tariff Schedules of the United States (TSUS). The tariff heading provides a duty exemption for U.S. components incorporated in imports of assembled goods. In general, the duty under this heading is assessed only on the value added abroad; in the case of apparel, labor constitutes much of the value added. The fabric for making the garment parts can be of either U.S. or foreign origin as long as it is cut in the United States, exported ready for assembly, and not advanced in value abroad except by assembly and incidental operations. In 1986, the United States created a "special access program" within the framework of the former TSUS item 807.00 (commonly known as 807A), providing virtually unlimited market access for apparel assembled in the region from "fabric wholly formed and cut in the United States." Rather

[1] Prepared by Ralph Watkins, Office of Industries.

[2] Textiles and apparel subject to textile agreements (i.e., articles covered by the former Multifiber Arrangement as in effect on Aug. 6, 1983) are excluded by law from duty-free treatment under CBERA; they include articles of cotton, wool, and manmade fibers.

Table I-1
Textiles and apparel: U.S. general imports from CBERA countries, by principal sources, 1997-2002

Country	1997	1998	1999	2000	2001	2002	2002
	Million square meters equivalent						*Million dollars*
Honduras	735.2	808.5	958.3	1,045.2	1,032.3	1,098.8	2,443.6
El Salvador	460.1	524.0	640.9	757.2	767.8	816.8	1,709.4
Dominican Republic	863.3	886.4	900.3	858.9	772.8	743.3	2,173.3
Guatemala	252.5	301.7	333.0	389.7	425.8	451.9	1,669.7
Costa Rica	317.4	327.2	370.0	373.4	367.1	377.1	729.8
Nicaragua	47.8	56.6	69.4	87.5	97.7	120.4	433.1
Haiti	78.2	113.4	127.4	125.0	109.1	109.3	216.7
Jamaica	194.4	171.3	148.8	126.3	102.6	85.2	124.6
Other	29.8	26.7	22.6	24.8	28.3	27.1	38.8
Total	2,978.7	3,215.8	3,570.6	3,788.0	3,703.6	3,829.8	9,539.0

Note.—Because of rounding, figures may not add to totals shown.

Source: Compiled from official statistics of the U.S. Department of Commerce, found at *http://otexa.ita.doc.gov*.

Table I-2
Textiles and apparel: U.S. general imports from CBERA countries entered duty-free under the United States-Caribbean Basin Trade Partnership Act (CBTPA), at reduced duties under HTS heading 9802.00.80, and at normal trade relations (NTR) duty rates, by principal sources, 2002[1]

	Duty-free under the CBTPA					
	Assembled from–					
Country	U.S. fabrics	Regional knit fabrics	Total[2]	Under HTS heading 9802.00.80	At NTR duty rates	Grand total
	Million dollars					
Costa Rica	466.8	3.4	473.1	205.4	51.3	729.8
Dominican Republic	1,710.7	38.9	1,761.6	272.7	139.0	2,173.3
El Salvador	901.5	136.0	1,052.7	368.9	287.8	1,709.4
Guatemala	432.9	111.5	551.6	261.5	856.6	1,669.7
Haiti	157.7	2.2	160.0	30.7	26.1	216.7
Honduras	1,546.8	225.1	1,773.6	310.3	359.7	2,443.6
Jamaica	109.9	0	109.9	5.5	9.2	124.6
Nicaragua	127.6	.1	127.7	11.2	294.1	433.1
Other	20.7	0	20.7	8.2	9.8	38.8
Total	5,474.6	517.2	6,030.9	1,474.4	2,033.6	9,539.0

[1] Under heading 9802.00.80 of the Harmonized Tariff Schedule of the United States (HTS), U.S. importers receive a partial duty exemption for articles assembled abroad in whole or in part of U.S. components. In general, the duty is assessed only on the value added abroad (mainly the cost of sewing the garment parts together). The fabric for making the garment parts can be of either U.S. or foreign origin as long as the fabric is cut to shape in the United States, exported ready for assembly, and not advanced in value abroad except by assembly and incidental operations.

[2] Also includes imports of apparel made in CBERA countries from yarns or fabrics that are not produced in the United States in commercial quantities.

Note.—Because of rounding, figures may not add to totals shown.

Source: Compiled from official statistics of the U.S. Department of Commerce, found at *http://otexa.ita.doc.gov*.

than being charged against regular quotas, 807A imports enter under preferential quotas known as “guaranteed access levels” (GALs).[3]

United States-Caribbean Basin Trade Partnership Act (CBTPA)

On May 18, 2000, the President signed into law the Trade and Development Act of 2000. Title II of the Act (the CBTPA) extended preferential treatment to certain apparel made in CBERA countries,[4] effective on October 1, 2000.[5] The CBTPA granted unlimited duty-free treatment to apparel made in CBERA countries from fabrics formed in the United States from U.S. yarns, whether the fabrics were cut in the United States or in eligible CBERA countries.[6] It also granted duty-free treatment for limited quantities of apparel made from “regional knit fabrics” formed in CBERA countries from U.S. yarns. For the 1-year period that began on October 1, 2000, duty-free benefits for apparel made from regional knit fabrics were capped at 4.2 million dozen outerwear T-shirts and 250 million SMEs of other knit apparel; both caps were to be increased by 16 percent in each of the three succeeding 1-year periods.

On August 6, 2002, the President signed the Trade Act of 2002, which in section 3107(a) amended the CBTPA apparel provisions, including greatly expanded “caps” on knit apparel made from regional fabrics that are eligible for duty-free treatment (table I-3). The T-shirt cap was increased to 4.9 million dozen for the 1-year period that began on October 1, 2001, increasing in the three succeeding 1-year periods to 9 million, 10 million, and 12 million dozen, respectively, and remaining at that level through September 2008. The cap on other knit apparel was expanded to 500 million SMEs for the 1-year period beginning on October 1, 2002, rising in the two succeeding 1-year periods to 850 million and 970 million SMEs, and remaining unchanged thereafter.[7] The Trade Act of 2002 also clarified that trade preferences are to be granted to knit-to-shape apparel made in CBERA countries[8] and added

[3] GALs are in place for Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, and Jamaica.

[4] The trade benefits are available to 24 beneficiary countries that meet certain customs-related requirements. As of May 1, 2003, 14 countries had met the requirements and, thus, are eligible for the trade benefits: Barbados, Belize, Costa Rica, Dominican Republic, El Salvador, Guatemala, Guyana, Haiti, Honduras, Jamaica, Nicaragua, Panama, Saint Lucia, and Trinidad and Tobago.

[5] The trade benefits will end on the earlier of Sept. 8, 2008, or the date on which the Free-Trade Area of the Americas or a similar free-trade agreement between the United States and CBERA countries enters into force.

[6] If the U.S. fabric was cut in CBERA countries, the garments must be sewn with U.S. thread in order to qualify for CBTPA preferences.

[7] In 2002, the CBERA countries filled all the T-shirt cap and 51 percent of the cap on other knit apparel.

[8] The interim regulations issued by the U.S. Customs Service to implement the CBTPA trade provisions stated that knit-to-shape apparel was not eligible for trade benefits because it technically does not go through the fabric stage (the garments are knitted directly from yarns). See U.S. House of Representatives, *Andean Trade Promotion and Drug Eradication Act*, 107th Cong., 1st sess., Report 107-290, Nov. 14, 2001, p. 18.

Table I-3
Key apparel provisions in the Caribbean Basin Trade Partnership Act (CBTPA), as amended by the Trade Act of 2002

Textile/Apparel Articles Eligible to Enter Duty Free and Quota Free[1]	***Criteria***
Apparel assembled in one or more CBTPA countries from fabrics wholly formed and cut in the United States	*From U.S. yarn only *Requires U.S. thread if fabric is cut in region *Knit and woven fabrics must be dyed, printed, and finished in the United States
Apparel cut and assembled in CBTPA countries from fabrics wholly made in the United States	*From U.S. yarn only *Sewn together with U.S. thread
Apparel assembled from components knit-to-shape in the United States	*From U.S. yarn only
Apparel assembled from regional fabric	*From U.S. yarn only *Subject to a cap
Apparel assembled from components knit-to-shape in the region	*From U.S. yarn only *Subject to cap *Socks excluded
Size of regional cap	*Outerwear T-shirts = 4.9 million dozen beginning on October 1, 2001; 9 million dozen (2002-03); 10 million dozen (2003-04); 12 million dozen in each succeeding 1-year period through Sept. 30, 2008. *Other knit apparel = 500 million SMEs (2002-03); 850 million SMEs (2003-04); 970 million SMEs in each succeeding 1-year through Sept. 30, 2008.
Certain brassieres cut and sewn or otherwise assembled in the United States or one or more CBTPA countries or both	*Total costs of U.S. fabric components in previous 1-year period must be at least 75 percent of the aggregate declared customs value of the fabric (exclusive of all findings and trimmings) contained in all brassieres entered in that period.
Apparel assembled in CBTPA countries from fibers, yarns, or fabrics deemed to be in "short supply" in the United States, as identified in annex 401 of NAFTA, at the date of implementation of the CBTPA. Preferential treatment for additional yarns and fabrics that have been deemed in "short supply" after the President has determined that certain yarns and fabrics cannot be supplied by the domestic industry in commercial quantities in a timely manner.	*Apparel inputs in "short supply" include fine-count cotton fabrics for nightwear and certain underwear; linen; silk; cotton velveteen and fine-wale corduroy fabrics; certain hand-woven Harris Tweed wool fabrics; certain woven wool fabrics made with fine animal hair; certain lightweight, high-thread count polyester-cotton woven fabrics; and certain lightweight, high-thread count woven fabrics for use in men's and boys' shirts. *Interested parties may request short supply designation for certain yarns and fabrics. The President makes his decision after receiving advice from the Committee for the Implementation Agreements and the U.S. International Trade Commission and after consulting with the House Ways and Means committee and the Senate Finance Committee.
Certified handloomed, handmade, and folklore articles.	*Originating in CBTPA countries
Textile luggage assembled in CBTPA countries from U.S. fabrics	*Must be of U.S. yarn
Duration	*Ends on the earlier of September 30, 2008 or when FTAA enters into force

[1] Applies to textile and apparel articles that are ineligible for duty-free treatment under the 1983 CBERA (articles of cotton, wool, and manmade fibers).

new rules to ensure and give effect to Congressional intent that authorizes trade preferences for apparel subject to "hybrid cutting," in which the fabric is cut in both the United States and CBERA countries.

A key change made to the CBTPA by the Trade Act of 2002 was the new requirement that the dyeing and finishing of U.S. knit and woven fabrics used in apparel from CBERA countries must be performed in the United States in order to qualify for CBTPA duty-free treatment, effective for apparel entered into the customs territory on or after September 1, 2002.[9] As originally enacted, the CBTPA granted preferences to apparel made in CBERA countries from "fabrics wholly formed in the United States" of U.S. yarns, but it did not define such fabrics, raising the question of whether the fabrics had to be dyed and finished in the United States or whether they could also be dyed and finished in CBERA countries. In the absence of a specific statutory directive, the U.S. Customs Service had granted preferential treatment to qualifying apparel made in the region from U.S.-formed fabrics, regardless of whether the fabrics were dyed and finished in the United States or in CBERA countries.

The U.S. textile industry had expressed concern that the interim regulations issued by the U.S. Customs Service to implement the CBTPA trade provisions effectively granted preferential treatment to apparel assembled in CBERA countries from fabrics made in the United States, but dyed and finished in CBERA countries. The industry asserted that the CBTPA preferences are for apparel assembly only and that the CBTPA did not "state or imply that the beneficiary countries will be permitted to engage in textile manufacturing or finishing operations," other than for a limited exception for fabric knitted in CBERA countries. The CBERA countries have expressed concern that the new dyeing and finishing requirement would limit the development of their textile and apparel manufacturing capabilities and their ability to respond quickly to changing fashions and retailer demands. Companies interviewed by Commission staff stated that the dyeing and finishing provision would limit the efficiency and flexibility of their sourcing in the region.

United States-Central America Free-Trade Agreement (CAFTA)

On October 1, 2002, the USTR notified the Congress of the President's intent to enter into trade negotiations with the five members of the Central American Economic Integration System (Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua) on the proposed CAFTA. The CAFTA will build on the CBERA and lend momentum to concluding the Free-Trade Area of the Americas negotiations by January 2005.[10]

U.S. apparel companies and retailers interviewed by Commission staff stated that the likely impact of quota elimination in 2005 on apparel sourcing from CBERA countries will largely depend on the outcome of the CAFTA negotiations, particularly regarding whether the

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[9] Carlos Moore, Executive Vice President, American Textile Manufacturers Institute, letter to the U.S. Customs Service, dated Dec. 4, 2000.

[10] Office of the United States Trade Representative, "Trade Policy Staff Committee; Request for Public Comment on Review of Employment Impact of Proposed United States-Central America Free Trade Agreement," *Federal Register* (68 F.R. 13358), Mar. 19, 2003, p. 13358.

agreement will extend preferential treatment to apparel made in CBERA countries from regional or third-country (e.g., Mexican or Asian) fabrics. Without such a provision, the firms stated that many firms currently sourcing apparel from CBERA countries will shift to sourcing the garments in Asia where there is little use of U.S. fabrics in apparel production. Such a shift in output to Asia likely will hurt the U.S. textile mill industry because the CBERA countries as a group are its largest export market for textiles, either as cut garment parts, yarns, or fabrics.

Industry officials in Central America stated that the proposed CAFTA should provide parity with NAFTA or benefits comparable to those recently implemented for the Andean countries.[11] The Government of Guatemala asserted that the outcome of the CAFTA negotiations will directly impact the competitiveness of the country's textile and apparel sector.[12] The Government called for enhanced competitiveness for the region through expanded rules of origin, specifically the use of inputs from other CBERA countries, Mexico, and Canada; provisions permitting dyeing and finishing of fabrics in the region without loss of duty-free entry into the United States; the inclusion of apparel made from woven fabric as well as apparel made from knit fabric; and an integrated customs compliance procedure and security program, similar to the one for goods from Asia and Europe. It argues that the CAFTA should include expanded access for textiles and apparel so that the region can attain the economies of scale that will assure an ongoing competitive advantage to the textile and apparel sector.

U.S. Trade

U.S. apparel imports from CBERA countries rose by 29 percent during 1997-2002, to 3.7 billion SMEs, compared with a 52-percent gain in total U.S. apparel imports, to 17.3 billion SMEs (table I-4). As a result, the share of total U.S. apparel imports accounted for by CBERA countries declined from 25 percent in 1997 to 22 percent in 2002. The decline in CBERA market share largely reflected increased competition from Asian countries whose currencies depreciated significantly in the aftermath of the Asian financial crisis of 1997-98, effectively reducing the dollar prices of their goods in the U.S. market. Moreover, the expected benefits of the CBTPA in the first 2 years of the program were tempered by weak U.S. economic activity and also by "unresolved implementation and technical issues" associated with the language of the legislation.[13] Rather than spurring new trade flows, the CBTPA appeared to primarily cause a shift in trade from the traditional production-sharing provisions to the CBTPA duty-free provisions, generating significant uty savings for U.S. importers. In 2002, 79 percent of CBERA apparel shipments by value entered under the duty-free provisions, although the share varied widely by country, ranging from 32 percent for Nicaragua to 85 percent for Honduras.

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[11] For information on the new Andean trade legislation, see the "overview" in appendix J of this report (Andean Countries).

[12] Government of Guatemala, Executive Office of Textiles and Apparel Quotas, written submission to the Commission, Feb. 5, 2003.

[13] Office of the United States Trade Representative, *Fourth Report to Congress on the Operation of the Caribbean Basin Economic Recovery Act*, Dec. 31, 2001, p. 58.

U.S. apparel imports from CBERA countries are concentrated in garments for which imports from major Asian suppliers are highly constrained by quotas (table I-4). The CBERA region mostly supplies high-volume commodity garments that have reasonably predictable consumer demand, such as basic tops, pants, underwear, and nightwear. The production of these basic goods involves large and standardized runs, low-skilled operations, and few styling changes, which together help offset the higher cost of labor in the region vis-a-vis Asia.

Competitive Conditions

The CBERA countries rely heavily on the United States as a market for their apparel exports, where they benefit from trade preferences, few restrictive quotas, and proximity. The countries also rely on the United States for fabrics and related inputs used in apparel export production, because U.S. trade preferences are contingent on the use of U.S. fabrics, although there is limited yarn and fabric production in the region. U.S. apparel producers greatly expanded their assembly operations in the region following implementation of the 807A program in 1986 to reduce their overall cost structure and improve their competitiveness in the U.S. market vis-a-vis low-cost Asian suppliers. The proximity of the region to suppliers and markets in the United States enabled the U.S. firms to maintain greater management control over production, adjust orders in response to changes in market demand, and obtain quicker turnaround and lower shipping costs than those firms importing from Asia.[14]

According to firms interviewed by Commission staff, CBERA factories generally are set up specifically to produce basic garments in long runs, rather than smaller and more flexible runs that are typical for making fashion apparel. To make fashion goods in the region would require a higher level of labor and managerial skills than currently exists in most factories and a re-design of production lines to accommodate the shorter, flexible runs.[15] Moreover, while CBERA firms recognize the growing importance of offering "full-package" services to U.S. apparel companies and retailers, few currently are able to offer it.[16]

U.S. apparel companies and retailers stated that the benefit of CBTPA preferences to CBERA countries is being offset by rising production costs in these countries. To qualify for the CBTPA preferences, firms must use fabrics that are formed in the United States of U.S. yarns, which are more expensive than Asian fabrics. The firms claimed that the U.S. content rule also limits their efficiency and flexibility in sourcing and adds another layer of administrative burden and cost to the product. In addition, CBERA countries generally have higher labor costs and lower labor productivity than most major Asian countries. A major

[14] Importers reported that shipping times from Central America to the United States range from 2 to 7 days, depending on the country from which they ship and the port of entry, compared with 12 to 14 days from China.

[15] Representative of major U.S. apparel supplier, interview by USITC staff, Mar. 12, 2003.

[16] Full package programs in the CBERA region generally refer to services ranging from procurement of materials to cutting and sewing, and to finishing and packaging of the final products. In the Far East, an established infrastructure exists to provide full package imports to U.S. buyers, including product development, fabric sourcing and cutting, garment sewing, packaging, quality control, trade financing, and logistics arrangements.

U.S. retailer stated that labor productivity in CBERA countries is about half that in China. According to the U.S. firms, the higher labor costs of CBERA countries are a major reason why U.S. apparel imports from the region consist primarily of mass-produced basic garments with low labor content.

Table I-4
Apparel: U.S. imports from Caribbean Basin Trade Partnership Act (CBTPA)-eligible countries, and Mexico, China, and the World, by selected quota categories,[1] 2002

Quota category (country)	338	339	347	348	352	638	647	649	Other*	Total
	Quantity (*million square meters equivalent*)									
Honduras	168	93	34	36	341	123	12	17	266	1,090
Dominican Republic	19	18	88	38	229	8	35	14	281	730
El Salvador	82	43	16	36	326	44	13	3	214	777
Guatemala	31	84	29	42	8	6	10	0	205	415
Costa Rica	2	2	27	13	160	2	9	9	138	362
Nicaragua	5	11	31	21	2	7	4	4	77	120
Haiti	21	3	4	7	26	12	2	2	32	109
Jamaica	2	0	0	0	64	0	1	0	17	84
Other CBTPA	0	2	0	0	0	0	0	1	22	27
Total CBTPA	330	256	229	194	1,156	201	87	50	1,211	3,714
Mexico	154	125	258	267	57	167	98	16	1,015	2,157
China	8	9	16	25	14	7	29	31	1,426	1,565
World	797	794	914	1,176	1,823	617	500	151	10,485	17,256
	Value (*million dollars*)									
Honduras	554	379	123	91	394	170	52	193	484	2,440
Dominican Republic	107	91	549	180	276	17	208	164	570	2,162
El Salvador	330	181	55	105	366	82	38	36	482	1,675
Guatemala	207	501	186	165	11	15	34	0	540	1,659
Costa Rica	6	4	106	49	172	5	27	83	273	725
Nicaragua	30	70	118	72	3	5	18	30	87	433
Haiti	65	13	12	12	36	13	7	7	52	217
Jamaica	8	0	0	0	88	0	3	0	25	124
Other CBTPA	0	7	0	0	0	0	0	3	25	37
Total CBTPA	1,308	1,246	1,150	674	1,345	307	387	516	2,539	9,472
Mexico	693	593	1,519	1,403	94	325	369	180	2,248	7,424
China	113	93	115	200	48	31	149	219	4,626	5,594
World	4,775	5,138	4,764	5,641	2,386	1,402	1,680	1,418	29,761	56,965
	Average unit value (*per square meter equivalent*)									
Honduras	$3.30	$4.07	$3.63	$2.51	$1.16	$1.38	$4.19	$11.61	$1.82	$2.24
Dominican Republic	5.68	5.07	6.21	4.70	1.21	2.03	5.86	11.47	2.03	2.96
El Salvador	4.03	4.17	3.31	2.93	1.12	1.88	2.87	10.81	2.25	2.16
Guatemala	6.68	5.94	6.48	3.95	1.32	2.57	3.33	0	2.63	4.00
Costa Rica	3.37	2.56	3.95	3.66	1.08	2.89	2.96	9.14	1.98	2.00
Nicaragua	5.40	6.18	3.85	3.49	1.91	0.71	4.42	7.97	1.13	3.60
Haiti	3.10	4.12	3.05	1.75	1.38	1.08	4.01	2.88	1.63	1.99
Jamaica	5,23	0	0	0	1.37	0	3.60	0	1.47	1.47
Other CBTPA	0	3.50	0	0	0	0	0	3.00	1.23	1.37
Total CBTPA	3.96	4.87	5.02	3.47	1.16	1.52	4.45	10.32	2.10	2.55
Mexico	4.49	4.73	5.89	5.26	1.64	1.94	3.78	11.15	2.21	3.44
China	13.94	10.30	7.09	7.90	3.32	4.42	5.12	7.03	3.24	3.57
World	5.99	6.47	5.21	4.80	1.31	2.72	3.36	9.39	2.84	3.30

[1] Categories 338 and 339 cover knit cotton tops for men (including boys) and women (including girls), respectively; categories 347 and 348, cotton pants and shorts for men and women; category 352, cotton underwear; category 638, knit manmade-fiber tops for men; category 647, manmade-fiber trousers for men; and category 649, brassieres and other body-supporting garments.

Source: Compiled from official statistics of the U.S. Department of Commerce, Office of Textiles and Apparel.

Costa Rica[1]

Overview

The textile and apparel sector in Costa Rica is the country's second-largest source of export earnings, accounting for 14 percent of its total exports in 2001. The sector exports consist almost entirely of apparel destined for the United States. Costa Rica's share of U.S. apparel imports has declined since the mid-1990s, largely because of rising labor costs, which are now the highest in the CBERA region, and which spurred investors to move production to lower cost countries.

A number of factors have contributed to the strength of Costa Rica's apparel industry and continue to make Costa Rica an attractive destination for foreign direct investment (FDI). These factors include political and economic stability, an educated and skilled workforce, a climate conducive to investment, relatively good infrastructure, proximity and preferential access to the U.S. market, and a strong institutional structure for investment promotion. In an effort to diversify away from apparel and primary products, the Government and CINDE (the Costa Rican Investment Board), a private, nonprofit, investment promotion agency, have been targeting investment in the electronics and other more skilled sectors.

Industry Profile

Industry structure and performance

The textile and apparel sector in Costa Rica consists almost exclusively of apparel assembly for the U.S. market. The apparel industry developed in the early 1980s in response to low wages, a favorable climate for FDI, and U.S. trade preferences (see "overview" at the beginning of this appendix for information on the trade preferences).[2] The apparel firms produce primarily lower priced store brands for mass merchandisers and manufacturers and inexpensive low-quality products for large-volume discount stores.[3] Only 10 percent of Costa Rica's apparel production supplies the entire domestic market.[4] Apparel exports are primarily made from imported raw materials because of tightly defined importer's specifications and because of insufficient yarn and fabric production capacity in Costa Rica.[5] Textile production is limited and sold primarily to the local market.

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[1] Prepared by Joanne E. Guth, Office of Economics.

[2] United Nations Conference on Trade and Development (UNCTAD), *The Competitiveness Challenge: Transnational Corporations and Industrial Restructuring in Developing Countries* (New York and Geneva), 2000, pp. 95-98.

[3] UNCTAD, *The Competitiveness Challenge*, p. 91.

[4] "CBI Countries: Weathering the Storms," *Apparel Industry Magazine*, Sept. 1999.

[5] U.S. Department of State telegram 1218, "Costa Rica: World Textile Trade Without Quotas," prepared by U.S. Embassy, San Jose, May 3, 2002.

The sector has declined in size during the past decade, largely reflecting the migration of manufacturers to other Central American countries with lower labor costs and competition in the U.S. market with Mexico, which benefits from preferences under NAFTA.[6] According to data of the United Nations and the International Monetary Fund, apparel production in Costa Rica has declined since the mid-1990s (table I-5, found at the end of this country profile).[7] In May 2002, employment in the textile and apparel sector was estimated at 45,000 workers, or about 5 percent of the formal labor force.[8] In April 2003, there were about 98 companies active in the apparel export sector, employing less than 30,000 workers.[9] Most of these companies are U.S. owned and operated.[10]

Factors of production

Almost all of the inputs used in the export-based apparel assembly operations in Costa Rica are imported.[11] According to a United Nations survey, almost all of the inputs of the foreign-owned companies are supplied by their own multinational network, whereas national firms rely on local sourcing somewhat more (30 percent of inputs).[12] Local sourcing includes mostly purchases of items such as packaging materials, thread, or buttons.

Costa Rica's strong stock of human capital has been credited with helping to compensate apparel companies for their high labor costs as well as with attracting more high-technology FDI than any other country in the region.[13] Costa Rica has a highly educated and skilled labor force, a literacy rate of 96 percent, and high productivity in the apparel industry.[14] Another factor supporting apparel workers' relatively high productivity is the fact that Costa Rica's apparel industry is more mature than in most of the other countries in the region.[15] For example, although competition from Mexico under NAFTA adversely affected Costa Rica's apparel industry, Costa Rican companies have observed that the rates of apparel rejects and labor turnover are much lower in Costa Rica than in Mexico.[16]

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[6] See, for example, UNCTAD, *The Competitiveness Challenge*, pp. 103-4, and "President Repeats Call for Dialogue," *Tico Times*, May 19, 2000.

[7] Table I-5 shows UN data. The IMF data are similar; industrial production (index 1991=100) shows production in the textile, clothing, and leather sector declining from 103.7 in 1998 to an estimated 90.1 in 2000. See IMF, "Costa Rica: Selected Issues," IMF Country Report No. 02/89, Apr. 2002, p. 35.

[8] U.S. Department of State telegram 1218, "Costa Rica: World Textile Trade Without Quotas."

[9] Representative of U.S. Embassy, San Jose, e-mail communication to USITC staff, Apr. 28, 2003.

[10] Miguel Schyfter, President, Consejo Cuotas Textiles, written submission to the Commission, Oct. 17, 2002.

[11] U.S. Department of State telegram 1218, "Costa Rica: World Textile Trade Without Quotas."

[12] UNCTAD, *The Competitiveness Challenge*, p. 107.

[13] Tatiana Remy, Executive Director, Consejo de Cuotas Textiles, interview by USITC staff, Mar. 15, 2000, and David de Ferranti et al., *From Natural Resources to the Knowledge Economy*, World Bank Latin American and Caribbean Studies, Viewpoints (The World Bank, Washington, DC), 2002, p. 92.

[14] World Bank, "Costa Rica at a Glance," Sept. 12, 2002, and Tatiana Remy, interview by USITC staff.

[15] Lisa Rabon, "CBI is Strong in Sewing but Needs Textile Investment," *Bobbin*, Nov. 2000.

[16] Jordan K. Speer, "CBI Spashdown," *Bobbin*, Nov. 2000.

The wage levels in Costa Rica's apparel industry are the highest in Caribbean. Wages rose considerably in the first half of the 1990s and are now high in relation to other major garment exporters. The average hourly compensation (including social benefits) in Costa Rica's apparel industry-- in 2002 was $2.70, compared with $1.65 or less in other Caribbean Basin countries, $2.45 in Mexico, and less than $0.05 in many Asian countries.[17] In 1999, labor costs accounted for about 30 percent of the total cost of apparel production in Costa Rica.[18]

In the early 1990s, as rising wage rates were affecting the competitiveness of Costa Rican apparel producers, CINDE began to target FDI in new higher value-added sectors that would better match the country's relatively high education levels. The Costa Rican Government supported the new investment by establishing additional educational programs focused on technical skills that would be useful to high-tech employers and by promoting English proficiency, which all continue today.[19] The high-tech firms already established in Costa Rica reported that there is a sufficient supply of qualified, skilled personnel at costs far lower than those in the United States and often below increasingly competitive countries in Asia and other parts of the world.[20]

Investment

FDI in Costa Rica's industrial sector (table I-5) primarily reflected investment in electronics (including by Intel) and medical devices.[21] Although FDI in the textile and apparel sector is not officially collected, one estimate placed FDI in the sector for 1999 at $28.9 million,[22] or 4.6 percent of total FDI. Trade sources believe that there is little prospect of textile investment and that any apparel investment is being made by existing companies, rather than new companies seeking to establish operations in Costa Rica.[23] The United States is the largest foreign investor in Costa Rica's apparel industry; Asian investors reportedly have

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[17] Jassin-O'Rourke Group, New York, NY, Nov. 2002.

[18] Michael Mortimore and Ronney Zamora, "The International Competitiveness of the Costa Rican Clothing Industry," *Serie Desarrollo Productivo*, vol. 46, Feb. 1999, found at *http://www.eclac.org*, retrieved Dec. 19, 2002, p. 68.

[19] See, for example, Economist Intelligence Unit, "Costa Rica: Tech Education Has Become a High Priority," Aug. 16, 2001, found at *http://www.ebusinessforum.com,* retrieved Dec. 18, 2002. According to the article, Costa Rica "has become a leader among developing countries in integrating computers into primary-school curricula, thereby fostering technological competence among its young people."

[20] David de Ferranti et al., p. 101, and U.S. Department of Commerce, "Costa Rica Investor Attitude Study," Nov. 1998, p. 5, found at *http://www.usembassy.or.cr/investstudy.html*, retrieved Oct. 30, 2002.

[21] ECLAC, *Foreign Investment in Latin America and the Caribbean*, 2001, pp. 33 and 35. The decline in FDI inflows in 2000 reflected the winding down of Intel's investment.

[22] U.S. and Foreign Commercial Service, *Costa Rica Country Commercial Guide, FY 2002*, found at *http://www.stat-usa.gov*, retrieved Nov. 15, 2002, app. D.

[23] Lisa Rabon, "CBI is Strong in Sewing," and representative of the U.S. Embassy, San Jose, telephone interview by USITC staff, Mar. 14, 2003.

moved to lower cost Central American countries.[24] The 10 largest apparel companies in Costa Rica are U.S.-based firms, and account for about two-thirds of its total apparel exports.

Costa Rica offers one of the most open and friendly investment climates in the CBERA region, including a stable democratic regime and economic environment with moderate inflation; an educated and skilled workforce; relatively high living standards; proximity to the United States and a central location within the hemisphere; a relatively modern infrastructure; no legal restrictions on capital or profit repatriation and no investment-screening mechanisms; government policies that encourage FDI, including the tax- and duty-free incentives offered by industrial free-trade zones; and strong, proactive FDI promotion policies undertaken jointly by the private and public sectors.[25]

Although these government policies attracted FDI in apparel in the past, the Government's focus today has shifted to other sectors, particularly high technology. According to an official of the American Chamber of Commerce in Costa Rica, the Costa Rican Government has "deemphasized the apparel industry. At this time I think they see the apparel industry as an industry that is not permanent and is in search of the lowest wages and they feel that it's not necessarily in their best interest" to focus on the apparel industry.[26] In the early 1990s, the CINDE, with the support of the government, realized Costa Rica was losing its competitiveness in certain unskilled labor-intensive industries and began to target its investment promotion efforts on more skilled, higher value-added, labor-intensive sectors such as electronics and telecommunications.[27] According to UNCTAD, "(t)he country's investment promotion agency made careful efforts to channel FDI into electronics in order to restructure the country's comparative advantage away from garments and primary products. The results of Costa Rica's targeting have spread beyond the initial areas (electronics and medical devices) to the services sector. The investment promotion agency has thus put Costa Rica on a more dynamic development trajectory, through its active role in shaping the country's development policy." According to a recent analysis, Costa Rica is one of only a few countries in Latin America and the Caribbean that has shown a significant change in its trade structure over the past two decades.[28] Government policies reportedly have played a key role in building a high level of human capital, creating a favorable climate for investment, fostering an open international trade regime, and attracting foreign investment in more skill- and technology-intensive products. According to UNCTAD, "there is no doubt that an active Government has been a central factor in Costa Rica's success. Efforts to upgrade the level of education, improve infrastructure, provide a friendly

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[24] Ibid., and Tatiana Remy, interview by USITC staff, Mar. 15, 2000.

[25] See, for example, U.S. and Foreign Commercial Service, *Costa Rica Country Commercial Guide, FY 2002*, chs. 1 and 7; UNCTAD, *The Competitiveness Challenge*, pp. 96-97; Economist Intelligence Unit, "Investment Regulations," EIU Viewswire, Aug. 15, 2001; and David de Ferranti et al., *From Natural Resources to the Knowledge Economy*, pp. 8 and 75.

[26] Michael Seth Borg, President, Confecciones BorKar, and member, Board of Chambers, American Chamber of Commerce in Costa Rica, in testimony presented at the hearing of the U.S. International Trade Commission on *U.S.-Central America Free Trade Agreement: Advice Concerning Probable Economic Effect* (inv. Nos. TA-131-22 and TA-2104-2), transcript of hearing, Oct. 8, 2002, pp. 5 and 19.

[27] David de Ferranti et al., *From Natural Resources to the Knowledge Economy*, pp. 75 and 97-99.

[28] Ibid., pp. 20-29.

investment environment, and encourage the widespread use of English are combined with deliberate FDI targeting strategies."[29]

Domestic policies

In response to the debt crisis of the early 1980s and problems associated with high dependence on traditional agricultural exports, in the mid-1980s the Costa Rican Government implemented policies aimed at structural adjustment, trade and investment liberalization, and export promotion, including an emphasis on new, nontraditional production. The Government reduced tariffs, liberalized capital movements, developed institutions to promote FDI in export-oriented activities, and adopted export-promotion mechanisms, including free-trade zones (FTZs). In the apparel industry, implementation of these government policies coincided with international market factors that led U.S. apparel firms to seek offshore apparel assembly under the production sharing mechanism. The apparel industry in Costa Rica lost local market share when it reduced tariffs, but it benefitted from export expansion and became the first major manufacturing industry to integrate with the global economy, in particular with the United States.[30]

Costa Rica currently has two export incentive systems. FTZs provide 100-percent exemption from duties on inputs used to make exported products and on the machinery and equipment used in this process. FTZs also permit exemptions on virtually all taxes, including an 8-year exemption on income taxes followed by a reduced tax rate after this period. FTZs rent facilities to the companies and reduce transaction costs for companies by simplifying investment, trade, and customs procedures. The second program, the Regime of Active Finishing, provides temporary admission and suspension of duty collection for material and equipment used to produce goods that are subsequently exported. However, there are no income tax benefits associated with this program.[31] Today, the majority of apparel companies operate under the Regime of Active Finishing outside of FTZs in the countryside and have access to labor that would not otherwise be available. Also, they operate in their own facilities, which may be larger and better installations than are available in the FTZs.[32] Costa Rica has long been considered to have the best infrastructure in telecommunications, energy, health care, and education among the Central American countries. However, lack of investment in recent years has led to inadequate roads, ports, airports, and bridges. Also, poor Internet service and a poor cellular network remain major concerns. In 1998, a law was enacted to permit concessions to build, finance and manage large public works projects. Since then, concessions have been granted for various projects, including concessions to improve roads, the airport, and the cellphone network; however, progress has been slow. Furthermore, the Costa Rican Government has not yet dismantled state-run monopolies in

[29] UNCTAD, *World Investment Report 2002: Transnational Corporations and Export Competitiveness*, 2002, p. 168.

[30] See for example, UNCTAD, *The Competitiveness Challenge*, pp. 95-98; and Michael Mortimore and Ronney Zamora, "The International Competitiveness of the Costa Rican Clothing Industry," pp. 65-67.

[31] U.S. and Foreign Commercial Service, *Costa Rica Country Commercial Guide, FY 2002*, pp. 46-47.

[32] Representative of the U.S. Embassy, San Jose, e-mail communication to USITC staff, Apr. 28, 2003.

the telecommunications and energy sectors, which some observers believe could be a disincentive to invest.[33]

Trade policies

U.S. trade preferences have played an important role in the development of the Costa Rican apparel industry. Slightly more than 90 percent of the total value of U.S. apparel imports from Costa Rica in 2002 entered under either the reduced-duty provisions of HTS heading 9802.00.80 or the duty-free provisions of the CBTPA (see table I-1, found at the beginning of this appendix).

Costa Rica has a generally open international trade regime. Between 1995 and 2000, its average most-favored-nation (MFN) tariff decreased from almost 12 percent to 7 percent.[34] Costa Rica's average MFN tariff is 7.6 percent for textiles and 13.9 percent for apparel, lower by far than the average for Latin America as well as the average for high and middle-income developing economies.[35] Costa Rica's use of nontariff barriers has been limited.[36]

Costa Rica's trade policies remain aimed at integrating the country into the international market through unilateral trade liberalization and bilateral trade agreements to improve market access.[37] Costa Rica's newest bilateral free-trade agreement with Canada, which entered into effect on Nov. 1, 2002, is scheduled to eliminate tariffs on textiles and apparel over 7 years.[38] Costa Rica also has trade agreements with Mexico, Chile, and the Dominican Republic. Similar agreements are being negotiated with Panama and Trinidad and Tobago. Costa Rica is also a member of the Central American Common Market.[39] Costa Rica trades small amounts of textiles and apparel with countries other than the United States, including other Central American countries where such trade is duty free.[40]

Foreign Trade

Costa Rica's trade surplus in textiles and apparel totaled $238 million in 2001, down from a 5-year high of $267 million in 1999, but up from $192 million in 1997. The fluctuations

[33] U.S. and Foreign Commercial Service, *Costa Rica Country Commercial Guide, FY 2002*, pp. 2-7.

[34] WTO, *Trade Policy Review, Costa Rica, 2001: The Secretariat's Report-Summary*, found at *http://www.wto.org/english/tratop_e/tpr_etp162_.htm*, retrieved Oct. 16, 2002.

[35] United Nations Conference on Trade and Development (UNCTAD), *Trade and Development Report 2002*, pp. 130-131.

[36] WTO, *Trade Policy Review, Costa Rica, 2001: The Secretariat's Report-Summary*.

[37] ECLAC, *Economic Survey of Latin America and the Caribbean, 2000-2001*, p. 150.

[38] Department of Foreign Affairs and International Trade, Canada, "Canada-Costa Rica Free Trade Agreement," and "Backgrounder - Summary of the Canada-Costa Rica Free Trade Agreement," found at *http://www.dfait-maeci.gc.ca/tna-nac/CR-back-e.asp*, retrieved Nov. 25, 2002.

[39] U.S. and Foreign Commercial Service, *Costa Rica Country Commercial Guide, FY 2002*, p. 42, and Costa Rican Foreign Trade Corp. (PROCOMER), found at *http://www.procomer.com*, retrieved Feb. 3, 2003.

[40] Representative of the U.S. Embassy, San Jose, e-mail communication to USITC staff, Apr. 28, 2003.

reflected declines in both exports, which consist mostly of apparel, and imports, which comprise inputs for use in the production of apparel for export.

Costa Rica's textile and apparel sector is dependent on its trade relationship with the United States. Slightly more than 90 percent of total Costa Rican trade in textiles and apparel during 1997-2001 was with the United States. Most of this bilateral trade involved production-sharing activity with U.S. firms, which historically shipped garment parts to Costa Rica for assembly and then re-imported the finished garments under HTS 9802.00.80. Since the implementation of CBTPA in October 2000, U.S. firms have begun shipping uncut fabric to Costa Rica for cutting and assembly into finished garments eligible for preferential import treatment. Consequently, U.S. shipments of cut garment parts to Costa Rica have fallen.

Imports

Costa Rican imports of textiles and apparel decreased by 20 percent during 1997-2001 to $601 million (table I-5). Such imports consisted almost entirely of inputs for use in the production of apparel for export to the United States. The United States was the principal supplier, accounting for 87 percent of its apparel imports and 57 percent of its textile imports in 2001. Colombia was the second-largest source of apparel imports, accounting for 4 percent of the total. Mexico (with 9 percent) and China (with 8 percent) were the other largest suppliers of textiles to Costa Rica.

Exports

Costa Rican exports of textiles and apparel declined by 11 percent during 1997-2001 to $839 million, almost all of which consisted of apparel (table I-6). The United States was the principal market, accounting for 95 percent of Costa Rica's sector exports in 2001.

According to official U.S. trade data, U.S. imports of textiles and apparel from Costa Rica rose 18 percent by volume during 1997-2000, decreased by 2 percent in 2001, and then increased by 3 percent in 2002 to 377 million SMEs, almost all of which consisted of apparel (table I-7). The U.S. trade-weighted average duty on imports of Costa Rican apparel was 2.3 percent ad valorem in 2001, less than half the 5.8 percent trade-weighted average duty applied to such imports from all CBERA countries.

The United States applies quotas on five apparel categories from Costa Rica. Quota utilization was low in 2001 (less than 50 percent fill rates) and in 2002 (less than 23 percent fill rates). In 2000, the quota on men's and women's cotton trousers (quota categories 347/348) was binding. As a result of the CBTPA, most U.S. apparel imports from Costa Rica enter free of duty and quotas. In 2000 and 2001, 90 percent of U.S. apparel imports from Costa Rica represented apparel items that had not yet been integrated into the GATT regime, but that qualified for CBTPA preferences.

Costa Rica's share of total U.S. apparel imports by volume declined from 2.7 percent in 1997 to 2.1 percent in 2002, while it share of U.S. apparel imports from CBERA countries declined from 10.6 percent to 9.7 percent. Leading U.S. imports from Costa Rica are concentrated in garments such as underwear, hosiery, nightwear, brassieres, trousers, and shirts (table I-7). Imports of most of these products from major suppliers are highly constrained by quotas.

Neither Canada nor the EU has import quotas on Costa Rican textiles or apparel. In 2002, Canada applied a quota on Costa Rican underwear,[41] but it was removed with the implementation of the Costa Rica-Canada Free-Trade Agreement in November 2002. Costa Rica's principal sector export to Canada is intimate apparel. None of Costa Rica's top 30 exports to the EU included a textile or apparel item.[42]

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[41] The fill rate was 11 percent in 2002. Department of Foreign Affairs and International Trade, Canada, found at *http://www.dfait-maeci.gc.ca/~eicb/textile/textiles-e.htm*, retrieved Jan. 30, 2003.

[42] Ministry of Foreign Trade of Costa Rica (COMEX), statistics, found at *http://www.comex.go.cr*, retrieved Feb. 3, 2003.

Table I-5
Costa Rica: Statistical profile of textile and apparel sector and foreign trade, 1997-2001

Item	1997	1998	1999	2000	2001
Number of establishments:					
Textiles	150	134	157	([1])	([1])
Apparel	481	434	455	([1])	([1])
Total	631	568	612	([1])	([1])
Number of workers:					
Textiles	7,771	7,647	5,950	([1])	([1])
Apparel	32,944	34,377	30,858	([1])	([1])
Total	40,715	42,024	36,808	([1])	([1])
Installed spinning capacities:					
Short-staple spindles (*number*)	14,000	14,000	14,000	14,000	14,000
Open-end rotors (*number*)	600	600	600	600	600
Installed weaving capacities:					
Shuttleless looms (*number*)	100	100	100	100	100
Shuttle looms (*number*)	1,000	1,000	1,000	1,000	1,000
Production index (1990=100):					
Textiles	72	78	71	([1])	([1])
Apparel	115	120	111	([1])	([1])
Foreign direct investment (FDI):					
Net textile and apparel share inflows *(million dollars)*	408	613	669	400	[2]447
Textile and apparel share in industry sector *(percent)*	66	69	57	72	[2]52
Foreign trade:					
Exports:					
Textiles (*million dollars*)	34.2	31.5	32.6	30.9	21.9
Apparel (*million dollars*)	911.6	879.7	870.5	871.4	816.8
Total (*million dollars*)	945.8	911.1	903.0	902.3	838.7
Imports:					
Textiles (*million dollars*)	170.4	168.1	157.4	161.0	158.1
Apparel (*million dollars*)	583.6	509.7	478.7	514.2	442.8
Total (*million dollars*)	754.0	677.8	636.1	675.2	600.9
Trade balance:					
Textiles (*million dollars*)	-136.2	-136.6	-124.8	-130.1	-136.2
Apparel (*million dollars*)	328.0	370.0	391.7	357.2	374.0
Total (*million dollars*)	191.8	233.3	266.9	227.1	237.8

[1] Not available.
[2] Estimate by the Commission.

Note.—Because of rounding, figures may not add to totals shown.

Source: Industry data compiled from UNIDO, *International Yearbook of Industrial Statistics 2002*; FDI date from ECLAC, *Foreign Investment in Latin America and the Caribbean*, 2001, pp. 35-36; the International Textile Manufacturers Federation (Zurich), *International Textile Machinery Shipment Statistics*, vol. 25/2002, and selected back issues; and trade data are United Nations data as reported by Costa Rica’s trading partners.

Table I-6
Costa Rica: Exports of textiles and apparel, by selected markets, 1997-2001

Item and market	1997	1998	1999	2000	2001
	Million dollars				
Textiles (SITC 65):					
Quota markets:					
United States	18	17	18	16	8
European Union	2	1	1	1	([1])
Canada	1	1	1	1	([1])
Subtotal	21	19	20	17	9
All other:					
Guatemala	2	3	2	3	4
Colombia	1	1	([1])	([1])	2
Mexico	4	3	4	3	2
Other	7	6	6	8	5
Subtotal	13	13	13	14	13
Grand total	34	31	33	31	22
Apparel (SITC 84):					
Quota markets:					
United States	869	840	847	847	791
European Union	13	12	5	4	5
Canada	14	14	9	7	7
Subtotal	896	866	860	857	802
All other	16	14	10	14	15
Grand total	912	880	870	871	817
Textiles and apparel:					
Quota markets:					
United States	887	857	865	863	799
European Union	14	13	6	4	5
Canada	15	15	10	7	7
Subtotal	917	885	880	874	811
All other	29	26	23	28	28
Grand total	946	911	903	902	839
	Percent				
Share of exports going to quota markets:					
Textiles	61	60	61	56	40
Apparel	98	98	99	98	98
Average	97	97	97	97	97

[1] Less than $500,000.

Note.—Because of rounding, figures may not add to totals shown.

Source: Compiled from United Nations data.

Table I-7
Textiles and apparel: U.S. general imports from Costa Rica, by specified product categories,[1] 1997-2002

Cat. No.	Description	1997	1998	1999	2000	2001	2002
0	Textiles and apparel, total	317,441	327,187	370,030	373,371	367,131	377,066
1	Apparel	301,939	306,986	345,713	350,387	349,966	361,595
2	Textiles	15,502	20,201	24,317	22,983	17,166	15,471
30	Cotton textiles and apparel	203,432	210,573	247,233	267,357	273,676	289,291
60	Manmade-fiber textiles and apparel	111,220	113,216	119,608	102,517	91,529	86,374
201	Specialty yarn	10,712	15,455	18,991	13,855	14,025	13,767
239	Babies' apparel	17,762	26,783	23,877	26,635	23,610	23,545
332	Cotton hosiery	3,010	3,441	13,948	29,247	43,714	44,458
338	Cotton knit shirts, men/boys	8,922	6,164	5,270	4,504	4,346	1,670
339	Cotton knit shirts, women/girls	2,477	1,711	1,743	1,506	1,398	1,577
340	Cotton not knit shirts, men/boys	7,846	7,454	5,753	6,180	6,078	3,303
347	Cotton trousers, men/boys	35,923	32,167	31,354	33,965	26,560	26,944
348	Cotton trousers, women/girls	11,771	13,746	10,817	11,158	9,706	13,328
351	Cotton nightwear	2,102	1,381	7,534	10,922	12,317	14,965
352	Cotton underwear	116,089	121,442	147,788	143,186	148,168	160,209
638	Manmade knit shirts, men/boys	4,539	1,033	1,125	1,824	2,199	1,847
639	Manmade knit shirts, women/girls	2,080	1,314	1,304	818	725	1,049
640	Manmade not knit shirts, men/boys	1,603	1,643	2,137	3,247	3,792	3,621
641	Manmade-fiber not knit blouses	1,377	1,336	1,074	919	879	888
647	Manmade-fiber trousers, men/boys	3,374	2,876	2,305	2,217	5,087	9,030
648	Manmade-fiber trousers, women/girls	2,027	1,859	2,117	2,375	2,704	2,814
649	Manmade-fiber brassieres	7,705	6,191	6,164	6,895	8,985	9,054
651	Manmade-fiber nightwear	13,174	7,654	6,505	4,548	10,429	8,234
652	Manmade-fiber underwear	38,704	47,429	52,866	38,534	23,045	22,234
659	Other manmade-fiber apparel	11,630	12,354	13,053	13,381	9,193	7,420

[1] To administer the U.S. textiles and apparel quota programs, articles are grouped under 3-digit category numbers, which cover many 10-digit statistical reporting numbers under which goods are classified for statistical purposes in the Harmonized Tariff Schedule of the United States (HTS). The 1-digit and 2-digit numbers represent specific levels of import aggregation for articles covered by the quota program (e.g., the number “1" represents total imports of apparel, while “31" represents total imports of cotton apparel).

Source: Compiled from official statistics of the U.S. Department of Commerce, found at *http://otexa.ita.doc.gov*.

Dominican Republic[1]

Overview

The Dominican Republic is the United States' second-largest source of apparel imports in the Western Hemisphere after Mexico, and has a large, export-oriented apparel industry and a small textile industry, which together are the country's major source of jobs and export earnings. Data for 2002 show that 125,000–150,000 workers out of a total Dominican population of 8.7 million were engaged in apparel production. As Dominican workers have become more skilled, their wages have increased to the point where Dominican labor costs are among the highest in the CBERA region. As such, the Dominican Republic has been losing apparel business to lower cost countries in the region such as Nicaragua and Honduras as well as those in Asia. In an effort to remain competitive, the Dominican apparel industry is attempting to become more of a full-service supplier, to include aspects such as design and marketing. The industry is also shifting some sewing operations to neighboring Haiti, which still has very low labor costs, with the added hope of stemming some of the illegal immigration from Haiti to the Dominican Republic. The Dominican Republic has benefited from U.S. trade programs that have encouraged U.S. apparel firms to use production-sharing operations in the country and that have extended trade preferences to qualifying apparel made there from U.S. fabrics.[2] The Dominican apparel industry's great reliance on the U.S. market has left the industry vulnerable to U.S. economic swings, such as the 2001 economic downturn, which caused U.S. demand for Dominican apparel to drop significantly.

Industry Profile

Industry structure and performance

Most apparel manufacturing operations in the Dominican Republic are located in approximately 50 free-zone industrial parks throughout the nation (hereafter referred to as free-trade zones (FTZs).[3] Most FTZs are owned by private companies; two are partially owned by the Dominican Government. The FTZ industries, which consisted of 490 businesses that employed more than 194,000 workers in December 2000,[4] accounted for

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[1] Prepared by Ralph Watkins, Office of Industries.

[2] See the "overview" at the beginning of this appendix for information on the U.S. trade programs.

[3] "Free Zone Industrial Parks," Asociacion Dominicana de Zonas Francas, Inc., found at *http://www.adozona-.org/ing/business/parques.asp*, retrieved Dec. 11, 2002; U.S. and Foreign Commercial Service, *Textile Machinery and Equipment*, Industry Sector Analysis, prepared by Sheila Andujar, June 23, 2001. The remaining apparel production operations in the Dominican Republic, not located in free-zone industrial parks, produce primarily for the Dominican domestic market.

[4] "Free Zone Sector Behavior During the Year 2000," Asociacion Dominicana de Zonas Francas, Inc., found at *http://www.adozona.org/ing/business/estadisticas.asp*, retrieved Dec. 11, 2002.

80 percent (or $4.7 billion) of total Dominican exports in 2000. Sources indicated that the number of firms in the FTZs may have grown to more than 500 with a total workforce of more than 200,000 workers.[5] The textile and apparel sector accounted for 52 percent of the businesses in the FTZs,[6] and apparel accounted for approximately 60 percent of the total value of production in the FTZs. In the past, the textile and apparel sector accounted for 80 percent of the FTZ companies. Currently, Dominican assembly operations have been increasingly shifting to produce products such as cigars, electronic components, medical instruments, pharmaceuticals, electrical products, food products, plastics, jewelry, luggage, metal mechanics, and handicrafts. The FTZ services sector, including telemarketing, Internet-related services, and warehousing services, is also growing, joining the long-time leading services sector in the Dominican economy--tourism.

Apparel firms operating in Dominican FTZs are focusing on the production of more elaborate apparel and the vertical integration of the apparel industry,[7] taking advantage of a workforce that has become progressively more skilled. Certain Dominican apparel companies in the FTZs offer clients complete full-package service, not just assembly.[8] Dominican companies are providing the design, fabric, automated cutting, embroidery, knitting, dyeing, finishing, and laundering of the product and all types of supplies, from packing boxes to labels or sewing thread. Only the largest Dominican apparel manufacturing groups, however, may be capable of offering full-package service.[9]

In recent years, the Dominican Republic reportedly has lost apparel assembly contracts requiring unskilled apparel workers to countries in the CBERA region, such as Honduras and Nicaragua, which have lower labor costs. The Dominican Republic has the second-highest labor costs among major CBERA apparel suppliers, only surpassed by Costa Rica. As a result, some Dominican apparel companies have begun shifting some apparel assembly operations to Haiti, which still has low labor costs.[10] Trade sources indicate that each country in the region possesses different manufacturing strengths. Central America, especially Honduras, has specialized in knit fabrics and intimate apparel, whereas the Dominican Republic has focused on more elaborate and higher value-added garments such as pants and jackets.[11]

The Dominican apparel assembly industry in the FTZs was expected to increase its business by 30 percent in 2001, adding another 30,000 jobs in the first year under the CBTPA. The

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[5] Ibid., See also "Dominican Republic: Economic Overview," Trade Partners UK, located at *www.tradepartners.gov.uk*, retrieved Dec. 4, 2002.

[6] National Council of Export Free Zones and the Association of Free Zones of the Dominican Republic, written submission to the Commission, Jan. 22, 2003, p. 2 (hereinafter Dominican Free Zones statement).

[7] Transcript of hearing, p. 98.

[8] U.S. Department of State telegram 1517, "Impact on Dominican Republic of Elimination of Textile Tariffs," prepared by U.S. Embassy, Santo Domingo, Apr. 26, 2002; *Textile Machinery and Equipment*, U.S. and Foreign Commercial Service.

[9] Dominican Free Zones statement, p. 4.

[10] U.S. Department of State telegram 1517, "Impact on Dominican Republic of Elimination of Textile Tariffs."

[11] U.S. and Foreign Commercial Service, *Textile Machinery and Equipment*.

slowdown of the U.S. economy, however, worsened by terrorist attacks on September 11, 2001, has led forecasters to revise their predictions downward.[12]

Factors of production

Raw materials

The Dominican Republic has a very small textile manufacturing sector, largely owing to restraints placed on its apparel exports to the United States that require the use of U.S. fabric/yarn in apparel assembly.[13] Consequently, the Dominican Republic imports most of the raw materials necessary for apparel assembly, resulting in little demand for domestically produced textiles. The apparel assembly firms in the free zones have experienced periodic shortages of electricity,[14] as have industries in other parts of the country, which have disrupted production. Increased investment in the Dominican energy sector may help rectify this long-standing difficulty.[15]

Dominican apparel producers occasionally have used non-U.S. materials in the production of apparel for export when their operational costs are lower than if they had used U.S. materials. Reportedly, prices from U.S. suppliers for certain inputs are not competitive vis-a-vis Asian suppliers, and the benefits accrued under the CBTPA do not compensate for the difference.[16] Nevertheless, apparel assembled in the Dominican Republic from U.S. fabrics accounted for 57 percent of U.S. imports of Dominican apparel by value in 2002 (table I-2, found in the "overview" at the beginning of this appendix).

Labor

Of the 200,000 jobs related to industries located in the Dominican FTZs, various sources indicate that between 125,000 and 150,000 are related to the textile and apparel sector (approximately 6 percent of the total Dominican workforce).[17] One source indicates that the number of Dominican workers in the textile and apparel sector dropped from its peak of 152,000 in 2000 to 126,000 in 2002 (table I-8, found at the end of this country profile).[18] Some sources indicate that more than 100,000 Dominican jobs are dependent on the

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[12] U.S. and Foreign Commercial Service, *Dominican Republic Country Commercial Guide FY 2003 - Economic Trends and Outlook*, Aug. 15, 2002. One source estimated that the Dominican Republic would experience 20-percent growth in 2002 in apparel exports, for an increase to $4.5 billion, with up to 35,000 new jobs in the Dominican apparel sector. U.S. and Foreign Commercial Service, *Textile Machinery and Equipment*.

[13] Dominican Free Zones statement, p. 4.

[14] U.S. and Foreign Commercial Service, *Textile Machinery and Equipment*.

[15] Ibid., *Dominican Republic Country Commercial Guide FY 2003*.

[16] Ibid., *Textile Machinery and Equipment*.

[17] U.S. Department of State telegram 1517, "Impact on Dominican Republic of Elimination of Textile Tariff," and U.S. and Foreign Commercial Service, *Textile Machinery and Equipment.*

[18] Dominican Free Zones statement, p. 3.

continuation of apparel exports to the United States at their current rate. One source indicated that 72 percent of FTZ employment is generated by the textile and apparel sector.[19]

Technology

In 1999, the Dominican Republic's Ministry of Industry and Trade stated that the Dominican Republic possessed an annual production capacity for 194 million square meters of fabric.[20] One source stated that seven knitting companies produce 62 million square meters equivalent (SMEs) of fabric per year.[21] Dominican fabric production, however, is expected to remain small, relative to Dominican apparel production, largely due to requirements on the use of U.S. fabric for assembly of apparel destined for the U.S. market and the limit on CBTPA preferences for apparel made from regional limit fabrics.

Investment

U.S. companies own one-half of the almost 500 companies in the Dominican FTZs. Dominican ownership represents the second-largest grouping, followed by Korean and Taiwan investors.[22] In 2000 the Dominican Government approved the establishment of 43 textile enterprises totaling $43 million and employing 14,452 people.

Government Policies

The Dominican Republic is a signatory to the Lomé Convention, which gives Dominican apparel exports preferential treatment in Europe. These advantages, however, are largely negated by Europe's historic commercial ties with Africa and apparel producers of that region. The Dominican Republic is also a member of the Caribbean Community (Caricom) and the Central American Common Market and receives some preferential treatment of its exports as a result.

The Dominican Republic has recently devoted a great amount of attention to the proposed CAFTA (see CAFTA section in the overview, this appendix). The United States has thus far not agreed to start FTA talks with the Dominican Republic,[23] which believes that an FTA with the United States, either bilateral or under a possible multilateral proposal involving

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[19] "Free Zone Sector Behavior During the Year 2000" and *Dominican Free Zones* statement, p. 2.

[20] U.S. Department of State telegram, "Textiles: Fabric Information for the Dominican Republic," prepared by the U.S. Embassy, Santo Domingo, Sept. 1999.

[21] Alfredo Milian, Central American & Caribbean Textiles and Apparel Council, meeting notes, Feb. 20, 2002.

[22] Dominican Free Zones statement, p. 4; and transcript of hearing at 46. Investments by Taiwan in the textile sector were estimated to be US$100 million in 1997 ("ROC Economic Minister Examines Dominican Ties," Central News Agency (Taiwan), June 24, 1997).

[23] "Officials See Early 2003 Launch of U.S.-Central America FTA Talks," *Inside U.S. Trade*, Sept. 20, 2002.

other Caribbean nations,[24] is the best opportunity for Dominican goods to remain competitive in the U.S. market against Asian imports and imports from countries with FTAs with the United States, such as Mexico.[25]

Foreign Trade

The Dominican Republic's textile and apparel sector is almost wholly dependent on its trade relationship with the United States, which accounted for slightly more than 90 percent of total Dominican trade in textiles and apparel during 1997-2001. Most of this bilateral trade involved production-sharing activity with U.S. firms, which historically shipped cut garment parts to the Dominican Republic for assembly and then re-imported the finished garments under the production-sharing tariff provision. Since the implementation of the CBTPA in October 2000, U.S. firms have begun shipping to the Dominican Republic greater quantities of uncut fabric, which is then cut and assembled into finished garments eligible for preferential import treatment. Consequently, U.S. shipments of cut garment parts to the country have fallen.

Imports

Dominican imports of textiles and apparel from the United States were virtually unchanged during 1997-2001, peaking at $1.4 billion in 2000, and then falling to $1.3 billion in 2001. The composition of these imports during this period, however, changed significantly. In 1997, Dominican apparel imports from the United States—primarily garment parts—accounted for 82 percent ($1.1 billion) of total textile and apparel imports from the United States; by 2001, that number had fallen to 60 percent ($794 million). In comparison, Dominican imports of yarns and fabrics from the United States increased by 119 percent during that period, from $229 million in 1997 to $501 million in 2001, rising from 17 percent to 38 percent of total textile and apparel imports from the United States. An important factor in the rise in U.S. yarn and fabric exports to the Dominican Republic was the October 2000 implementation of the CBTPA, which for the first time allowed uncut U.S. fabrics to be sent to the Dominican Republic for cutting and assembly into apparel that would receive preferential treatment.[26]

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[24] "Bush Lukewarm on Central American Proposal for Regional FTA," *Inside U.S. Trade*, Apr. 27, 2002.

[25] "Dominican Republic and USA to Begin Negotiations for Free Trade Policy," *Caribbean Investor*, June 26, 2002.

[26] The Dominican Republic also imports fabrics and yarns from Taiwan, China, Hong Kong, Mexico, and Korea. U.S. and Foreign Commercial Service, *Textile Machinery and Equipment*.

Exports

Dominican exports of textiles and apparel to the United States rose from $2.3 billion in 1997 to a high of $2.5 billion in 2000, and then fell to $2.3 billion in 2001 (table I-9). Apparel is the major export to the United States, accounting for 97 percent of sector exports to both the United States and all countries in 2001. Dominican textile and apparel exports face U.S. trade-weighted average duty rates of 1.6 percent ad valorem on textiles and 3.3 percent on apparel that are lower than those for all other major regional and global suppliers, except Mexico.

Based on official U.S. statistics, U.S. imports of textiles and apparel from the Dominican Republic rose from 863 million SMEs in 1997 to a high of 900 million SMEs in 1999, and then to 743 million SMEs in 2002 (table I-10). A large portion of the decline in such U.S. imports occurred in women's (and girls') manmade-fiber coats; men's (and boys') knit shirts; and certain textile articles, (tents, tarps, sacks, and twine). Imports from the Dominican Republic consisted almost entirely of apparel. The Dominican Republic's share of U.S. apparel imports by quantity declined from 7.0 percent in 1997 to 4.2 percent in 2002, placing the Dominican Republic as the seventh-largest supplier overall and the third-largest CBERA supplier after Honduras and El Salvador. In 2002, 94 percent of U.S. apparel imports from the Dominican Republic entered under HTS heading 9802.00.80 and the CBTPA.

Most U.S. apparel imports from the Dominican Republic are in product categories in which other major foreign suppliers are constrained by quotas. As such, the Dominican Republic could face increased competition in the U.S. market for most of its products following the elimination of quotas in 2005. Among these products are trousers, for which the Dominican Republic is a major supplier. In 2002 the Dominican Republic was the second-largest supplier of men's (and boys') cotton trousers (following Mexico), the third-largest supplier of men's manmade-fiber trousers (following Mexico and Indonesia), and the fourth-largest supplier of men's wool trousers. The Dominican Republic was also the third-largest supplier of cotton underwear (following Honduras and El Salvador) and manmade-fiber nightwear (following Cambodia and Mexico), the second-largest supplier of men's wool sport coats (following Mexico), and the largest supplier of manmade-fiber sport coats (with China second).

In the 2000 quota (calendar) year, the Dominican Republic posted quota-fill rates of 90 percent or more for five quotas covering trousers, knit shirts, nightwear, and suits; no guaranteed access limits (GALs) were 90 percent or greater filled.[27] In 2001, only one quota—men's wool suits—and no GALs had a fill rate of 90 percent or more. In 2002, no quotas or GALs had a fill rate of 90 percent or more.[28]

[27] The National Free-trade Zone Council, a joint government/industry group, assigns quotas to companies largely based on historic performance and without charge." USTR Officials Seek to Bridge Gaps with Caricom in FTAA Talks," *Inside U.S. Trade*, July 26, 2002.

[28] U.S. Department of State telegram 1517, "Impact on Dominican Republic of Elimination of Textile Tariffs."

Table I-8
Dominican Republic: Statistical profile of textile and apparel sector and foreign trade, 1997-2001

Item	1997	1998	1999	2000	2001
Number of textile and apparel establishments	([1])	293	279	277	262
Number of textile and apparel workers	([1])	146,000	136,000	152,000	126,000
Installed spinning capacities:					
Short-staple spindles (*number*)	35,000	35,000	35,000	35,000	35,000
Open-end rotors (*number*)	([1])	([1])	500	500	500
Installed weaving capacities:					
Shuttleless looms (*number*)	150	150	150	150	150
Shuttle looms (*number*)	500	500	500	500	500
Purchases of large circular knitting machines	([1])	2	27	64	8
Foreign trade:					
Exports:					
Textiles (*million dollars*)	41.8	45.8	40.6	46.7	72.0
Apparel (*million dollars*)	2,323.4	2,447.9	2,453.0	2,546.4	2,367.1
Total (*million dollars*)	2,365.2	2,493.7	2,493.6	2,593.1	2,439.0
Imports:					
Textiles (*million dollars*)	396.9	438.6	435.9	505.1	656.9
Apparel (*million dollars*)	1,097.2	1,124.3	1,093.8	1,209.7	889.0
Total (*million dollars*)	1,494.1	1,562.8	1,529.7	1,714.8	1,545.9
Trade balance:					
Textiles (*million dollars*)	-355.1	-392.7	-395.3	-458.3	-584.9
Apparel (*million dollars*)	1,226.2	1,323.6	1,359.2	1,336.6	1,478.0
Total (*million dollars*)	871.1	930.8	963.9	878.3	893.1

[1] Not available.

Note.—Because of rounding, figures may not add to totals shown.

Source: Industry data estimated by the U.S. International Trade Commission from industry sources; International Textiles Manufacturers Federation (Zurich), *International Textile Machinery Shipment Statistics*, vol. 25/2002 and selected back issues; and trade data are United Nations data as reported by the Dominican Republic's trading partners.

Table I-9
Dominican Republic: Exports of textiles and apparel, by selected markets, 1997-2001

Item and market	1997	1998	1999	2000	2001
	Million dollars				
Textiles (SITC 65):					
Quota markets:					
United States	39	40	34	35	61
European Union	1	([1])	1	1	1
Canada	1	2	4	8	7
Subtotal	41	43	39	44	69
All other:					
Australia	([1])	0	([1])	([1])	1
Korea	([1])	([1])	([1])	1	([1])
Japan	([1])	([1])	([1])	([1])	([1])
Other	1	2	1	1	1
Subtotal	1	3	2	3	3
Grand total	42	46	41	47	72
Apparel (SITC 84):					
Quota markets:					
United States	2,282	2,408	2,403	2,499	2,327
European Union	15	12	16	16	8
Canada	19	21	24	23	22
Subtotal	2,316	2,441	2,443	2,538	2,357
All other	8	7	10	9	11
Grand total	2,323	2,448	2,453	2,546	2,367
Textiles and apparel:					
Quota markets:					
United States	2,320	2,448	2,437	2,534	2,388
European Union	15	13	17	17	9
Canada	20	23	29	31	29
Subtotal	2,356	2,484	2,482	2,582	2,426
All other	9	10	12	11	13
Grand total	2,365	2,494	2,494	2,593	2,439
	Percent				
Share of exports going to quota markets:					
Textiles	97	94	95	94	97
Apparel	100	100	100	100	100
Average	100	100	100	100	99

[1] Less than $500,000.

Note.—Because of rounding, figures may not add to totals shown.

Source: Compiled from United Nations data.

Table I-10
Textiles and apparel: U.S. general imports from Dominican Republic, by specified product categories,[1] 1997-2002

Cat. No.	Description	1997	1998	1999	2000	2001	2002
		1,000 square meters equivalent					
0	Textiles and apparel, total	863,315	886,406	900,252	858,892	772,755	743,276
1	Apparel	796,924	831,570	857,517	836,582	753,006	730,030
2	Textiles	66,391	54,837	42,735	22,310	19,749	13,246
30	Cotton textiles and apparel	496,674	544,390	580,038	536,002	433,354	465,206
40	Wool textiles and apparel	26,568	17,917	15,211	14,742	15,238	12,341
60	Manmade-fiber textiles and apparel	332,169	317,063	301,182	304,698	320,178	264,453
239	Babies' apparel	16,021	14,370	14,932	15,845	10,746	6,699
332	Cotton hosiery	1,562	20,937	23,540	25,021	19,313	21,973
335	Cotton coats, women/girls	422	517	323	288	1,673	2,183
336	Cotton dresses	2,823	2,260	2,514	3,041	3,844	2,695
338	Cotton knit shirts, men/boys	16,096	27,517	32,190	26,437	16,893	18,832
339	Cotton knit shirts, women/girls	14,886	17,494	22,098	29,729	24,260	17,868
340	Cotton not knit shirts, men/boys	14,457	13,391	10,736	9,821	8,095	5,024
347	Cotton trousers, men/boys	84,322	84,245	87,264	93,466	83,253	88,436
348	Cotton trousers, women/girls	39,839	51,282	46,010	54,383	42,738	38,293
350	Cotton robes	5,437	6,561	5,721	6,173	4,642	6,717
351	Cotton nightwear	30,662	41,278	34,601	30,648	24,537	15,725
352	Cotton underwear	245,313	242,454	278,119	222,245	179,967	228,649
359	Other cotton apparel	13,558	13,030	14,845	13,039	10,710	8,446
435	Wool coats, women/girls	16,395	9,688	7,038	6,768	7,483	6,215
447	Wool trousers, men/boys	3,261	1,871	2,441	2,432	2,292	1,809
448	Wool trousers, women/girls	1,048	389	649	547	521	290
633	Manmade-fiber suit coats, men/boys	7,711	7,495	6,023	4,167	2,902	2,382
634	Other manmade coats, men/boys	3,211	2,362	1,527	2,678	1,414	1,840
635	Manmade-fiber coats, women/girls	15,520	10,238	3,462	4,686	3,983	2,749
636	Manmade-fiber dresses	6,108	5,214	5,746	2,493	2,749	2,723
638	Manmade knit shirts, men/boys	36,542	32,380	29,541	11,249	14,227	8,211
639	Manmade knit shirts, women/girls	13,871	12,453	9,206	14,137	12,563	9,545
640	Manmade not knit shirts, men/boys	5,933	4,876	3,941	5,347	4,721	3,411
641	Manmade-fiber not knit blouses	2,094	2,412	2,135	2,905	2,452	1,839
642	Manmade-fiber skirts	3,157	3,114	3,108	3,087	3,626	3,100
647	Manmade-fiber trousers, men/boys	27,753	30,341	29,537	35,757	38,389	35,403
648	Manmade-fiber trousers, women/girls	14,862	13,594	10,945	12,935	21,113	15,791
649	Manmade-fiber brassieres	16,871	17,640	18,107	15,808	14,226	14,236
650	Manmade-fiber robes	3,946	4,543	5,946	9,920	9,725	10,187
651	Manmade-fiber nightwear	37,251	41,532	51,117	60,630	62,468	40,219
652	Manmade-fiber underwear	40,758	42,585	39,638	37,819	40,844	38,860
659	Other manmade-fiber apparel	35,731	36,362	40,391	56,441	59,259	56,700
669	Other manmade-fiber manufactures	42,200	34,878	19,945	1,686	3,346	74
670	Manmade-fiber handbags/luggage	13,430	11,530	17,195	15,858	11,068	7,385

[1] To administer the U.S. textiles and apparel quota programs, articles are grouped under 3-digit category numbers, which cover many 10-digit statistical reporting numbers under which goods are classified for statistical purposes in the Harmonized Tariff Schedule of the United States (HTS). The 1-digit and 2-digit numbers represent specific levels of import aggregation for articles covered by the quota program (e.g., the number “1" represents total imports of apparel, while “31" represents total imports of cotton apparel).

Source: Compiled from official statistics of the U.S. Department of Commerce, found at *http://otexa.ita.doc.gov*.

El Salvador[1]

Overview

The textile and apparel sector in El Salvador plays a key role in the country's economy, accounting for 60 percent of its total exports in 2001, 66 percent of its manufacturing workforce, and 8-10 percent of its overall workforce. The country relies on the United States as a market for its apparel exports (97 percent of the total in 2001). Apparel is the country's principal export to the United States, accounting for 85 percent of the total value of U.S. imports from El Salvador in 2002. Without preferences such as those provided under the CBTPA,[2] it is estimated that up to 50 percent of the Salvadoran industry would not survive the elimination of quotas in 2005.[3] The Salvadoran Government hopes that the proposed CAFTA will come into effect by that time, providing preferences that will sustain the industry.[4]

Industry Profile

Industry structure and performance

The Salvadoran textile industry supplies only 5 percent of the fabric used by the country's apparel producers.[5] Of the 16 fabric producers,[6] 14 are Salvadoran and 2 are Asian-owned. The Asian mills reportedly started operations decades ago to supply the regional apparel industry. No customer accounts for more than 20 percent of the production of any of the Salvadoran fabric producers. Prior to the CBTPA, textile mills in El Salvador spun yarns from imported cotton and polyester fibers, mostly from the United States. To comply with CBTPA requirements, many Salvadoran firms now import yarn from the United States to produce knit fabrics for use in the production of knit apparel destined for the United States.[7] Yarns now made in El Salvador are used to produce fabric for garments sold in the regional market or exported to Mexico.

[1] Prepared by Walker A. Pollard, Office of Economics.

[2] See "overview" at the beginning of this appendix for a discussion of the CBTPA preferences.

[3] U.S. Department of State telegram 2786, "El Salvador is Attempting to Diversify its Economy, but Needs CAFTA to Stimulate Investments," prepared by U.S. Embassy, San Salvador, Sept. 2, 2002.

[4] Ibid.

[5] Waldo Humberto Jimenez, National Association of Private Business, interview by USITC staff, San Salvador, Feb. 25, 2003.

[6] Edwin Zamora, UNITEX (Union of Textile Industries), interview by USITC staff, San Salvador, Feb. 24, 2003.

[7] Alfredo Milian Jerez, Executive Coordinator, Central American & Caribbean Textiles and Apparel Council, interview by USITC staff, San Salvador, Feb. 24, 2003.

The Salvadoran textile industry employs 10,000 to 15,000 workers and often employs foreign managers.[8] The spinning mills tend to have more modern equipment and fewer workers than knitting and weaving mills. Most knitting machines used in El Salvador are imported from the United States. The Salvadoran textile industry competes in the regional market with fabric imported from the United States based on lead times and responsiveness to the needs of the regional apparel industry. Some local apparel producers report that Salvadoran textile producers cannot produce fabrics in the quantity, variety, or quality needed by apparel companies. Electricity, gas, equipment, water, and chemicals are more expensive in El Salvador than in the United States.

El Salvador's apparel industry comprises about 240 firms[9] employing 80,000 to 90,000 workers. Most apparel companies are owned by investors from El Salvador, the United States, Taiwan, and Korea.[10] The apparel industry primarily cuts and sews apparel from imported fabric or sews apparel from imported garment parts. Most production occurs in maquiladoras. More than 90 percent of the business in the free-trade zones (FTZs) are maquiladora apparel and textile plants.[11] The number of FTZs in operation in El Salvador grew from 8 in 2000 to 16 in 2002.[12] In 2001, maquiladora production, consisting primarily of apparel, accounted for 58 percent of El Salvador's exports. Of the $1.6 billion in maquiladora exports in 2001, Salvadoran value added totaled $490 million (30 percent of maquiladora exports and 3.6 percent of GDP).[13] Most apparel produced in El Salvador is shipped by truck to Puerto Cortes in Honduras or Puerto Barrios in Guatemala. The trip takes 6 hours to reach Puerto Cortes from industrial parks near San Salvador's international airport and 6 to 7 hours to reach Puerto Barrios.[14]

Factors of production

The apparel industry relies almost entirely on imports for its raw materials needs, which consists mostly of cotton fabrics and garments parts, and manmade-fibers fabrics. These apparel inputs can be imported into the maquiladoras free of duty.

As of December 2000, El Salvador had a labor force of approximately 2.5 million, almost half of which was employed in services. About one-fifth of the labor force works in the agricultural sector and about one-sixth is in manufacturing. Salvadoran labor is perceived as hard working, but the general educational level is low, which may pose a problem for investors needing skilled labor. There is a lack of local middle-management personnel, which sometimes results in foreigners performing such tasks.[15] The average hourly wage rate

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[8] Information in the paragraph is mainly from Edwin Zamora, UNITEX.

[9] Alfredo Milian Jerez and representatives of the Ministry of the Economy, interview by USITC staff, San Salvador, Feb. 24, 2003; and "Relative Data," handout from Alfredo Milian Jerez.

[10] U.S. and Foreign Commercial Service, *El Salvador Country Commercial Guide 2002/2003*, p. 33.

[11] Ibid., p. 27.

[12] Representatives of the Ministry of the Economy, interview by USITC staff, San Salvador, Feb. 24, 2003.

[13] U.S. Department of State telegram 1179, "Textile Trade Without Quotas–El Salvador," prepared by the U.S. Embassy, San Salvador, May 2, 2002.

[14] Representatives of FTZ firm, interview by USITC staff, La Paz, San Salvador, Feb. 25, 2003.

[15] Ibid.

in El Salvador's apparel industry was $1.58 in 2002, compared with slightly less than $1.50 in Guatemala and Honduras, and $2.45 in Mexico. However, wage rates in El Salvador and many other CBERA apparel exporting countries are much higher than those in many Asian countries such as Bangladesh, India, and Pakistan, where hourly wage rates average less than $0.50.[16]

Investment

The United States is the primary source of foreign direct investment (FDI) in all industries in El Salvador, with 36 percent of the accumulated total in 2001, a 33-percent increase over the 1999 total. FDI flows (new investment) from all countries in FTZ textile and apparel operations rose rapidly from $3.2 million in 1999 to $18.6 million in 2000 and $25.7 million in 2001, presumably in response to opportunities created by the CBTPA.[17] Most of the FDI inflows have come from Taiwan and Korea; one of Mexico's largest producers of denim jeans shifted production to El Salvador in 2000.[18]

Government Policies[19]

The U.S. dollar freely circulates and can be used in all transactions under the provisions of the Monetary Integration Law, effective on January 1, 2001. As a result, interest rates in El Salvador are the lowest in Central America.[20] The dollar and the Salvadoran colon both circulate with the intention of phasing out the use of the colon. The law fixed the colon at 8.75 per $1.00. As of May 2002, U.S. dollars accounted for about 71 percent of all currency in circulation.

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[16] Information on wage rates is from Jassin-O'Rourke Group, "Global Competitiveness Report: Selling to Full Package Providers" (New York), Nov. 2002.

[17] U.S. and Foreign Commercial Service, *El Salvador Country Commercial Guide 2002/2003*, p. 34.

[18] In an interview by USITC staff, in La Paz, El Salvador, Feb. 25, 2003, the director of an FTZ there stated that the presence of the Nissan auto assembly plant in Aguascalientes, Mexico, drove up the cost of labor compensation for the jeans manufacturer in the region near the plant, leading the jeans company to shift production to El Salvador.

[19] Except as noted, information in this section is from U.S. and Foreign Commercial Service, *El Salvador Country Commercial Guide 2002/2003*, p. 26.

[20] International Monetary Fund, *International Financial Statistics*, vol. 55, No. 12, Dec. 2003.

Domestic policies

The Government of El Salvador views FDI as crucial for economic growth and development and has taken numerous steps in recent years to improve the investment climate.[21] The Government has enacted new laws and amended existing ones to facilitate and regulate direct and portfolio investment and to privatize state-owned enterprises. Generally, the 1999 Investment Law grants equal treatment to foreign and domestic investors and allows foreign investors to freely establish businesses in El Salvador. The investment law does not require investors to export specific amounts, transfer technology, incorporate set levels of local content, or fulfill other performance criteria. Exports of goods and services are not subject to the value added tax (VAT). Foreign businesses freely remit net profits, repatriate capital, reinvest profits, and bring in capital for additional investment. There are no delays in remitting investment returns. The investment law also allows unrestricted remittance of royalties and fees from the use of foreign patents, trademarks, technical assistance and other similar services.

Trade policies

El Salvador is a member of the Central American Common Market (CACM) along with Guatemala, Honduras, Costa Rica, and Nicaragua. El Salvador has free-trade agreements in force with Mexico (along with Guatemala and Honduras), the Dominican Republic, and Chile (along with Guatemala and Honduras).

Import tariffs for capital goods are zero, raw materials range from zero to 5 percent, intermediate goods range from 5 to 10 percent (maximum), and final goods are charged a maximum of 15 percent. Textiles, agricultural products, vehicles, and a few other nonessential products are charged higher tariffs that range from 15 to 30 percent. These new tariffs apply to products coming from outside the CACM. In addition, there is a 13-percent VAT. Materials and equipment used in FTZs and materials processed in FTZs and then exported are exempt from tariffs and the VAT.

The 1998 Free Trade Zones Law is designed to attract investment in a wide range of activities; however, more than 90 percent of the businesses in the FTZs are apparel plants. As of June 2002, there were 13 FTZs in the country and two more under construction. The FTZ law and the Export Reactivation Law provide incentives for firms in export processing zones or bonded warehouses that export their production. These firms enjoy the following benefits: (1) Up to 20 years exemption from income, municipal, and certain other taxes; (2) duty-free importation of machinery, equipment, tools, spare parts, furniture, and other products necessary for production of exports; (3) duty free importation of raw materials, semimanufactured, and intermediate products; and (4) duty-free importation of fuels and lubricants that are not produced in the country.

Under the Export Reactivation Law, firms may apply for tax rebates of 6 percent of the f.o.b. value of manufactured exports shipped outside the CACM. The law does not require firms

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[21] The Heritage Foundation ranks the Salvadoran economy as second freest in Latin America after Chile. Latin Business Chronicle, "El Salvador, Economic and Political Overview," found at *http://www.latinbusinesschronicle-.com/countries/elsalvador*, retrieved Feb. 14, 2003.

to be in the FTZs or export 100 percent of their output. The benefits offered by the law are available to firms engaged in production or marketing of goods for foreign markets; firms engaged in storing, merchandise packing and re-export; and firms that build and administer FTZs. Administrators/developers of free zones and maquiladora operators or manufacturers may import materials and equipment duty-free and without VAT.

Foreign Trade

El Salvador's trade surplus in textiles and apparel widened from $518 million in 1997 to $808 million in 2001, reflecting increases of 52 percent in exports, to $1.8 billion, and 49 percent in imports, to almost $1.0 billion (table I-11). The United States accounted for 95 percent of the exports and 83 percent of the imports in 2000.

The composition of El Salvador's imports of textiles and apparel from the United States has changed significantly following implementation of the CBTPA in October 2000. Prior to that time, in order to enjoy virtually unlimited access to the U.S. market under the 807A program, the fabrics used in the apparel had to be formed and cut into garment parts in the United States. Trade in these garment parts is recorded as apparel trade. Under the CBTPA, uncut U.S. fabrics may now be shipped to beneficiary countries for both cutting and assembly. As such, uncut fabrics are replacing cut garment parts in El Salvador's imports from the United States. In 2000 (with only 3 months of actual CBTPA trade), garment parts reported as apparel accounted for 87 percent of U.S. textile and apparel exports to El Salvador, 60 percent in 2001, (the first full year of CBTPA), and 49 percent in 2002.

El Salvador's exports of sector goods during 1997-2001 consisted almost entirely of apparel destined for the United States (table I-12). Based on official U.S. statistics, U.S. imports of textiles and apparel from El Salvador rose by 78 percent during 1997-2002 to 817 million square meters equivalent (SMEs) (table I-13). The 2002 imports consisted almost entirely of apparel, particularly cotton garments and, to a lesser extent, manmade-fiber garments. As such, El Salvador was the sixth-largest volume supplier of apparel overall and the second-largest apparel supplier in the CBERA region in 2002. The imports from El Salvador are concentrated in product categories for which major suppliers are highly constrained by quotas, especially cotton and manmade-fiber underwear, knit tops, and pants.

Although the majority of U.S. apparel imports from El Salvador enter free of duty under the CBTPA, some of the knit apparel imports do not qualify for CBTPA preferences because the fabric used to make the knit apparel is made from Mexican or Salvadoran yarn.[22] In addition, some Salvadoran apparel producers have found that the price differential between Asian (primarily Korean) and U.S. woven fabrics is more than enough to offset U.S. tariffs on apparel assembled in El Salvador from non-U.S. woven fabrics.

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[22] Representative of a Salvadoran textile manufacturer, interview by USITC staff, San Salvador, Feb. 24, 2003.

Table I-11
El Salvador: Statistical profile of textile and apparel sector and foreign trade, 1997-2001

Item	1997	1998	1999	2000	2001
Textile and apparel share of manufacturing value-added *(percent)*	29	28	([1])	([1])	([1])
Installed spinning capacities:					
Short-staple spindles (*1,000*)	250.0	250.0	250.0	250.0	250.0
Open-end rotors (*1,000*)	6.5	6.5	6.5	6.5	6.5
Installed weaving capacities:					
Shuttleless looms (*number*)	200	200	200	200	200
Shuttle looms (*number*)	3,000	3,000	3,000	3,000	3,000
Purchases of large circular knitting machines	([1])	18	11	229	24
Foreign trade:					
Exports:					
Textiles (*million dollars*)	71.8	83.1	72.7	70.2	71.0
Apparel (*million dollars*)	1,114.3	1,246.4	1,396.6	1,691.2	1,730.4
Total (*million dollars*)	1,186.1	1,329.5	1,469.3	1,761.4	1,801.5
Imports:					
Textiles (*million dollars*)	250.3	267.7	233.0	313.1	492.4
Apparel (*million dollars*)	417.7	530.1	520.3	720.5	501.1
Total (*million dollars*)	668.0	797.8	753.3	1,033.6	993.4
Trade balance:					
Textiles (*million dollars*)	-178.5	-184.6	-160.3	-242.8	-421.4
Apparel (*million dollars*)	696.6	716.3	876.3	970.7	1,229.4
Total (*million dollars*)	518.1	531.7	716.1	727.9	808.0

[1] Not available.

Note.—Because of rounding, figures may not add to totals shown.

Source: Industry data estimated by the U.S. International Trade Commission from industry sources; the International Textiles Manufacturers Federation (Zurich), *International Textile Machinery Shipment Statistics*, vol. 25/2002 and selected back issues; and trade data are United Nations data as reported by El Salvador's trading partners.

Table I-12
El Salvador: Exports of textiles and apparel, by selected markets, 1997-2001

Item and market	1997	1998	1999	2000	2001
	Million dollars				
Textiles (SITC 65):					
Quota markets:					
United States	26	31	33	33	33
European Union	4	2	1	1	1
Canada	([1])	([1])	1	1	1
Subtotal	30	34	34	35	35
All other:					
Guatemala	10	19	12	11	15
Costa Rica	15	16	13	10	10
Nicaragua	3	3	3	3	3
Other	14	12	10	11	7
Subtotal	42	50	38	35	36
Grand total	72	83	73	70	71
Apparel (SITC 84):					
Quota markets:					
United States	1,078	1,199	1,361	1,641	1,671
European Union	3	4	2	12	7
Canada	9	8	10	11	15
Subtotal	1,090	1,211	1,372	1,664	1,693
All other	24	35	24	27	37
Grand total	1,114	1,246	1,397	1,691	1,730
Textiles and apparel:					
Quota markets:					
United States	1,104	1,230	1,394	1,674	1,705
European Union	6	5	2	13	8
Canada	10	9	10	12	15
Subtotal	1,120	1,244	1,406	1,699	1,728
All other	67	85	63	62	73
Grand total	1,186	1,330	1,469	1,761	1,801
	Percent				
Share of exports going to quota markets:					
Textiles	41	40	47	50	49
Apparel	98	97	98	98	98
Average	94	94	96	96	96

[1] Less than $500,000.

Note.—Because of rounding, figures may not add to totals shown.

Source: Compiled from United Nations data.

Table I-13
Textiles and apparel: U.S. general imports from El Salvador, by specified product categories,[1] 1997-2002

Cat. No.	Description	1997	1998	1999	2000	2001	2002
		1,000 square meters equivalent					
0	Textiles and apparel, total	460,078	524,009	640,934	757,217	767,758	816,784
1	Apparel	433,193	482,603	601,720	719,248	723,831	777,175
2	Textiles	26,884	41,407	39,214	37,968	43,927	39,609
30	Cotton textiles and apparel	309,710	381,922	475,601	556,054	549,755	606,709
60	Manmade-fiber textiles and apparel	142,501	136,468	162,049	197,755	214,811	207,338
222	Knit fabric	6,721	9,228	5,050	3,083	5,550	2,286
239	Babies' apparel	7,235	5,193	5,454	6,116	5,894	7,112
331	Cotton gloves	2,580	2,767	1,444	51	1	14
338	Cotton knit shirts, men/boys	29,796	44,807	63,931	72,871	60,098	81,772
339	Cotton knit shirts, women/girls	11,420	12,823	19,794	37,319	47,804	43,284
340	Cotton not knit shirts, men/boys	21,933	25,002	23,961	20,947	18,384	18,355
341	Cotton not knit blouses	1,769	1,383	1,687	1,860	2,073	1,278
347	Cotton trousers, men/boys	7,098	10,811	17,267	15,730	14,870	16,474
348	Cotton trousers, women/girls	16,611	18,620	24,039	30,293	37,264	35,679
350	Cotton robes	9,675	7,917	3,655	5,252	5,441	6,852
351	Cotton nightwear	16,338	17,675	17,459	19,619	26,147	29,550
352	Cotton underwear	150,106	190,433	252,994	305,799	288,248	326,262
632	Manmade-fiber hosiery	15,514	16,347	19,769	18,053	17,556	22,134
636	Manmade-fiber dresses	12,003	13,026	16,698	16,889	15,055	10,600
638	Manmade knit shirts, men/boys	40,484	35,304	49,818	36,345	19,775	43,611
639	Manmade knit shirts, women/girls	3,648	4,846	5,684	32,215	50,016	11,239
640	Manmade not knit shirts, men/boys	5,794	2,929	2,594	5,821	7,062	6,280
641	Manmade-fiber not knit blouses	1,667	2,752	2,385	3,724	3,201	3,020
647	Manmade-fiber trousers, men/boys	3,140	1,554	5,141	6,482	11,057	13,206
648	Manmade-fiber trousers, women/girls	7,541	3,740	5,627	7,652	9,041	10,648
649	Manmade-fiber brassieres	2,835	2,929	3,123	2,576	2,185	3,371
650	Manmade-fiber robes	3,213	3,636	2,698	5,545	2,116	3,938
651	Manmade-fiber nightwear	7,270	7,019	5,780	7,098	7,990	7,811
652	Manmade-fiber underwear	17,100	9,897	8,224	20,511	30,411	33,563
659	Other manmade-fiber apparel	6,131	6,680	11,154	10,724	10,545	13,646
666	Other manmade-fiber furnishings	1,156	7,335	7,755	7,668	7,565	8,438

[1] To administer the U.S. textiles and apparel quota programs, articles are grouped under 3-digit category numbers, which cover many 10-digit statistical reporting numbers under which goods are classified for statistical purposes in the Harmonized Tariff Schedule of the United States (HTS). The 1-digit and 2-digit numbers represent specific levels of import aggregation for articles covered by the quota program (e.g., the number “1" represents total imports of apparel, while “31" represents total imports of cotton apparel).

Source: Compiled from official statistics of the U.S. Department of Commerce, found at *http://otexa.ita.doc.gov.*

Guatemala[1]

Overview

The textile and apparel sector in Guatemala is the country's second-largest source of export earnings, accounting for 37 percent of the total in 2001. The sector provided direct employment for 122,000 people in 2002.[2] The latest available data show that the sector's value added of $308 million in 1998 accounted for about 2 percent of the country's GDP.[3] U.S. investors play a smaller role in the Guatemalan sector than in most other CBERA countries. A significant portion of foreign direct investment (FDI) in Guatemala's textile and apparel sector is from Korean-based investors, which account for most sector production and exports to the United States.

The Guatemalan textile and apparel sector benefits from proximity to the U.S. market, quick-turnaround capabilities, and a relatively developed textile industry.[4] U.S. trade preferences, once considered significant, appear to be increasingly less important because of the high cost of U.S. fabrics. Many Guatemalan apparel producers have found that the cost differential between certain U.S. and Asian fabrics is greater than the duty savings from using U.S. fabrics and entering the goods under the CBTPA.[5]

Guatemalan industry officials expressed concern over the impact on the local textile and apparel sector of enactment of U.S. legislation in August 2002 that requires the dyeing and finishing of U.S. fabrics for use in CBERA apparel to be performed in the United States in order for the apparel to qualify for CBTPA preferences.[6] The officials stated that a number of Guatemalan companies had made investments in equipment to dye and finish U.S. fabrics for use in apparel for export to the United States under the CBTPA. The officials asserted that the new U.S. dyeing and finishing requirements will slow the development of "full package" programs in the sector.[7] The officials indicated that the use of full package programs would enable the sector to maintain a competitive advantage through vertical integration or development of complementary manufacturing clusters and to deliver apparel and provide services that meet the needs of U.S. retailers and brand-name markets.[8]

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[1] Prepared by Thomas F. Jennings, Office of Economics.

[2] Representative of the Commission for the Textile and Apparel Industry (Vestex), interview by USITC staff, Guatemala City, Feb. 26, 2003.

[3] Jozef De Coster, "Profile of the Guatemalan Clothing Export Industry," *Textile Outlook International* (United Kingdom: Textiles Intelligence Ltd.), Sept. 1999, p. 85.

[4] "Guatemala: Textile Industry and Market, a Report," Bharattextile.com, Nov. 26, 2001, retrieved Mar. 18, 2003.

[5] Representative of Vestex, interview by USITC staff, Guatemala City, Feb. 26, 2003.

[6] See "overview" at the beginning of this appendix for information on U.S. dyeing and finishing requirements.

[7] Full package programs in the CBERA region generally refer to production services ranging from procurement of raw materials to cutting and sewing, and to finishing and packaging of the final products.

[8] Representatives of textile and apparel firms, interviews by USITC staff, Guatemala City, Feb. 26, 2003.

Industry Profile

Industry structure and performance

The Guatemalan textile and apparel sector consisted of 36 textile mills, 230 apparel plants, and 260 clothing accessory and services companies in 2002.[9] Sector employment in 2002 totaled 137,600 workers, 75 percent of which were employed in apparel plants.[10] The textile mills employed 18,500 workers. Korean-based investors account for about 65 percent of Guatemala's apparel production.[11]

Factors of production

Although the Guatemalan textile industry produces cotton and manmade-fiber yarns and sewing thread, as well as cotton, cotton-blend, and manmade-fiber knit and woven fabrics,[12] Guatemala is dependent on imports for most of its yarn and fabric requirements. According to data provided by Vestex, Guatemala's annual production capacity is estimated at 60 million square meters for woven fabrics and 22 million pounds for knit fabrics. The Guatemalan textile industry reportedly has capacity to print about 7 million meters of woven fabrics and 96 million pounds of knit fabrics per year.[13] Korean-based firms in Guatemala that offer full-package apparel programs reportedly use mostly imported Korean fabrics to make apparel.[14] Guatemalan manufacturers also import U.S. yarns and fabrics for use in apparel to qualify for CBTPA preferences.

The textile and apparel sector has access to an abundant supply of labor, but its labor costs have risen in recent years and are now among the highest in Central America. Average hourly compensation (including fringe benefits) in the apparel industry in 2002 was $1.49 in Guatemala, compared with $0.92 in Nicaragua, $1.48 in Honduras, $1.65 in the Dominican Republic, and $2.45 in Mexico.[15] However, these compensation figures were much higher than those for many Asian supplying countries (e.g., average hourly compensation was less than $0.50 in Bangladesh, India, and Pakistan).

With higher labor costs than some other CBERA countries, Guatemala is shifting production from price-sensitive garments such as T-shirts and underwear to higher valued-added garments where producers can benefit from workers' sewing skills. To remain competitive

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[9] Information in the paragraph is from Vestex.

[10] In 1998, the sector reportedly employed 77,100 workers. Data attributed to Michael Buhlmann, *The Textile Cluster in Central America*, 1998, in Jozef De Coster, "Profile of the Guatemalan Clothing Export Industry," p. 87.

[11] Daniel Thompson, Commercial Counselor, U.S. Embassy, Guatemala City, interview by USITC staff, Feb. 26, 2003.

[12] Vestex, "Guatemala Delivers," cd-rom provided to USITC staff, Feb. 2003.

[13] Capacity data based on data provided by Vestex, "Guatemala Delivers" (cd-rom).

[14] Daniel Thompson, Commercial Counselor, U.S. Embassy, Guatemala City, interview by USITC staff, Feb. 26, 2003.

[15] Jassin-O'Rourke Group, "Global Competitiveness Report: Selling to Full Package Providers," (New York, NY), Nov. 2002.

in a quota-free market environment, Guatemalan industry officials believe that they will need to offer full package services, keep labor costs in check, and continue to take advantage of proximity to the U.S. market and speed of delivery.[16]

Investment[17]

There were 41 investments valued at $44.3 million in Guatemala's apparel industry in 2000; there were also 7 firms that invested in textile production.[18] FDI in Guatemala's textile and apparel sector grew following the establishment of free-trade zones in the 1990s, along with government decrees providing for the establishment of maquiladoras and the implementation of the foreign investment law, which guaranteed national treatment.[19] Most tenants in the 12 authorized free-trade zones are apparel producers.[20] It was reported that, in 1998, more than half the FDI in the textile and apparel sector came from Korea.[21] Faced with tight U.S. quotas on their home-country exports, a number of Korean firms in the late 1980s and early 1990s moved apparel production to Guatemala. Although many of these Korean-run plants use fabrics from Korea and other Asian sources, others invested with the intention of using U.S.-cut fabrics to benefit from reduced duties under HTS subheading 9802.00.80 (see "overview" at the beginning of this appendix for information on this U.S. production-sharing provision).

Representatives of the Ministry of the Economy (Trade and Investment section) maintained that the major force behind new investment in Guatemala has been the U.S. production-sharing program rather than CBERA or CBTPA. They stated that Guatemala did lose investment when NAFTA went into effect in 1994 and that investment has not returned. The new U.S. dyeing and finishing requirements also affected FDI flows into the country. It was reported that investment in the textile and apparel sector, and in Guatemala in general, declined in 2002.[22]

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[16] U.S. Department of State telegram 1151, "Guatemala's Textile Industry Without Quotas," prepared by U.S. Embassy, Guatemala City, Apr. 30, 2002.

[17] Information in this section is from the USITC, *The Impact of the Caribbean Basin Economic Recovery Act, Fifteenth Report 1999-2000*, (inv. No. 332-227), USITC publication 3447, Sept. 2001, pp. 81-84, except as noted.

[18] Statistics from the Guatemalan Ministry of the Economy, Office of Commercial and Investment Services, June 2001.

[19] Decrees 29-89, 65-89 and 9-98, respectively. See Jozef De Coster, "Profile of the Guatemalan Clothing Export Industry," pp. 105 and 106.

[20] Vestex, e-mail to USITC staff, Apr. 22, 2003.

[21] Jozef De Coster, "Profile of the Guatemalan Clothing Export Industry," p. 104.

[22] Representatives of U.S. Embassy and Guatemalan Ministry of the Economy, interviews by USITC staff, Guatemala City, Feb. 27-28, 2003.

A major Guatemalan producer of trousers indicated that the U.S. production-sharing program had been the driving force behind growth in the Guatemalan apparel industry.[23] However, the rising cost of U.S. materials reduced the firm's ability to compete against apparel made with Asian inputs. Although the firm did not offer full package services at the time, it anticipated doing so following enactment of the CBTPA in order to provide added value to its products by dyeing, cutting, and sewing fabric and trim.

Government Policies

Guatemala has an increasingly open trade regime, imports generally are not subject to nontariff trade barriers, and there are no restrictions on repatriation of profits by foreign firms.[24] In 2001, Guatemala's tariffs ranged from 5 to 10 percent ad valorem for unfinished goods, while the tariff on most finished goods was 15 percent. Guatemala plans to reduce its tariff on textiles and textile products from the 2001 rate of 22 percent to 15 percent for finished goods and 10 percent for unfinished goods in 2005.[25] The 10-percent value added tax applies to all domestic and imported goods. Decree 29-89, Guatemala's 1989 Drawback and Export Promotion Law, allows duty-free and tax-free entry of raw materials, intermediate products, packaging, and labels used in the production or assembly of products for export to markets outside Central America. It allows a single business to qualify as a stand-alone free-trade zone anywhere in the country.

In an April 2002 report prepared by the U.S. Embassy in Guatemala, it is stated that "(t)he elimination of textile and apparel quotas under the WTO Agreement on Textiles and Clothing (ATC) is not a major concern of Guatemala's industry. . . Guatemalan exports are neither constrained by U.S. quotas nor threatened by the post-2004 lifting of quotas in Asia or elsewhere. . .Guatemalans believe that the evolution of their industry depends more on the future of tariff preferences under the CBTPA and the possibility of negotiating a U.S.-Central American Free Trade Agreement."[26] The report further stated that the definition of the rules of origin in any free-trade agreement will in large part determine the future competitiveness of the country in the textile and apparel sector. Given the diminishing use of U.S. trade preferences because of the U.S. content requirement, Guatemalans "believe they can remain competitive without preferences, but without using U.S. inputs in the post-quota period."[27]

In January 2003, with the release of President Bush's Narcotics Certification Determinations for Fiscal Year 2003, the U.S. Department of State officially "decertified" Guatemala, which was one of three countries found to have "failed demonstrably" to make substantial efforts

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[23] Information in paragraph drawn from notes prepared in connection with a June 2001 trip by USITC staff to Guatemala.
[24] ISA, Textile Fabrics, p. 2.
[25] Infomation presented in the remainder of the paragraph is from "Guatemalan Country Commercial Guide," found at *http://www2.usatrade.gov/Website/CCG.nst/CCGurl/CCG-GUATEMALA2002-CH6:-004C4B3B*, retrieved Oct. 25, 2002.
[26] U.S. Department of State telegram 1151, "Guatemala's Textile Industry Without Quotas."
[27] Ibid.

during the prior 12 months to meet their international counter-narcotics requirements.[28] The decertification was waived in the national interest of the United States, however. The INCSR report and the presidential letter to Congress are matters of public record and illustrate the administration's dissatisfaction with the lack of Guatemalan support in the area of drug trafficking and control.[29]

Foreign Trade

Guatemala's trade surplus in textiles and apparel rose from $399 million in 1997 to $812 million in 2001 (table I-14, found at the end of this country profile). Exports of such goods rose by 63 percent during the period to $1.8 billion, almost all of which consisted of apparel. Imports rose by 22 percent to $954 million, almost all of which were apparel inputs (e.g., fabrics and cut garment parts).

Imports

Guatemalan textile imports more than doubled during 1997-2001 to $780 million, while apparel imports (mainly cut garment parts) fell significantly to $173 million. With the implementation of the CBTPA in October 2000, uncut U.S. fabrics may now be shipped to the CBERA region for both cutting and sewing. The major foreign suppliers were Mexico, El Salvador, the United States, Taiwan, and Korea; imports from China have grown rapidly. U.S. fabrics have had a high level of acceptance and recognition among consumers; however, there have been recent complaints about the timely availability, quality, and price of U.S. fabrics.[30]

The Guatemalan cotton market is totally supplied by imports.[31] The United States' position as the major supplier of cotton to Guatemala was reinforced by the CBTPA in 2001. In 2000, cotton imports were expected to reach $60 million, of which the U.S. was expected to supply $54 million.

Exports

Almost all of Guatemala's apparel exports are shipped to the United States (table I-15). According to official U.S. statistics, U.S. textile and apparel imports from Guatemala rose by 79 percent during 1997-2002 to 452 million square meters equivalent (SMEs), 92 percent of which consisted of apparel articles (table I-16). The increased imports from Guatemala, the fourth-largest CBERA apparel supplier in the U.S. market, reflected a combination of

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[28] U.S. Department of State, "Briefing on the President's FY 2003 Narcotics Certification Determinations," Jan. 31, 2003, found at *http://www.state.gov/g/inl/rls/rm/17110.htm*, retrieved Apr. 23, 2003.

[29] Ibid., *International Narcotics Control Strategy Report* (INCSR).

[30] Representatives of Guatemalan textile and apparel firms, interviews by USITC staff, Feb. 26 and 27, 2003.

[31] Information in paragraph is from "Guatemala: Textile Industry and Market, A Report," Bharattextile.com, Nov. 26, 2001, retrieved Mar. 18, 2003.

low prices, compliance with product specifications, and quick turnaround time.[32] U.S. imports of certain apparel from Guatemala that do not receive CBTPA preferences are subject to quota--namely, certain cotton and manmade-fiber shirts (categories 340/640), cotton pants and shorts (347/348), cotton and manmade-fiber nightwear (351/651), wool suits (443), and wool pants (448).[33] In 2002, Guatemala filled all of its wool suit quota, about three-fourths of its quotas on cotton pants and cotton and manmade-fiber nightwear, and less than 25 percent of its quotas on the shirts and wool pants.

U.S. apparel imports from Guatemala are concentrated in products for which major foreign suppliers are highly constrained by quotas. Almost 60 percent of the apparel imports from Guatemala in 2002 consisted of cotton and manmade-fiber pants and knit tops. Imports of women's knit cotton tops from Guatemala rose from 6 million to 84 million SMEs, largely reflecting increased activity by Korean investors. Significant growth also occurred in women's manmade-fiber pants (from 6 million to 30 million SMEs), women's knit manmade-fiber shirts (from 2 million to 13 million SMEs), and manmade-fiber nightwear (from 2 million to 11 million SMEs). In addition, imports from Guatemala doubled in men's knit cotton shirts and manmade-fiber trousers; women's cotton slacks; cotton robes; and cotton nightwear.

The most significant decrease in U.S. apparel imports from Guatemala during 1997-2002 was in men's woven cotton shirts (from 25 million to 9 million SMEs). Several U.S. apparel companies reportedly shifted their sourcing of cotton dress shirts from Guatemala and Honduras to Asia after the CBTPA excluded apparel of locally woven fabric from duty-free treatment under the preference program.[34]

U.S. apparel imports from Guatemala entered under the CBTPA or production-sharing provisions accounted for 49 percent of the total in 2002, compared with 77 percent for all CBERA countries, reflecting the linkage between Korean-based apparel manufacturers in Guatemala and Asian fabric producers. The Korean-based investors and some Guatemalan investors use mostly Asian yarns and fabrics, which are lower in cost than similar U.S. materials, even though such apparel is subject to full U.S. duty rates.[35] The duty savings provided by U.S. trade preferences are not sufficient to offset the cost of cheaper Asian fabric and, as a result, utilization of the preferences is continuing to decline.

In seven of the eight leading quota categories of U.S. apparel imports from CBERA countries in 2002, the average unit value (dollars per SME) was higher for Guatemala than that for all CBERA countries. Guatemala was the leading CBERA supplier of women's and girls' knit cotton blouses (category 339), even though the average unit value of its garments

[32] Mike Flanagan, "Apparel Sourcing in the 21st Century, the 10 Lessons so Far," found at *www.just-style.com*.

[33] The products covered by quotas are knit cotton tops (categories 338 and 339); cotton and manmade-fiber pants (347/348 and 647/648) and nightwear (351 and 651); and manmade-fiber dresses (636), skirts (639), and coats (635) for women and girls.

[34] Industry official, interview by USITC staff, Guatemala City, Feb. 26, 2003.

[35] U.S. Department of State telegram 1151, "Guatemala's Textile Industry Without Quotas."

was 70 percent higher than that for all CBERA countries. Guatemala was also the second-leading CBERA supplier of women's cotton pants (category 348) in 2002, although the average unit value of its goods was 14 percent higher than the CBERA average.

Table I-14
Guatemala: Statistical profile of textile and apparel sector and foreign trade, 1997-2001

Item	1997	1998	1999	2000	2001
Number of establishments:					
Textiles	([1])	([1])	([1])	([1])	[2]36
Apparel	([1])	([1])	([1])	([1])	[2]230
Trimmings and services	([1])	([1])	([1])	([1])	[2]260
Number of employees:					
Textiles	([1])	([1])	([1])	([1])	[2]18,500
Apparel	([1])	([1])	([1])	([1])	[2]104,071
Trimmings and services	([1])	([1])	([1])	([1])	[2]15,000
Installed spinning capacities:					
Short-staple spindles (*1,000*)	150.0	150.0	150.0	150.0	150.0
Long-staple spindles (*1,000*)	3.0	3.0	3.0	3.0	3.0
Open-end rotors (*1,000*)	20.0	20.0	21.0	21.0	21.0
Installed weaving capacities:					
Shuttleless looms (*number*)	820	820	890	890	890
Shuttle looms (*number*)	3,000	3,000	3,000	3,000	3,000
Foreign trade:					
Exports:					
Textiles (*million dollars*)	50.6	48.0	40.8	47.9	47.4
Apparel (*million dollars*)	1,031.5	1,216.1	1,312.0	1,580.1	1,718.1
Total (*million dollars*)	1,082.0	1,264.1	1,352.8	1,628.0	1,765.6
Imports:					
Textiles (*million dollars*)	376.3	449.7	551.8	702.7	780.5
Apparel (*million dollars*)	307.3	316.2	234.9	266.2	173.4
Total (*million dollars*)	683.5	765.9	786.6	968.9	953.9
Trade balance:					
Textiles (*million dollars*)	-325.7	-401.7	-511.0	-654.8	-733.1
Apparel (*million dollars*)	724.2	899.8	1,077.1	1,313.9	1,544.8
Total (*million dollars*)	398.5	498.2	566.1	659.1	811.7

[1] Not available.
[2] Data are for 2002.

Note.—Because of rounding, figures may not add to totals shown.

Source: Industry data are from Vestex; the International Textiles Manufacturers Federation (Zurich), *International Textile Machinery Shipment Statistics*, vol. 25/2002 and selected back issues; and trade data are United Nations data as reported by Guatemala's trading partners.

Table I-15
Guatemala: Exports of textiles and apparel, by selected markets, 1997-2001

Item and market	1997	1998	1999	2000	2001
	Million dollars				
Textiles (SITC 65):					
Quota markets:					
United States	16	13	13	14	14
European Union	1	1	1	1	1
Canada	([1])	([1])	([1])	([1])	([1])
Subtotal	16	14	14	15	15
All other:					
El Salvador	12	12	11	13	11
Mexico	6	6	4	7	10
Costa Rica	8	7	5	6	5
Other	8	8	7	7	6
Subtotal	34	34	27	33	33
Grand total	51	48	41	48	47
Apparel (SITC 84):					
Quota markets:					
United States	1,002	1,184	1,280	1,545	1,676
European Union	2	2	3	3	3
Canada	8	8	7	7	12
Subtotal	1,012	1,194	1,290	1,554	1,692
All other	20	22	22	26	26
Grand total	1,031	1,216	1,312	1,580	1,718
Textiles and apparel:					
Quota markets:					
United States	1,017	1,197	1,293	1,558	1,690
European Union	3	3	3	4	4
Canada	8	8	7	7	13
Subtotal	1,028	1,208	1,304	1,569	1,707
All other	54	56	49	59	59
Grand total	1,082	1,264	1,353	1,628	1,766
	Percent				
Share of exports going to quota markets:					
Textiles	32	30	33	31	31
Apparel	98	98	98	98	98
Average	95	96	96	96	97

[1] Less than $500,000.

Note.—Because of rounding, figures may not add to totals shown.

Source: Compiled from United Nations data.

Table I-16
Textiles and apparel: U.S. general imports from Guatemala, by specified product categories,[1] 1997-2002

Cat. No.	Description	1997	1998	1999	2000	2001	2002
		1,000 square meters equivalent					
0	Textiles and apparel, total	252,530	301,720	332,990	389,719	425,841	451,900
1	Apparel	237,120	280,454	305,030	359,769	388,103	415,362
2	Textiles	15,410	21,266	27,960	29,949	37,738	36,537
30	Cotton textiles and apparel	141,259	166,495	190,498	207,772	226,120	266,080
60	Manmade-fiber textiles and apparel	94,421	116,301	130,782	169,517	188,021	176,434
222	Knit fabric	4,722	2,813	2,286	764	819	478
239	Babies' apparel	9,358	14,264	14,947	16,111	16,726	9,032
331	Cotton gloves	3,740	3,125	2,913	1,829	2,076	731
336	Cotton dresses	4,861	3,795	7,939	5,829	4,200	5,333
338	Cotton knit shirts, men/boys	13,088	17,942	17,146	22,511	25,094	31,007
339	Cotton knit shirts, women/girls	6,484	15,491	33,275	52,654	68,492	84,419
340	Cotton not knit shirts, men/boys	25,012	25,946	22,498	20,107	14,171	8,675
341	Cotton not knit blouses	2,333	2,387	2,935	3,467	3,875	3,169
342	Cotton skirts	2,479	1,593	2,069	1,953	3,297	3,986
347	Cotton trousers, men/boys	25,398	22,526	24,249	20,146	24,311	28,673
348	Cotton trousers, women/girls	20,590	25,657	26,365	30,556	31,252	41,707
350	Cotton robes	1,763	2,789	5,289	3,612	3,233	4,703
351	Cotton nightwear	7,369	12,695	12,963	13,686	13,551	18,042
352	Cotton underwear	7,818	11,893	10,721	8,238	6,709	8,367
435	Wool coats, women/girls	12,759	12,839	6,768	7,186	6,866	5,200
634	Other manmade coats, men/boys	7,934	7,217	3,100	2,358	2,127	2,951
635	Manmade-fiber coats, women/girls	15,566	16,227	14,697	24,592	25,206	14,973
636	Manmade-fiber dresses	14,991	16,161	22,524	27,674	24,256	21,474
638	Manmade knit shirts, men/boys	3,919	3,291	4,123	3,265	4,484	5,927
639	Manmade knit shirts, women/girls	2,326	1,845	4,909	11,834	10,377	13,146
640	Manmade not knit shirts, men/boys	1,543	3,248	2,892	3,865	3,243	2,108
641	Manmade-fiber not knit blouses	4,092	6,019	5,375	7,285	7,971	6,403
642	Manmade-fiber skirts	6,259	8,547	11,730	13,119	12,007	10,609
647	Manmade-fiber trousers, men/boys	3,410	3,831	3,236	7,107	9,445	10,341
648	Manmade-fiber trousers, women/girls	5,849	9,078	12,907	22,386	30,093	29,677
650	Manmade-fiber robes	2,165	3,150	2,196	712	259	1,124
651	Manmade-fiber nightwear	2,491	3,897	5,797	2,772	3,699	11,072
652	Manmade-fiber underwear	4,472	2,980	3,068	2,815	4,341	4,120
659	Other manmade-fiber apparel	4,635	5,538	5,600	8,191	8,574	7,383
669	Other manmade-fiber manufactures	6,249	13,422	16,054	19,197	29,232	25,160

[1] To administer the U.S. textiles and apparel quota programs, articles are grouped under 3-digit category numbers, which cover many 10-digit statistical reporting numbers under which goods are classified for statistical purposes in the Harmonized Tariff Schedule of the United States (HTS). The 1-digit and 2-digit numbers represent specific levels of import aggregation for articles covered by the quota program (e.g., the number “1" represents total imports of apparel, while “31" represents total imports of cotton apparel).

Source: Compiled from official statistics of the U.S. Department of Commerce, found at *http://otexa.ita.doc.gov.*

Haiti[1]

Overview

The apparel industry in Haiti is the country's largest single source of jobs and export earnings, and it relies almost entirely on the United States as a market for its output. The apparel share of total Haitian exports in 2001 was 83 percent, or $245 million. The Haitian apparel industry employed about 27,000 workers in early 2002, down from 60,000 in 1986, but up from 17,000 in 1997.[2] The Haitian unemployment rate currently is 50 percent.[3]

Haiti has an abundance of unskilled labor, but an effective adult illiteracy rate of at least 50 percent.[4] Haiti's wage rates are the lowest of the CBERA exporting countries at $0.49 per hour (including social benefits), compared with almost $1.50 in Guatemala and Honduras and $1.65 in the Dominican Republic.[5] Nevertheless, the growth of Haiti's apparel industry is constrained by the country's underdeveloped infrastructure; high utility, shipping, and warehousing costs; shortage of qualified managerial personnel; high cost and low quality of local inputs; and political instability.[6] Legislation introduced in the U.S. Congress (H.R. 1031 and S. 489) would expand trade preferences for Haiti by extending duty-free treatment to apparel made in Haiti from yarns and fabrics produced in countries in the Caribbean Basin, Andean region, or sub-Saharan Africa that are beneficiaries of U.S. textile and apparel trade preferences, or in countries with which the United States has a free-trade agreement (e.g., Mexico).[7]

Industry Profile

The political instability following the fall of the Duvalier regime in 1986, when employment in the Haitian apparel industry totaled 60,000 workers, prompted U.S. contractors to move operations to other countries.[8] Apparel employment declined to about 5,000 in 1993, reflecting difficulties occasioned by the U.S. embargo of 1991-94. Following the end of the embargo and the return of democratic government in 1994, apparel employment rebounded to 17,000 jobs in 1997. Notwithstanding the economic slowdown in Haiti since late 1999,

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[1] Prepared by Josephine Spalding, Office of Industries.

[2] U.S. Department of State telegram 404, "Haiti's Apparel Industry Sector: U.S. Industry Takes Another Look," prepared by U.S. Embassy, Port-au-Prince, Feb. 21, 2002.

[3] Found at *http://www.usaid.gov/country/country/lac/ht,* retrieved Feb. 21, 2003.

[4] U.S. Department of State telegram 1730, "Haiti: 2002 Investment Climate Statement," prepared by U.S. Embassy, Port-au-Prince, July 23, 2002, para. 63.

[5] Jassin-O'Rourke Group, "Global Competitiveness Report: Selling to Full Package Providers," (New York, NY), Nov. 2002.

[6] Found at *http://www.state.gov*, retrieved Oct. 22, 2002.

[7] The legislation was introduced on Feb. 27, 2003, and is under consideration in the House Subcommittee on Trade and the Senate Committee on Finance.

[8] Information in the paragraph is from U.S. Department of State telegram 404, "Haiti's Apparel Industry Sector."

apparel employment has remained fairly steady, fluctuating between 25,000 and 27,000 workers.

The Haitian apparel industry assembles low-cost basic products such as T-shirts from imported fabrics, mainly from the United States. Contract apparel operations accounted for about 70 percent of employment in Haiti's assembly sector in 1997.[9] The Haitian industry also assembles apparel for firms based in Asia (mainly China and the Philippines) for export to the United States. This assembly trade likely will decline in importance for Haiti following elimination of quotas in 2005.

The Dominican Republic has established a number of apparel assembly firms along its border with Haiti.[10] It is likely that a number of these firms will establish full package apparel production. Higher wage rates in the Dominican Republic have made their apparel production less competitive in world markets. In exchange for access to lower cost labor in Haiti, the Dominican Republic provides investment and production expertise.

Most Haitian assembly firms are captive suppliers to one U.S. firm. U.S. firms only contract for apparel assembly and do not provide financing for Haitian assembly operations. The back-to-back financing that is currently available to Haitian apparel assemblers, is offered by Haitian banks. Financing is dependent on the apparel assembler securing a contract with a U.S. apparel producer. Once the Haitian apparel assembler has a contract with a U.S. client they can use the contract to get a loan from a bank. Haitian apparel assemblers use these loans to pay for their labor and any additional raw materials.[11]

Foreign Trade

Haiti's foreign trade (imports plus exports) in textiles and apparel, which is accounted for almost entirely by the United States, grew by 71 percent during 1997-2000 to $470 million, and then fell by 11 percent in 2001 to $419 million (table I-17). The Haitian trade surplus in sector goods fluctuated widely during 1997-2001, rising from $44 million in 1997 to $122 million in 1999, and then falling to slightly less than $85 million in 2001. During 1997-2001, Haitian imports of sector goods peaked at $277 million in 1999, before declining to $252 million in 2001, while Haitian sector exports peaked at $195 million in 2000, and then decreased to $167 million in 2001. The imports consisted of apparel inputs, while the exports consisted almost entirely of finished garments.

Haiti's apparel exports are shipped almost entirely to the United States (table I-18). Based on official U.S. statistics, U.S. imports of textiles and apparel from Haiti rose by 63 percent during 1997-99 to a high of 127 million square meters equivalent (SMEs), and then fell to 109 million SMEs, valued at $217 million, in 2002 (table I-19). The imports in 2002 consisted almost entirely of cotton apparel (67 million SMEs) and manmade-fiber apparel

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[9] U.S. and Foreign Commercial Service, "Assembly Sector Textile and Apparel - Haiti," Market Research Reports, found at *http://www.stat-usa.gov/mrd.nsf/vw...penDocument&sessID=F09E11D213A2C52*, retrieved Nov. 13, 2002.

[10] Jeannette Dominguez, Executive Director, Dominican Council of Export Free Zone, transcript of hearing, Jan. 22, 2002, p. 29.

[11] U.S. and Foreign Commercial Service, "Assembly Sector Textile and Apparel - Haiti."

(41 million SMEs). The Haitian shipments were concentrated in basic garments for which major suppliers are highly constrained by quotas–namely, knit tops (e.g., T-shirts), underwear and other intimate apparel, pants and shorts, and nightwear. These basic garments are characterized by long and standardized production runs, low labor content, and few styling changes.

Table I-17
Haiti: Statistical profile of textile and apparel sector and foreign trade, 1997-2001

Item	1997	1998	1999	2000	2001
Number of apparel workers	17,000	([1])	([1])	([1])	27,000
Foreign trade:					
Exports:					
Textiles (*million dollars*)	4.8	4.0	8.1	6.1	7.2
Apparel (*million dollars*)	154.7	236.0	269.0	269.2	244.6
Total (*million dollars*)	159.5	240.0	277.1	275.3	251.8
Imports:					
Textiles (*million dollars*)	21.3	32.7	30.6	36.4	44.7
Apparel (*million dollars*)	94.6	109.5	124.9	158.2	122.3
Total (*million dollars*)	115.9	142.2	155.5	194.6	166.9
Trade balance:					
Textiles (*million dollars*)	-16.6	-28.7	-22.5	-30.3	-37.5
Apparel (*million dollars*)	60.1	126.5	144.1	111.0	122.4
Total (*million dollars*)	43.6	97.7	121.5	80.7	84.9

[1] Not available.

Note.—Because of rounding, figures may not add to totals shown.

Source: Employment data from U.S. Department of State telegram 404, “Haiti’s Apparel Industry Sector;” trade data are United Nations data as reported by Haiti’s trading partners.

Table I-18
Haiti: Exports of textiles and apparel, by selected markets, 1997-2001

Item and market	1997	1998	1999	2000	2001
	Million dollars				
Textiles (SITC 65):					
Quota markets:					
United States	4	4	4	4	3
European Union	([1])	([1])	([1])	([1])	([1])
Canada	1	([1])	4	2	4
Subtotal	5	4	8	6	7
All other:					
Philippines	0	0	0	0	([1])
Hong Kong	0	0	([1])	0	([1])
Barbados	0	0	([1])	([1])	([1])
Other	([1])	([1])	([1])	([1])	([1])
Subtotal	([1])	([1])	([1])	([1])	([1])
Grand total	5	4	8	6	7
Apparel (SITC 84):					
Quota markets:					
United States	149	232	265	264	238
European Union	4	2	2	1	5
Canada	1	1	2	3	1
Subtotal	154	236	269	269	244
All other	([1])	([1])	([1])	([1])	1
Grand total	155	236	269	269	245
Textiles and apparel:					
Quota markets:					
United States	153	236	269	268	241
European Union	5	2	2	1	5
Canada	2	1	6	5	5
Subtotal	159	240	277	275	251
All other	([1])	([1])	([1])	([1])	1
Grand total	159	240	277	275	252
	Percent				
Share of exports going to quota markets:					
Textiles	99	98	98	97	95
Apparel	100	100	100	100	100
Average	100	100	100	100	100

[1] Less than $500,000.

Note.—Because of rounding, figures may not add to totals shown.

Source: Compiled from United Nations data.

Table I-19
Textiles and apparel: U.S. general imports from Haiti, by specified product categories,[1] 1997-2002

Cat. No.	Description	1997	1998	1999	2000	2001	2002
		1,000 square meters equivalent					
0	Textiles and apparel, total	78,228	113,415	127,350	125,011	109,099	109,285
1	Apparel	77,640	112,877	126,737	124,784	109,001	108,984
2	Textiles	587	538	613	227	97	300
30	Cotton textiles and apparel	40,958	67,701	86,925	89,032	72,416	67,193
60	Manmade-fiber textiles and apparel	37,197	45,651	40,394	35,959	36,384	41,435
239	Babies' apparel	2,694	4,211	2,696	1,142	612	745
338	Cotton knit shirts, men/boys	6,761	10,852	16,033	16,611	13,667	20,930
339	Cotton knit shirts, women/girls	930	2,423	2,949	3,680	2,695	3,071
347	Cotton trousers, men/boys	5,205	5,959	6,612	4,091	3,585	4,050
348	Cotton trousers, women/girls	3,801	5,411	5,196	7,105	9,517	6,607
350	Cotton robes	2,292	3,025	2,124	1,415	1,627	1,798
351	Cotton nightwear	2,538	2,780	308	487	872	1,235
352	Cotton underwear	14,417	31,905	49,833	53,501	38,557	26,271
638	Manmade knit shirts, men/boys	1,721	818	822	697	983	11,561
639	Manmade knit shirts, women/girls	697	946	1,521	261	1,239	3,371
640	Manmade not knit shirts, men/boys	226	126	100	327	879	1,422
641	Manmade-fiber not knit blouses	24	119	247	271	279	374
647	Manmade-fiber trousers, men/boys	3,041	1,400	1,245	1,352	1,806	1,715
648	Manmade-fiber trousers, women/girls	482	547	1,207	780	1,031	2,805
649	Manmade-fiber brassieres	1,425	3,809	2,998	2,584	2,432	2,320
650	Manmade-fiber robes	3,139	3,634	1,795	3,410	3,475	766
651	Manmade-fiber nightwear	16,045	24,437	24,154	21,126	17,969	8,452
652	Manmade-fiber underwear	7,586	6,787	4,433	2,007	3,341	2,867
659	Other manmade-fiber apparel	1,038	605	689	1,708	1,764	3,275

[1] To administer the U.S. textiles and apparel quota programs, articles are grouped under 3-digit category numbers, which cover many 10-digit statistical reporting numbers under which goods are classified for statistical purposes in the Harmonized Tariff Schedule of the United States (HTS). The 1-digit and 2-digit numbers represent specific levels of import aggregation for articles covered by the quota program (e.g., the number “1" represents total imports of apparel, while “31" represents total imports of cotton apparel).

Source: Compiled from official statistics of the U.S. Department of Commerce, found at *http://otexa.ita.doc.gov.*

Honduras[1]

Overview

The textile and apparel sector is Honduras' largest source of export earnings and employment, accounting for one-half ($2.6 billion) of total exports in 2001 and 26 percent (107,000 workers) of the workforce in 2002.[2] Honduras was the third-largest volume supplier of U.S. apparel imports in 2002 (after Mexico and China), having benefited from quota-free access and U.S. trade programs that encouraged U.S. apparel firms to use production-sharing operations in the CBERA region. Honduras also benefits from an abundance of low-cost labor, a productive workforce, and proximity to its export market. However, dependence on the United States as a market for its sector goods makes Honduras vulnerable to changes in U.S. economic activity, as occurred in 2001 and 2002 when there was a marked slowdown in U.S. consumer spending on apparel.

Industry Profile

The Honduran textile and apparel sector traditionally processed U.S. materials into apparel for export to the United States. U.S. apparel firms shipped cut garment parts to Honduras for assembly and imported the finished garments at reduced duties under HTS heading 9802.00.80 (see "overview" at the beginning of this appendix for information on U.S. production-sharing tariff provisions). The pattern of U.S. production-sharing activity in Honduras has begun to change since implementation of the CBTPA in October 2000. U.S. firms now ship uncut U.S. fabrics to Honduras for cutting and assembly into qualifying garments. Moreover, as a result of the CBTPA provision that grants duty-free and quota-free access to the U.S. market for specified quantities of garments made in CBERA countries from "regional knit fabrics," investors have established or expanded knitting operations in Honduras to make outerwear T-shirts, underwear, and other knitwear for export to the United States. A few Honduran firms now offer "full package" knitwear programs, in which the firms knit, dye, and finish, the fabrics, cut and sew the fabrics, and package the finished garments for sale at retail. Honduras purchased a total of 367 large circular knitting machines during 1995-2002; in 2002 alone, it purchased 98 machines.[3]

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[1] Prepared by Diane Manifold, Office of Economics.

[2] Mario Canahuati, Embassy of Honduras, written submission to the Commission, Feb. 4, 2003, p. 1.

[3] International Textile Manufacturers Federation, *International Textile Machinery Shipment Statistics*, vol. 25/2002, pp. 44-45.

Industry structure and performance

The Honduran textile and apparel sector has expanded significantly in recent years. Employment in the sector grew from 50,000 workers in 1994 to 125,000 in 2000, and then fell to 110,000 in 2001 (table I-20, found at the end of this country profile), when 36 maquiladora plants closed as a result of weakness in its export market.[4] According to Honduran sources, the decline in apparel employment in 2001 was also attributable to investments by more efficient producers in Honduras and decreased availability of fabrics from the United States.[5] Although several of the maquiladoras continued to downsize in 2002, leading to a reduction in employment to 107,000 workers, 20 new apparel companies registered that year, creating 3,000 jobs. Industry production in 2002 grew 7 percent by quantity and 3 percent by value to $2.4 billion.[6]

The Foundation of Investment and the Promotion of Exports (FIDE) has projected employment in the textile and apparel sector to reach 146,000 workers in 2005.[7] However, Honduras reportedly has an inflexible and increasingly expensive labor market, and its textile and apparel sector has difficulty obtaining credit. Larger maquiladora firms that have access to U.S. credit are better equipped to cope with the economic contraction while smaller and medium-size companies have had difficulties meeting payroll and inventory needs.[8]

A 1998 law made all of Honduras a free-trade zone. Virtually all companies in the textile and apparel sector are registered as export processing zones (EPZs)[9] and are near the deepwater port of Puerto Cortes, the closest major port to Miami in Central America.[10] Shipping times from the port to major southern U.S. ports are approximately 48 hours. Other ports in

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[4] U.S. Department of State telegram.

[5] A representative of a textile manufacturer in Honduras, in an interview with USITC staff in San Pedro Sula, Honduras, Feb. 21, 2003, attributed much of the reduction in plants and employment in 2001 to the closure of relatively small and fiscally weak apparel plants that could not compete with the scale and productivity levels of the large-scale apparel plants recently established in the country by foreign investors. Another Honduran source stated that some Honduran apparel producers reportedly went out of business in 2001 because of the reduced availability of U.S. fabrics as a result of the failure of several U.S. textile firms, leading customers of the Honduran companies to switch to Asian suppliers. Jesus Canahuati, "Message from the President," in Honduran Apparel Manufacturers Association, *2002 Annual Report*.

[6] Henry Fransen, "Message from the Executive Director," in Honduran Apparel Manufacturers Association, *2002 Annual Report*.

[7] FIDE, *Destination Honduras 2003*, p. 117. Similarly, the Honduran Apparel Manufacturers Association projects employment in the sector to reach 130,000 in 2004 and 143,000 in 2005, (Mario Canahuati, Embassy of Honduras, written submission to the Commission, Feb. 4, 2003, p. 2). Another industry source predicted that the apparel workforce in Honduras would plateau at 110,000 until 2005, then lose 20,000 to 30,000 jobs following quota elimination in 2005 (representative of a U.S. textile mill and Honduran apparel company, interview by USITC staff, San Pedro Sula, Feb. 21, 2003).

[8] U.S. Department of State telegram 1391, "Honduras Maquila Update--Prospects for the Textile Industry after Quotas," prepared by U.S. Embassy, Tegucigalpa, May 7, 2002.

[9] "Honduran Apparel Manufacturing Industry," *Destination Honduras 2002*.

[10] Following damage by Hurricane Mitch in 1998, Texaco Caribbean invested $10.1 million in a pier and dredging project in Puerto Cortes, which deepened the main ship channel so that 80 metric ton vessels can easily get into port. U.S. Department of State telegram 3364, "Honduran Economic Highlights - August," prepared by U.S. Embassy, Tegucigalpa, Oct. 4, 2000.

Honduras that handle ocean-going freight are Puerto Castillo on the Caribbean and San Lorenzo on the Pacific. Honduras has international airports serving Tegucigalpa and the commercial center of San Pedro Sula, which has a modern international airport that can handle 32,000 metric tons of cargo and 510,000 passengers per year.[11]

According to a World Bank report, factors that could inhibit further development of the Honduran textile and apparel sector include infrastructure problems (e.g., in 1999, only 20 percent of the roads were paved and there were only 44 telephone mainlines per 1,000 people).[12] However, most of the 24 industrial parks in Honduras are within a 1-hour drive of Puerto Cortes.[13] Further, Honduras has 13,603 kilometers of roads connecting the ports and airports with secondary cities and rural areas of the country. There are good surface connections with the rest of Central America, and the domestic roads generally satisfy local and foreign companies' distribution needs. Apparel producers in Honduras have an advantage over those in Nicaragua and El Salvador in terms of quick response and transportation costs. Most apparel produced in Nicaragua is transported by truck to Puerto Cortes, then shipped to the United States,[14] while most apparel produced in El Salvador is transported by truck to either Puerto Cortes or to Santo Tomas de Castillo in Guatemala.[15]

Factors of production

As noted above, the apparel industry relies heavily on imports for its input requirements, particularly from the United States. A few local firms produce for both the local and export markets, especially in Central America. Honduras, along with Nicaragua, grows the most cotton in the CBERA region, but Honduran cotton is characterized by short fibers, which limits its uses.[16]

Honduras has an abundant supply of low-cost labor, and its workers are considered among the most productive in the CBERA region. However, labor costs reportedly are rising. Maquiladora owners have expressed concern about the rising minimum wage, the implementation of bonus salary payments in June and December, high severance payment requirements, and a government-mandated increase in employer social security contributions in 2001.[17] The textile and apparel sector offers the highest daily minimum wage in Honduras, with the average maquiladora worker earning between double and triple the minimum

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[11] U.S. and Foreign Commercial Service, "Honduras Country Commercial Guide FY 2002," found at *http://www.usatrade.gov/Website/CC...rl/CCG-HONDURAS2002-CH-1:-00634E1B*, retrieved Oct. 8, 2002.

[12] The World Bank, International Finance Corporation, "Country Page for Honduras," found at *http://wbln0018.worldbank.org/ifce...BD3C2852567DA006F7330?Open Document*, retrieved Oct. 8, 2002.

[13] Foundation for Investment and Growth of Exports, *Destination Honduras 2003*, p. 120.

[14] It takes 1 day to truck apparel from assembly plants in Managua, Nicaragua, to Puerto Cortes. Representative of a Honduran textiles manufacturer, interview by USITC staff, Feb. 21, 2003.

[15] The newer port at Santo Tomas is supplanting the older facilities at nearby Puerto Barrios.

[16] U.S. and Foreign Commercial Service, "Honduras: Industry Sector Analysis, Textile Machinery and Fabrics."

[17] U.S. Department of State telegram 139, "Honduras Maquila Update - Prospects for the Textile Industry After Quotas," prepared by U.S. Embassy, Tegucigalpa, May 7, 2002.

wage.[18] In addition, workers are offered a variety of social services such as subsidized transportation and meals and free legal and medical services in the maquiladoras.[19] The average salary of maquiladora workers was $3,718 in 2002, compared with the average per capita income in Honduras of $850 that year.[20] Nonetheless, the maquiladoras had experienced a series of conflicts between labor and management of non-U.S. firms over such issues as the right of workers to establish unions and the inclusion of unions in the decision-making process.[21]

The national electrical grid in Honduras is heavily dependent on hydroelectric sources of energy. Low reservoir capacities and growing demand for electricity have resulted in frequent power outages and rolling brownouts. To ensure a stable supply of electricity, many industrial parks and textile mills have built their own power plants which use relatively expensive bunker fuel, driving up costs of production in the textile and apparel sector.[22]

Investment

The cumulative investment position in the Honduran textile and apparel sector in 2001 totaled $1.4 billion, of which $751 million was foreign direct investment (FDI) and $670 million was local investment. The United States was the major foreign investor, accounting for 26 percent ($370 million) of the 2001 FDI total, followed by Korea with 10 percent ($146 million). Honduras has attracted FDI to its 24 industrial parks during the past 10 years because of its low labor costs, proximity to its export market, modern infrastructure, and various financial incentives.[23] The industrial parks typically employ more than 5,000 workers each and provide a wide range of services to tenants, which must grant workers all benefits established in Honduran labor legislation.[24]

Honduras permits remittance of dividends and repatriation of capital and grants foreign investors unfettered access to local credit markets. Foreign investors are granted a permanent waiver from income, sales, and corporate taxes and fees.[25] Nonetheless, there have been numerous cases involving possible expropriation claims by U.S. citizens. Dispute resolution within the legal system is reportedly slow and generally unsatisfactory.[26]

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[18] U.S. Department of State telegram 3351, "The State of Honduran Maquila Sector in 1999," prepared by U.S. Embassy, Tegucigalpa, Sept. 28, 1999.

[19] Ibid.

[20] Mario Canahuati, written submission to the Commission, p. 2.

[21] U.S. Department of State telegram 3351, "The State of Honduran Maquila Sector in 1999."

[22] Representative of a Honduran textile manufacturer, interview by USITC staff, Naco, Honduras, Feb. 21, 2003.

[23] "Honduras Losing Shares on U.S. Apparel Market," Emerging Textiles, found at *http://www.emergingtextiles.com*, retrieved on June 5, 2002.

[24] U.S. and Foreign Commercial Service, "Honduras: Industry Sector Analysis, Textile Machinery and Fabrics."

[25] "Honduras Industrial Parks," *Destination Honduras 2002*.

[26] U.S. and Foreign Commercial Service, "Honduras Country Commercial Guide FY2002," found at *http://www.usatrade.gov/Website/CC...rlCCG-HONDURAS2002-CH-1:-00634E1B*, retrieved Oct. 8, 2002.

Many foreign firms have established facilities in Honduras. At the end of 2002, members of the Honduran Apparel Manufacturers Association included 157 apparel producers, 9 textile mills, and numerous suppliers of equipment, components, and services to the industry. Apparel producers employed 90,000 workers and textile mills, an estimated 4,500. U.S.-owned companies accounted for 54 percent of the apparel industry workforce; Korea, 17 percent; Honduras, 15 percent; Canada, 5 percent; and other Asian sources, 10 percent.[27] The largest textile mill in Honduras is a U.S.-Honduran joint venture.

In addition to the significant role played by Korean investors, a number of other Asian firms also make apparel in Honduras. The Shanghai Textile Holding Group established a company in Honduras to process suiting materials from China into finished goods for export to North America; it plans to open research and development centers in the United States, processing centers in Honduras to improve products, and retail chain stores to sell its products.[28] Companies based in Canada, Korea, and Taiwan have also built textile mills in Honduras, enhancing efforts by apparel producers in Honduras to become full package suppliers. In October 2002, the China Institute of Taiwan and the Honduran Apparel Manufacturers' Association signed a cooperation agreement to set up a textile research institute in Honduras.[29]

In terms of outward investment, Karims Group of Honduras, which operates seven apparel plants in Honduras, recently purchased U.S.-based Quitman Knitting Mills of Quitman, MS, which has knitting, dyeing, and finishing facilities for knitted goods and a capacity of 175,000 pounds weekly. According to an official of Karims Group, "(t)he Quitman acquisition means we are now a vertical business and will be able to offer more competitive pricing and quicker turnaround to our current customers."[30] Karims will now be able to offer full package service to its uniform and private label customers.

Government Policies

The growth of the textile and apparel sector began in the mid-1980s following implementation of U.S. trade preferences for CBERA countries and Honduran incentives to attract FDI, including establishment of the EPZ program in 1987. Honduran industry officials interviewed by Commission staff stated that the key to survival of the apparel industry in Honduras following quota elimination in 2005 is for enactment of the U.S. free-trade agreement being negotiated with the five Central American countries (CAFTA), which is discussed in the "overview" at the beginning of this appendix.

Honduras offers foreign investors exemption from all export taxes, local sales, and excise taxes, and taxes on profits and profit repatriation, and permits unrestricted capital

[27] Honduran Apparel Manufacturers Association, *Directory 2002-2003*.
[28] "A Base in Honduras," *Textile Asia*, Feb. 2001, p. 55.
[29] "A Hand to Honduras," *Textile Asia*, Oct. 2002, p. 78.
[30] "American Markets," *Textile Asia*, May 2002, p. 86.

repatriation and currency conversion.[31] Other incentives include the 1984 Temporary Import Regime (RIT), which permitted firms to import inputs free of duty, provided the final products were exported out of Central America. In 1997, the Government amended the RIT to allow firms to export to other Central American countries and also granted companies a 10-year income tax holiday. In 1998, the Government expanded the FTZ area and its benefits to include the entire country. As a result of these incentives, the maquiladora sector grew to become the third-most important economic sector in 1977 after coffee and bananas.[32]

Honduras has had limited success in diversifying its manufacturing base from textile and apparel production into other export sectors. Honduras has created a Competitiveness Council to address investment climate issues and improve economic diversification, as well as deal with such issues as strengthening the judicial system and resolving land tenancy problems. Although Honduras has few FDI restrictions and performance requirements,[33] the challenge to improve the investment climate is significant. Some examples of problems are the need to strengthen the banking system and contend with high interest, short-term loans. In addition, the judicial system reportedly continues to be weak, and it is difficult to enforce contracts. Land disputes, land tenancy, and agrarian reform reportedly have discouraged investment.

Foreign Trade

Honduras' trade surplus in textiles and apparel rose from $603 million in 1997 to $879 million in 2001, reflecting increases of 45 percent in both imports, to $1.7 billion, and exports, to $2.6 billion (table I-20, found at the end of this country profile). The United States is Honduras' major trading partner, accounting for most of the imports (apparel inputs) and for almost all of the exports (table I-21). The United States supplies most of the cotton fabrics and almost all of the cotton yarn used by the Honduran textile and apparel sector, while Korea, Taiwan, and China primarily provide manmade-fiber woven fabrics.

U.S. imports of textiles and apparel from Honduras rose by 49 percent during 1997-2002 to 1.1 billion square meters equivalent (SMEs) valued at $2.4 billion (table I-22). The imports consisted almost entirely of apparel, for which Honduras was the third-largest source in 2002 after Mexico and China. The Honduran shipments are concentrated in basic garments, particularly knit tops (e.g., T-shirts) and underwear, which together accounted for 72 percent of the total quantity of U.S. sector imports from Honduras in 2002. U.S. imports of such garments from other major foreign suppliers are highly constrained by quotas. Honduras is the largest, or among the largest, foreign suppliers of men's and women's knit tops and underwear of cotton and manmade fibers. Quick turnaround times are an important competitive advantage of Honduras.

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[31] U.S. Department of State telegram 3351, "The State of the Honduran Maquila Sector in 1999."

[32] Ibid.

[33] U.S. Department of State telegram 2684, "Honduras 2003 Country Commercial Guide," prepared by U.S. Embassy, Tegucigalpa, Sept. 24, 2002.

Table I-20
Honduras: Statistical profile of textile and apparel sector and foreign trade, 1997-2001

Item	1997	1998	1999	2000	2001
Number of textile and apparel workers (*1,000*)	87	110	120	125	110
Installed spinning capacities:					
Short-staple spindles (*1,000*)	([1])	([1])	([1])	([1])	([1])
Long-staple spindles (*1,000*)	([1])	([1])	([1])	([1])	([1])
Open-end rotors (*1,000*)	([1])	([1])	([1])	([1])	([1])
Installed weaving capacities:					
Shuttleless looms (*number*)	([1])	([1])	([1])	([1])	([1])
Shuttle looms (*number*)	([1])	([1])	([1])	([1])	([1])
Cumulative investment (*million dollars*)	([1])	([1])	([1])	([1])	1,421.5
Local investment	([1])	([1])	([1])	([1])	670.1
United States	([1])	([1])	([1])	([1])	370.2
Korea	([1])	([1])	([1])	([1])	145.5
Foreign trade:					
Exports:					
Textiles (*million dollars*)	12.9	14.6	14.8	13.3	12.3
Apparel (*million dollars*)	1,755.9	1,987.3	2,288.6	2,525.4	2,558.7
Total (*million dollars*)	1,768.8	2,001.9	2,303.4	2,538.7	2,571.0
Imports:					
Textiles (*million dollars*)	352.0	382.4	399.3	512.8	642.3
Apparel (*million dollars*)	814.1	1,029.4	1,105.4	1,320.5	1,049.7
Total (*million dollars*)	1,166.1	1,411.8	1,504.7	1,833.2	1,692.0
Trade balance:					
Textiles (*million dollars*)	-339.1	-367.7	-384.5	-499.4	-630.0
Apparel (*million dollars*)	941.8	957.8	1,183.2	1,204.9	1,509.1
Total (*million dollars*)	602.7	590.1	798.7	705.5	879.1

[1] Not available.

Note.—Because of rounding, figures may not add to totals shown.

Source: Industry data from Honduran Maquila Association; the International Textiles Manufacturers Federation (Zurich), *International Textile Machinery Shipment Statistics*, vol. 25/2002 and selected back issues; trade data are United Nations data as reported by Honduras' trading partners.

Table I-21
Honduras: Exports of textiles and apparel, by selected markets, 1997-2001

Item and market	1997	1998	1999	2000	2001
	Million dollars				
Textiles (SITC 65):					
Quota markets:					
United States	6	5	7	6	4
European Union	([1])	1	([1])	([1])	([1])
Canada	([1])	([1])	([1])	([1])	1
Subtotal	6	6	7	6	5
All other:					
El Salvador	2	2	1	2	3
Costa Rica	2	2	2	1	2
Guatemala	1	1	1	1	1
Other	3	4	4	3	2
Subtotal	7	9	8	7	8
Grand total	13	15	15	13	12
Apparel (SITC 84):					
Quota markets:					
United States	1,726	1,945	2,243	2,463	2,486
European Union	3	4	4	20	16
Canada	16	24	26	24	34
Subtotal	1,745	1,973	2,274	2,507	2,536
All other	11	14	15	18	22
Grand total	1,756	1,987	2,289	2,525	2,559
Textiles and apparel:					
Quota markets:					
United States	1,731	1,950	2,250	2,470	2,490
European Union	3	5	5	20	16
Canada	16	24	27	24	35
Subtotal	1,751	1,979	2,281	2,514	2,541
All other	18	23	22	25	30
Grand total	1,769	2,002	2,303	2,539	2,571
	Percent				
Share of exports going to quota markets:					
Textiles	45	40	46	48	38
Apparel	99	99	99	99	99
Average	99	99	99	99	99

[1] Less than $500,000.

Note.—Because of rounding, figures may not add to totals shown.

Source: Compiled from United Nations data.

Table I-22
Textiles and apparel: U.S. general imports from Honduras, by specified product categories,[1] 1997-2002

Cat. No.	Description	1997	1998	1999	2000	2001	2002
		1,000 square meters equivalent					
0	Textiles and apparel, total	735,175	808,461	958,257	1,045,195	1,032,289	1,098,852
1	Apparel	725,982	798,962	942,795	1,028,084	1,020,661	1,090,189
30	Cotton textiles and apparel	517,536	580,865	682,679	744,782	727,807	786,747
60	Manmade-fiber textiles and apparel	215,767	225,624	275,188	299,925	303,439	311,149
239	Babies' apparel	11,857	19,016	18,397	19,704	18,677	16,971
332	Cotton hosiery	469	1,017	3,031	8,577	11,012	26,369
338	Cotton knit shirts, men/boys	57,460	96,099	127,772	145,463	147,954	167,928
339	Cotton knit shirts, women/girls	31,940	32,102	37,924	71,089	90,843	93,103
340	Cotton not knit shirts, men/boys	25,797	30,278	31,988	30,522	21,589	15,291
341	Cotton not knit blouses	712	1,348	990	816	1,609	2,639
347	Cotton trousers, men/boys	36,872	36,899	40,882	43,530	41,876	33,925
348	Cotton trousers, women/girls	43,931	44,375	34,261	37,450	40,450	36,171
349	Cotton brassieres	2,690	1,899	1,582	861	882	2,035
350	Cotton robes	3,973	2,253	3,116	1,390	5,849	7,993
351	Cotton nightwear	6,389	9,490	12,097	29,598	28,768	29,190
352	Cotton underwear	282,907	297,011	358,256	346,950	306,512	340,607
634	Other manmade coats, men/boys	581	542	3,542	3,759	2,907	4,966
635	Manmade-fiber coats, women/girls	3,267	2,462	2,288	2,003	1,968	3,068
636	Manmade-fiber dresses	3,144	1,509	3,282	2,033	1,760	311
638	Manmade knit shirts, men/boys	78,227	81,302	106,060	123,476	102,278	123,155
639	Manmade knit shirts, women/girls	5,473	7,654	8,717	21,133	42,713	17,148
640	Manmade not knit shirts, men/boys	14,351	12,373	12,407	15,272	16,540	17,636
641	Manmade-fiber not knit blouses	1,592	1,962	1,643	1,387	1,552	2,045
642	Manmade-fiber skirts	1,859	1,319	2,255	2,674	1,412	307
647	Manmade-fiber trousers, men/boys	11,819	8,995	10,190	11,762	12,709	12,358
648	Manmade-fiber trousers, women/girls	8,506	5,959	5,348	6,252	8,196	15,500
649	Manmade-fiber brassieres	10,583	12,809	14,685	13,752	12,651	16,628
650	Manmade-fiber robes	3,093	2,300	3,093	2,549	1,362	3,372
651	Manmade-fiber nightwear	4,418	3,645	4,562	8,691	14,867	16,204
652	Manmade-fiber underwear	48,858	57,258	68,855	49,946	54,211	52,566
659	Other manmade-fiber apparel	11,378	12,018	13,526	17,049	15,877	18,573

[1] To administer the U.S. textiles and apparel quota programs, articles are grouped under 3-digit category numbers, which cover many 10-digit statistical reporting numbers under which goods are classified for statistical purposes in the Harmonized Tariff Schedule of the United States (HTS). The 1-digit and 2-digit numbers represent specific levels of import aggregation for articles covered by the quota program (e.g., the number “1" represents total imports of apparel, while “31" represents total imports of cotton apparel).

Source: Compiled from official statistics of the U.S. Department of Commerce, found at *http://otexa.ita.doc.gov.*

Jamaica[1]

Overview

Jamaica has a small but diversified export-oriented economy, the mainstays of which are primary agricultural products, bauxite mining, and tourism. The manufacturing sector, including textiles and apparel, accounted for about 18 percent of Jamaica's gross domestic product (GDP), 34 percent of the labor force, and 18 percent of the exports.[2] The textile and apparel sector, once a key segment of Jamaica's economy, began to decline in size during the mid-1990s, with employment decreasing by nearly 50 percent from its peak in 1995 to approximately 17,000 workers (2 percent of total Jamaican employment) in 2002.[3] The decline of the sector reflected a decrease in U.S. apparel imports from Jamaica from a high of $532 million in 1995 to $125 million in 2002. The decline in U.S. trade with Jamaica largely reflected the high cost of doing business in the country as a result of high employee turnover, low productivity, inflexible labor laws, and the added costs of securing shipments to prevent drug contamination[4] and pilferage of goods.[5] Other factors contributing to the decline in Jamaica's apparel exports to the United States include a shift in trade to Mexico following implementation of NAFTA in 1994, the appreciation of the Jamaican dollar, and an underdeveloped infrastructure.[6]

Industry Profile

Jamaica's textile and apparel sector consists almost entirely of apparel firms, many of which produce underwear from U.S. inputs (see "overview" at the beginning of this appendix for information on U.S. production-sharing measures). Between 1995 and 1999, the number of apparel firms declined from 350 to 170, while employment decreased from 35,000 to 18,000

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[1] Prepared by Gail Burns, Office of Industries.

[2] GDP and employment data are for 2000, published in "Demographic Statistics 2001," Statistical Institute of Jamaica (STATIN). Export data are based on United Nations data as reported by Jamaica's trading partners (see table 1-1 in chapter 1 of this report).

[3] U.S. Department of State telegram 2641, "2000 Trade Act Report," prepared by U.S. Embassy, Kingston, Oct. 13, 2000.

[4] Jamaica is a major transit point for South American cocaine en route to the United States and the largest Caribbean producer and exporter of marijuana. U.S. Department of State, Bureau of Western Hemisphere Affairs, "Background Note: Jamaica," Mar. 2003, found at *http://www.state.gov/r/pa/ei/bgn/2032.htm*, retrieved June 23, 2003. Costs related to pilferage and drug contamination of shipments have driven up the cost of apparel production–that is, apparel firms have been assessed large fines as a result of drug traffickers hiding contraband in cargo containers. U.S. Department of State telegram 1240, "Impact of CBI Enhancement on Jamaica," prepared by U.S. Embassy, Kingston, May 24, 2000.

[5] U.S. Department of State telegram 1240, "Impact of CBI Enhancement on Jamaica," prepared by U.S. Embassy, Kingston, May 24, 2000.

[6] Ibid.

workers (table I-23, found at the end of this country profile).[7] About 90 of the plants in 1999 exported almost exclusively to the United States; the majority of these plants were foreign-owned and located in free-trade zones. The remainder sold their goods locally or to other countries in the Caribbean Basin.[8]

In response to the decline of the apparel industry in recent years, in January 2002, Jamaica announced plans to fund plant modernization in an effort to help firms move from apparel assembly to "full package" operations.[9] Full package operations add more value to the product and require manufacturers to design products, source fabrics, cut and assemble the fabrics into finished garments, and package the products for retail sale. Nevertheless, the Government of Jamaica believes that the future of the apparel industry exists with firms that mass produce basic garments, and it hopes that the CBTPA will forestall the industry's complete collapse.[10] According to industry observers in Jamaica, unless the Government adopts measures that will enable firms to reduce production costs (e.g., tax incentives and labor reforms), apparel companies in Jamaica likely will continue to relocate to lower cost countries in the region such as the Dominican Republic and Guatemala.

The textile and apparel workforce in Jamaica consists largely of females (particularly those who are heads of households) with little education and minimal qualifications for other employment. The Jamaican labor system reportedly is an added impediment to the apparel industry. Unlike workers in the service industry, apparel workers must receive extra compensation for working weekends and the income is taxed at a higher rate than standard wages.[11]

Government Policies

The Government of Jamaica encourages foreign investment by offering incentives such as remittance facilities to assist in repatriating funds to the country of origin and exemption from corporate taxes and customs duties on imports of raw materials, machinery, and equipment for 10 years under the Export Industry Encouragement Act. The Jamaican Free Zones Act permits investors to operate solely with foreign exchange in certain activities such as warehousing, manufacturing, assembling, and packaging operations. Jamaica has four active FTZs, one of which is owned by the government.[12]

Jamaica has a bilateral textile agreement with the United States that provides preferential market access for apparel assembled from U.S.-formed and -cut fabrics. Quotas, however, generally are not filled. Jamaica also has a bilateral textile agreement with Canada that governs access levels for underwear. Jamaica is a signatory to the Lomé Convention, which

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[7] U.S. Department of State telegram 989, "Jamaica's Garment Industry–The End of an Era?" prepared by U.S. Embassy, Kingston, Apr. 26, 2000, para. 2.

[8] "General Manufacturing," Jamaica Promotions Corp., found at *http://www.investjamaica.com*, retrieved Dec. 10, 2002.

[9] "Paulwell Promises Funds for Apparel Sector," *Observer Reporter*, found at *http://www.pnpjamaica.com/innewsjan24a.htm*, retrieved Nov. 15, 2002.

[10] U.S. Department of State telegram 989, "Jamaica's Garment Industry."

[11] Ibid.

[12] "General Manufacturing," Jamaica Promotions Corp.

provides for preferential treatment of Jamaican apparel exports to the European Union. In addition, Jamaica is a member of the Caribbean Common Market (CARICOM), which allows duty-free-trade for items produced in CARICOM countries.

Foreign Trade

Jamaica's trade surplus in textiles and apparel declined continuously during 1997-2001 to $91 million, reflecting declines of 49 percent in exports, to $272 million and 46 percent in imports, to $181 million (table I-23). The United States is Jamaica's major trading partner in textiles and apparel, nearly all of which involves the import of apparel inputs from the United States and the export of finished apparel to the United States. Jamaica's only other significant source of imported apparel inputs was China, whose shipments peaked at $37 million in 1999, before falling to $31 million in 2000.

The United States accounted for 70 percent of Jamaica's exports of textiles and apparel in 2001, and the European Union accounted for almost all of the remainder (table I-24). Based on official U.S. statistics, U.S. textile and apparel imports from Jamaica declined by 56 percent during 1997-2002 to 85 million square meters equivalent (table I-25). The imports are highly concentrated in underwear (87 percent of the total in 2002).

Table I-23
Jamaica: Statistical profile of textile and apparel sector and foreign trade, 1997-2001

Item	1997	1998	1999	2000	2001
Number of apparel establishments	([1])	([1])	170	([1])	170
Number of apparel workers	([1])	([1])	18,000	([1])	[2]17,000
Foreign trade:					
Exports:					
Textiles (*million dollars*)	2.6	1.3	1.0	1.1	0.5
Apparel (*million dollars*)	555.6	502.5	435.7	352.3	271.2
Total (*million dollars*)	558.1	503.9	436.7	353.4	271.8
Imports:					
Textiles (*million dollars*)	56.9	62.1	57.1	50.1	47.7
Apparel (*million dollars*)	332.9	273.9	254.4	194.7	133.1
Total (*million dollars*)	389.8	336.0	311.5	244.8	180.8
Trade balance:					
Textiles (*million dollars*)	-54.3	-60.7	-56.1	-49.0	-47.1
Apparel (*million dollars*)	222.7	228.6	181.3	157.6	138.1
Total (*million dollars*)	168.3	167.9	125.2	108.6	91.0

[1] Not available.
[2] Full-time equivalents.

Note.—Because of rounding, figures may not add to totals shown.

Source: Industry data from U.S. Department of State telegram 989, “Jamaica’s Garment Industry–The End of an Era?” prepared by U.S. Embassy, Kingston, Apr. 26, 2000. Trade data are United Nations data as reported by Jamaica’s trading partners.

Table I-24
Jamaica: Exports of textiles and apparel, by selected markets, 1997-2001

Item and market	1997	1998	1999	2000	2001
	Million dollars				
Textiles (SITC 65):					
Quota markets:					
United States	1	1	([1])	1	([1])
European Union	([1])	([1])	([1])	([1])	([1])
Canada	([1])	([1])	([1])	([1])	([1])
Subtotal	1	1	([1])	1	([1])
All other:					
Honduras	([1])	([1])	([1])	0	([1])
Venezuela	([1])	0	([1])	([1])	([1])
Moldova	0	0	0	0	([1])
Other	1	([1])	1	([1])	([1])
Subtotal	1	([1])	1	([1])	([1])
Grand total	3	1	1	1	1
Apparel (SITC 84):					
Quota markets:					
United States	480	429	349	272	190
European Union	63	59	78	75	78
Canada	5	5	2	2	2
Subtotal	547	493	429	349	270
All other	8	9	7	3	1
Grand total	556	503	436	352	271
Textiles and apparel:					
Quota markets:					
United States	481	430	350	273	190
European Union	63	59	78	75	78
Canada	5	5	2	2	2
Subtotal	548	494	430	350	270
All other	10	10	7	4	2
Grand total	558	504	437	353	272
	Percent				
Share of exports going to quota markets:					
Textiles	44	68	47	62	61
Apparel	98	98	98	99	99
Average	98	98	98	99	99

[1] Less than $500,000.

Note.—Because of rounding, figures may not add to totals shown.

Source: Compiled from United Nations data.

Table I-25
Textiles and apparel: U.S. general imports from Jamaica, by specified product categories,[1] 1997-2002

Cat. No.	Description	1997	1998	1999	2000	2001	2002
		1,000 square meters equivalent					
0	Textiles and apparel, total	194,424	171,281	148,803	126,331	102,637	85,189
1	Apparel	193,737	170,972	148,300	125,724	102,218	84,485
30	Cotton textiles and apparel	159,219	134,502	104,704	81,500	68,589	67,187
60	Manmade-fiber textiles and apparel	35,046	36,643	44,083	44,830	34,046	18,000
239	Babies' apparel	331	323	455	242	93	66
331	Cotton gloves	705	581	429	291	68	53
338	Cotton knit shirts, men/boys	19,612	18,269	8,376	4,850	3,933	1,544
339	Cotton knit shirts, women/girls	2,601	1,467	1,636	607	220	390
340	Cotton not knit shirts, men/boys	3,820	3,972	2,175	396	([2])	2
341	Cotton not knit blouses	184	354	414	26	5	24
347	Cotton trousers, men/boys	2,087	2,501	2,343	1,803	615	17
348	Cotton trousers, women/girls	5,012	4,544	2,721	66	24	69
349	Cotton brassieres	109	55	46	48	3	0
351	Cotton nightwear	1,381	1,617	880	441	819	312
352	Cotton underwear	118,961	97,444	82,921	71,560	62,023	63,745
632	Manmade-fiber hosiery	16,665	19,272	19,354	17,018	9,629	561
638	Manmade knit shirts, men/boys	3,069	400	213	84	98	99
640	Manmade not knit shirts, men/boys	458	853	1,026	1,173	1,734	1,461
641	Manmade-fiber not knit blouses	395	384	316	514	325	459
647	Manmade-fiber trousers, men/boys	1,318	1,390	980	883	1,138	930
648	Manmade-fiber trousers, women/girls	416	338	403	703	144	329
651	Manmade-fiber nightwear	2,378	1,553	192	21	105	0
652	Manmade-fiber underwear	69	3,528	13,234	17,282	15,982	10,414
659	Other manmade-fiber apparel	6,848	6,385	7,593	6,586	4,376	2,958

[1] To administer the U.S. textiles and apparel quota programs, articles are grouped under 3-digit category numbers, which cover many 10-digit statistical reporting numbers under which goods are classified for statistical purposes in the Harmonized Tariff Schedule of the United States (HTS). The 1-digit and 2-digit numbers represent specific levels of import aggregation for articles covered by the quota program (e.g., the number “1" represents total imports of apparel, while “31" represents total imports of cotton apparel).
[2] Less than 500 square meters equivalent.

Source: Compiled from official statistics of the U.S. Department of Commerce, found at *http://otexa.ita.doc.gov*.

Nicaragua[1]

Overview

Nicaragua is one of the poorest countries in the Western Hemisphere, with real gross domestic product (GDP) per capita of $437 in 2001, unemployment currently at 15 to 20 percent, and underemployment at an estimated 40 percent. The textile and apparel sector is a major source of jobs and export earnings for Nicaragua, accounting for 2 to 3 percent (or about 46,000 workers) of the country's total viable workforce and 37 percent ($397 million) of its exports in 2001.

Nicaragua benefits from competitively priced labor and proximity to markets along the U.S. West Coast. However, the movement of goods to and from the U.S. East Coast is hindered by an underdeveloped transportation infrastructure (ports and roads).[2] There currently are no all-weather roads between Pacific and Atlantic coasts, and the unpaved portions of some roads are only open during the country's dry season (December-April). Most of the paved roads in Nicaragua are in the western portion of the country, along the Pacific coast. As a result, it has been estimated that the cost of shipping a single container of apparel from Nicaragua to U.S. East Coast ports is roughly $1,000 greater than that for Honduras or Costa Rica. Commercial ocean freight into and out of the country is limited to the Pacific coast port of Corinto (110 miles northwest of Managua), which was recently dredged to accommodate larger vessels, as well as the port cities of Puerto Limón in Costa Rica and Puerto Cortés in Honduras on the Caribbean Sea.

Industry Profile

Industry structure and performance

Nicaragua's textile and apparel sector consists largely of apparel assembly operations that are carried out in government-sponsored free-trade zones (FTZs). During the past 10 years, FTZ exports rose from $2 million to nearly $350 million, most of which consisted of apparel sent to the United States. FTZ employment is estimated at 46,000 workers (out of a total national workforce estimated at 1.5 million). The growth in FTZ exports was largely attributable to the low cost and high quality of the workforce (low absenteeism and worker turnover), tax and investment incentives, and proximity of Nicaragua to U.S. markets vis-a-vis competitors in Asia.[3] Because textile production has been negligible, apparel firms

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[1] Prepared by John Cutchin, Office of Industries.

[2] "Infrastructure Situation: Good/Services Distribution," Nicaragua Country Commercial Guide FY 2002, found at *http://www2.usatrade.gov/Website/C...1/CCG-NICARAGUA2002-CH-2:-00530F1E*, retrieved Nov. 6, 2002.

[3] A representative of a major U.S. apparel retailer indicated that rising labor costs in Mexico prompted a major supplier of denim jeans to shift production from Mexico to Nicaragua (interview by USITC staff, Mar. 12, 2003).

have relied on imports from the United States and Asia for their fabric requirements. Taiwan and Korean firms are the largest foreign investors in Nicaragua.

Approximately 80 percent of Nicaraguan apparel production occurs in the government-sponsored Nicaraguan Free-Trade Zone Corporation, where about 37,000 apparel production workers are employed. Another 5,000 people are employed by privately run FTZs. FTZs are concentrated along the more heavily populated Pacific coast in Managua, Masaya, and Granada. Of the 46 companies currently operating in the FTZs, 32 are involved in apparel production.

Nicaraguan textile production had been negligible until recently when a large textile firm based in Taiwan invested $105 million in a textile processing plant in Nicaragua, and reportedly initiated operations in the third quarter of 2002.[4] The firm currently imports unfinished denim fabrics from Asia and dyes and finishes the fabrics in the new plant. The firm reportedly is seeking to increase the operations of the new plant to also include procurement of yarn and eventually cotton, from within Nicaragua or the region. The facility is expected eventually to have a monthly production capacity of 2 million yards of fabric. The Taiwan firm already has several factories in Nicaragua producing jeans for various major U.S. brands and retailers. The only other significant textile manufacturer in Nicaragua currently produces underwear fabric. The manufacturer reportedly imports approximately 7,000 pounds of unprocessed yarn from El Salvador and Guatemala per month to produce the fabric and the underwear, of which 90 percent is sold domestically and 10 percent is exported to Honduras.

Factors of production

Raw materials

Two-thirds of U.S. apparel imports from Nicaragua did not qualify for duty-free treatment under the CBTPA or reduced duties under HTS 9802.00.80 (see table I-3, found at the beginning of this appendix). Imports of such apparel likely were made from non-U.S. and nonregional fabric. Reportedly, approximately 65 to 70 percent of Nicaragua's apparel exports to the United States in 1999 contained fabric from Taiwan, Korea, and Hong Kong,[5] another 15 to 18 percent contained U.S.-sourced fabric; and the remaining 15 to 18 percent were made of fabric manufactured in other CBERA countries, chiefly El Salvador and Guatemala. Efforts currently are under way to secure cotton from Nicaraguan or other regional sources for the production of denim to supplement the use of imported fabric.[6]

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[4] "Taiwanese Groups to Expand Central American Facilities," *Emerging Textiles.com, Textile and Clothing Trade Information*, July 2, 2002, found at *http://www.emergingtextiles.com/?q=-art&s=020702-coun,* retrieved Nov. 21, 2002; and representatives of the Nicaraguan Textile and Apparel Association, interview by USITC staff, Mar. 2003.

[5] U.S. Department of State telegram 2789, "Textiles: Regional Fabric Information," prepared by U.S. Embassy, Managua, Sept. 22, 1999.

[6] Representative of a Nicaraguan Trade Association, telephone interview by USITC staff, Mar. 20, 2003.

Labor

Approximately 13 percent of Nicaragua's workforce is employed in manufacturing, including apparel. In addition, there reportedly is a large contingent of young people who have been educated in the United States and other countries and are available to serve as bilingual managers.[7] A sizable pool of unskilled labor is currently available; many of these workers are young, and only about a third of the population is literate. Several Taiwan investors have reported that, although local workers have become proficient in assembling single lines of standard garments, their productivity declines significantly when required to assemble fashion goods, where quick changes are more prevalent.[8]

Wage rates of apparel production workers in Nicaragua are the lowest of any CBERA apparel supplier except Haiti. The average hourly compensation (including social benefits) of apparel production workers in Nicaragua in 2002 was $0.92, compared with $0.49 in Haiti, and between $1.48 and $1.65 in Honduras, Guatemala, El Salvador, ad the Dominican Republic.[9] The lower wages reportedly more than offset the lower productivity levels of workers in Nicaragua, compared with those in Honduras and El Salvador. The minimum wage for labor in the manufacturing sector (including apparel) was established at $36.60 per month in November 1997; however, the majority of urban workers, including those in apparel, earn well above minimum rates. Nicaraguan labor law specifies an 8-hour workday and the legal standard maximum work week is 48 hours, with one day per week of rest. An added advantage to employers in Nicaragua is the relatively low incidence of employee turnover (less than 8 percent per year) and absenteeism, which is currently averaging less than 5 percent per month.[10]

The Government protects the right of workers to form labor unions, and nearly half of the labor force is a union member. Union strikes are permitted and collective bargaining within the private sector is becoming increasingly common. Union membership is not mandatory and Nicaraguan firms have reportedly had good relationships with the unions; however, union membership has declined in recent years. No major work stoppages or disruptions have been recorded in the FTZs during the past 5 years.

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[7] "Why Nicaragua: People," ProNicaragua, Investment Promotion Agency, found at *http://www.pronicaragua.org/why_nicaragua.html,* retrieved Mar. 21, 2003.

[8] U.S. Department of State telegram, "Explaining Low Wages and Weak Unions in Nicaragua's Textile Manufacturing Sector - Reasons Omitted by Labor Activist," prepared by U.S. Embassy, Managua, June 2000.

[9] Jassin-O'Rouke Group, "Global Competitiveness Report: Selling to Full Package Providers," (New York, NY), Nov. 2002.

[10] Corporación de Zonas Francas, Absenteeism and Turnover Study, 2002.

Technology

There reportedly were only two state-of-the-art apparel facilities operating in Nicaragua in 2000.[11] In general, apparel producers in Nicaragua employ varying levels of equipment and computer software technology that as on par, or slightly lower, than comparable technology used in Honduras and El Salvador.[12] Much of the actual production cost, scheduling computer software and pattern cutting equipment technology that promotes the efficiency of apparel assembly operations in Nicaragua is, in fact, said to reside outside the region, primarily in the United States and Taiwan.

Investment

Nicaragua's sizable foreign debt (nearly $6 billion, compared with a GDP of $2.4 billion in 2000)[13] has limited FDI in the country by raising concerns among prospective investors as to the long-term economic stability of the domestic economy. Nevertheless, recent political and economic reforms undertaken by the newly elected President Enrique Bolanos have begun to improve investor optimism. A recent study by the Inter-American Institute on Human Rights concluded that Nicaragua was the safest country in Central America and one of the safest in the world. This level of public safety has become a major attraction for investors seeking to locate operations. In recent years, companies in Taiwan and Korea have invested in Nicaraguan apparel facilities and currently account for approximately 70 percent of the companies in the textile and apparel sector. Nevertheless, the weakness of the judicial system (and protections of the law) in Nicaragua is reportedly a significant factor in deterring increased FDI in textile and apparel facilities. In particular, investors have complained about the unpredictability of contract enforcement and Nicaragua's cumbersome legal system, as well as occasional requests for bribes.[14]

In an effort to encourage FDI, Nicaragua has adopted a Foreign Investment Law, which includes guarantees of equal treatment to local and foreign investors. The law also guarantees expedited transfer of funds abroad and foreign currency conversion through local banks, access to local financing, freedom to make investments (except for activities currently limited by law), and the protection of property and safety (by recognizing and guaranteeing the protection of the property of local and foreign investors, and the right of investors to freely dispose of assets, capital, and profits).

[11] "Sourcing Update - Latin America: Nicaragua Looking to Grow New Industry Roots," *Bobbin*, July 2000, p. 29.

[12] This statement and the information that follows is based upon a telephone conversation with a representative of ANITEC, the Nicaraguan textile and apparel trade association, Apr. 30, 2003.

[13] U.S. and Foreign Commercial Service, "Nicaragua Country Commercial Guide FY 2002," Major Economic and Political Trends, found at *http://www.usatrade.gov/Website/CC...1/CCG-NICARAGUA2002-CH-1:-0052FDE7*, retrieved Apr. 30, 2003.

[14] U.S. Department of State telegram 1488, "Nicaragua: Impact of CBI Enhancement," prepared by U.S. Embassy, Managua, May 25, 2000.

Government Policies

The Government of Nicaragua is seeking to: improve the domestic investment climate through the creation of a Trade Promotion Commission and a Public-Private Competitiveness Commission; improve transport capabilities; and encourage industrial diversification into higher value products for niche sectors. Companies, whether located in an FTZ or running as a stand-alone operation (called a ZOFA), may apply for incentives under Nicaragua's Free-Trade Zone Law. These benefits include the right to remit 100 percent of the profits earned in the country and to repatriate capital invested in the country within 3 years of the date of the original investment. The law also permits 100-percent foreign ownership. The U.S. Embassy in Nicaragua has not been aware of any repatriation problems encountered by U.S. or foreign investors since 1990.

The Free-Trade Zone Law also provides a 100-percent exemption from income taxes for the first 10 years of activities in an approved FTZ. The law also makes approved operations exempt from import duties, municipal taxes, and other fees and taxes. Companies operating in the FTZs are also exempt from all import duties, levies, and sales taxes on the importation of raw materials, supplies, machinery, equipment, and parts. In addition, because of its low per capita income (less than $500 per year), Nicaragua has received a special WTO designation that will allow the country to extend its FTZ regime through 2010, while most other Latin American nations will have to end such tax benefits.[15]

Foreign Trade

Nicaragua's trade surplus in textiles and apparel more than doubled during 1997-2001 to $207 million, reflecting an increase of 105 percent in exports, to $397 million, and 67 percent in imports, to $190 million (table I-26, found at the end of this country profile). The imports consisted of apparel inputs and the exports consisted of apparel destined almost entirely to the United States (table I-27). More than 95 percent of the apparel exports originated in the FTZ. In 2002, only 30 percent of U.S. apparel imports from Nicaragua entered free of duty under the CBTPA, compared with 52 percent for the entire CBERA region, reflecting the use of Asian fabrics.

U.S. imports of textiles and apparel from Nicaragua rose by 152 percent during 1997-2002 to 120 million square meters equivalent (SMEs) (table I-28). The imports consisted almost entirely of apparel, particularly pants (49 percent of the 2002 total), knit shirts (21 percent), and woven shirts (12 percent). Imports of these products from major suppliers are highly constrained by quotas.

[15] U.S. Department of State telegram 1488, "World Trade Without Quotas: Nicaragua Apparel Industry," prepared by U.S. Embassy, Managua, May 25, 2002.

Table I-26
Nicaragua: Statistical profile of textile and apparel sector and foreign trade, 1997-2001

Item	1997	1998	1999	2000	2001
Number of apparel establishments	([1])	([1])	([1])	([1])	32
Installed spinning capacities:					
Short-staple spindles (*number*)	40,000	40,000	40,000	40,000	40,000
Installed weaving capacities:					
Shuttleless looms (*number*)	150	150	150	150	150
Shuttle looms (*number*)	500	500	500	500	500
Foreign trade:					
Exports:					
Textiles (*million dollars*)	3.2	2.2	2.6	2.7	1.7
Apparel (*million dollars*)	190.8	242.5	289.8	351.8	395.5
Total (*million dollars*)	194.0	244.7	292.4	354.6	397.2
Imports:					
Textiles (*million dollars*)	82.8	90.1	107.3	139.0	128.0
Apparel (*million dollars*)	31.1	50.4	51.9	72.0	61.8
Total (*million dollars*)	113.9	140.5	159.2	211.0	189.8
Trade balance:					
Textiles (*million dollars*)	-79.6	-87.9	-104.6	-136.3	-126.4
Apparel (*million dollars*)	159.7	192.1	237.9	279.8	333.7
Total (*million dollars*)	80.1	104.2	133.2	143.6	207.4

[1] Not available.

Note.—Because of rounding, figures may not add to totals shown.

Source: Industry data estimated by the U.S. International Trade Commission from industry sources; the International Textiles Manufacturers Federation (Zurich), *International Textile Machinery Shipment Statistics*, vol. 25/2002 and selected back issues; and trade data are United Nations data as reported by Nicaragua's trading partners.

Table I-27
Nicaragua: Exports of textiles and apparel, by selected markets, 1997-2001

Item and market	1997	1998	1999	2000	2001
	Million dollars				
Textiles (SITC 65):					
Quota markets:					
United States	([1])	([1])	1	1	1
European Union	([1])	([1])	([1])	([1])	([1])
Canada	([1])	([1])	([1])	([1])	([1])
Subtotal	1	1	1	2	1
All other:					
Guatemala	1	([1])	([1])	([1])	([1])
Costa Rica	1	1	1	1	([1])
El Salvador	([1])	([1])	([1])	([1])	([1])
Other	1	([1])	1	([1])	([1])
Subtotal	3	2	2	1	1
Grand total	3	2	3	3	2
Apparel (SITC 84):					
Quota markets:					
United States	187	237	284	346	391
European Union	1	([1])	([1])	([1])	([1])
Canada	3	4	5	5	3
Subtotal	190	242	289	351	394
All other	1	([1])	1	1	2
Grand total	191	243	290	352	396
Textiles and apparel:					
Quota markets:					
United States	187	238	285	347	391
European Union	1	1	1	1	1
Canada	3	4	5	5	3
Subtotal	191	243	290	352	395
All other	3	2	2	2	2
Grand total	194	245	292	355	397
	Percent				
Share of exports going to quota markets:					
Textiles	20	28	37	55	63
Apparel	100	100	100	100	100
Average	98	99	99	99	99

[1] Less than $500,000.

Note.—Because of rounding, figures may not add to totals shown.

Source: Compiled from United Nations data.

Table I-28
Textiles and apparel: U.S. general imports from Nicaragua, by specified product categories,[1] 1997-2002

Cat. No.	Description	1997	1998	1999	2000	2001	2002
		1,000 square meters equivalent					
0	Textiles and apparel, total	47,765	56,597	69,381	87,513	97,724	120,441
1	Apparel	47,341	55,782	66,129	82,596	95,677	120,137
2	Textiles	424	815	3,252	4,917	2,047	304
11	Yarns	0	0	0	0	49	0
12	Fabrics	0	([2])	1	([2])	3	4
14	Other miscellaneous articles	424	815	3,252	4,916	1,995	300
30	Cotton textiles and apparel	43,643	50,066	58,317	66,620	77,243	90,995
60	Manmade-fiber textiles and apparel	4,122	6,506	10,916	20,529	20,159	29,072
239	Babies' apparel	76	76	111	249	580	2,320
335	Cotton coats, women/girls	6	0	2	0	0	1,065
338	Cotton knit shirts, men/boys	2,173	4,810	8,246	8,482	5,280	5,633
339	Cotton knit shirts, women/girls	2,759	2,427	3,711	6,568	7,905	11,413
340	Cotton not knit shirts, men/boys	7,603	11,151	13,523	10,431	8,165	8,110
341	Cotton not knit blouses	1	7	4	24	59	126
342	Cotton skirts	109	12	73	154	518	1,751
347	Cotton trousers, men/boys	13,811	15,731	19,123	24,449	29,286	30,751
348	Cotton trousers, women/girls	7,412	10,136	13,270	13,917	19,185	20,669
350	Cotton robes	0	34	0	([2])	93	1,164
351	Cotton nightwear	1,665	1,479	1	2,069	4,995	5,469
352	Cotton underwear	6,873	3,879	0	62	1,012	1,581
638	Manmade knit shirts, men/boys	69	118	19	189	1,831	6,763
639	Manmade knit shirts, women/girls	93	0	80	957	546	1,236
640	Manmade not knit shirts, men/boys	1,267	1,347	2,483	6,415	6,022	5,190
641	Manmade-fiber not knit blouses	26	11	0	27	719	1,516
647	Manmade-fiber trousers, men/boys	788	1,423	1,093	1,290	2,659	3,978
648	Manmade-fiber trousers, women/girls	488	1,059	1,341	1,045	1,650	3,470
649	Manmade-fiber brassieres	958	1,388	2,108	3,436	3,287	3,743

[1] To administer the U.S. textile and apparel quota program, articles are grouped under 3-digit category numbers, which cover many 10-digit statistical reporting numbers under which goods are classified from statistical purposes in the Harmonized Tariff Schedule of the United States (HTS). The 1-digit and 2-digit numbers represent specific levels of import aggregation for articles covered by the quota program (e.g., the number “1" represents total imports of apparel, while “31" represents total imports of cotton apparel).
[2] Less than 500 square meters equivalent.

Source: Compiled from official statistics of the U.S. Department of Commerce, found at *http://otexa.ita.doc.gov*.